

Section 1

Group overview



Telkom is bringing the **Next Generation telecommunication capabilities** to South Africa and Africa

Telkom's vision

To be a leading customer and employee centred Information Communication and Technology (ICT) solutions service provider.

Our values

- We are proud and passionate about who we are and what we do;
- We will act with honesty and integrity;
- We promote an entrepreneurial and innovative mindset;
- We treasure diversity; and
- We are performance driven.

Telkom shareholding

Government	PIC	Elephant Consortium	Telkom Treasury Stock	Free Float
The Government of the Republic of South Africa is the largest shareholder in Telkom holding 38.9% of the issued share capital. The Government holds the A class share.	The Public Investment Corporation (PIC), an investment management company wholly owned by Government, invests funds on behalf of the public sector entities. It has a 15.3% of issued share capital in Telkom which includes the class B share.	The Elephant Consortium is a Black Economic Empowerment group that holds 5.7% of Telkom's issued share capital, which it acquired from the PIC in May 2005.	Rossal No.65 (Pty) Ltd holds 2.3% which was purchased for the Telkom conditional share plan. Acajou Investments (Pty) Ltd holds 2.0% that was purchased for purposes other than the Telkom conditional share plan.	The remainder of the shares in Telkom are free float. Included in the total free float are 80,984 retail shareholders.

Telkom group structure



Vodacom Group – 50% Joint Venture

Vodacom Group (Pty) Ltd is a leading mobile communications company providing mobile communications services to 30.2 million customers in South Africa, Tanzania, Lesotho, the DRC and Mozambique.

TDS Directory Operations – 64.9%

TDS Directory Operations (Pty) Ltd is a joint venture between Telkom SA Ltd and Maister Directories. It provides complete Yellow and White page directory services, an electronic directory service, 10118 'The Talking Yellow pages' and an online web directory service.

Swiftnet – 100%

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

Africa Online – 100%

Africa Online is an Internet Service Provider with presence in 9 African countries. Telkom acquired the company in order to expand ISP services in the rest of Africa in conjunction with Telkom Media.

Multi-Links – 75%

Multi-Links is a Private Telecommunications Provider in Nigeria with a Unified Access Licence allowing fixed, mobile, data, long distance and international telecommunications services.

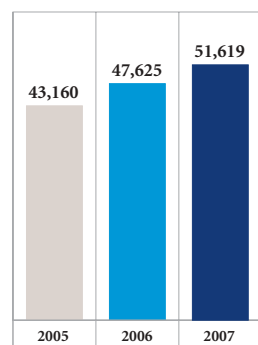
Telkom Media – 100%

Telkom Media is a holder of a commercial satellite and cable broadcasting licence, which allows it to operate both a satellite pay-TV service and an IPTV service in South Africa.

Financial review summary

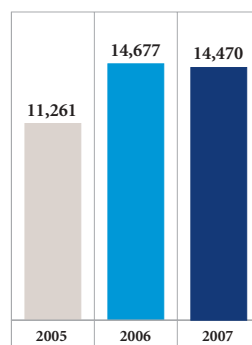
Steady **growth** of annuity revenue and data services while investing for future convergence

Revenue growth
of 8.4%



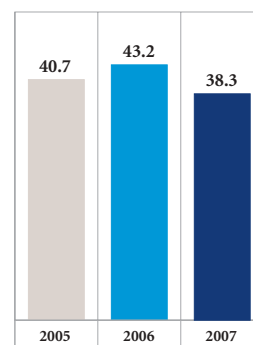
Revenue (ZARm)

Operating profit –
decrease of 1.4%



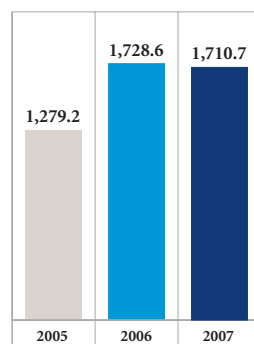
Operating profit (ZARm)

EBITDA margin



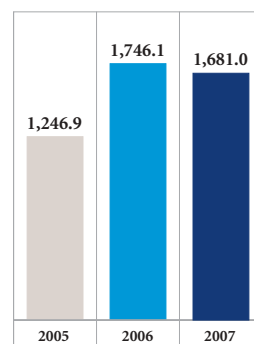
(%)

Headline earnings per
share – decrease of 1.0%



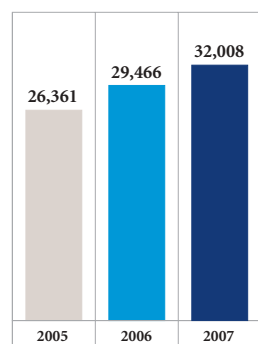
HEPS (ZAR cents)

Basic earnings per share –
decrease of 3.7%



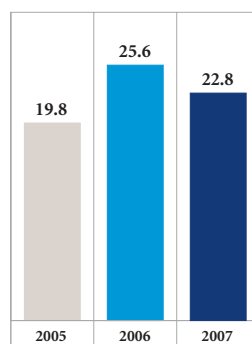
EPS (ZAR cents)

Total equity –
growth of 8.6%



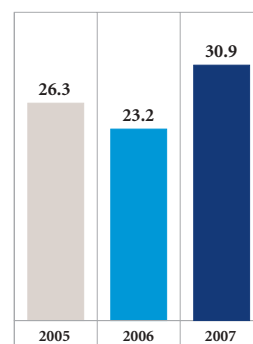
Total equity (ZARm)

Return on assets



(%)

Net debt to equity



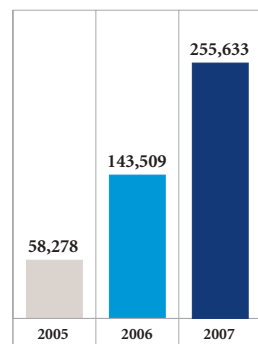
(%)

Operational review summary

Consumer demand remains strong as Telkom continues to build-out networks, products and services

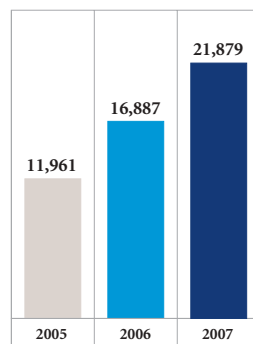
- 82% of network with ADSL and WiMAX coverage
- 250% growth on sales of 'term and volume' contracts
- 60% of local loop under 2.5km
- 88.7% increase in fibre optic network from 6.7million to 12.7million km loop
- 149.5% growth in revenue from bundled products

78.1% growth in ADSL subscribers



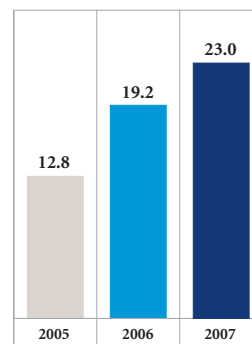
Number of subscribers

29.6% growth in managed data sites



Number of sites

20.1% growth in SA mobile customers

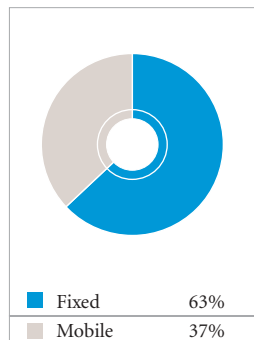


Number of customers (millions)

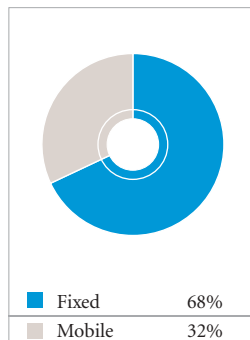
Segment contribution

year ended March 31, 2007

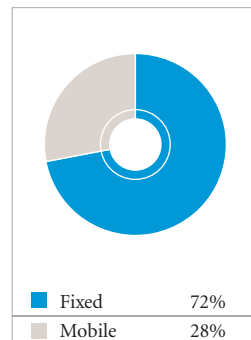
Operating revenue



Operating profit



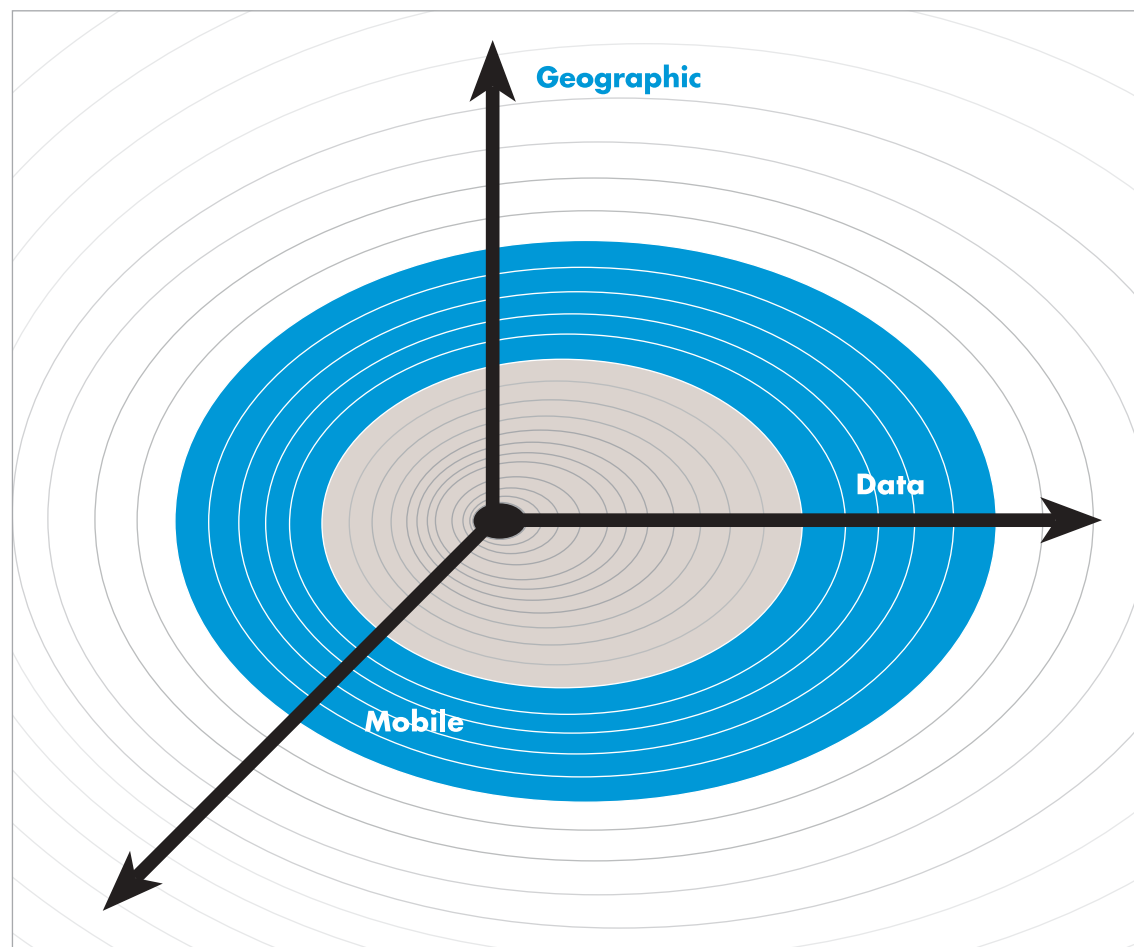
Profit attributable to equity holders



After inter-segmental eliminations

Telkom's investment case

Growing further into mobile and data (including media) services and expanding geographically

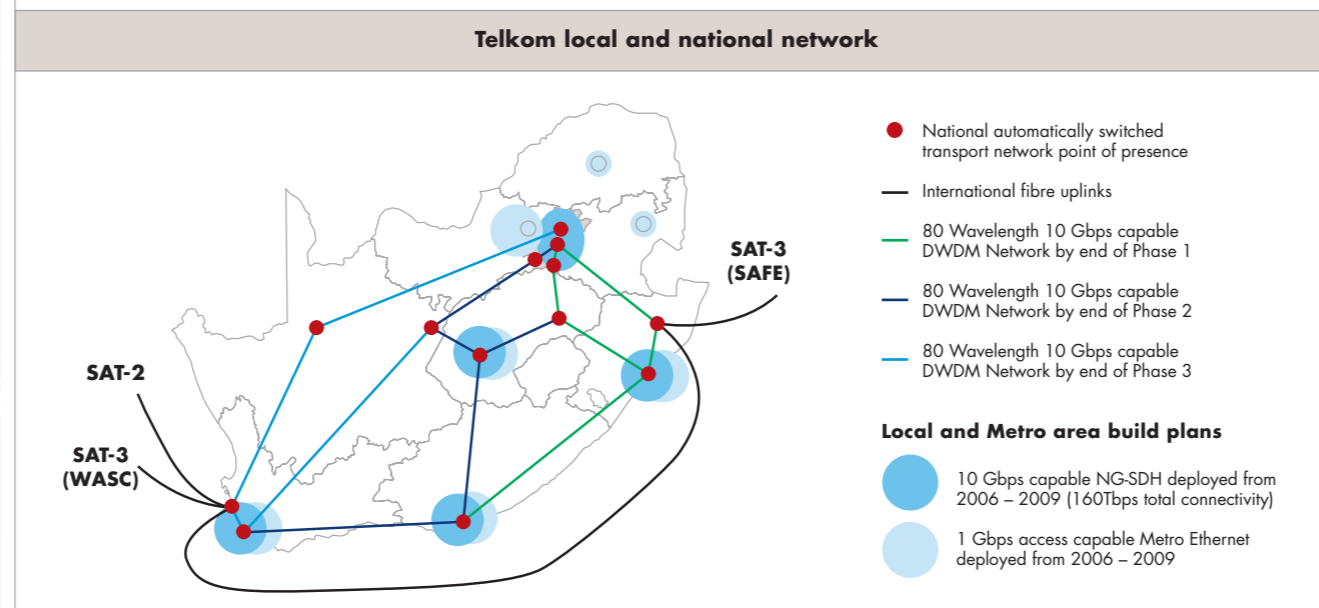
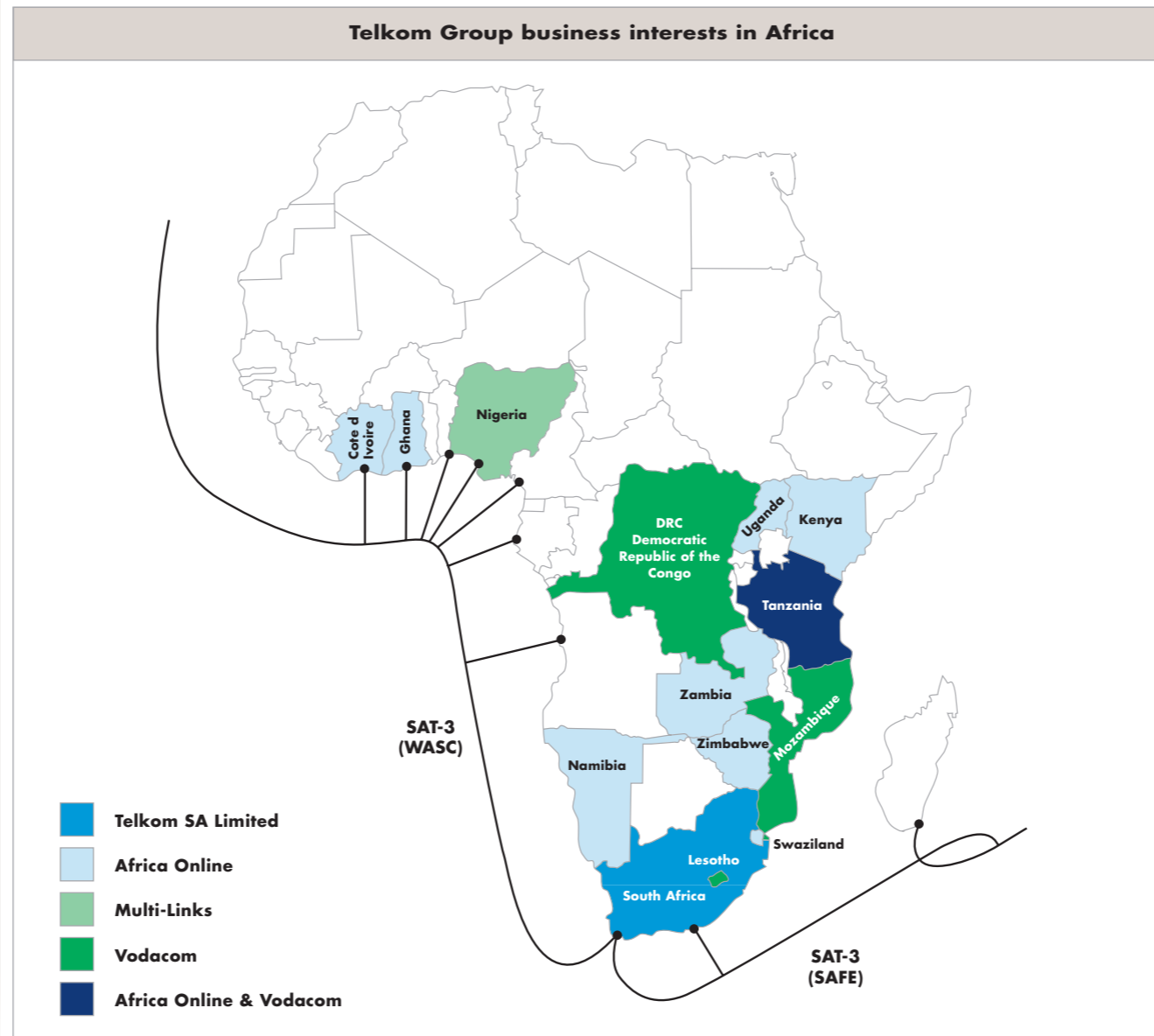


- Increasing capacity and evolving to a Next Generation Network to reduce cost and expand the product and services offering.
- A converged product offering including fixed and mobile voice, data service and media will stimulate demand and grow revenue.
- The African continent provides enormous growth potential and Telkom has begun and will continue to increase its exposure in attractive markets.

Increasing returns to shareholders

The Telkom footprint

- Growing African assets – Africa Online and Multi-Links
- Africa Online, ISP service provider in 9 African countries
- Multi-Links, Private Telecommunications Operator with Unified Access Licence allowing fixed, mobile, long distance, international and data telecommunication services
- Providing premium quality voice and data connectivity to Africa
- Executing on switched hubbing strategy
- Maximising Telkom's undersea cable strengths
- Utilising the capacity of the NNOC to service Africa

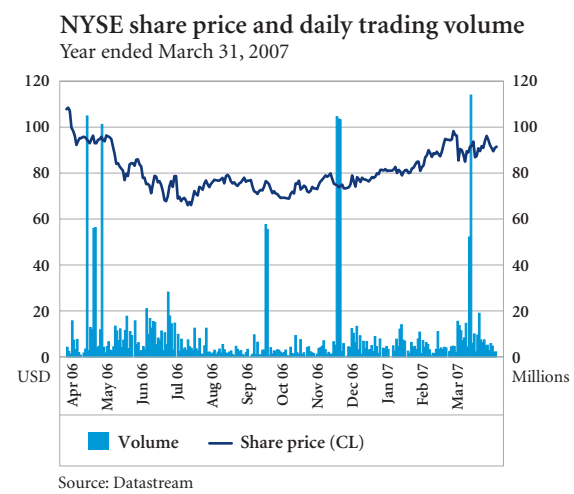
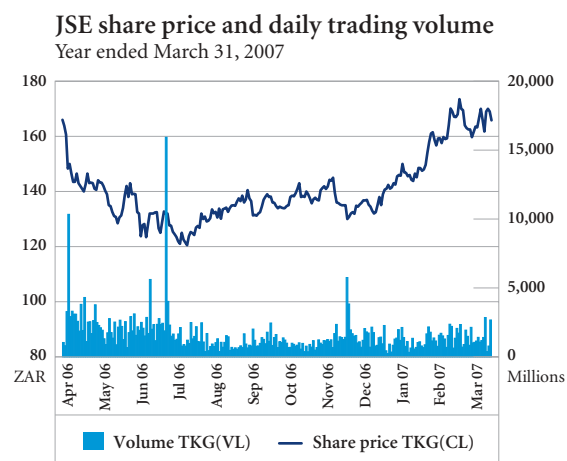


- Partnering to ensure EASSy cable access for Africa
- Evolving to a NGN network
- Increasing speed and capacity
- Accelerating broadband rollout
- Maximising the strength of Telkom's formidable backbone network and international connectivity
- Growing bundled products
- Providing wholesale services to competing telecommunication operators
- Developing quadruple play offering – fixed, mobile, data and media products and services
- Pursuing the delivery of high-end IT services

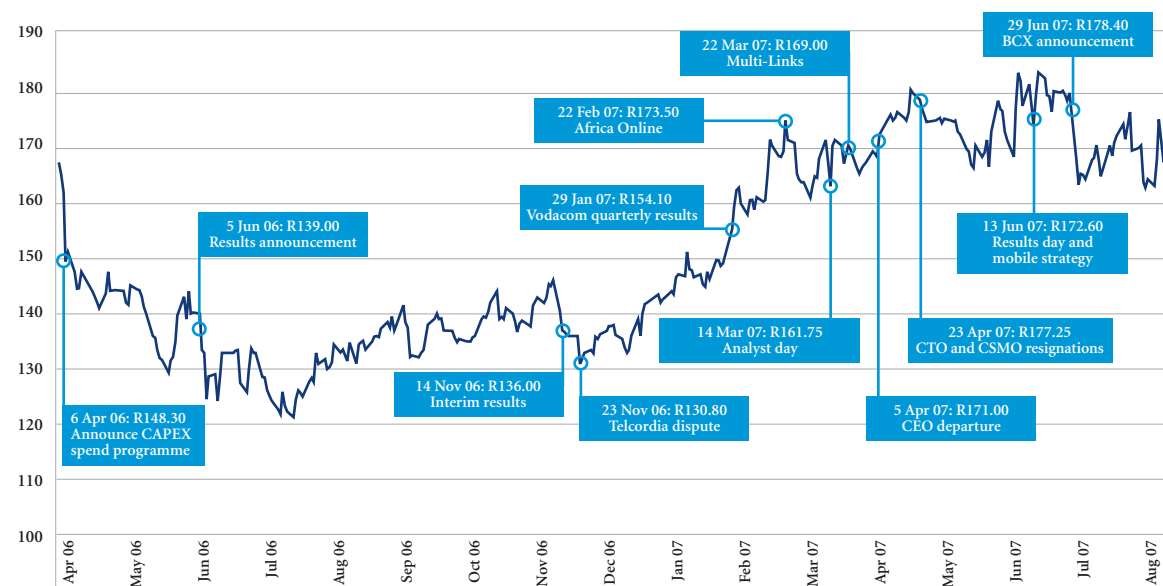
Equity markets

Market performance

	JSE Limited (ZAR per ordinary share) year ender March 31, 2006		NYSE (USD per ADS) year ender March 31, 2006	
	2006	2007	2006	2007
Closing price	160.65	166.00	105.01	91.50
Highest price	171.00	175.50	111.50	109.50
Market capitalisation (millions)	87,545	88,454	14,306	12,189



Share price performance from April 2006 to August 2007



The telecommunications industry

Liberalisation of the South African telecommunications market and increasing competition

Telkom is currently the only provider of residential public switched telecommunications services in South Africa. A second licence to provide public switched telecommunications services was granted to Neotel on December 9, 2005. Neotel was commercially launched on August 31, 2006 and commenced providing services in the beginning of the 2007 calendar year to large corporations and other licensees. Neotel is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including a 26% stake beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. Neotel has indicated that it will begin providing services to residential customers in the 2007 calendar year. The Government has created an infrastructure company, Infraco, which is expected to provide inter-city bandwidth at cost price to Neotel, and later to the rest of the industry, which will further compete with Telkom's communications network. A process to issue additional licences to small business operators to provide telecommunications services in underserved areas with a teledensity of less than 5%, commenced in 2005 and is continuing. These are referred to as underserved areas licensees, or USALs. The Minister of Communications has identified 27 of these underserved areas. ICASA has issued licences to successful bidders in seven of them and the Minister has issued invitations to apply for licences in 14 additional areas. In August 2006, ICASA recommended to the Minister that licences be granted to successful applicants in 13 of these areas. It is expected that further licences will be issued in the 2007 calendar year.

Telkom currently competes for telephone customers with the three existing mobile operators, Vodacom, our 50% owned joint venture, MTN and Cell C. MTN is a public company listed on the JSE Limited and Cell C announced in June 2006 that it entered into a joint venture with Virgin Mobile, which we expect will increase competition. Telkom also competes with service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to

mobile networks. In recent periods, our fixed-line business has experienced migration from our fixed-line data services to mobile data services.

As competition intensifies, the main challenges our fixed-line voice business faces are continuing to improve customer loyalty through improved services and products and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate a continued reduction in overall average tariffs and market share and an increase in costs in our fixed-line business. Increased future competition may also result in a reduction in Vodacom's overall average tariffs, loss of market share and an increase in its customer acquisition and retention costs. At the same time, we expect competition to stimulate overall market demand for communications services.

South African fixed-line communications market

While South Africa features a highly developed financial and legal infrastructure at the core of its economy, it also suffers from high levels of unemployment and income disparity. With respect to the economically disadvantaged communities of the population, communications providers must compete with other basic necessities for customers' limited resources. In a number of areas of the country and for particular communities, mobile services are the preferred alternative to fixed-line services, primarily due to mobility. Although the fixed-line penetration rate in South Africa was only 9.8% and 10.0% as of March 31, 2007 and March 31, 2006, respectively, due to the diverse rural geography and demographic factors in South Africa, we do not expect South Africa's fixed-line penetration rates to increase in the near term. In the 2007 and 2006 financial years, our total fixed access lines decreased primarily due to a decrease in the number of residential PSTN lines, partially offset by an increase in ISDN channels and business postpaid PSTN lines. Residential postpaid PSTN lines were adversely impacted by customer migration to mobile and higher bandwidth products such as ADSL and lower connections, while the decrease in prepaid PSTN lines was primarily as a result of customer migration to mobile services and our residential postpaid PSTN services. Similarly, traffic declined in both the 2007 and 2006 financial years, being adversely affected by the increasing substitution of calls placed using mobile services rather than our



fixed-line services and dial-up Internet traffic being substituted by our ADSL service, as well as the decrease in the number of residential PSTN lines and increased competition in our payphone business. During the same period, ISDN channels and ADSL services have increased, driven by increased demand for higher bandwidth and functionality. In light of these market conditions, we will seek to maintain existing customers in the face of increasing competition and increase sales of data products while utilising existing capacity, largely through increased sales of our bundled products.

South African mobile communications market

South Africa has experienced significant growth in the number of mobile users since GSM mobile services were launched in the country in 1994. The penetration rate for mobile users increased from an estimated 2.4% at March 31, 1997 to an estimated 84% at March 31, 2007. As a result, Vodacom's South African revenue increased 24.1% and 19.1% in the 2006 and 2007 financial years, respectively. While we believe the mobile penetration rate will continue to increase, we do not expect that it will continue to grow at the same high rates that it has experienced in the recent past. Consequently, Vodacom is placing increased focus on customer retention and maintaining its market leadership by providing innovative value added services and data products and superior customer service as well as seeking new associate business opportunities in South Africa and gearing up to provide total converged solutions to corporates. Vodacom's previous focus of customer acquisition and selective growth in other African countries still remain focus areas. In furtherance of this strategy, in the 2005 financial year, Vodacom signed an alliance with its shareholder, Vodafone, which gives Vodacom access to Vodafone's branded products and services, global research and development and access to Vodafone's marketing and buying powers. In addition, Vodacom launched the first commercial 3G network in South Africa in December 2004. Vodacom also launched Vodafone Mobile Connect Cards, 3G/GPRS/HSDPA

datacards providing fast, secure access to corporate networks from computers, Vodafone live!, with global and local content, picture and video messaging and downloads, Mobile TV and BlackBerry®. In addition, Vodacom recently launched 3G with HSDPA, giving its customers access to global high speed broadband communications.

A large part of the growth in mobile services was due to the success of prepaid services. Approximately 86.5% of Vodacom's South African mobile customers were prepaid customers at March 31, 2007 and 93.2% of all gross connections were prepaid customers in the 2007 financial year. During the 2007 financial year the growth in contract customers in South Africa exceeded the growth in prepaid customers as a result of the migration of the South African middle class from prepaid to contract services. The increasing number of prepaid users, who tend to have lower average usage, together with the lower overall usage as the lower end of the market continues to be penetrated have resulted in decreasing overall average revenue per customer.

The South African regulatory environment

Introduction

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

The Electronic Communications Act aims to supplement or replace sector specific legislation and change the market structure from a vertically integrated, infrastructure based, market structure to a horizontal, service based, technology neutral, market structure with a number of separate licences being issued for different areas, and to clarify the different roles of ICASA and the Minister of Communications in policy development, licensing and regulation. The Act seeks

The telecommunications industry continued

to promote convergence and establish the legal framework for convergence in the broadcasting signal distribution and telecommunications sectors.

While a new licensing regime has been created by the Electronic Communications Act, all existing licences are to remain valid until converted to new licences in accordance with the new licensing regime. Regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. We expect that the new licensing framework will result in the market becoming more horizontally integrated and will substantially increase competition in our fixed-line business. In addition, the process of converting our licences to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licences, which could disrupt our business operations and decrease our net profit.

As a result, the regulatory environment is evolving, lacks clarity in a number of areas and is subject to interpretation, review and amendment as the telecommunications industry is further developed and liberalised. In addition, the regulatory process entails a public comment process, which, in light of the politicised issue of privatisation of industries such as telecommunications in South Africa, makes the outcome of the regulations uncertain and may cause delays in the regulatory process. A number of significant matters have not been addressed or clarified.

ICASA

Regulations

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

Under South African law, it is possible for licensees such as Vodacom and Telkom and for other interested parties to have the regulations and rulings issued by ICASA reviewed and tested in a court of law for

compliance with the objectives and other provisions of the Electronic Communications Act, and other relevant laws such as the South African Constitution.

Licence conversion

All existing licences are to remain valid until converted by ICASA in line with the new licensing framework, which is required to be done within 24 months from the commencement date of the Electronic Communications Act. As a result, Telkom's licences will be converted to new licences in accordance with the new licensing regime. Conversion is required to be on no less favourable terms than the original licence. However, as part of the conversion process, ICASA may grant rights and impose obligations on the licensee, in order to ensure that the existing licences comply with the Electronic Communications Act. Public pronouncements by ICASA indicate that they plan to complete the process of converting all existing licences by July 2008. The process of converting our licences to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licences.

Licensing of Neotel

In September 2004, the South African Minister of Communications granted an additional licence to provide public switched telecommunications services to a second national operator, Neotel, that is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. Neotel was licensed on December 9, 2005 and commercially launched on August 31, 2006 and commenced providing services in the beginning of the 2007 calendar year to large corporation and other licensees. Neotel has indicated that it will begin providing services to residential customers in the 2007 calendar year.

Underserved areas

A process to issue additional licences to small business operators to provide telecommunications services in underserved areas with a teledensity of less than 5% commenced in 2005 and is continuing. The Minister of Communications has identified 27 of these underserved areas. ICASA has issued licences to successful bidders in seven of them and the Minister has issued invitations to apply for licences in 14 additional areas. In August 2006 ICASA recommended to the Minister that

licences be granted to successful applicants in 13 of these areas. It is expected that further licences will be issued in the 2007 calendar year.

Competition matters

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

If Telkom and Vodacom are found to have significant market power in any of the markets in which we operate, we may be required to provide interconnection and facilities to our competitors at or near the long run incremental cost, or LRIC, of those services or facilities, and our operating revenue and net profit could decline. On January 2007 ICASA published a consultation document for public comment and on May 17, 2007 it held a public enquiry on its intention to define relevant call termination wholesale markets. In its consultation document ICASA expressed the preliminary view that all providers of telecommunications networks, including Telkom and Vodacom, have significant market power in their call termination markets and that the appropriate price controls to be applied to the large operators, MTN, Vodacom and Telkom, is the LRIC calculated on the basis of relevant forward looking economic costs of an efficient operator, including a reasonable cost of capital. Regulations are expected to follow in due course. ICASA has expressed the preliminary view that Telkom is deemed to have significant market power and that the appropriate price control to be applied is likely to be the LRIC.

Interconnection

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

The interconnection agreements between Telkom and Vodacom and MTN that preceded the Telecommunications Act were renegotiated and amended in 2001. An interconnection agreement, on substantially the same terms, was negotiated and

concluded with Cell C. An interconnection agreement has also been concluded between Telkom and Neotel and filed with ICASA on March 6, 2007. Interconnection agreements have also been concluded between Telkom, the USALs and those VANs licensees to whom ICASA has granted access to subscriber numbers. An interconnection agreement has also recently been signed with Sentech, which is expected to come into operation during the third quarter of the 2007 calendar year.

Facilities leasing

The Electronic Communications Act provides that an electronic communications network licensee must, on request, lease electronic communications facilities to any other licensee, unless such request is unreasonable, and must enter into a facilities leasing agreement with the requesting party for this purpose.

ICASA may prescribe a framework of wholesale rates applicable to specified electronic communications facilities in circumstances where the existence of significant market power has been determined. Notwithstanding a finding of significant market power, ICASA may exempt, under certain circumstances, an electronic communications network licensee from the obligation to lease fibre loops and sub-loops serving residential premises. ICASA must prescribe a list of essential facilities, including local loops and sub-loops and associated electronic communications facilities, and electronic communications facilities connected to international electronic communications facilities such as submarine cables and satellite earth stations. ICASA may require that essential communications facilities be supplied at a cost based price, likely to be the LRIC of that facility.

The Minister of Communications has issued a policy decision declaring November 1, 2007 as the date from which the exclusivity provisions in our SAT-3 agreements shall be declared null and void. The Minister of Communications also announced that she intends to issue a policy direction to ICASA requiring it to prioritise and urgently prescribe a list of essential facilities, ensuring that the facilities connected to the SAT-3/WASC/SAFE submarine cables can be accessed soon.

On May 3, 2007, ICASA published a consultation document for public comment on its intention to define relevant end to end leased lines and other wholesale markets. In its consultation document ICASA defined the wholesale markets for fixed-line local loop access, fixed-line narrowband exchange lines, call origination and call conveyance, symmetric broadband originator services, trunk services for transmission within South

The telecommunications industry continued

Africa and international leased lines. ICASA expressed the preliminary view that Telkom is deemed to have significant market power in all these markets and the appropriate price controls to be applied is likely to be the LRIC, calculated on the basis of relevant forward looking economic costs on an efficient operator, including a reasonable cost of capital.

In addition, the Telecommunications Act required Telkom to allow Neotel to use all of our telecommunications facilities for the first two years of its licence, on a resale basis, for the purpose of providing public switched telecommunication services. As a result, Neotel will be able to lease facilities from Telkom for a two year period to provide its services, and is allowed to have shared access to the local loop for a period of two years. A fixed link facilities leasing agreement which provides for leasing by Neotel of 2 Mbps leased lines has been concluded between Telkom and Neotel and filed with ICASA on September 12, 2006. Further agreements for the leasing by Neotel of other facilities are expected to be negotiated as required. If we are unable to negotiate favourable terms and conditions for the provision of the services and facilities covered by the guidelines or ICASA otherwise imposes terms and conditions that are unfavourable to us, our business operations could be disrupted and our net profit could decline. As described below, we may also be required to lease or otherwise make our telecommunications facilities available to Neotel beyond the first two years of its licence pursuant to the Electronic Communications Act.

Unbundling the local loop

While the Telecommunications Act provided that we were not to be required to unbundle our local loop for a period of two years after the issue of a licence to Neotel, The Electronic Communications Act provides that ICASA may prescribe a framework for the unbundling of Telkom's local loop.

On May 23, 2007, the Local Loop Unbundling Committee set up by the Minister of Communications to develop appropriate policies for the unbundling of the local loop in South Africa submitted its report to the Minister of Communications recommending, among other things:

- three forms of local loop unbundling to be considered, full unbundling of the metallic loop, line sharing and wholesale bitstream access; and
- the regulatory process, with full industry participation should commence as soon as possible and be completed in 2011.

The Minister of Communications has published policy decisions that the process of unbundling the local loop

in South Africa should be urgently implemented and completed by 2011. The Minister of Communications further requested ICASA to make use of the report of the Local Loop Unbundling Committee and its recommendations.

Tariffs

Regulations made under the Telecommunications Act, which remain in effect, impose a price cap formula on a basket of Telkom's specified services, including installations; prepaid and postpaid line rental; local, long distance and international calls; fixed-to-mobile calls; public payphone calls; ISDN services; our Dignet product; and our Megaline product. A similar cap applies to a sub-basket of services provided to residential customers, including leased lines up to and including lines of 2 Mbps of capacity and the rental and installation of business exchange lines. Approximately 66% of Telkom's operating revenue in the year ended March 31, 2006 was included in this basket compared to approximately 64% of Telkom's operating revenue in the year ended March 31, 2007. Our tariffs for these services are filed with ICASA for approval. Revenue generated from services for which we had exclusivity may not be used to subsidize competitive services. The price cap operates by restricting the annual percentage increase in revenues for all the services included in the basket that are attributable solely to price changes to annual inflation, measured by changes in the consumer price index, less a specified percentage.

Historically, the annual permitted percentage increase in revenues from both the whole basket and the residential sub-basket was 1.5% below inflation. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA. Draft Regulations on the pricing and provision of ADSL services were published by ICASA which would, among other things, have prohibited Telkom from charging a monthly rental for providing ADSL service and limited Telkom to charging only an installation fee for such service. The final regulations published by ICASA on August 17, 2006 did not contain any additional limitations on the pricing of these services beyond those combined in the basket of price controlled services, but did impose quality of service obligations on Telkom for these services related to, among other things:

- services to be provided within 30 days from application;
- the provision of uncapped local bandwidth;
- the guarantees of minimum speeds;
- the prohibition of past prioritisation; and
- the prohibition of periodic resets.

Telkom is currently not in full compliance with these requirements and has informed ICASA accordingly.

ICASA approved a 0.2% increase in the overall tariffs for services in the basket effective January 1, 2005, a 3.0% reduction in the overall tariffs for services in the basket effective September 1, 2005 and a 2.1% reduction in the overall tariffs for services in the basket effective August 1, 2006. On June 13, 2007 Telkom filed with ICASA proposed average price reductions on its regulated basket of products and services of 1.2%, effective August 1, 2007.

Pursuant to its mobile cellular telecommunications licence, Vodacom has to lodge all tariff plans or any amendments to existing tariff plans with ICASA. No increase in the price of any service or in some cases, a basket of services, greater than the percentage annual increase in the consumer price index is allowed without ICASA's approval. Vodacom South Africa's most recent annual tariff amendments were lodged on September 19, 2006 and approved by ICASA on September 29, 2006. The amendments resulted in an average tariff decrease on packages affected of 1.7%, which was effective November 1, 2006. In 2005, Vodacom South Africa's annual tariff filing resulted in an average tariff decrease of 4.9% effective October 1, 2005.

Universal service obligations

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

The Minister of Communications issued a public statement in 2002 describing our future obligations to assist in the continued development of communications services to the South African population. The obligation will be a contribution to the Universal

Service Fund, or USF, and ongoing universal service obligations imposed on us through the generic terms of our licence. Such contribution was set at 0.2% of the prior year's annual turnover derived from the provision of telecommunications service that it is licensed to provide. Vodacom's contribution to the USF is on the same basis as Telkom.

Carrier pre-selection

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

Number portability

The Electronic Communications Act mandates that number portability to enable customers to retain their fixed-line and mobile telephone numbers if they switch between fixed-line operators or between mobile operators be introduced. A framework number portability regulation was published at the end of 2004 that generically provides for the introduction of fixed-to-fixed and mobile-to-mobile number portability. It is currently expected that Telkom will be required to provide "block" number portability in the 2007 calendar year and individual number portability later, but within 12 months from being requested by an operator. The full set of regulations for the implementation of fixed number portability, however, has not yet been published. Telkom has received a request from Neotel to implement both block and individual number portability and discussions on the implementation of the required inter operator systems are under way with ICASA and Neotel. Telkom will not be able to determine the time required to

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implement number portability until the functional specification regulations are determined. After several delays mobile number portability phase one was launched on November 11, 2006. Phase 2, which was implemented during April 2007, includes multi-line porting, secure file transfer protocol access to third parties and operational software upgrades on the central reference data base. From launch until end March 2007 there have been 49,794 successful ports. Cell C registered a net gain of 14,057 subscribers, Vodacom a net loss of 6,018 subscribers and MTN a net loss of 8,039 subscribers.

Other regulatory issues

RICA

The Regulation of Interception of Communication and provision of Communication-related Information Act (RICA) is a South African law that regulates the authorisation for and actual lawful interception of indirect communications. The Act came into effect on September 30, 2005, with the exception of certain sections requiring the collection of customer details and identity verification prior to providing mobile cellular telecommunications services. The compliance date for these sections has not been determined and will come into effect by presidential proclamation. RICA obligates service providers to obtain and store customer details, including names, identity numbers, residential and

business or postal addresses and requires verification of customers' details with reference to a certified copy of a customer's identity document and his or her actual identity document. To date Telkom has not been able to complete the implementation of all of these requirements and Vodacom may not be able to implement these requirements within the time period in which it is ultimately required to implement them, which has not yet been determined.

Furthermore, the implementation of RICA is expected to have significant cost implications resulting from the paper verification and storage requirements and negatively impact the ability of Telkom and Vodacom to register customers due to its burdensome registration process, which may not be practical and may require the disconnection of customers for whom such information is unavailable. In addition, commencing in June 2006, all licensees, including Telkom and Vodacom, were required to install equipment and implement procedures to allow lawful interception by law enforcement agencies in South Africa, including the interception of communications and the provisioning of call-related information, including billing information.

A full discussion of Telkom's regulatory environment and licence requirements is available on the Telkom website on www.telkom.co.za/ir.