Telkom SA SOC Limited
Group Annual Results

for the year ended 31 March 2013

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Telkom SA SOC Limited
(Registration number 1991/005476/06)
JSE share code: TKG
ISIN: ZAE000044897

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Many of the statements included in this document, as well as oral statements that may be made by us or by officers, directors or employees acting on behalf of us, constitute or are based on forward-looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our convergence and other strategies, future financial position and plans, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward-looking statements. Forward-looking statements can generally be identified by the use of terminology such as "may", "will", "should", "expect", "envisage", "intend", "plan", "project", "estimate", "anticipate", "believe", "hope", "can", "is designed to" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward-looking. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause our actual results or outcomes to differ materially from our expectations include, but are not limited to, those risks identified in Telkom's most recent annual report which are available on Telkom's website at www.telkom.co.za/ir

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 document, either to conform them to actual results or to changes in our expectations.

The information contained in this document is also available on Telkom's investor relations website www.telkom.co.za/ir

Telkom SA SOC Limited is listed on the JSE Limited. Information may be accessed on Reuters under the symbol TKGJ.J and on Bloomberg under the symbol TKG.SJ. Information contained on Reuters and Bloomberg is provided by a third party and is not incorporated by reference herein. Telkom has not approved or verified such information and does not accept any liability for the accuracy of such information.

Telkom SA SOC Limited

Group Annual Results

for the year ended 31 March 2013

[Group salient features]

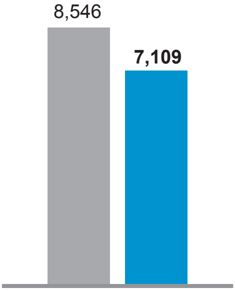
- ADSL subscribers increased 5.2% to 870,505.
- Calling plan subscribers increased 4.6% to 856,336.
- Managed data network sites increased 13.9% to 44,328.
- Active mobile subscribers increased 3.4% to 1.5 million with a blended ARPU of R61.47.
- Mobile sites integrated increased 47.3% to 1,985.
- 651 LTE sites integrated.
- Operating revenue down 1.7% to R32.5 billion.
  - Fixed-line voice revenue decreased 4.7% to R16.3 billion.
  - Fixed-line data revenue increased 3.6% to R10.4 billion.
  - Mobile revenue increased 22.7% to R1,359 million.
  - Mobile data revenue increased 123.3% to R364 million.
- Operating expenses, excluding the impairment increased 2.2% to R32.0 billion.
- R12 billion impairment of the carrying value of the legacy network.
- EBITDA margin decreased to 21.9% from 25.8%.
- Headline earnings per share decreased by 73.2% to 87.0 cents.
- The Group generated free cash flow of R2.1 billion, an 18.6% increase from the previous year.
- Group net debt decreased by 46.0% to R2.1 billion.

Key indicators

Operating revenue

R million

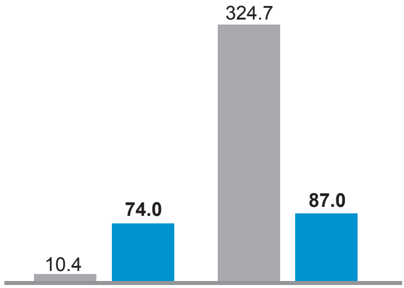
2012 2013



EBITDA

R million

2012 2013

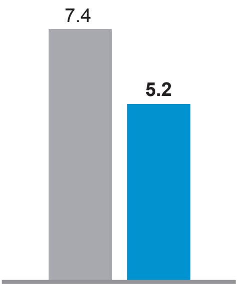


BEPS* **HEPS**

Cents per share

2012 2013

** Excludes impairment charge*

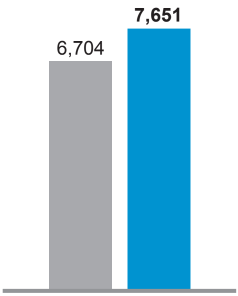


Return on assets before taxation*

Percentage

2012 2013

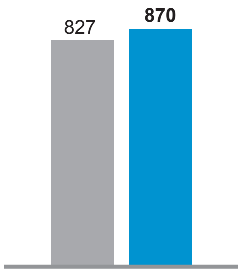
** Excludes impairment charge*



Cash flows from operating activities before dividend paid

R million

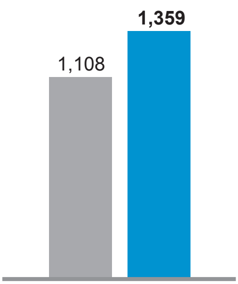
2012 2013



ADSL subscribers

Thousand

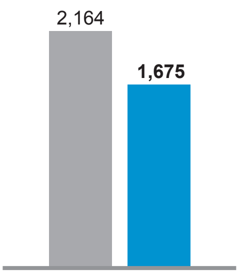
2012 2013



Revenue from mobile operations

R million

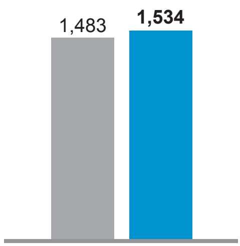
2012 2013



Mobile EBITDA loss incremental to Group

R million

2012 2013



Revenue generating mobile subscribers

Thousand

2012 2013

1. OVERVIEW

The 2013 financial results reaffirm the need to act with urgency to turn our Group's performance around. The Board decided to impair the carrying value of the assets of the Group by R12 billion for the year ended 31 March 2013. The impairment review was prompted by the considerable period of time that Telkom's shares have been trading at significantly lower value compared to its net asset value. After the impairment the net asset value is R34 per share. The impairment takes into account the impact on the financial returns of the Group in light of technology changes, competition from mobile operators and evolving regulatory landscape over more than a decade. These factors have eroded the returns from legacy assets.

The impairment charge is a non-cash item and it will not impact the significant cash flow (EBITDA), which the Group generates from its operations. It is akin to an accelerated depreciation charge, which has no impact on Telkom's strong cash position, low indebtedness and ability to fund its capital programme from its own resources. Basic earnings per share from continuing operations, however, has been adversely impacted by the once off non-cash impairment charge and is therefore 2,286 cents per share lower than the comparative period for the year ended 31 March 2013.

The non-cash impairment charge is excluded from headline earnings per share from continuing operations, which is 237.7 cents per share (73.2%) lower than the prior year. The decline in headline earnings is largely as a result of the cost of voluntary severance packages and a provision for the Competition Tribunal fine and other legal matters.

The Board is committed to taking the necessary steps to address the major challenges that have impacted the financial performance of the Group in recent years. To this end, management aims to strengthen customer relationships, improve operational efficiency and settle the outstanding Competition Commission claims. The Board is also currently reviewing the strategy and execution plans of the Group with a view to improving the return on invested capital. Shareholders will be informed of progress on these matters in due course.

Results from operations

The impairment discussed above has no bearing on the results from operations for the year under review and has accordingly been excluded.

The Group recorded a profit after tax of R501 million excluding the impairment charge (2012: R179 million) and an EBITDA of R7,109 million (2012: R8,546 million).

The results for the year include a provision of R592 million for the settlement of the long-standing dispute with the Competition Commission and other legal matters and the cost of R434 million for voluntary severance packages.

Revenue has declined by 1.7% as a result of a 4.7% decline in fixed voice revenue. Data revenue constituted 33.2% of Group revenue and increased by 5.5%. Lower prices on data due to competitive offerings continue to negate the volume growth experienced in this area.

Operating expenses excluding depreciation increased by 2.7% as a consequence of a rise in employee expenses of 14.2%. Employee expenses were impacted by a 6.5% average salary increase, and the voluntary severance package payments.

The Group recorded cost savings on payments to other operators in the fixed-line business of approximately R748 million, being a direct result of the lower mobile termination rates, with lower operating costs in our mobile business mainly due to lower subscriber acquisition costs.

The Group continues to generate strong cash flows, with free cash flow of R2.1 billion for the year. The Group's capital structure remains solid, with net debt decreasing to R2.1 billion at year-end.

The ordinary dividend has been considered with reference to Telkom's current and expected future challenges, performance, debt and cash flow levels. Telkom's strategic objectives of network transformation and the building of its mobile business will see dividends being considered on an annual basis based on the performance of the Group. The Board has decided not to declare a dividend in respect of the financial year ended 31 March 2013.

Report structure

Due to the Group's convergence strategy, key performance indicators are measured and evaluated on an overall basis. The Group therefore consists of one operating segment.

This report however provides further details of the fixed-line business that provides fixed-line access and data communications services through Telkom South Africa, and the mobile business that provides mobile voice services, data services and handset sales through Telkom Mobile. The contribution of the iWayAfrica, Trudon and Swiftnet subsidiaries are also shown separately.

Telkom CEO Sipho Maseko said:

"Despite the current financial performance, there is significant opportunity for Telkom to build a profitable and sustainable business that is able to support South Africa's economic development. I believe that Telkom is well positioned, through its unique fixed-line infrastructure and network, to facilitate the "e-enablement" of our country on a commercial basis. We remain well capitalised and have a strong financial base to work from.

Success will require a complete transformation of the Group. A full strategic review is currently underway focusing on medium and short-term interventions to unlock value. Tough decisions will have to be made, particularly regarding costs and the decommissioning of unprofitable services.

Furthermore it is critical for us to put our customers at the centre of what we do to improve our service delivery and enhance their experience. The upgrade of our network, which we will accelerate over the medium-term, will be essential to achieving this objective.

It is incumbent upon us as a team to rise to this occasion by ruthlessly focusing on execution and delivering results."

2. OPERATIONAL DATA

	Year ended March 2013	2012	%
ADSL subscribers[1]	**870 505**	827 091	5,2
Calling plan subscribers	**856 336**	819 019	4,6
Closer subscribers	**830 296**	787 117	5,5
Supreme call subscribers	**26 040**	31 902	(18,4)
WiMAX subscribers	**3 218**	3 381	(4,8)
Internet all access subscribers[2]	**527 291**	523 057	0,8
Fixed access lines ('000)[3]	**3 800**	3 995	(4,9)
Post-paid	**2 427**	2 499	(2,9)
Post-paid – ISDN channels	**756**	767	(1,4)
Pre-paid	**522**	623	(16,2)
Payphones	**95**	106	(10,4)
Remote MSANs installed in the access network	**83**	–	–
MSANs installed in the exchanges	**7**	–	–
Ports connected via MSAN access	**73 400**	–	–
Fixed-line penetration rate (%)[4]	**7,3**	7,7	(5,2)
Revenue per fixed access line (ZAR)	**4 581**	4 644	(1,4)
Total fixed-line traffic (millions of minutes)	**18 425**	19 372	(4,9)
Managed data network sites	**44 328**	38 902	13,9
Telkom Company employees[5]	**21 209**	20 939	1,3
Trudon employees	**519**	520	(0,2)
Swiftnet employees	**113**	107	5,6
iWayAfrica employees	**361**	479	(24,6)
Fixed access lines per employee[5]	**179**	191	(6,1)
iWayAfrica subscribers	**19 745**	22 386	(11,8)
Total mobile subscribers	**4 177 199**	3 053 393	36,8
Active mobile subscribers[6]	**1 534 265**	1 483 401	3,4
Pre-paid	**1 158 327**	1 039 448	11,4
Post-paid	**375 938**	443 953	(15,3)
Mobile base stations constructed	**2 299**	1 782	29,0
Mobile sites integrated	**1 985**	1 348	47,3
LTE sites integrated	**651**	–	–
ARPU (Rand)[6]	**61,47**	74,16	(17,1)
Pre-paid	**23,96**	20,89	14,7
Post-paid	**166,13**	206,83	(19,7)
Churn % – pre-paid	**56,8**	58,9	3,6

1. *Excludes Telkom internal lines and includes business, consumer, corporate, government and wholesale customers.*
2. *Includes Telkom Internet ADSL, ISDN, WiMAX and dial-up subscribers.*
3. *Excludes Telkom internal lines.*
4. *Penetration rate is based on the 2011 Census population statistics. Prior year information has been restated.*
5. *Based on number of Telkom Company employees, excluding subsidiaries. Telkom Company headcount includes 469 temporary (2012: Nil) workers that were appointed as permanent employees during the year. After year-end and up to 31 May 2013, 1,589 of these employees left the company as part of the voluntary severance and early retirement programme.*
6. *Based on a subscriber who has participated in a revenue-generating activity within the last 90 days. During the year we changed the definition of a revenue generating activity to exclude recharge events as the revenue is deferred until actual usage occurs. The comparative year's ARPU was restated accordingly.*

3. FINANCIAL PERFORMANCE

GROUP OPERATING REVENUE

We have changed the revenue presentation to align to internal business focus areas. Voice revenue is classified as usage or subscription revenue and customer premises equipment and sales revenue is disclosed separately. Prior year numbers have been restated to reflect the new presentation format.

In ZAR millions	Year ended 31 March 2013	2012	%
Voice	**16 818**	17 668	(4,8)
Fixed-line usage	**8 591**	9 501	(9,6)
Fixed-line subscriptions	**7 743**	7 643	1,3
Mobile voice and subscriptions	**484**	524	(7,6)
Interconnection	**1 597**	1 855	(13,9)
Fixed-line domestic	**562**	633	(11,2)
Fixed-line international	**959**	1 120	(14,4)
Mobile interconnection	**76**	102	(25,5)
Data	**10 801**	10 237	5,5
Data connectivity	**5 595**	5 339	4,8
Leased line facilities	**1 963**	2 051	(4,3)
Internet access and related services	**1 617**	1 649	(1,9)
Managed data network services	**1 005**	899	11,8
Multi-media services	**52**	52	–
Mobile data	**364**	163	123,3
Cybernest	**205**	84	144,0
Customer premises equipment sales and rentals	**1 466**	1 401	4,6
Sales	**327**	430	(23,9)
Rentals	**704**	652	8,0
Mobile handset and equipment sales	**435**	319	36,4
Other	**227**	284	(20,1)
iWayAfrica	**358**	364	(1,6)
Trudon	**1 140**	1 166	(2,2)
Swiftnet	**94**	104	(9,6)
Total	**32 501**	33 079	(1,7)

Group operating revenue decreased by 1.7% to R32,501 million (2012: R33,079 million) for the year ended 31 March 2013. The decrease is mainly due to lower fixed-line voice usage revenue, partially offset by an increase in mobile and data revenue.

Fixed-line voice usage revenue decreased 9.6% to R8,591 million (2012: R9,501 million) largely as a result of a 4.9% decrease in voice minutes mainly due to continued mobile substitution, the impact of the decrease in fixed termination rates of approximately R136 million and a decrease of approximately R118 million relating to the pass-through of 33% of the decrease in mobile termination rates to fixed-line customers from 1 August 2012. The 4.9% decrease in the number of lines also contributed to the decrease.

Fixed-line subscriptions revenue increased 1.3% to R7,743 million (2012: R7,643 million) as a result of a 5% and 6% increase in residential and prepaid line rental tariffs effective 1 August 2011 and 1 August 2012, respectively, partially offset by the decrease in the number of lines.

Mobile voice revenue decreased 7.6% and interconnection revenue decreased 25.5% as a result of a 15.3% decrease in the number of post-paid subscribers as well as a 17.1% decrease in blended ARPU. The decrease in post-paid subscribers was due to a clean-up of debtors and an improvement to the credit vetting systems.

Fixed-line domestic interconnection revenue decreased 11.2% to R562 million (2012: R633 million) primarily due to the 18% average decrease in fixed termination rates.

Fixed-line international interconnection revenue decreased by 14.4% to R959 million (2012: R1,120 million) largely as a result of the loss of traffic due to competitors using their own routes.

Data connectivity increased 4.8% to R5,595 million (2012: R5,339 million) as a result of a 5.2% increase in the number of ADSL subscribers to 870,505 (2012: 827,091).

Revenue from mobile leased line facilities decreased 4.3% to R1,963 million (2012: R2,051 million) due to continued self provisioning by other operators.

Internet access revenue decreased 1.9% due to a decrease in wholesale internet exchange ports leased.

Managed data network services revenue increased 11.8% to R1,005 million (2012: R899 million) as a result of a 13.9% increase in the number of sites to 44,328 (2012: 38,902).

Mobile data revenue increased 123.3% due to an increase in the number of data subscribers and the data deals and promotional products launched during the year in line with our strategy to focus on data. Telkom Mobile's share of all mobile operators' year on year data revenue growth was 8.6%.

Cybernest's data revenue increased 144.0% to R205 million (2012: R84 million) as a result of good traction in the IT market with key strategic wins.

Customer premises equipment sales decreased 23.9% to R327 million (2012: R430 million) due to the discontinuation of the sale of PC and gaming equipment as it does not from part of Telkom's primary business.

Customer premises equipment rentals increased 8.0% to R704 million (2012: R652 million) due to an increase in tariffs.

Mobile handset and equipment sales revenue increased 36.4% mainly as a result of the bulk sales of Apple handsets to an Apple authorised distributor.

Other revenue decreased 20.1% to R227 million (2012: R284 million) due to lower revenue recognised from expired cards, partially offset by higher co-location revenue.

GROUP OTHER INCOME

In ZAR millions	Year ended 31 March 2013	2012	%
Telkom	**320**	526	(39,2)
iWayAfrica	**44**	10	340,0
Trudon	**34**	40	(15,0)
Swiftnet	**4**	3	33,3
Total	**402**	579	(30,6)

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets, royalty income as well as interest received from debtors. Other income in the 2012 financial year includes the profit on disposal of Multi-Links of R167 million and a donation of two mobile base station controllers received from a supplier. iWayAfrica's other income includes R30 million profit on disposal of investment in joint venture in the 2013 financial year.

GROUP OPERATING EXPENSES

In ZAR millions	Year ended 31 March 2013	2012	%
Employee expenses	**9 861**	8 636	(14,2)
Payments to other operators	**4 678**	5 484	14,7
Selling, general and administrative expenses	**7 216**	7 193	(0,3)
Service fees	**3 103**	2 974	(4,3)
Operating leases	**936**	825	(13,5)
Depreciation, amortisation, impairments and write-offs	**18 156**	6 138	(195,8)
Total	**43 950**	31 250	(40,6)

Group operating expenses increased by 40.6% to R43,950 million (2012: R31,250 million) in the year ended 31 March 2013, primarily due to the R12 billion impairment of legacy assets, R434 million net provision, after curtailment gains for the voluntary severance and early retirement packages, R592 million provision for the fine handed down to Telkom by the Competition Tribunal and other legal matters, the average annual salary increases of 6.5% and accelerated depreciation of R667 million. This was partially offset by a decrease in payments to other operators due to the decrease in mobile termination rates and the R569 million impairment of iWayAfrica in the 2012 financial year.

Group operating expenditure contribution

In ZAR millions	Year ended 31 March 2013	2012	%
Telkom	**42 714**	29 482	(44,9)
iWayAfrica	**488**	1 017	52,0
Trudon	**640**	644	0,6
Swiftnet	**108**	107	(0,9)
Total	**43 950**	31 250	(40,6)

Telkom operating expenditure

In ZAR millions	Year ended 31 March **2013**	2012	%
Employee expenses	**9 493**	8 294	(14,5)
Salaries and wages	**7 285**	6 754	(7,9)
Benefits	**1 975**	2 017	2,1
Workforce reduction expenses	**753**	29	(2 496,6)
Employee related expenses capitalised	**(520)**	(506)	2,8
Payments to other network operators	**4 430**	5 250	15,6
Mobile network operators	**2 897**	3 599	19,5
International network operators	**904**	1 045	13,5
Fixed-line network operators	**368**	320	(15,0)
Data commitments	**261**	286	8,7
Selling, general and administrative expenses	**6 743**	6 760	0,3
Materials and maintenance	**3 104**	2 671	(16,2)
Marketing	**937**	1 009	7,1
Bad debts	**315**	550	42,7
Other	**2 387**	2 530	5,6
Service fees	**3 075**	2 955	(4,1)
Property management	**1 659**	1 502	(10,5)
Consultants, security and other	**1 416**	1 453	2,5
Operating leases	**880**	756	(16,4)
Buildings	**385**	282	(36,5)
Equipment	**35**	29	(20,7)
Vehicles	**460**	445	(3,4)
Depreciation, amortisation, impairments and write-offs	**18 093**	5 467	(230,9)
Depreciation	**5 044**	4 535	(11,2)
Amortisation	**873**	657	(32,9)
Impairment and write-offs	**12 176**	275	(4 327,6)
Total	**42 714**	29 482	(44,9)

Employee expenses increased by 14.5% in the year ended 31 March 2013, primarily due to the R434 million cost relating to voluntary severance and early retirement packages, the average annual salary increase of 6.5% and a higher bonus provision. 1,411 bargaining unit and 178 management employees exited up to 31 May 2013 as part of the process.

Payments to mobile operators decreased 19.5% due to the reduction in mobile termination rates from 73 cents to 56 cents with effect from 1 March 2012.

Selling, general and administrative expenses decreased by 0.3% to R6,743 million (2012: R6,760 million). Materials and maintenance increased 16.2% mainly due to expenditure on data processing equipment for the mobile business systems and on the integration of independent business systems as well as growth in external customer infrastructure by Cybernest.

Marketing expenses decreased 7.1% due to lower marketing expenditure by Telkom Mobile.

Bad debts decreased 42.7% due to an improvement to the mobile credit vetting systems.

The decrease in the other category was primarily as a result of a decrease in mobile sales acquisition cost as we refocus our convergence strategy, partially offset by the provision for the fine imposed by the Competition Tribunal and a higher spectrum licence fee provision due to the change in the regulation.

Property management expenses increased 10.5% mainly due annual increases in electricity and water.

Lower consulting fees were incurred in the current year as the prior year included fees relating to the Multi-Links transaction, strategic workforce planning and increasing efficiencies through a shared services centre, partially offset by higher mobile consulting fees for building capacity in marketing, sales, network and commercial areas.

Operating leases increased 16.4% as a result of an increase in the number of mobile sites acquired and higher building leases.

Depreciation increased 11.2% due to accelerated depreciation as a result of the review of the useful lives of the existing network equipment as we invest to transform to a commercially-led next-generation network. Amortisation also increased 32.9% as a result of the review of the useful lives of the existing software systems. Impairment and write-offs increased significantly due to the impairment of legacy assets.

Details of operating expenditure related to our mobile business that is included in Telkom's operating expenditure are provided below for additional information to monitor Telkom Mobile as a start-up business.

Mobile operating expenses

In ZAR millions	Year ended 31 March **2013**	2012	%
Employee expenses	**329**	195	(68,7)
Payments to other network operators	**482**	449	(7,3)
Selling, general and administrative expenses	**1 787**	2 428	26,4
Service fees	**249**	152	(63,8)
Operating leases	**187**	99	(88,9)
Depreciation, amortisation, impairments and write-offs	**372**	219	(69,9)
Total	**3 406**	3 542	3,8

EBITDA

In ZAR millions	Year ended 31 March **2013**	2012	%
Telkom	**6 608**	7 956	(16,9)
EBITDA margin (%)	**21,4**	25,3	(3,9)
Trudon	**580**	597	(2,8)
EBITDA margin (%)	**50,9**	51,2	(0,3)
Swiftnet	**7**	19	64,0
EBITDA margin (%)	**7,4**	18,3	(10,9)
iWayAfrica	**(86)**	(26)	(231,2)
EBITDA margin (%)	**(24,1)**	(7,1)	(17,0)
Total	**7 109**	8 546	(16,8)

INVESTMENT INCOME

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 26.5% to R301 million (2012: R238 million) as a result of higher cash balances.

FINANCE CHARGES AND FAIR VALUE MOVEMENTS

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

Foreign exchange and fair value losses decreased significantly to a gain of R397 million (2012: loss of R1,107 million). The decrease was mainly due to the cumulative amount of exchange differences of R1,292 million previously recognised in equity, recognised in profit and loss on disposal of Multi-Links in the prior year. A higher fair value gain on assets held by the Cell Captive also contributed. The interest expense decreased 13.7% to R660 million (2012: R765 million) mainly as a result of lower interest rates and a 7.4% decrease in interest-bearing debt.

TAXATION

The consolidated tax expense from continuing operations decreased to R490 million (2012: R595 million) due to lower taxable profit in the 2013 financial year and secondary tax on companies included in the prior year. The consolidated effective tax rate for the year ended 31 March 2013, excluding the R12 billion impairment charge and non-deductable Competition Commission fine is 50.6%. The consolidated effective tax rate for the 2012 financial year was 33.4% if the effect of the sale of Multi-Links and the Group impairment of iWayAfrica is excluded. The higher effective tax rate in the 2013 financial year is mainly as a result of higher non-deductable expenditure including the provision for the Competition Tribunal fine.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's capital structure remains strong. Net debt, after financial assets and liabilities, from continuing operations decreased by 46.0% to R2,122 million from R3,933 million as at 31 March 2012 resulting in a net debt to EBITDA ratio of 0.3 times at 31 March 2013 and 0.5 times at 31 March 2012. On 31 March 2013, the Group had cash balances, including other financial assets and liabilities, of R4,464 million (2012: R3,231 million).

The Group's current liabilities exceeded current assets by R1,491 million (2012: current assets exceeded current liabilities by R497 million). Current liabilities increased in the 2013 financial year due to the syndicated loan of R2.0 billion reaching maturity in December 2013.

FREE CASH FLOW

In ZAR millions	Year ended 31 March 2013	2012	%
Cash generated from operations before dividends paid	**7 651**	6 704	14,1
Less: Cash flows from investing activities	**(5 519)**	(4 907)	12,5
Free cash flow	**2 132**	1 797	18,6

Free cash flow increased 18.6% to R2,132 million (2012: R1,797 million) due to a 14.1% increase in cash generated from operations and a decrease in our investment in repurchase agreements, partially offset by a 20.0% increase in capital expenditure. Cash generated from operations increased 14.1% despite a 16.8% decrease in EBITDA due to higher non-cash items such as the provision for the Competition Tribunal fine, voluntary severance and early retirement packages and the post retirement medical aid provision as well as a decrease in taxation paid.

GROUP CAPITAL EXPENDITURE

Group capital expenditure, which includes spend on intangible assets, increased by 20.0% to R5,738 million (2012: R4,783 million) and represents 17.7% of Group operating revenue (2012: 14.5%).

In ZAR millions	Year ended 31 March 2013	2012	%
Baseline	**2 057**	1 858	(10,7)
Network evolution	**1 232**	733	(68,1)
Mobile	**1 548**	1 372	(12,8)
Sustainment	**310**	146	(112,3)
Effectiveness and efficiency	**121**	162	25,3
Support	**342**	329	(4,0)
Regulatory and other	**26**	61	57,4
iWayAfrica	**5**	8	37,5
Trudon	**63**	72	12,5
Swiftnet	**34**	42	19,0
Total	**5 738**	4 783	(20,0)

Baseline capital expenditure of R2,057 million (2012: R1,858 million) was largely for the deployment of technologies to support the growing data services business, links to the mobile cellular operators and expenditure for access line deployment in selected high-growth commercial and business areas. The increased expenditure for the year can be attributed to growth in the IP Network and Customer Specific Solutions and the transport network.

Expenditure on network evolution of R1,232 million (2012: R733 million) was mainly for the initial phase rollout of the Next Generation Network programme to modernise the legacy voice network, provide high speed ADSL service in selected areas and address the associated operational and business support systems. Expenditure has increased as the programme progressed beyond the pilot phase.

Mobile capital expenditure increased 12.8% as we continue to invest in our mobile network and distribution channels.

The sustainment category expenditure of R310 million (2012: R146 million) was largely for the replacement of obsolete power systems as well as the replacement and modernisation of the access and core network. The increase for the year can be attributed to the replacement of obsolete equipment in the core transport network.

The decrease in the effectiveness and efficiency category was mainly due to expenditure on management systems in the prior year not recurring.

The support capital expenditure of R342 million (2012: R329 million) is mainly for provision of new buildings and building extensions in support of network growth and for the compliance upgrading of existing equipment buildings, including the associated AC power and air-conditioning.

The expenditure on regulatory requirements of R26 million (2012: R61 million) is primarily to institute regulatory changes to customer-facing functions. A number of projects are reaching conclusion, resulting in a reduced expenditure over the year.

Telkom SA SOC Limited

Group Annual Results

for the year ended 31 March 2013

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Telkom SA SOC Limited
(Registration number 1991/005476/06)
JSE share code: TKG
ISIN: ZAE000044897

Board approval
The condensed consolidated provisional annual financial statements of Telkom SA Limited, which appear on pages 12 to 31, were approved by the board of directors on 13 June 2013 and signed on its behalf by Mr JA Mabusa (Chairman) and Mr S Maseko (Group Chief Executive Officer).

Preparer and supervisor of annual financial statements
These condensed consolidated provisional annual financial statements were prepared by Mr Robin Coode (Group Executive Accounting) and supervised by Mr Deon Fredericks (Deputy Chief Financial Officer).

Audit opinion
Ernst and Young Inc, Telkom SA SOC Limited's independent auditors, have audited the consolidated annual financial statements of Telkom SA SOC Limited from which management prepared the condensed consolidated financial results. The auditors have expressed an unqualified opinion on the consolidated annual financial statements. Whilst unqualified, the audit report does include a paragraph under the 'Report on Other Legal and Regulatory Requirements' section, alerting the users to reportable irregularities reported to the Independent Regulatory Board for Auditors in terms of sections 44(2) and 44(3) of the Auditing Profession Act. The condensed consolidated financial results comprise the condensed statement of financial position at 31 March 2013, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the year then ended, and selected explanatory notes. The audit report of the consolidated annual financial statements is available for inspection at Telkom SA SOC Limited's registered office.

Condensed consolidated provisional statement of profit or loss and other comprehensive income

for the year ended 31 March 2013

	Notes	2013 Rm	2012 Rm
Continuing operations			
Total revenue	4	**33 119**	33 668
Operating revenue		**32 501**	33 079
Other income		**402**	579
Operating expenses		**43 950**	31 250
Employee expenses	5.1	**9 861**	8 636
Payments to other operators		**4 678**	5 484
Selling, general and administrative expenses	5.2	**7 216**	7 193
Service fees		**3 103**	2 974
Operating leases		**936**	825
Depreciation, amortisation, impairment and write-offs	5.3	**18 156**	6 138
Results from operating activities		**(11 047)**	2 408
Investment income		**301**	238
Finance charges and fair value movements		**263**	1 872
Interest		**660**	765
Foreign exchange (gains)/losses and fair value movements		**(397)**	1 107
(Loss)/profit before taxation		**(11 009)**	774
Taxation	6	**490**	595
(Loss)/profit from continuing operations		**(11 499)**	179
Loss from discontinued operations		**–**	269
Loss for the year		**(11 499)**	(90)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translating foreign operations		**(3)**	(30)
Available-for-sale investment		**–**	(5)
Items that may not be reclassified subsequently to profit and loss			
Defined benefit plan actuarial (losses)/gains		**(284)**	65
Defined benefit plan asset limitations		**(38)**	–
Income tax relating to components of other comprehensive income	7	**90**	(18)
Other comprehensive (loss)/income for the year, net of taxation		**(235)**	12
Total comprehensive loss for the year		**(11 734)**	(78)
(Loss)/profit attributable to:			
Owners of Telkom		**(11 622)**	(216)
Non-controlling interests		**123**	126
Loss for the year		**(11 499)**	(90)
Total comprehensive (loss)/income attributable to:			
Owners of Telkom		**(11 857)**	(204)
Non-controlling interests		**123**	126
Total comprehensive loss for the year		**(11 734)**	(78)
Total operations			
Basic and diluted loss per share (cents)	8	**(2 276,2)**	(42,3)
Continuing operations			
Basic and diluted (loss)/earnings per share (cents)	8	**(2 276,2)**	10,4

Condensed consolidated provisional statement of financial position

at 31 March 2013

	Notes	2013 Rm	Audited 2012 Rm
ASSETS			
Non-current assets		**29 988**	42 362
Property, plant and equipment		**24 956**	36 155
Intangible assets		**2 148**	3 555
Investments		**2 492**	2 260
Deferred expenses		**50**	47
Other financial assets		**83**	48
Finance lease receivables		**219**	244
Deferred taxation		**40**	53
Current assets		**11 638**	10 206
Inventories		**1 166**	993
Income tax receivable		**16**	26
Current portion of finance lease receivables		**131**	128
Trade and other receivables		**5 804**	5 696
Other financial assets		**2 134**	2 195
Cash and cash equivalents	10	**2 387**	1 168
Total assets		**41 626**	52 568
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent		**17 850**	29 707
Share capital		**5 208**	5 208
Treasury shares		**(771)**	(771)
Non-distributable reserves		**2 164**	1 887
Retained earnings		**11 249**	23 383
Non-controlling interests		**379**	434
Total equity		**18 229**	30 141
Non-current liabilities		**10 268**	12 718
Interest-bearing debt	12	**3 899**	5 897
Other financial liabilities		**12**	26
Employee related provisions	13	**5 150**	4 880
Non-employee related provisions	13	**238**	36
Deferred revenue		**952**	1 132
Deferred taxation		**17**	747
Current liabilities		**13 129**	9 709
Trade and other payables		**4 660**	4 291
Shareholders for dividend		**22**	23
Current portion of interest-bearing debt	12	**2 758**	1 289
Current portion of employee related provisions	13	**2 605**	1 652
Current portion of non-employee related provisions	13	**786**	240
Current portion of deferred revenue		**1 740**	1 995
Income tax payable		**501**	87
Other financial liabilities		**54**	129
Credit facilities utilised	10	**3**	3
Total liabilities		**23 397**	22 427
Total equity and liabilities		**41 626**	52 568

Condensed consolidated provisional statement of changes in equity

for the year ended 31 March 2013

	2013 Rm	2012 Rm
Balance at 1 April	**30 141**	30 022
Attributable to owners of Telkom	**29 707**	29 635
Non-controlling interests	**434**	387
Total comprehensive loss for the year	**(11 734)**	(78)
Loss for the year	**(11 499)**	(90)
Other comprehensive (loss)/income	**(235)**	12
Exchange differences on translating foreign operations	**(3)**	(30)
Available-for-sale investment	**–**	(5)
Net defined benefit plan (losses)/gains and asset limitations	**(232)**	47
Dividend declared*	**(176)**	(814)
Acquisition of non-controlling interests	**(2)**	–
Reserves held for sale realised on disposal of Multi-Links Telecommunications Limited	**–**	1 011
Balance at 31 March	**18 229**	30 141
Attributable to owners of Telkom	**17 850**	29 707
Non-controlling interests	**379**	434

* *Dividend declared in 2013 by Trudon.*

Condensed consolidated provisional statement of cash flows

for the year ended 31 March 2013

	Notes	2013 Rm	Reclassified 2012 Rm
Cash flows from operating activities		**7 474**	5 892
Cash receipts from customers		**31 693**	32 634
Cash paid to suppliers and employees		**(23 209)**	(24 911)
Cash generated from operations		**8 484**	7 723
Interest received		**520**	484
Finance charges paid		**(666)**	(564)
Taxation paid		**(687)**	(939)
Cash generated from operations before dividend paid		**7 651**	6 704
Dividend paid		**(177)**	(812)
Cash flows from investing activities		**(5 519)**	(4 907)
Proceeds on disposal of property, plant and equipment and intangible assets		**39**	105
Proceeds on disposal of investment		**31**	–
Additions to property, plant and equipment and intangible assets		**(5 627)**	(4 675)
Decrease/(increase) in repurchase agreements*		**29**	(337)
Loans repaid by joint venture		**9**	–
Cash flows from financing activities		**(731)**	(1 586)
Loans raised		**2 042**	1 092
Loans repaid		**(2 743)**	(2 345)
Finance lease capital repaid		**(189)**	(177)
Settlement/(purchases) of derivatives		**159**	(156)
Net increase/(decrease) in cash and cash equivalents		**1 224**	(601)
Net cash and cash equivalents at beginning of year		**1 165**	1 773
Effect of foreign exchange rate differences on cash and cash equivalents		**(5)**	(7)
Net cash and cash equivalents at end of year	10	**2 384**	1 165

* *Repurchase agreements were reclassified from financing activities to investing activities.*

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2013

1. Corporate information

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

2. Significant accounting policies

Basis of preparation

The condensed consolidated provisional annual financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and in compliance with the Listings Requirements of the Johannesburg Stock Exchange Limited (JSE) and the South African Companies Act, 2008.

The condensed consolidated provisional annual financial statements are presented in South African Rand, which is the Group's functional currency. All financial information presented in Rand has been rounded to the nearest million.

The condensed consolidated provisional annual financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) 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:

- IAS 1 Presentation of Financial Statements: Presentation of items of other comprehensive income
- IAS 1 Presentation of Financial Statements: Clarification of the requirements for comparative information
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Joint Ventures and Associates

Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated provisional annual financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements for the year ended 31 March 2012.

Significant accounting policies

Except as described below the accounting policies applied by the Group in the condensed consolidated provisional annual financial statements are consistent with those applied in the prior year.

Adoption of amendments to standards and new interpretations

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Management assessed whether or not the Group has control over its investees (previously consolidated or not) in accordance with the new definition of control and the related guidance set out in IFRS 10. The standard had no impact on the Group as entities controlled and consolidated by Telkom have not changed as a result of adopting IFRS 10. There are no additional entities that require consolidation as a result of the adoption of IFRS 10.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. There are two types of joint arrangements under IFRS 11: joint operations and joint ventures. These two types of joint arrangements are distinguished by parties' rights and obligations under the arrangements. The previous accounting policy under IAS 31 was to equity account for joint ventures. Management reviewed and assessed the legal form of the contractual arrangements in relation to the Group's investments in joint arrangements. The application of IFRS 11 has changed the classification of the Group's investment in the Number Portability Company, which was classified as a jointly controlled entity under the previous standard and was accounted for using the equity method. Under IFRS 11 the Number Portability Company is classified as an associate and will continue to be accounted for using the equity method.

2. **Significant accounting policies** *(continued)*
Adoption of amendments to standards and new interpretations *(continued)*

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 specifies the minimum disclosures that are applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. The objective of IFRS 12 is that entities should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on their financial statements. The adoption of the new standard has resulted in comprehensive disclosures relating to subsidiaries, joint arrangements, associates and unconsolidated structured entities in the consolidated annual financial statements.

Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition Guidance

The amendments provide additional transition relief for entities adopting IFRS 10, 11 and 12 by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 11 and 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding comparative period. The amendment also makes provision for interests in investees that were disposed of during a previous reporting period, such that consolidation would not occur with either IAS 27/SIC-12 or IFRS 10 at the date of initial application. As such, arrangements disposed of by Telkom prior to 1 April 2012 were not reassessed. IFRS 12 was also amended to no longer require the disclosure of comparative information for unconsolidated structured entities. The transitional guidance had no impact on the Group.

IFRS 13 Fair Value Measurement

IFRS 13 provides a new definition of fair value and a single source of guidance for all fair value measurements used in IFRS financial statements. The proposed disclosures increase transparency about fair value measurements, including the valuation techniques and inputs used to measure fair value. The standard will have a potential fair value impact on non-recurring, non-financial assets and liabilities that are measured at fair value less cost to sell (i.e. IFRS 5 and IAS 36) and fair value disclosure impact for IFRS 13. The Group is already complying with enhanced disclosures. A large amount of disclosures are required for instruments categorised under level 3 of the hierarchy. Currently, there are no recurring fair value measurements falling under level 3 but new items falling under this category will trigger additional disclosure requirements in the future. IFRS 13 also requires various disclosures on items not measured at fair value, but for which fair value needs to be disclosed. These additional disclosures are provided in note 11. The standard had no material impact on the Group.

IAS 1 (amendment) Presentation of Financial Statements

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single continuous statement or in two separate but consecutive statements. The amendments require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that might be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. Entities also have the option of changing the title of the 'Statement of comprehensive income' to 'Statement of profit or loss and other comprehensive income'. Telkom opted to change the name accordingly. The amendments resulted in a change in presentation but had no impact on the recognition or measurement of items in the financial statements. The relevant disclosures are provided in the Statement of profit or loss and other comprehensive income.

The annual improvements project amendment also clarifies the difference between voluntary additional comparative information and the minimum required comparative information. The requirements for comparative information have been clarified in two areas. Firstly, when an entity voluntarily presents comparative information in excess of the minimum requirements, the additional comparative information disclosed need not represent a full set of financial statements, but must include notes. Secondly, when there is a change in accounting policy, retrospective restatement or reclassification, an entity must present a third statement of financial position at the beginning of the preceding period, but need not present notes for the opening statement (of financial position). The Group will apply the amendments when appropriate.

IAS 27 (amendment) Separate Financial Statements

The revised IAS 27 supersedes the previous IAS 27 (2008). The standard requires an entity that prepares separate financial statements, to account for the investments in subsidiaries, joint ventures and associates either at cost or in accordance with IAS 39/IFRS 9. The adoption of the standard will not have an impact on the Group as the Group already accounts for all investments either at cost or in accordance with IAS 39.

IAS 28 (amendment) Investments in Associates and Joint Ventures

The main purpose of revising the standard was to include consequential amendments of issuing a new standard, IFRS 11 Joint Arrangements, which replaced IAS 31 Interests in Joint Ventures. The standard outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of 'significant influence', which requires power to participate in financial and operating policy decisions of the investee, but not joint control or control of those policies. As a consequence of the amendment, the Group changed the classification of the Number Portability Company from a joint venture to an associate. All joint ventures and associates were previously accounted for according to the equity method and this did not change.

Notes to the condensed consolidated provisional annual financial statements *(continued)*

for the year ended 31 March 2013

2. Significant accounting policies *(continued)*
Adoption of amendments to standards and new interpretations *(continued)*

Circular 3/2012 Headline Earnings
Two amendments were made to Circular 3/2009 Headline Earnings and consequently a replacement circular, Circular 3/2012 Headline Earnings, was issued. The first amendment made to the rule table ensures that the tax effects of items excluded from headline earnings are also excluded from the calculation of headline earnings. The second amendment relates to the compensation received from third parties for items of property, plant and equipment that were impaired, lost or given up. The amendment ensures that the treatment of this compensation is excluded from the calculation of headline earnings in order to achieve consistency with the manner in which the loss was treated for headline earnings. The first amendment is already applied by the Group. The second amendment had no impact on the Group.

The following new standards and amendments to standards have been adopted and do not have a material impact on the Group.

Standard(s), Amendment(s), Interpretation(s)	Salient feature of the changes	Effective date
IFRS 1 Severe Hyperinflation	Amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.	1 July 2011
IFRS 1 Removal of Fixed Dates for First Time Adopters	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.	1 July 2011
IFRS 7 Financial Instruments Disclosures	Amendments enhancing disclosures about transfers of financial assets.	1 July 2011
IFRS 10 Consolidated Financial Statements; IFRS 12 Disclosure of Interests in Other Entities; IAS 27 Separate Financial Statements	Amendments providing investment entities an exemption from the consolidation of particular subsidiaries. The subsidiaries exempt from consolidation are measured at fair value through profit or loss in accordance with IFRS 9/IAS 39.	1 January 2014
IAS 12 Income Taxes	Rebuttable presumption introduced that an investment property will be recovered in its entirety through sale. The amendment also introduced the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis.	1 January 2012
IAS 27 Separate Financial Statements	Amendment requires an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements or to provide separate financial statements if all subsidiaries are unconsolidated.	1 January 2014

2. **Significant accounting policies** *(continued)*

Standards and interpretations in issue not yet adopted and not yet effective

The following new standards, amendments to standards and interpretations in issue have not yet been adopted and are not yet effective. All standards are effective for annual periods beginning on or after the effective date

Pronouncement	Title	Effective date
IFRS 1 First-time Adoption of IFRS	Amendment permits the repeated application of IFRS 1, borrowing costs on certain qualifying assets	1 January 2013
IFRS 1 First-time Adoption of IFRS	Amendment addresses how a first-time adoptee would account for a government loan with a below market rate of interest	1 January 2013
IFRS 7 Financial Instruments Disclosures	Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	1 January 2013
IFRS 7 Financial Instruments Disclosures	Amendments requiring disclosures about the initial application of IFRS 9	1 January 2015
IFRS 9 Financial Instruments	Classification and measurement of financial assets and financial liabilities and derecognition requirements	1 January 2015
IAS 16 Property, Plant and Equipment	Classification of service equipment	1 January 2013
IAS 19 Employee Benefits*	Amended Standard resulting from the Post-Employment Benefits, Short-Term Employee Benefits and Termination Benefits projects	1 January 2013
IAS 32 Financial Instruments: Presentation	Amendments to clarify tax effect of distribution to holders of equity instruments	1 January 2013
IAS 32 Financial Instruments: Presentation	Amendments to application guidance on the offsetting of financial assets and financial liabilities and the related net credit exposure	1 January 2014
IAS 34 Interim Financial Reporting	Amendments to clarify interim reporting segment information for total assets in order to enhance consistency with the requirements of IFRS 8	1 January 2013
IAS 36 Impairment of Assets	Amendment to disclosures of the recoverable amount of impaired non-financial assets as a consequence of issuing IFRS 13 Fair Value Measurement.	1 January 2014
IFRIC 20 Stripping costs in the production phase of a surface mine	Stripping costs in the production phase of a surface mine	1 January 2013

* *The adoption will affect Telkom significantly in the 2014 financial year.*

Notes to the condensed consolidated provisional annual financial statements *(continued)*

for the year ended 31 March 2013

3. Segment information

During the year under review the Group's segment structure was changed to better reflect the Chief operating decision makers' (Executive Committee) assessment of the Group's performance. Due to the Convergence Strategy announced in July 2012, the Executive Committee now manages the business on a combined basis, thereby combining the previously reported Telkom Fixed-Line and Telkom Mobile segments. This reflects the financial information reviewed by the Executive Committee when making decisions about performance and resource allocation and is consistent with the manner in which the Telkom network generates revenue, i.e. on a combined basis. As a result, separate Fixed-Line and Mobile information is no longer provided. No Group's geographical information is provided as the majority of the Group's operations are carried out in South Africa.

The Telkom segment provides fixed-line access, fixed-line usage, data communications services (through Telkom and Cybernest), mobile voice services and handset sales.

		2013 Rm	2012 Rm
4.	**Total revenue**	**33 119**	33 668
	Operating revenue	**32 501**	33 079
	Other income (excluding profit on disposal of property, plant and equipment, intangible assets, investments and profit on disposal of subsidiary)	**317**	351
	Investment income	**301**	238
	Operating revenue decreased mainly due to a reduction in retail voice revenue due to lower usage and retail rates. Interconnection revenue also decreased due to lower rates and volumes. These were partly offset by an increase in mobile revenue due to growth.		
5.	**Operating expenses**		
5.1	**Employee expenses**	**9 861**	8 636
	The increase in employee expenses is mainly due to an average salary increase of 6.5% and the provision for the voluntary severance and voluntary early retirement packages (VSP/VERP).		
5.2	**Selling, general and administrative expenses**	**7 216**	7 193
	Mobile direct costs and fixed-line dealer incentives decreased due to lower sales acquisition costs. This decrease has been offset by an increase of the provision for the Competition Commission fine resulting in a net increase in selling, general and administrative expenses. Refer to note 15 for the Competition Commission fine.		
5.3	**Depreciation, amortisation, impairment and write-offs**	**18 156**	6 138
	Depreciation of property, plant and equipment	**5 072**	4 608
	Amortisation of intangible assets	**906**	707
	Impairment of property, plant and equipment and intangible assets	**12 000**	569
	Write-offs of property, plant and equipment and intangible assets	**178**	254
	As a result of rolling out of the Next Generation Network transformation programme, the Group reassessed the useful lives of certain legacy equipment. The reassessment of useful lives had the effect of increasing the depreciation expense for the year ended 31 March 2013 by R667 million (2012: R605 million). Depreciation for each year of the remaining useful lives of the individually reassessed equipment could be significantly lower as a result of the impairment loss recognised on the legacy asset.		
	The impairment loss of R12 billion relates to property, plant and equipment of R11,025 million and intangible assets of R975 million of the Telkom Cash Generating unit. This is based on Value in Use.		

		2013 Rm	2012 Rm
6.	**Taxation**	**490**	595
	South African normal company taxation	**1 105**	1 026
	Deferred taxation	**(621)**	(494)
	Secondary Taxation on Companies (STC)	**–**	70
	Foreign taxation	**6**	(7)
	STC was provided for at a rate of 10% on the amount by which dividends declared by Telkom exceeded dividends received. The new withholding taxation on dividends became effective 1 April 2012 at a rate of 15%. All tax credits as at 31 March 2012 were utilised in full with the declaration of the dividend on 8 July 2011.		
7.	**Taxation effects of other comprehensive income**		
	Tax effects relating to each component of other comprehensive income		
	Exchange differences on translating foreign operations	**(3)**	(30)
	Net foreign currency translation differences for foreign operations	**(3)**	(30)
	Available-for-sale investment	**–**	(5)
	Net available-for-sale investment	**–**	(5)
	Defined benefit plan actuarial (losses)/gains	**(284)**	65
	Tax effect of defined benefit plan actuarial (losses)/gains	**79**	(18)
	Net defined benefit plan actuarial (losses)/gains	**(205)**	47
	Defined benefit plan asset limitations	**(38)**	–
	Tax effect of defined benefit plan asset limitations	**11**	–
	Net defined benefit plan asset limitations	**(27)**	–
	Other comprehensive (loss)/income for the year before taxation	**(325)**	30
	Tax effect of other (loss)/income for the year	**90**	(18)
	Other comprehensive (loss)/income for the year, net of taxation	**(235)**	12

Notes to the condensed consolidated provisional annual financial statements *(continued)*

for the year ended 31 March 2013

		2013 Rm	2012 Rm
8.	**Earnings per share**		
	Total operations		
	Basic and diluted loss per share (cents)	**(2 276,2)**	(42,3)
	Headline earnings and diluted headline earnings per share (cents)*	**87**	310,8
	Continuing operations		
	Basic and diluted (loss)/earnings per share (cents)	**(2 276,2)**	10,4
	Headline earnings and diluted headline earnings per share (cents)*	**87**	324,7
	Discontinued operation		
	Basic and diluted loss per share (cents)	**–**	(52,7)
	Headline loss and diluted headline loss per share (cents)*	**–**	(13,9)
	Reconciliation of weighted average number of ordinary shares:	**Number of shares**	Number of shares
	Ordinary shares in issue	**520 783 900**	520 783 900
	Weighted average number of treasury shares	**(10 190 084)**	(10 190 084)
	Weighted average number of shares outstanding	**510 593 816**	510 593 816
	Reconciliation of diluted weighted average number of ordinary shares		
	Weighted average number of shares outstanding	**510 593 816**	510 593 816
	Diluted weighted average number of shares outstanding	**510 593 816**	510 593 816

* *The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular 3/2012 issued in this regard.*

	2013	2012
Total operations		
Reconciliation between earnings and headline earnings:	**Rm**	Rm
Loss for the year	**(11 499)**	(90)
Non-controlling interests	**(123)**	(126)
Loss attributable to Owners of Telkom	**(11 622)**	(216)
Profit on disposal of property, plant and equipment and intangible assets	**(39)**	(53)
Profit on disposal of subsidiary	**–**	(167)
Foreign exchange differences realised on disposal of subsidiary	**–**	1 292
Impairment loss on property, plant and equipment and intangible assets**	**12 000**	767
Profit on disposal of joint venture	**(30)**	–
Write-offs of property, plant and equipment and intangible assets	**178**	254
Tax effects	**(43)**	(290)
Headline earnings	**444**	1 587

		2013 Rm	2012 Rm
8.	**Earnings per share** *(continued)*		
	Continuing operations		
	Reconciliation between earnings and headline earnings:	**Rm**	Rm
	(Loss)/profit from continuing operations	**(11 499)**	179
	Non-controlling interests	**(123)**	(126)
	(Loss)/profit attributable to Owners of Telkom	**(11 622)**	53
	Profit on disposal of property, plant and equipment and intangible assets	**(39)**	(53)
	Profit on disposal of subsidiary	**–**	(167)
	Foreign exchange differences realised on disposal of subsidiary	**–**	1 292
	Impairment loss on property, plant and equipment and intangible assets**	**12 000**	569
	Profit on disposal of joint venture	**(30)**	–
	Write-offs of property, plant and equipment and intangible assets	**178**	254
	Tax effects	**(43)**	(290)
	Headline earnings	**444**	1 658
	Discontinued operation		
	Reconciliation between earnings and headline earnings:		
	Loss from discontinued operation	**–**	(269)
	Loss attributable to Owners of Telkom	**–**	(269)
	Impairment loss on property, plant and equipment and intangible assets	**–**	198
	Headline loss	**–**	(71)
	** *The 2013 impairment resulted in deferred tax consequences that were not recognised in the Statement of Financial Position.*		
	Dividend per share (cents)	**–**	145,0
	The calculation of dividend per share is based on dividends of RNil million (2012: R740 million) and 510,593,816 (2012: 510,593,816) number of ordinary shares outstanding on the date of dividend declaration.		
9.	**Capital additions and disposals**		
	Property, plant and equipment		
	Additions	**4 777**	4 022
	Disposals	**(22)**	(130)
	Intangible assets		
	Additions	**961**	813
	Disposals	**(1)**	–
	A major portion of additions to property, plant and equipment relates to the expansion of existing networks, services and mobile cellular services.		
	Intangible assets additions mainly relate to software.		
10.	**Net cash and cash equivalents**	**2 384**	1 165
	Cash shown as current assets	**2 387**	1 168
	Cash and bank balances	**234**	713
	Short-term deposits	**2 153**	455
	Credit facilities utilised	**(3)**	(3)
	The increase in cash and bank balances is mainly due to higher cash generated from operations.		

Notes to the condensed consolidated provisional annual financial statements *(continued)*

for the year ended 31 March 2013

11. Financial risk management

Exposure to continuously changing market conditions has made management of financial risk critical for the Group. Treasury policies, risk limits and control procedures are continuously monitored by the Board of Directors through its Audit Committee and Risk Committee.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2013.

11.1 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is exposed to liquidity risk as a result of uncertain cash flows as well as capital commitments of the Group.

Liquidity risk is managed by the Group's Treasury team in accordance with policies and guidelines formulated by the Group's executive committee. In terms of its borrowing requirements, the Group ensures that sufficient facilities exist to meet its immediate obligations.

Compared to the 2012 financial year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

11.2 Fair value of financial instruments

The carrying amount of financial instruments approximate fair value, with the exception of interest-bearing debt (at amortised cost) which has a fair value of R7,661 million (2012: R8,120 million) and a carrying amount of R6,657 million (2012: R7,186 million) (refer to note 12).

Valuation techniques and assumptions applied for the purposes of measuring fair value

Type of financial instrument	Fair value at 31 March 2013	Valuation technique	Significant inputs
Receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	R7,789 million	Undiscounted future estimated cash flows due to short-term maturities of these instruments	Probability of default
Derivatives	R171 million	Discounted cash flows	Yield curves Market interest rate Market foreign currency rate
Borrowings	R7,661 million	Discounted cash flows	Market interest rate

The estimated net fair values as at the reporting date, have been determined using available market information and appropriate valuation methodologies as outlined below. This value is not necessarily indicative of the amounts that the Group could realise in the normal course of business.

Derivatives are recognised at fair value. The fair values of derivatives 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 net derivative position at the reporting date. The fair values of listed investments are based on quoted market prices.

The fair values of the borrowings disclosed above are based on quoted prices or, where such prices are not available, the expected future payments discounted at market interest rates. As a result they differ from carrying values.

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.

11. Financial risk management *(continued)*

11.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:
a) Quoted prices in active markets for identical assets or liabilities (level 1).
b) Inputs other than quoted prices, that are observable for the asset or liability (level 2).
c) Inputs for the asset or liability that are not based on observable market data (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value:

2013	**Total Rm**	**Level 1 Rm**	**Level 2 Rm**	**Level 3 Rm**
Assets measured at fair value				
Forward exchange contracts	**132**	**–**	**132**	**–**
Investment in Cell Captive	**2 490**	**589**	**1 901**	**–**
Transfer to level 1*	**–**	**1 901**	**(1 901)**	**–**
Cross currency swaps	**105**	**–**	**105**	**–**
Liabilities measured at fair value				
Interest rate swaps	**(51)**	**–**	**(51)**	**–**
Forward exchange contracts	**(15)**	**–**	**(15)**	**–**
Liabilities measured at amortised cost				
Interest-bearing debt	**(7 661)**	**(3 882)**	**(3 779)**	**–**

2012	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Assets measured at fair value				
Forward exchange contracts	193	–	193	–
Investment in Cell Captive	2 248	518	1 730	–
Cross currency swaps	41	–	41	–
Liabilities measured at fair value				
Interest rate swaps	(50)	–	(50)	–
Forward exchange contracts	(105)	–	(105)	–
Liabilities measured at amortised cost				
Interest-bearing debt	(8 120)	(4 545)	(3 575)	–

The fair value of the financial assets and financial liabilities are sensitive to exchange rates and interest rates movements. The Rand depreciated against major currencies for the financial year resulting in unrealised fair value gains. The volatility of the exchange rates also had an impact on the fair values of these instruments.

* *During the financial year, the Investment in Cell Captive's Coronation Absolute Portfolio with a market value of R1,901 million was transferred from fair value level 2 to fair value level 1. The reason for the transfer is that the prices for each of the assets held in the absolute portfolio were obtained from recognised market sources.*

	2013 Rm	2012 Rm
12. Interest-bearing debt		
Non-current interest-bearing debt	**3 899**	5 897
Local debt	**2 730**	4 649
Foreign debt	**456**	478
Finance leases	**713**	770
Current portion of interest-bearing debt	**2 758**	1 289
Local debt	**2 494**	1 060
Foreign debt	**207**	148
Finance leases	**57**	81

Non-current interest-bearing debt decreased due to the reallocation of the syndicated loan to current interest-bearing debt.
Management believes that sufficient funding facilities will be available at the date of repayment.

Notes to the condensed consolidated provisional annual financial statements *(continued)*

for the year ended 31 March 2013

		2013 Rm	2012 Rm
13.	**Provisions**		
	Non-current portion of provisions	**5 388**	4 916
	Employee related	**5 150**	4 880
	Non-employee related	**238**	36
	Current portion of provisions	**3 391**	1 892
	Employee related	**2 605**	1 652
	Non-employee related	**786**	240
	The increase in non-current provisions is mainly due to the increase in post-retirement medical aid provisions as a result of medical inflation but offset by the impact of curtailments due to the VSP/VERP process in the current financial year.		
	The increase in current employee related provisions is mainly due to the VSP/VERP process.		
	The increase in non-employee related provisions is mainly due to the fine imposed by the Competition Commission and other legal matters disclosed in the contingencies (refer to note 15).		
14.	**Commitments**		
	Capital commitments authorised	**7 542**	7 480
	Commitments against authorised capital expenditure	**2 855**	827
	Authorised capital expenditure not yet contracted	**4 687**	6 653
	Capital commitments are largely attributable to purchases of property, plant and equipment and software (to be included in intangible assets).		
	Management expects these commitments to be financed from internally generated cash and borrowings.		

15. Contingencies

CONTINGENT LIABILITIES

COMPETITION MATTERS

Telkom is party to a number of legal proceedings filed by several parties with the South African Competition Commission (CC) alleging anti-competitive practices described below. Some of the complaints filed at the CC have been referred by the CC to the Competition Tribunal (CT) for adjudication.

Should the CT find that Telkom committed a prohibited practice as set out in the Competition Act for each of the cases, the CT may impose a maximum administrative penalty of 10% of Telkom's annual turnover in the Republic of South Africa and its exports from the Republic of South Africa during Telkom's preceding financial year. However, Telkom has been advised by external legal counsel that the CT has to date not imposed the maximum penalty on any offender in respect of the contraventions it is being accused of.

The South African Value Added Network Services (SAVA) and Omnilink

This matter relates to the complaints filed by SAVA in May 2002 and a complaint filed by Omnilink (in August 2002) against Telkom at the CC, regarding certain alleged anti-competitive practices by Telkom. These complaints were referred by the CC to the CT in February 2004. The matter was heard by the CT during 2011 and 2012.

The CT handed down a judgment on 7 August 2012. Telkom was found to be in contravention of section 8(b) (refusal to provide essential facilities) and section 8(d)(i) (inducing a customer not to deal with a competitor) of the Competition Act, and the CT imposed an administrative penalty of R449 million.

15. Contingencies *(continued)*
CONTINGENT LIABILITIES *(continued)*
COMPETITION MATTERS *(continued)*

The South African Value Added Network Services (SAVA) and Omnilink *(continued)*

Telkom appealed the matter and the CC filed a cross-appeal. Pursuant to discussions between Telkom and the CC aimed at arriving at an amicable settlement, the parties reached agreement in March 2013 that, subject to confirmation by the Competition Appeal Court (CAC), each party would withdraw its appeal and cross-appeal respectively and each party to pay its own costs. The withdrawals of the appeals were approved by the CAC on 12 April 2013 which was communicated to Telkom on 16 April 2013. Accordingly, Telkom will pay the fine that was originally awarded by the Tribunal in the sum of R449 million of which 50% is payable within six months from date of the withdrawal and the balance to be paid within 18 months of the said date of confirmation of the withdrawal.

Internet Solutions (IS)

IS filed a complaint at the CC in December 2007 (which was dealt with by the CC as part of the Multiple Complaints Referral discussed below), alleging certain anti-competitive practices by Telkom. Certain parts of this complaint were referred to the CT by the CC and these are dealt with in the Multiple Complaints Referral as discussed below. The non-referred parts of the complaint were self-referred by IS.

After various amendments to IS' papers, IS' amendment application was heard by the CT and dismissed with costs. In August 2012, IS filed an appeal against the CT's order. IS has not yet filed the record. There is no further development in this matter.

Competition Commission Multiple Complaints Referral

The CC served a notice of motion on Telkom in October 2009, in which it referred complaints against Telkom filed by MWeb and IS as well as the Internet Service Providers Association (ISPA), MWeb, IS and Verizon respectively, to the CT. The CC alleged certain anti-competitive practices by Telkom. As part of the discovery process to prepare for trial, Telkom and the CC each filed applications to compel the discovery of certain further documentation from each other and the applications were heard by the CT on 25 January 2013. Telkom's application to compel further and better discovery was dismissed by the CT in a ruling handed down in February 2013. Telkom appealed this ruling, and the appeal has yet to be finalised.

In further preparation for the hearing of the main matter, the CC has filed its factual and expert witness statements. Telkom has not filed its witness statements due to the issues around the discovery process not being finalised. The hearing of the matter, which was previously set down for June 2013, has been postponed by agreement between the parties but a new date has not yet been set. Notwithstanding the above, the parties are exploring settlement discussions.

Phutuma Networks (Pty) Limited (Phutuma)

Phutuma filed a complaint at the CC early in 2010, wherein Phutuma alleged that Telkom has contravened section 8(c) of the Competition Act by abusing its dominant position in engaging in anti-competitive conduct in the telegraphic and telex maritime services market.

However, Phutuma self-referred its complaint to the CT in July 2010, alleging that Telkom engaged in an exclusionary act by appointing Network Telex in 2007 without any formal procurement process. Telkom filed certain preliminary points which were upheld by the CT in March 2011. Phutuma's self-referral was dismissed with costs. Phutuma appealed this decision to the CAC which was dismissed with costs on 20 November 2012 and accordingly this matter was disposed of.

MATTERS BEFORE ICASA

Phutuma Networks (Pty) Limited (Phutuma)

Phutuma filed a complaint against Telkom at the Complaints and Compliance Committee of ICASA (CCC) in February 2010. After various amendments to the complaint sheet, Phutuma filed an amended complaints sheet. Telkom responded to this amended complaint sheet in December 2011 and Phutuma filed its reply thereto.

The matter was set down for hearing before the CCC in April 2013. At the commencement of the hearing in April 2013, Phutuma applied for a postponement due to a lack of legal representation. The matter was postponed for hearing in August 2013.

End-User and Service Charter Regulations

Allegations have been made at the CCC regarding Telkom's alleged non-compliance with the requirements of the End-User and Service Charter Regulations relating to the clearance of reported faults. A hearing has taken place and the CCC has ruled that Telkom is not in breach of the regulations and recommend that ICASA review the regulations which, as they stand, are not capable of implementation. Telkom, however, has initiated administrative review proceedings seeking to set aside the applicability of the Regulations since the CCC ruling is not binding on ICASA and the risk remains for similar referrals. No further development in this matter.

Neotel (Pty) Limited (Neotel)

On 2 December 2011, the CCC notified Telkom of having received ICASA's referral of notification of dispute. A dispute was lodged by Neotel that broadly relates to Telkom's alleged refusal to lease its unbundled local loop (LLU) constituting a portion of Telkom's electronic communication network.

15. Contingencies *(continued)*

CONTINGENT LIABILITIES *(continued)*

MATTERS BEFORE ICASA *(continued)*

Neotel (Pty) Limited (Neotel) *(continued)*

The CCC heard arguments from both parties in the above matter in May 2012. At the culmination of proceedings, the CCC ruled that Neotel's request to access Telkom's local loop was a valid request and that Telkom's response to the same was inadequate. However, the CCC also ruled that there currently exists no regulatory framework to give practical effect to LLU. In the circumstances the CCC has ordered that Telkom and Neotel reconsider the issue and revert to ICASA within 3 months and that ICASA consider the matter within the context of its December 2011 LLU Determinations. Telkom has instituted High Court proceedings to interdict ICASA from implementing the CCC order and further to have the CCC order reviewed and set aside. No further development in this matter.

SUPPLIER DISPUTE

Radio Surveillance Security Services (Pty) Limited (RSSS)

During September 2011 RSSS served two summons on Telkom for the sum of R215,661,866 (including VAT) and R9,913,782 (including VAT) respectively for the rendering and upgrading of 440 alarm systems to be M3010 compliant and for rental, monitoring and maintenance charges.

Both actions were withdrawn and a new summons was issued in December 2011. The smaller claim was settled. Telkom is defending the action for R215,661,866. An exception application by Telkom will be heard in August 2013.

HIGH COURT

Phutuma Networks (Pty) Limited (Phutuma)

On 20 August 2009 Phutuma served a summons on Telkom, claiming for damages arising from a tender published by Telkom in November 2007 for the outsourcing of the telex and Gentex services and for the provision of a solution to support the maritime industry requirements. The tender was cancelled on 10 June 2009, without any award being made, due to the expiration of the validity period. Phutuma has alleged that Telkom had awarded the tender to a third party outside a fair, transparent, competitive and cost-effective procurement process. It has claimed damages of R3,730,433,545, alternatively R5,513,876,290, and further alternatively R1,771,683,580 plus interest at 15.5% per annum to date of payment from April 2008, alternatively from 30 April 2009 being the date of notice in terms of Act 40 of 2002, further alternatively from date of service of this summons plus costs of suite and further and/alternative relief. The matter was originally set down for hearing in October 2011. At the hearing Phutuma brought an application to compel Telkom to make better discovery of documents for trial purposes and also applied for an adjourment of the trial. The court dismissed Phutuma's application for better discovery but granted an adjournment of the trial with costs in favour of Telkom. The trial was re-enrolled for hearing in May 2013. On 21 May 2013, Phutuma's second set of attorneys withdrew as attorneys of record without divulging the reasons for same. Phutuma on 22 May 2013, with a new counsel, again applied for a postponement of the trial which was refused by the Court. Since Phutuma could not establish the facts in support of its case to the satisfaction of the Court, the Court granted absolution from the instance plus costs. Phutuma has filed a notice of appeal against the judgement.

Bihati Solutions (Pty) Limited (Bihati) and Merid Trading (Pty) Limited (Merid)

The matter arises from the award of a tender by Telkom in November 2008 after the validity period had expired. Telkom successfully applied to the North Gauteng High Court to set aside its award. Bihati's application to review and set aside Telkom's subsequent decision to set aside its own award and for an order compelling Telkom to commence with the negotiations in respect of the award, was dismissed. Both Merid and Bihati filed appeals in the Supreme Court of Appeals against the decisions of the North Gauteng High Court. The appeals which were set down in August 2012, were withdrawn by Bihati and Merid after a confidential settlement agreement was concluded with Telkom. The matter is finalised.

ZTE Mzanzi South Africa (Pty) Limited (ZTE)

In March 2012, ZTE Mzanzi successfully obtained an interim interdict restraining Telkom from implementing a tender awarded in 2011 to Huawei Technologies Africa and Alcatel-Lucent and concluding any service level agreements with the successful bidders, pending the finalisation of the dispute resolution process between Telkom and ZTE. Telkom's appeal against the court order was successful in the Supreme Court of Appeals and includes the costs of two counsels in the lower court.

15. Contingencies *(continued)*
CONTINGENT LIABILITIES *(continued)*
HIGH COURT *(continued)*

African Pre-paid Services Nigeria Limited (APSN) v Multi-Links: Arbitration matter

Multi-Links, a previously wholly-owned subsidiary of Telkom in Nigeria, concluded a Super Dealer agreement with African Pre-Paid Services (APS), in December 2008 in terms of which APS was appointed for a period of 10 years to sell, market and procure customers for Multi-Links range of products and services in Nigeria (the agreement). On 29 May 2009, APS ceded and assigned all of its rights and obligations in terms of the agreement to APSN. On 26 November 2010 APSN cancelled the agreement on the basis of an alleged repudiation by Multi-Links of the agreement. On 13 June 2011 APSN launched arbitrational proceedings in South Africa (as per contract) against Multi-Links claiming damages (nine claims) in the total sum of USD481,199,101. Multi-Links is defending the matter and has filed a counterclaim in the amount of USD123 million. Telkom sold its shareholding in Multi-Links to HIP Oils Topco Limited (HIP Oils) on 3 October 2011. In terms of an indemnity contained in the sale and purchase agreement between Telkom and HIP Oils concluded in August 2011, Telkom is liable for all amounts in excess of USD10 million in respect of the claim between APSN and Multi-Links. APSN reduced its claim to USD457 million. The arbitration which was set down in November 2012 was adjourned after Multi-Links amended its papers. The hearing will now take place from February 2014 to April 2014. MLT has applied to the High Court in terms of Section 3(2) of the Arbitration Act to stay the arbitation hearing pending the outcome of the damages action against Blue Label Telecoms and others. The application is opposed.

OTHER

Hip Oils Topco Limited (Hip Oils)

With the sale of Telkom's shares in Multi-Links to HIP Oils, Telkom provided a taxation indemnity and a "creditors" indemnity to HIP Oils and Multi-Links where such liability or obligation was incurred prior to 3 October 2011 and to the extent that such liability was not disclosed or exceed the amounts set out in Schedule 4 (creditors list) to the Sale and Purchase Agreement. Discussions are underway with the Nigerian tax authorities. Telkom is also in discussions with Multi-Links/Hip Oils regarding contributions towards the creditors' claims.

Consumer Protection Act (CPA)/National Consumer Commission (NCC)

In August 2011 the NCC served compliance notices on Telkom for both fixed-line and mobile services to be brought in line with CPA. The NCC alleged that Telkom's terms and conditions for fixed-line and mobile services (8•ta) were, at that stage, not compliant with the CPA. Telkom filed objections to these compliance notices and served applications on the NCC for the setting aside of both notices. In February 2013, the National Consumer Tribunal cancelled both compliance notices on the basis that they were defective.

CONTINGENT ASSETS

Former Senior Executive of Telkom

Telkom has issued a summons against a former senior executive of Telkom in April 2013, claiming an amount of USD6 million, for damages suffered as a result of certain irregularities. The summons is based on two claims namely:
a) a claim for USD1 million which Telkom was compelled to pay to a third party as a consequence of the defendant, acting outside of his authority, by signing a financial guarantee binding Telkom jointly and severally for the obligations of Multi-Links (a previous subsidiary of Telkom).
b) a claim for USD5 million arising from the defendant's conduct whilst at Multi-Links, in authorising a telecommunications operator to earmark and make a payment of USD5 million to a third party, instead of Telkom. The payment was due to Telkom in terms of a traffic termination agreement. The matter is being defended.

Blue Label Telecoms Limited and 5 Others

On or about 17 May 2013, Telkom (and Multi-Links Telecommunications Limited, Nigeria) issued a summons against Blue Label Telecoms Limited Services (Pty) Limited, certain subsidiaries of Blue Label and certain individuals, including a former senior executive of Telkom, claiming an amount of USD528,071,116 being damages suffered by Telkom arising out of a Super Dealer agreement (SDA) concluded between African Prepaid Services (a subsidiary of Blue Label) and Multi-Links. The damages claim is based *inter alia*, on a breach of a duty of care and misrepresentations made by Blue Label at the time that the SDA was concluded with Multi-Links. The claim against the former senior executive of Telkom is based on a breach of his fiduciary duty owed to Telkom and Multi-Links. Multi-Links is also claiming several million US Dollars for damages suffered. In addition, as part of the relief sought by Multi-Links, the court has been requested to declare the SDA dated 1 December 2008 between Multi-Links and APS and the purported cession thereof to APSN, to be void *ab initio*. To find jurisdiction, against APSN, MLT and Telkom had obtained a High Court order. APSN has applied to the High Court to set aside the jurisdiction order.

Multi-Links (MLT)

Telkom is claiming an amount of USD20.5 million from MLT in respect of amounts due by MLT to Telkom with regards to the provision of resources, legal costs and an interest-free loan.

TAX MATTERS

During the period commencing May 2007 to October 2011, Telkom provided a loan totalling USD531 million to Multi-Links. In October 2011, Telkom and Telkom International disposed of their share in Multi-Links and sold their rights in respect of the Multi-Links loan to an unconnected third party for a consideration of USD100. The amount was received by Telkom during its year of assessment ended March 2012.

15. Contingencies *(continued)*

TAX MATTERS *(continued)*

In determining the taxable income for the Annual Financial Statements ended March 2012, Telkom included a foreign exchange (FX) gain to the value of R247 million on the realisation of the loan. Telkom subsequently obtained external tax advice, including two Senior Counsel opinions, which support the contention that instead of a FX gain of R247 million, a FX loss of R3.9 billion should be realised. The 2012 tax return has been submitted on the basis of the Senior Counsel opinions obtained. Since the tax treatment of the R3.9 billion loss is based on a unique set of circumstances and a complex legislative environment the financial statement adjustment will only be recognised once the Telkom interpretation has been accepted by SARS or, in the case of a dispute, has been positively resolved in the Tax Court.

The Group is regularly subject to an evaluation, by tax authorities, of its direct and indirect tax filings. The consequence of such reviews is that disputes can arise with tax authorities over the interpretation or application of certain tax rules applicable to the Group's business. These disputes may not necessarily be resolved in a manner that is favourable to the Group. Additionally, the resolution of the disputes could result in an obligation to the Group.

	2013 Rm	2012 Rm
16. Related parties		
Details of material transactions and balances with related parties were as follows:		
With shareholders:		
Government of South Africa		
Related party balances		
Trade receivables	**446**	371
Trade payables		
Department of Communications	**–**	(71)
Related party transactions		
Revenue	**(3 017)**	(3 064)
Individually significant revenue*	**(1 237)**	(1 105)
City of Cape Town	**(66)**	(84)
Department of Correctional Services	**(93)**	(73)
Department of Health: Gauteng	**(50)**	(63)
Department of Justice	**(118)**	(104)
South African National Defence Force	**(72)**	(59)
South African Police Services	**(601)**	(522)
South African Revenue Services	**(42)**	(41)
S.I.T.A. (Pty) Limited	**(195)**	(159)
Collectively significant revenue	**(1 780)**	(1 959)
* *The nature of the individually and collectively significant revenue consists mostly of data revenue.*		
At 31 March 2013, the Government of South Africa held 39.8% (2012: 39.8%) of Telkom's shares and the Public Investment Corporation held 11.7% (2012:10.5%) of Telkom's shares.		
With entities under common control:		
Major public entities		
Related party balances		
Trade receivables	**48**	11
Trade payables	**–**	(1)
Related party transactions		
Revenue	**(301)**	(383)
Expenses	**237**	223
Individually significant expenses	**223**	207
South African Post Office	**96**	95
Eskom	**127**	107
South African Broadcasting Corporation	**–**	5
Collectively significant expenses	**14**	16

	2013 Rm	2012 Rm
16. Related parties *(continued)*		
Major public entities *(continued)*		
Rent received	**(43)**	(26)
Individually significant rent received: *South African Post Office*	**(39)**	(22)
Collectively significant rent received	**(4)**	(4)
Rent paid	**26**	21
Individually significant rent paid: *South African Post Office*	**17**	13
Collectively significant rent paid	**9**	8
Key management personnel compensation:		
(Including directors' and prescribed officers' emoluments)		
Related party transactions		
Short-term employee benefits	**163**	191
Post-employment benefits	**10**	8
Termination benefits	**24**	6
Terms and conditions of transactions with related parties		
Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.		

17. Significant events

Appointment of Independent non-executive Directors

Telkom announced on 13 December 2012 that Ms Susan Botha, Dr Clive Adrian Fynn, Ms Khanyisile Kweyama, Ms Fagmeedah Petersen and Mr Louis Leon Von Zeuner, have been appointed as Independent non-executive Directors with immediate effect. Ms Mzondeki was also appointed as a member of the Audit Committee of the Company on 16 November 2012 and Ms Fagmeedah Petersen and Mr Louis Leon Von Zeuner were also appointed as members of the Audit Committee of the Company on 13 December 2012.

Appointment of Company Secretary

Telkom announced on 7 March 2013 the appointment of Ms Xoliswa Makasi as Company Secretary of Telkom with effect from 18 March 2013.

Voluntary severance and early retirement packages on offer

Telkom announced on 11 March 2013 that the Company had approved the offering of Voluntary Severance Packages (VSPs) and Voluntary Early Retirement Packages (VERPs) to both management and bargaining unit employees. Employees may apply for a VSP or VERP between April 2013 and August 2013.

Appointment of CEO and COO

Telkom announced on 28 March 2013 that the Board of Directors had appointed Mr Sipho Maseko as Group Chief Executive Officer and Executive Director with effect from 1 April 2013. Telkom also announced the appointment of Dr Brian Armstrong as Group Chief Operating Officer.

Impairment of Cash Generating Unit (CGU)

Telkom has recorded an impairment loss against its CGU. Refer to note 5.3.

18. Subsequent events

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2013 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

Notes

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