Section 4

Performance review

Extracting efficiencies, improving customer service and growing its market through new products and services

In this section

Five-year operational review

for the years ended March 31,

	2003	2004	2005	2006	**2007**	CAGR (%)
Fixed-line operational data						
Fixed access lines (thousands)	4,709	4,680	4,726	4,708	**4,642**	(0.4)
Postpaid – PSTN	3,197	3,048	3,006	2,996	**2,971**	(1.8)
Postpaid – ISDN channels	516	601	664	693	**718**	8.6
Prepaid	817	856	887	854	**795**	(0.7)
Payphones	179	175	169	165	**158**	(3.1)
Fixed-line penetration rate (%)	10.4	10.1	10.1	10.0	**9.8**	(1.5)
Revenue per fixed access line (ZAR)	5,157	5,341	5,250	5,304	**5,275**	0.6
Total fixed-line traffic (millions of minutes)	32,868	32,942	31,706	31,015	**29,344**	(2.8)
Local	20,396	20,547	19,314	18,253	**16,655**	(4.9)
Long distance	4,728	4,616	4,453	4,446	**4,250**	(2.6)
Fixed-to-mobile	4,135	3,980	3,911	4,064	**4,103**	(0.2)
International outgoing	439	427	415	515	**558**	6.2
International VoIP	–	25	89	83	**38**	–
Interconnection	3,170	3,347	3,524	3,654	**3,740**	4.2
Managed data networks[1]	7,729	9,061	11,961	16,887	**21,879**	29.7
Internet dial-up subscribers[1]	98,690	142,208	202,410	228,930	**210,453**	20.8
Internet ADSL subscribers[1]	–	8,559	22,870	53,997	**92,140**	–
Internet satellite subscribers[1]	–	192	1,427	1,981	**2,420**	–
Total ADSL subscribers[1]	2,632	20,145	58,278	143,509	**255,633**	213.9
Fixed-line employees	35,361	32,358	28,972	25,575	**25,864**	(7.5)
Fixed lines per fixed-line employee	133	145	163	184	**180**	7.9

[1] Excludes Telkom internal services

	2003	2004	2005	2006	**2007**	CAGR (%)
Mobile operational data						
Total mobile customers (thousands)	8,647	11,217	15,483	23,520	**30,150**	36.6
South Africa						
Mobile customers (thousands)	7,874	9,725	12,838	19,162	**23,004**	30.7
Contract	1,181	1,420	1,872	2,362	**3,013**	26.4
Prepaid	6,664	8,282	10,941	16,770	**19,896**	31.4
Community services	29	23	25	30	**95**	34.5
Total inactive mobile customers (%)	n/a	n/a	7.9	8.7	**10.7**	–
Contract	n/a	n/a	1.5	2.4	**3.1**	–
Prepaid	n/a	n/a	9	9.6	**11.8**	–
Mobile churn (%)	30.4	36.6	27.1	17.7	**33.8**	2.7
Contract	11.9	10.1	9.1	10.0	**9.7**	(5.0)
Prepaid	34.0	41.3	30.3	18.8	**37.5**	2.5
Mobile market share (%)	57	54	56	58	**58**	0.4
Mobile penetration (%)	30.2	39.0	49.5	70.6	**84.2**	29.2
Total mobile traffic (millions of minutes)	n/a	12,172	14,218	17,066	**20,383**	–
Outgoing	n/a	7,647	9,231	11,354	**13,638**	–
Incoming	n/a	4,525	4,987	5,712	**6,745**	–
Mobile ARPU (ZAR)	183	177	163	139	**125**	(9.1)
Contract	629	634	624	572	**517**	(4.8)
Prepaid	90	90	78	69	**63**	(8.5)
Community services	1,861	2,155	2,321	1,796	**902**	(16.6)
Average MOU	101	96	84	74	**69**	(9.1)
Contract	269	263	226	206	**188**	(8.6)
Prepaid	54	56	52	49	**47**	(3.3)
Community services	3,162	3,061	3,185	2,327	**1,151**	(22.3)
Cumulative network capital expenditure per customer (ZAR)	1,933	1,720	1,515	1,257	**1,187**	(11.5)
Number of mobile employees	3,904	3,848	3,919	4,305	**4,727**	4.9
Number of mobile customers per mobile employee	2,017	2,527	3,276	4,451	**4,867**	24.6
Other African countries						
Total mobile customers (thousands)	773	1,492	2,645	4,358	**7,146**	77.4
Lesotho	78	80	147	206	**279**	37.5
Tanzania	447	684	1,201	2,091	**3,247**	64.2
Democratic Republic of Congo	248	670	1,032	1,571	**2,632**	80.5
Mozambique	–	58	265	490	**988**	–
Churn (%)						
Lesotho	70.6	65.1	17.3	22.3	**19.0**	(28.0)
Tanzania	13.3	30.0	29.6	28.5	**35.6**	27.9
Democratic Republic of Congo	24.2	20.2	23.1	28.1	**30.4**	5.9
Mozambique	–	0.3	11.3	32.2	**41.7**	–
Gross connections (thousands)						
Lesotho	76	51	70	98	**119**	11.9
Tanzania	262	404	746	1,353	**2,092**	68.1
Democratic Republic of Congo	260	513	565	892	**1,688**	59.6
Mozambique	–	58	225	342	**797**	–
Penetration (%)						
Lesotho	4.3	5.1	7.4	12.9	**17.2**	41.4
Tanzania	2.2	3.3	5.1	9.2	**15.8**	63.7
Democratic Republic of Congo	1.0	2.3	3.5	5.5	**8.9**	72.7
Mozambique	–	2.6	4.2	8.4	**14.3**	–
ARPU						
Lesotho	104	125	92	78	**75**	(7.8)
Tanzania	217	128	81	67	**52**	(30.0)
Democratic Republic of Congo	200	150	98	86	**77**	(21.2)
Mozambique	–	110	52	36	**28**	–
Number of employees	502	761	1,074	1,154	**1,522**	32.0
Lesotho	74	68	63	67	**63**	(3.9)
Tanzania	224	316	356	438	**527**	23.8
Democratic Republic of Congo	204	334	538	479	**745**	38.2
Mozambique	–	43	123	170	**187**	–
Number of mobile customers per mobile employee	1,540	1,961	2,463	3,776	**4,695**	32.1

Operational review

Overview of its business

Telkom is one of the largest communication service providers in South Africa, providing fixed-line voice and data services. In addition, Telkom participate in the South African mobile communications market through its 50% interest in Vodacom, the largest mobile communications network operator in South Africa based on total estimated customers. Telkom also provides directory services, wireless data services and other internet services outside South Africa through its subsidiaries, TDS Directory Operations (Pty) Limited, Swiftnet (Pty) Limited and newly acquired Africa Online, respectively.

Telkom's fixed-line services consist of:

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

Acquisitions and new ventures

Africa Online

On February 23, 2007, Telkom acquired 100% of the issued share capital of Africa Online from African Lakes Corporation for a total cost of R150 million. Africa Online is an internet service provider active in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Africa Online's strategy will focus on brand development, creation and development of customer channels, improvement of network systems, human resources development and an expansion drive targeting other African countries.

Multi-Links: Acquisition of 75% stake

On April 19, 2007, Telkom acquired 75% of Multi-Links Telecommunications Limited, or Multi-Links in Nigeria, for US$280 million, or R1,985 million. Multi-Links is a private telecommunications operator with a Unified Access Licence allowing fixed, mobile, data, long distance and international telecommunications services focused primarily on corporate clients in Nigeria. Multi-Links strategy will focus on brand awareness and promotional campaigns to increase the revenue of fixed-wireless and mobile customers and will seek to offer easy to understand high value bundles, differentiated on voice quality and service. Broadband Internet with internet service provider services will target high value bundles. High quality internet protocol next generation network services are planned to be deployed in Lagos to attract high end corporate users and carrier class wholesale products and services are planned to be introduced by establishing an earth station to provide international connectivity. The remaining 25% of Multi-Links is owned by Kenston Investment Limited, an investment company based in the Isle of Man in the United Kingdom.

Telkom Media

Telkom recently launched Telkom Media (Proprietary) Limited, which on August 31, 2006 applied to ICASA for a commercial satellite and cable subscription broadcast licence. From May 28 to June 12, 2007 ICASA held public hearings into the applications by 18 applicants for a satellite and cable subscription broadcast licence. At the hearings ICASA stated that they would make an announcement on the issuing of licences by the end of November 2007. Telkom cannot assure you that it will obtain a licence from ICASA or be able to launch commercial operations.

Telkom Media intends to have a 30% black economic empowerment shareholding. Partners in the black economic empowerment entity are expected to be Videovision Entertainment, MSG Afrika Media and WDB Investment Holdings (Proprietary) Limited. This shareholding combines a wealth of electronic media expertise. Telkom Media aims to offer two media-and entertainment services: satellite pay-TV and cable TV, or internet protocol TV.

Telkom Media will provide services through a wide range of digital platforms, positioning itself in new, high growth areas of the information, communication and entertainment market.

Telkom Media is seeking to develop a digital service portfolio across three core service areas:

- Content over the Internet (online content services and ISP services);
- Content over satellite (Satellite TV and radio); and

- Content over a "Quality of Service" network (IPTV including broadcast and on-demand TV and interactive services).

EASSy consortium

On March 9, 2007 the Eastern Africa Submarine System, or EASSy, supply contract was signed by the 23-member EASSy consortium with Alcatel-Lucent who will lay the first ever optical submarine cable network landing in East Africa. Telkom agreed to invest approximately US$18.9 million and will have an ownership interest in the EASSy cable system of approximately 8%. In addition, Telkom agreed, to invest US$1.5 million for an approximate 10% equity stake in a special purpose vehicle that was established to coordinate the participation of smaller operators in the region. The EASSy cable will connect to South Africa at the same landing point as the SAFE cable in Mtunzini, north of Durban. Telkom will seek to provide a network operations centre and administrator services to the EASSy consortium. Telkom also expects to be in a position to sell onward connectivity to Europe, America and Asia to East African operators using the EASSy cable. Telkom's primary use for the EASSy will be to establish and improve its East African fibre connectivity and also to use EASSy as an alternative global diverse route out of South Africa.

The 9,900 km high performance fibre optic cable is being deployed to link eight countries from Sudan to South Africa, via Somalia, Kenya, Tanzania, Madagascar and Mozambique. Landings are planned for Port Sudan, Sudan; Djibouti; Mogadishu, Somalia; Mombasa, Kenya; Dar Es Salaam, Tanzania; Tollary, Madagascar; Maputo, Mozambique; and Mtunzini, South Africa.

Based on Alcatel-Lucent's submarine and terrestrial optical solutions, EASSy will connect the eastern African seaboard as well as landlocked countries, to the rest of the world. It will also provide connectivity across the continent to support the increase in local traffic from existing and new broadband services. EASSy is expected to provide Telkom the opportunity to expand its footprint further into Africa, creating further opportunities for access to future potential markets. In delivering a regional capacity of up to 320 Gbps per fibre pair, EASSy complements and increases Telkom's capacity, especially with regard to taking the 2010 World Cup to the rest of the world. By complementing existing undersea networks, EASSy is being designed to provide continuity of service in times of natural disasters and to alleviate congestion during periods of peak traffic.

By interconnecting with Sea-Me-WE 3, Sea-Me-We 4 and SAT-3/SAFE, the EASSy undersea cable will also serve as a supporting infrastructure for these networks. Landlocked states such as Ethiopia, Botswana, Burundi, Uganda, Zambia and Zimbabwe will also be able to access the EASSy cable. The EASSy project is scheduled for completion early in the 2009 calendar year.

Business Connexion offer

On April 4, 2006, Telkom announced that it had made an offer to acquire the entire issued share capital of Business Connexion Group Limited, or BCX, other than the BCX shares held as treasury shares and, if the trustees of the BCX share incentive trust so agree, the BCX shares held by the BCX share incentive trust. Telkom had offered to acquire the outstanding options in BCX on the same terms and conditions as the offer for the shares. On June 28, 2007, the South African Competition Tribunal prohibited the proposed merger.

Products and services

Subscriptions and connections

Telkom provides postpaid, prepaid and private payphone customers with digital and analogue fixed-line access services, including PSTN lines, ISDN lines, and wireless access between a customer's premises and its fixed-line network. Each analogue PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels. Each ISDN line transmits signals at speeds of 64 kbps per channel. Subscriptions to ADSL are included in its data services revenue. Telkom was the first fixed-line operator in the world to provide prepaid service on a fixed-line network. Telkom's prepaid service offers customers an alternative to the conventional postpaid fixed-line telephone service. All costs, including installation, telephone equipment, line rental and call charges, are paid in advance so that there are no monthly phone bills. Telkom targets its prepaid service mainly at first time home phone customers who do not have sufficient credit history and are located in areas where it can provide access to its network without significant additional investment. Customers who have previously had their telephone service disconnected due to non-payment are also encouraged to migrate to its prepaid service option in order to reduce future non-payments while satisfying demand for its services. In the 2007 financial year, Telkom introduced Waya Waya, on trial until the end of October 2007, which is its most affordable fixed-line offer yet. Existing customers are required to pay R120 in advance to cover line rental for a year, thereby ensuring that its customers stay connected.

Telkom also offers subscriptions to value-added voice services. Telkom offers a broad range of value-added voice services on a subscription or usage basis, including call forwarding, call waiting, conference calling, voice-mail, toll free calling, ShareCall, which permits callers and recipients to share call costs, speed dialling, enhanced fax services and calling card services for payphones. These services complement its basic voice services and provide us with additional revenue while satisfying customer demand, enhancing Telkom's brand and increasing customer loyalty. Value added voice services such as its CallAnswer voicemail service are also bundled with value added calling plans such as Telkom Closer to further enhance the value to its customer.

Telkom provides payphone services throughout South Africa. As of March 31, 2007, Telkom operated approximately 151,830 public payphones and approximately 6,129 private payphones, of which approximately 40% were coin operated and combination payphones and the remainder were card operated payphones.

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

Fixed access lines

(in thousands, except percentages)	As of March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Postpaid PSTN[1]	3,006	2,996	**2,971**	(0.3)	**(0.8)**
Business	1,386	1,412	**1,426**	1.9	**1.0**
Residential	1,620	1,584	**1,545**	(2.2)	**(2.5)**
Prepaid PSTN[1]	887	854	**795**	(3.7)	**(6.9)**
ISDN channels	664	693	**718**	4.4	**3.6**
Payphones[2]	169	165	**158**	(2.4)	**(4.2)**
Total fixed access lines[3]	4,726	4,708	**4,642**	(0.4)	**(1.4)**

1 *Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fibre.*
2 *Includes public and private payphones.*
3 *Total fixed access lines are comprised of PSTN lines, including ISDN channels, prepaid lines, ADSL lines and public and private payphones, but excluding internal lines in service. Each analogue PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.*

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

Fixed access lines movement

(in thousands, except percentages)	As of March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Opening balance	4,680	4,726	**4,708**	1.0	**(0.4)**
Net line growth	46	(18)	**(66)**	n/a	**(266.7)**
Connections	675	615	**572**	(8.9)	**(7.0)**
Disconnections	(629)	(633)	**(638)**	0.6	**0.8**
Closing balance	4,726	4,708	**4,642**	(0.4)	**(1.4)**
Churn (%)	13.4	13.4	**13.6**	0.0	**1.5**

Connections include new line orders resulting primarily from changes in service and, to a lesser extent, new line roll-out. Disconnections include both customer initiated disconnections and Telkom initiated disconnections. Included in disconnections and churn are those customers who have terminated their service with Telkom and subsequently subscribed to a new service with Telkom as a result of relocation of premises or change of subscription to a different type of service.

In the 2007 financial year Telkom continued to focus on customer retention through discounted offers, relaxation of credit management policies and targeted marketing campaigns, including Project Reconnect, a marketing campaign targeted at customers changing locations; the re-launch of PD Connect, a marketing and tracking service for property developers; and the implementation of specialised sales teams for gated communities. Telkom continues to focus on offering value for money, by launching and continuously enhancing packages such as PC bundles and Telkom Closer, including the following:

Telkom Closer 1 Includes line rental, Call Answer, a minimum charge at a flat rate for calls during off peak time up to one hour, and a discounted per record rate for local and long distance calls subject to a minimum charge.

Telkom Closer 2 Includes line rental, Call Answer, unlimited free calls for calls during off peak time up to one hour, and a discounted per record rate for local and long-distance calls subject to a minimum charge.

Telkom Closer 3 Includes line rental, Call Answer, 1,000 inclusive free peak time minutes, unlimited free calls for calls during off peak time up to one hour, and a discounted per record rate for local and long-distance calls subject to a minimum charge.

Telkom Closer 4 All the benefits of Telkom Closer 3 bundled with DSL 384.

Telkom Closer 5 All the benefits of Telkom Closer 3 bundled with DSL 1024.

Telkom Closer plans 1 to 3 have an option to purchase 150 or 75 local internet hours during Callmore time.

Despite these campaigns, Telkom's fixed-line base declined by 1.4% in the 2007 financial year. The decrease in the number of subscriber lines in the 2007 financial year was mainly in the lower revenue generating areas such as prepaid PSTN lines and residential postpaid PSTN lines, partially offset by an increase in ISDN channels and business postpaid PSTN lines. The higher revenue generating areas, such as corporate and business lines, showed a positive growth of 2.8% in the 2007 financial year. The decrease in the number of residential postpaid PSTN lines in the 2007 financial year was primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connection, while the decrease in prepaid PSTN lines was primarily as a result of customer migration to mobile services and Telkom's residential postpaid PSTN services. The increase in ISDN channels and ADSL services was primarily driven by increased demand for higher bandwidth and functionality. This, together with the alignment of the residential and business DSL product and the upgrading of DSL 192 to DSL 384, without any additional cost to the customer, has added to the positive growth in ADSL services in the 2007 financial year.

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

Traffic

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

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

Traffic

(in thousands, except percentages)	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Local[1]	19,314	18,253	**16,655**	(5.5)	**(8.8)**
Long distance[1]	4,453	4,446	**4,250**	(0.2)	**(4.4)**
Fixed-to-mobile	3,911	4,064	**4,103**	3.9	**1.0**
International outgoing	415	515	**558**	24.1	**8.3**
International voice over internet protocol	89	83	**38**	(6.7)	**(54.2)**
	28,182	27,361	**25,604**	(2.9)	**(6.4)**

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

Traffic was adversely affected in both the 2007 and 2006 financial years by the increasing substitution of calls placed using mobile services rather than Telkom's fixed-line service and dial-up internet traffic being substituted by Telkom's ADSL service, as well as the decrease in the number of prepaid and residential postpaid PSTN lines and increased competition in Telkom's payphone business. The decrease in international voice over internet protocol traffic in the 2007 financial year is primarily due to relocation of the international call centre business by one of its customers outside South Africa.

Interconnection services

Telkom provides interconnection services to the three mobile operators, Vodacom, MTN and Cell C, and certain other entities that lawfully provide licensed telecommunications services in South Africa consisting of call termination and call transit, as well as access, through its network, to other services, including FreeCall 0800, ShareCall 0860 and HomeFree, emergency services and directory enquiry services. Telkom expects that it will be providing interconnection services to Neotel during the 2007 calendar year and will also be required to provide interconnection services to other licensees.

Telkom also provides interconnection services to international operators in respect of incoming international calls and hubbing traffic through South Africa to other countries. Telkom is seeking to establish itself as the principal international telecommunications hub for Africa through its investments in undersea cables and its network and its arrangements with other operators in Africa in order to continue to increase international hubbing revenue.

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

Interconnection traffic

(in thousands, except percentages)	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Domestic mobile interconnection traffic	2,206	2,299	**2,419**	4.2	**5.2**
International interconnection traffic	1,318	1,355	**1,321**	2.8	**(2.5)**
	3,524	3,654	**3,740**	3.7	**2.3**

Domestic mobile interconnection traffic includes traffic from mobile operators terminating on Telkom's network, international outgoing calls from mobile networks and access to other services such as emergency services and directory enquiry services. The increase in domestic mobile interconnection traffic in the years ended March 31, 2007 and 2006 was primarily due to an overall increase in mobile calls as a result of growth in the mobile market, partially offset by increased mobile-to-mobile calls bypassing its network.

International interconnection traffic consists of international termination traffic and international hubbing traffic. International interconnection traffic decreased in the 2007 financial year due to a decrease in international switch hubbing traffic. In the year ended March 31, 2006, international interconnection traffic increased primarily due to volume discounts and a settlement in the 2006 financial year preventing an illegal operator from carrying international incoming traffic.

Data communications services

Telkom offers a wide range of national and international data communications services, including:

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

Data transmission services

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

Leased lines. Telkom provides national and international leased lines in South Africa. Leased lines are fixed connections between locations, which are secure and exclusive to the user, and are mainly used for high volume data or multimedia transmission. Leased lines are Telkom's principal data transmission service and include Diginet, Diginet Plus and Megaline services. Telkom also provides leased lines to broadcasters for audio and video services.

Telkom's leased line customers pay an initial installation charge and a recurring fee based on the type, length and capacity of the leased line. Leased line charges have decreased since the 2005 financial year and it expects that competition may increase pressure on prices in the future.

Large numbers of leased lines are provided to the mobile operators at negotiated wholesale rates for the build out of their networks. With the growth in traffic carried on the mobile networks, a need was identified for the deployment within these networks of transmission links with speeds higher than the 2 Mbps provided by existing agreements. Telkom entered into broadband fixed link leasing agreements with Vodacom and MTN in the 2004 financial year and with Cell C in the 2005 financial year. These agreements offer speeds of 45 Mbps and 155 Mbps and include formalised service level agreements and a term and volume discount structure, as a counter to the competitive challenges that are occurring in this area of the business. Telkom is currently in the process of negotiating amendments to its broadband fixed link leasing agreements to include speeds of 622 Mbps and 2.5 Gbps with formalised service level agreements and a term and volume discount structure.

Recognising the increasing threat of competition in the provision of leased lines to the mobile operators, Telkom introduced further discounting structures in the 2007 financial year in order to improve the attractiveness of Telkom's product offerings to this rapidly growing market. Fixed link leasing agreements were also entered into with some of the smaller operators, including VANS and USALS, as well as Neotel. The following table sets forth the bandwidth capacity of Telkom's Diginet, Diginet Plus, ATM Express and broadcasting data transmission services:

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

Telkom Wholesale launched a new wholesale service, offering Resell ADSL on April 10, 2007 to value added network service licensees and internet service providers. Resell ADSL enables wholesale customers to resell ADSL access to their customers. The main advantage of this service is that the wholesale customer is the single point of contact for new ADSL access orders and first level ADSL service assurance. The service is provisionally available to those customers who have an active, broadband friendly Telkom analogue telephone service. Telkom Resell ADSL offers the following service options:

- Resell ADSL up to 384 Kbps
- Resell ADSL up to 512 Kbps
- Resell ADSL up to 4096 Kbps

The service is provided with a self-install option only and service providers are able to provide their own modems.

ADSL Services. ADSL allows the provisioning of high speed connections over existing copper wires using digital compression. Telkom has different ADSL services available, aimed at the distinct needs of its customers. In an attempt to simplify Telkom's DSL offering and to increase value to the customer it has aligned the residential and business DSL product offerings and upgraded all DSL 192 customers to DSL 384 without any additional cost to the customer. The following table indicates Telkom's product offerings as of March 31, 2007:

ADSL services

		DSL 384	DSL 512	DSL 1024
Downstream speed	Up to	384 Kbps	512 Kbps	4 096 Kbps
Upstream speed	Up to	128 Kbps	256 Kbps	384 Kbps

In April 2007, Telkom launched Do Broadband, which bundles ADSL access and a Telkom*Internet* account at discounted rates. Telkom has also launched DSL Self-install as an alternative to the usual installation process involving a visit from a technician. Apart from the convenience of Self-install, it enables customers to save R437.50 in installation fees. Telkom intends to continue to offer ADSL packages, including a free modem, with a 24 month contract.

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

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

Telkom's primary internet protocol data transmission product is an IP-based VPN product, branded VPN Supreme. VPN Supreme offers its customers the ability to converge voice, data and video applications over a single, managed VPN. On the international front Telkom has invested in an internet protocol and voice-over internet protocol network and launched a regional clearinghouse to serve as a hub for voice traffic on the African continent. Telkom has launched Telkom Global VPN which enables converged services globally.

Managed data networking services

Telkom's managed data networking services combine its data transmission services discussed above with active network management provided from its state-of-the-art National Network Operations Centre. Telkom offers a wide range of integrated and customised networking services, including planning, installation, management and maintenance of corporate wide data, voice and video communications networks, as well as other value-added services, such as capacity, configuration and software version management on customers' networks. To support its service commitment, Telkom offers guaranteed service level agreements on a wide range of products, which include guaranteed availability, or uptime, of the network through the use of its National Network Operations Centre.

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

The following table sets forth information regarding the number of managed network sites for each of Telkom's managed data networking services as of the dates indicated:

Managed data network sites

	As of March 31, 2005	2006	**2007**	2006/2005 % change	**2007/2006 % change**
Terrestrial based	6,425	9,492	**12,905**	47.7	**36.0**
Satellite-based	5,536	7,395	**8,974**	3 p	**21.4**
	11,961	16,887	**21,879**	41.2	**29.6**

Global services

Telkom's portfolio of global international products consists of a number of different products. Telkom has international private line circuits, which are Telkom's Diginet equivalent to international destinations with bandwidths ranging from 2.4 Kbps up to 155 Mbps. The international private line circuits use both cable infrastructures, such as submarine cables, or satellite infrastructure. This product is complimented by its three global alliances with Infonet, Equant and BT, which are used to offer customers connectivity based on those companies' global networks. Telkom's global alliances have coverage throughout the world and it is easier for customers to use them from an ordering, installation and support point of view, as they have physical presence or formally appointed partners in each country. Due to the packet-based nature of these global networks, the cost efficiencies inherent in these networks can be passed on to customers to ensure more affordable services. Telkom also expanded its global portfolio with the launch of its own Global VPN during the last quarter of the 2007 financial year.

Internet access services and other related information technology services

Telkom is one of the leading internet access providers in South Africa in the retail and wholesale internet access provision markets. Telkom also packages its Telkom*Internet* product with personal computers, ADSL and ISDN services, as well as its satellite access products, SpaceStream Express and SpaceStream Office.

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

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

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

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

The following table sets forth information regarding Telkom's wholesale and retail internet services and customers as of the dates indicated:

Internet services

	As of March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Wholesale					
Internet leased lines-equivalent 64 Kbps	13,470	16,832	**19,247**	25.0	**14.3**
Dial-up ports	15,375	12,889	**11,462**	(16.2)	**(11.1)**
Retail					
Internet dial-up subscribers	202,410	228,930	**210,453**	13.1	**(8.1)**
Internet ADSL subscribers	22,870	53,997	**92,140**	136.1	**70.6**
Internet satellite subscribers	1,427	1,981	**2,420**	38.8	**22.2**

Telkom's wholesale internet services are billed on a bandwidth basis while its retail internet services are billed on a monthly subscription basis. Telkom also generates fixed-line traffic revenue from internet traffic routed over its fixed-line network.

Information technology and related services.

Telkom has expanded its data offering to selected information technology services that include local area network services, basic hosting, data centre hosting, managed infrastructure hosting, web application hosting, security services, disaster recovery, storage services and application service provider hosting. Telkom's security services include firewalls, intrusion detection, and spam and virus protection.

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

Directory and other services

Directory services. Telkom owns 64.9% of TDS Directory Operations, the largest directory publisher in South Africa providing white and yellow pages directory services and electronic white pages. In the year ended March 31, 2007, TDS Directory Operations published approximately 7.7 million white and yellow directories. TDS Directory Operations also provides electronic yellow pages and value added content through full colour advertisements. TDS Directory Operations has improved the accessibility and distribution of directories through door-to-door delivery and electronic media. Telkom also provides national telephone inquiries and directory services.

Wireless data application services. Telkom owns 100% of Swiftnet, which operates under the name Fastnet Wireless Service. Fastnet is a wireless network providing asynchronous wireless access on Telkom's X.25 network, Saponet-P, to its customer base. This service has been expanded by Swiftnet to offer a GPRS driven solution using a dual sim card allowing the customer to roam on both the Vodacom and MTN GPRS South African networks. Services include retail credit card and check point of sale terminal verification, telemetry, security and vehicle tracking. Swiftnet is in violation of its licence that requires it to have at least 30% of its shares held by black economic empowerment individuals or entities. ICASA has required Swiftnet to remedy the breach of its licence, which expired on August 24, 2006. On February 14, 2007 Telkom announced that it had entered into an agreement to sell a 30% stake in Swiftnet to the Radio Surveillance Consortium, or RSC, a group of empowerment investors, for R55 million following a competitive sale process run by an independent adviser. The transaction would not require any financial support or facilitation from Telkom. The transaction received Competition Commission approval on May 28, 2007. The transaction is still subject to ICASA approval.

Fees and tariffs

Tariff rebalancing

Telkom made significant progress in rebalancing its fixed-line tariffs. Telkom's tariff rebalancing programme was historically aimed at better aligning its fixed-line traffic charges with underlying costs and international norms. As a result of its efforts, the ratio of tariffs for long distance calls to all destinations over 50 km compared to tariffs for local calls declined from 13.2:1 as of March 31, 1997 to 2.7:1 as of March 31, 2002. Telkom expects that its tariff rebalancing will focus more on the relationship between the actual costs and tariffs of subscriptions and connections and traffic in order to more accurately reflect underlying costs and in response to increased competition.

Regulations made under the Telecommunications Communications Act, which remain in effect, impose a price cap 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; Telkom's Diginet product; and Telkom's Megaline product. A similar cap applies to a sub-basket of those services provided to residential customers, including leased lines up to and including lines of 2 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 its operating revenue in the year ended March 31, 2007. Telkom's tariffs for these services are filed with ICASA for approval. Revenue generated from services for which Telkom had exclusivity may not be used to subsidise competitive services. The price cap operates by restricting the annual percentage increase in revenues from all services included in the basket that are attributable solely to price changes to annual inflation, measured by changes in the consumer price index, less a specified percentage.

Historically, the annual permitted percentage increase in revenues from both the whole basket and the residential sub-basket was 1.5% below inflation. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA. Draft regulations 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 limitations on the pricing of these 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 port 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. As a result, since approved by ICASA, the following price changes became effective on August 1, 2007:

• ADSL rental	18.2% average decrease
• Local call charges – Standard time	No change
• Local call charges – Callmore time	4.1% average increase
• Long distance call charges	10% decrease
• International call charges	9.0% average decrease
• Data products	11.9% average decrease
• Subscription: analogue line rental	12.0% increase
• ISDN rental	12.0% increase
• Worldcall local	15.0% decrease
• Worldcall long distance	41.3% decrease

Subscription and connection tariffs

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

Traffic tariffs

Local, long distance and fixed-to-mobile

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

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

International outgoing

Telkom's outgoing international call tariffs and payments are based on settlement rates negotiated with other international carriers on a bilateral basis. The following table sets forth its international outgoing traffic tariffs per minute as of January 1, 2005, September 1, 2005 and August 1, 2006 and its new tariffs as of August 1, 2007 based on its tariff filing with ICASA in June 2007 for residential and business customers to the ten most frequently called countries based on traffic.

Interconnection tariffs

Interconnection termination rates for mobile operators are distance independent and are based on aggregated measurements of traffic crossing the points of interconnection measured on a per-second basis. For national calls from mobile users to fixed-line customers, the mobile operator pays us a termination fee. The risk of uncollectibles is carried by the originating operator. For incoming international calls destined for mobile users, Telkom pays the mobile operator a termination rate which is the same as the rate Telkom pays for fixed-to-mobile calls, and for outgoing international calls originating from mobile users, the mobile operators pay to us its standard wholesale rate for international calls. In order to better compete for outgoing international traffic originated by the mobile operators, Telkom replaced its discounted retail charging model for such traffic with a wholesale charging model with Vodacom in April 2006 and with MTN and Cell C in August 2006.

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

The interconnection fees payable between Telkom and Neotel are pseudo-distance based rates coupled to the national numbering plan regulations, consisting of a lower within billing zone, or WBZ, rate, and a higher beyond billing zone, or BBZ, rate. If a call is handed over to the other network in the same billing zone as that in which it terminates, then the WBZ rate is applicable. If it is handed over in a billing zone other than that in which it terminates, then the BBZ rate is applicable.

An interconnection agreement was signed between Telkom and Sentech on June 1, 2007 which provides for the termination by Telkom of calls brought into the country by Sentech pursuant to its international telecommunication gateway service licence. Telkom charges Sentech the same termination rates as it charges Neotel described above. As Sentech's licence allows it to provide a carrier of carriers service to other operators, it does not have end-users within the country, and the interconnection agreement therefore does not provide for the termination of calls on Sentech's network. It does however provide for either operator to transit international traffic via the other if they so require. It is expected that physical interconnection will be established with Sentech during the third quarter of the 2007 calendar year.

Data tariffs

Telkom charges monthly fees for leased lines, which vary based on bandwidth and distance, and monthly service charges for ADSL, which are not distance dependent. New tariffs as of August 1, 2007 are based on its tariff filing with ICASA in June 2007. Subscription to Telkom's ADSL service also requires the subscription to a PSTN postpaid line.

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

Full details on Telkom's tariffs are available on the website www.telkom.co.za

Sales and marketing

Telkom groups its fixed-line customer base into the following three categories in order to more effectively target and services its customers:

- business customers;
- mass markets customers; and
- payphone customers.

Business customers

Business customers are comprised of global and corporate customers, business and government customers and wholesale customers. Telkom has separate sales and marketing departments to service each of the sub-categories within its business customer category. Telkom's business customer category accounted for approximately 68.7% of its total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2007 and approximately 38.0% of its total fixed access lines as of March 31, 2007.

Global and corporate

Global and corporate customers comprise over 330 of South Africa's largest financial, retail, manufacturing and mining companies with domestic and international operations. Global and corporate customers accounted for approximately 17.5% of Telkom's total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2007 and approximately 9.5% of its total fixed access lines as of March 31, 2007. Telkom has increased its sales and marketing efforts aimed at its large global and corporate customers in order to continue to improve customer loyalty. Telkom offers tailored packaged solutions and seek to enter into long-term relationships with its global and corporate customers in order to maintain its leadership position in this customer market. Telkom markets and sells its products and services to these customers primarily through corporate account managers, supported by a team of specialists in the field of pre-sales consulting, project management and post-sales service managers.

Business and government

Business and government customers comprise approximately 283,000 large and medium business and governmental accounts. Telkom estimates that Government customers, excluding certain Government owned parastatal companies, accounted for at least 9% of Telkom's total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2007 and approximately 4.3% of its total fixed access lines as of March 31, 2007. Telkom also offers tailored packaged solutions and seek to enter into long term relationships with its government and larger business customers. In addition, Telkom established a customer relation programme to focus on retaining business customers. Telkom markets and sells its products and services to these customers primarily through customer account managers and sales representatives, the Telkom Business Call Centre and customer service branches. As of March 31, 2007, Telkom had approximately 136 Telkom Direct shops located throughout South Africa to assist its business customers in finding the products and end user equipment that best fits their needs. In the 2007, 2006 and 2005 financial years, Telkom has been successful in signing its business customers to long term service agreements. Telkom has also been successful in growing ISDN, internet access, PABX, satellite and data, including ADSL, products and services.

Wholesale

Wholesale customers comprise mobile operators, domestic licensed network operators, international operators and service providers and domestic value-added network service providers. Telkom expects wholesale revenue from domestic operators to increase with the expansion of Neotel's operations and the further liberalisation of the South African telecommunications industry, although it believes that with the advent of the Electronic Communications Act, competition in this sector will increase and there will be downward pressure on prices. Products sold to wholesale customers primarily include national and international voice termination services, data services and international transiting services. Telkom also provides internet protocol services to internet service providers. Telkom is currently focusing on developing wholesale products that cater to the needs of a more liberalised fixed-line market in South Africa. Telkom is also expanding its wholesale product portfolio to go into non-traditional markets outside of South Africa. Telkom's marketing and sales strategy for the wholesale services market is to be the carrier of choice for other operators and the connectivity provider of choice for domestic and other African service providers. Telkom believes its digital network both in South Africa and in its international undersea cables provides a solid foundation from which it can leverage these services. Telkom continuously revisits destinations for wholesale voice termination services. Telkom intends to focus on expanding its relationships with international operators and further increasing the penetration of its transiting and connectivity services to international operators, including other African operators, for traffic into and out of Africa.

Mass markets

Mass markets comprises small business customers and residential customers, including both prepaid and post-paid residential customers using PSTN, ISDN and ADSL services. Small business customers comprise approximately 290,000 accounts.

Mass market customers accounted for approximately 29.7% of Telkom's total fixed-line revenue, excluding directories and other revenue, in the year ended March 31, 2007 and approximately 58.6% of its total fixed access lines as of March 31, 2007. Residential customers accounted for approximately 51.1% of Telkom's total fixed access lines as of March 31, 2007. Prepaid residential customers accounted for approximately 17.1% of Telkom's total fixed access lines as of March 31, 2007, compared to approximately 18.1% of its total fixed access lines as of March 31, 2006. Small business customers accounted for approximately 7.5% of Telkom's total fixed access lines as of March 31, 2007.

Telkom is seeking to compete in the residential market by offering communications packages focused on improving convenience and security to enhance consumers' lifestyles, while at the same time increasing revenue per customer. Telkom intends to continue to introduce calling plans that targets high use customers and are designed to increase consumers' value for money. Telkom markets and sells its residential products through its customer call centres, customer service branches, Vodacom's customer service branches and Telkom Direct shops, the South African Post Office, independent distributors and vendors and through telemarketing. Telkom is focused on increasing the penetration of its ADSL services to retail and high-end residential customers through targeted direct advertising to high internet usage subscribers.

Payphone customers

Payphones comprise its public and private payphone units. Payphones accounted for approximately 1.6% of Telkom's total fixed-line revenue, excluding directories and other revenue, in the year ended March 31, 2007 and approximately 3.4% of total fixed access lines as of March 31, 2007.

Telkom seeks to provide easy access to its services through the effective placement of its phones and phonecard outlets in high traffic areas, while cutting costs by removing non-profitable pay phones. Telkom's key focus area is the premier market, which includes municipalities, prisons, gas stations, shopping malls, airports, and train stations. In furtherance of this goal, Telkom targets and enter into nationwide contracts with multi location telephone providers to ensure wider distribution of its payphones. Telkom markets and sells its payphone products through its regional sales force and call centres. In order to improve efficiencies in public services and telephony, Telkom implemented a quality management system in compliance with the South African Bureau of Standards ISO9001:2000 standards, which was certified by the South African Bureau of Standards in 2003. The aim was to develop products and services based on these quality standards and improved processes in an effort to grow and improve public telephony revenues and create a customer relations centre through a call centre. An income management centre, which is responsible for coin collections, and banking and a dedicated fault handling centre for the maintenance of payphone equipment was established.

Customer care and service

Telkom has placed customer centricity at the core of its corporate strategy and refocused its emphasis from a traditional communications organisation to a customer-centric organisation. Telkom reviewed its organisation and work design to support customer centricity and has restructured its employees around organisational boundaries in order to better respond to its customers,

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

Through Telkom's ambassador programme, participating management employees adopt a few small and medium businesses to strengthen relationships with these customers in a non-sales environment. An ambassador acts as a single point of contact for those customers in the event of any queries relating to its products and services. In addition, Telkom's business call centre provides customer support for its medium and small business customers. Telkom also offers a broad range of internet based customer care tools to allow customers to manage their relationship with us more conveniently. The Telkom and Telkom*Internet* websites offer online services such as fault reporting for voice services, automated online registration and password changes for internet services, electronic bill presentation and an email query facility. The Telkom.co.za website logged an average of 1.2 million page impressions per month.

Telkom also provides its customers with a free SMS payment reminder where a cellular phone number is provided to avoid suspension of late paying customers.

Network

Network quality

Telkom has made significant investments in its National Network Operations Centre and its new data centre in order to increase its ability to identify and anticipate future customer needs more rapidly and to provide the appropriate solutions and services. In order to take advantage of economies of scale in scheduling, Telkom has consolidated its six voice installation and fault management centres into two centres to address faults, installation and service appointment scheduling and have consolidated its six data installation and fault management centres into two centres.

The following table sets forth information regarding Telkom's service delivery measurements during the periods indicated.

Service delivery measurements

	Year ended March 31,		
	2005	2006	**2007**
Residential voice			
% cleared in 24 hours	46%	47%	**50%**
Faults per 1,000 lines	441	470	**485**
% installed in 5 days	51%	49%	**81%**
Business voice			
% cleared in 24 hours	62%	61%	**66%**
Faults per 1,000 lines	287	300	**328**
% installed in 5 days	68%	63%	**83%**
Data subrate			
% cleared in 24 hours	97%	92%	**84%**
Faults per 1,000 lines	756	801	**870**
% installed in 10 days	75%	40%	**41%**
ADSL business			
% cleared in 24 hours	79%	54%	**33%**
Faults per 1,000 lines	505	480	**575**
% installed in 20 days	84%	56%	**76%**

During the 2007 financial year, Telkom took action to improve appointment management, resulting in the improvement in residential and business voice orders installed in five days.

The ADSL installed base grew by 78% during the 2007 financial year. This growth resulted in an increase in the number of reported faults and impacted on the time taken to clear faults. This growth also impacted on data subrate services as they share ADSL resources. The increase of approximately 20% in network failures during the 2007 financial year, contributed to the increase subrate faults per 1,000 lines. Network failures consist of cable breaks, cable theft and failures on other core network elements.

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

Telkom expects to continue to change the method in which it measures performance to align with changes in the information communication technology industry that focus more on broadband and data services and also to support Telkom's customer centricity drive.

Infrastructure and technology

The following table sets forth information related to the digitalisation and upgrade of Telkom's network at the dates indicated.

Digitalisation

	Year ended March 31,				
	2003	2004	2005	2006	**2007**
Digitalisation (percentage of lines)	99.8	99.9	99.9	99.9	**99.9**
ATM switches	197	189	202	212	**228**
Digital exchange units	4,292	4,321	4,339	4,427	**4,448**
Internet Protocol routers	24	32	70	76	**79**

National Network Operations Centre

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

Switching network

An important part of Telkom's fixed-line network modernisation programme has been switch digitalisation. As of March 31, 2007, 99.9% of Telkom's telephone access lines were connected to digital exchanges. Switch digitalisation has made its network more efficient and resilient and has enabled us to offer new value-added voice and data services, including caller line identification, electronic call answering and the provisioning of innovative billing systems. Telkom's switching network infrastructure is based on a two-tier structure utilising large capacity digital switches. The upper, or primary, tier is used for the switching of long distance and international traffic and the lower, or secondary, tier is used for the switching of regional and local traffic.

Transmission network

Telkom's national transmission network comprises a synchronous digital hierarchical and wave division-multiplexing network. Both the primary and the secondary tier are based on a combination of ring and meshed topology, which provides a dual path to each connection point. The ring topology consists of interlocking self-healing rings, while the meshed topology consists of high capacity digital cross-connects connected in meshed fashion via high capacity digital links. The primary tier consists of eight stacked rings and fifteen digital cross-connects, while the secondary tier consists of 544 rings and 85 digital cross-connects. The synchronous digital hierarchy network, with its network management capability, provides for faster provision and modification of service, improved grade of service and lower maintenance costs. Telkom is investing in additional capacity to meet requirements for growth in data traffic and leased lines.

At the beginning of the 2006 financial year, Telkom commenced an aggressive roll-out of next generation synchronous digital hierarchical equipment on both the primary and the secondary tier. In the 2007 financial year, 370 sites were installed, 315 sites commissioned and 75 sites were integrated. Telkom is continuing to upgrade its wave division-multiplexing network to cater for larger capacities.

Metro Ethernet

In the 2007 financial year, Telkom began deploying Metro Ethernet, a Next Generation Network technology that provides cost effective, high speed, fibre based connectivity in metropolitan areas. In addition to increased bandwidth capacity, the technology also offers features required for Next Generation services such as bandwidth on demand and internet protocol TV, or IPTV.

The new network will be used to support and enhance existing customers' services such as broadband access via ADSL and WiMAX technologies. New corporate and service provider wholesale services are expected to be developed that draw directly from the new feature set offered by Metro Ethernet. Metro Ethernet is currently being rolled out in the metropolitan areas of the Western Cape, Northern Gauteng (Pretoria) and Gauteng Central (Greater Johannesburg).

Access network

Access for Telkom's PSTN and data networks is primarily via copper. Telkom is still deploying additional access network infrastructure to enable the provisioning of ISDN and xDSL services on demand. Fibre in the loop, or FTTx, with optical fibre distributed multiplexors and cross connects are also provided to mobile operators, corporate and large businesses, office parks and shopping centres. Point-to-point radio systems are also provided for non-fibred areas such as rural areas and for redundancy in its core network. In addition, Telkom is focusing on the rehabilitation of its existing copper and fibre access network infrastructure to improve the reliability and quality of its network and to make it broadband friendly. Viable areas, which are out of reach of the broadband footprint, will be serviced by appropriate wireless local loop (point to multipoint) technologies.

Asynchronous transfer mode network

Telkom has rolled out an asynchronous transfer mode network to deliver broadband services to global and corporate customers. As of March 31, 2007 Telkom had 228 switches in its asynchronous transfer mode network. The present available bandwidth between the core switches on its asynchronous transfer mode network is 183 STM-1s or 27.4 Gbps, while the available bandwidth between the access switches, metropolitan switches and core switches is 502 STM-1s or 75.2 Gbps. Access to its asynchronous transfer mode network is primarily provided via fibre and synchronous digital hierarchy.

Public broadband internet protocol network

Telkom's public broadband internet protocol network comprises a three tier hierarchical network consisting of eight core sites, 28 edge sites and 65 access locations, including over 27,990 modems with an estimated dial-up base of greater than 500,000 customers, including Telkom and other internet service providers as of March 31, 2007.

Telkom has designed its internet protocol network as the core for new products and services with multi protocol label switching, or MPLS, deployed in the network. 10,995 layer three virtual private network or VPN endpoints have been deployed.

Telkom currently has a total bandwidth of 2.4 Gbps to a total of six international points of presence located in Amsterdam, two in London, New York, Ashburn, Washington D.C. and Hong Kong. Internet protocol transit bandwidth from the six international points of presence to global tier 1 service providers amounts to 3.4 Gbps.

Broadband services

Telkom's Broadband services comprise xDSL through copper as a wireline access and WiMAX as wireless access. Telkom plans on introducing fibre in the near future.

Telkom introduced ADSL as a new wireline access technology in August 2002 for its internet protocol network. The ADSL roll-out has been designed to provide maximum coverage in terms of prospective ADSL customers. Telkom's ADSL footprint covers approximately 86.8% of its customer base and consists of 2,237 digital subscriber line access multiplexers, serving approximately 255,633 customers as of March 31, 2007, an increase from 78.1% of its customer base and 1,075 digital subscriber line access multiplexers, serving approximately 143,509 customers as of March 31, 2006, and 58,278 customers as of March 31, 2005. This network is managed from Telkom's national network operations centre.

Telkom charges monthly fees for leased lines, which vary based on bandwith and distance, and monthly service charges for ADSL, which are not distance dependent. The table below sets out the data tariff charges.

Data tariffs

(ZAR, including value-added tax)	As of January 1, 2005	As of September 1, 2005	As of August 1, 2006	**As of August 1, 2007**
ADSL installation charges				
HomeDSL 192/384/512/1024[1]	404	404	437.50	**490.00**
BusinessDSL 512/1024[1]	404	404	437.50	**490.00**
ADSL access rental charges				
HomeDSL 192	329	270	245	**n/a**
HomeDSL 384	449	359	245	**152**
HomeDSL 512	680	477	362	**326**
BusinessDSL 512	800	477	362	**326**
HomeDSL 1024/BusinessDSL 1024[1]	n/a	680	516	**413**
Diginet (64 Kbps)	2,236	2,214	2,160	**2,039**
Diginet Plus (512 Kbps)	6,165	5,245	5,067	**4,658**

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

Voice over internet protocol network

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

Telkom's current Voice over Internet Protocol Network (VoIP) terminates calls for numerous international voice carriers into its fixed-line network. Call centres from around the world that have relocated to South Africa due to favourable economic conditions and lower resource costs are also hosted on its voice over internet protocol network. Telkom has points of presence for connectivity to the voice over internet protocol network in Amsterdam, London, New York, Ashburn (Washington D.C.), Zambia, Zanzibar, Tanzania and Madagascar, with plans to expand to the Far East. The network can terminate 69 media gateways, or approximately 32,700 voice circuits. The media gateways compress the traditional voice channels of 64 Kbps to 8 Kbps channels thus enabling us to reduce the cost of international calls, while maintaining the perceived voice quality of a 64 Kbps call.

WiFi

In February 2005, Telkom launched a hot spot service that provides wireless data access service by using 802.11b/g WiFi technology. Any user with a wireless enabled notebook computer or personal digital assistant can connect to the service while in the coverage area. WiFi is mainly targeted at restaurants, hotel groups, major shopping malls and some sites on national routes. At March 31, 2007, Telkom had 75 hotspots.

WiMAX

Telkom has concluded proof of concept and first office application testing of fixed (IEEE 802. 16-2004) WiMAX technology. This technology is standards based broadband wireless access technology that provides throughput connectivity in a point-to-multipoint configuration. The technology is designed to enable Telkom to more cost effectively provide services in non-copper based infrastructure.

Services that have been successfully tested to date include internet access, which was commercially launched in May 2007. As of March 31, 2007 Telkom has already commissioned 14 WiMAX base stations and will be building up to a target of 57 base stations. Telkom has a memorandum of understanding in place with Intel Corporation for the interchange of information on WiMAX in order to keep up with the latest WiMAX developments. Telkom is a member of the WiMAX Forum and actively monitors the Forum for any developments.

International connectivity

Telkom offers international connectivity from two international switching centres to terrestrial, satellite and submarine cable routes. Further international connectivity has been provided with the deployment of very small aperture terminals and other satellite transmitters located at strategic locations throughout the country. Telkom has satellite bandwidth available from Intelsat in the Atlantic and Indian Ocean regions. Telkom also has access to satellite capacity from 64 Kbps to 45 Mbps upon request. Telkom is currently making use of satellites in 15 orbital slots for services within and from or to South Africa. The Indian Ocean region can be connected to two satellites and the Atlantic Ocean region can be connected to three satellites. Satellite access is provided from its earth stations at Hartebeeshoek, west of Pretoria, Crowthorne in Gauteng, Malvern in Durban, Chelsea in Port Elizabeth and Klipheuwel in Cape Town. Currently Telkom has satellite voice and data connectivity to locations not reachable via undersea cable.

Telkom has investments in three cable systems connecting Africa and international destinations. A submarine cable system, SAT-2, exists between Cape Town and Europe. Telkom is the largest capacity owner on the SAT-2 submarine cable system with the right to use approximately 65% of the capacity. Consistent with Telkom's strategy of increasing international carrier traffic on its network, Telkom has invested approximately $95 million in the SAFE and SAT-3/WASC submarine cable systems that were introduced into service during 2002. The cable systems provide fibre optic connectivity between South Africa and international destinations. These cable systems utilise the latest technology available in order to provide improved high speed voice, data, video and other on demand high bandwidth services and have increased fibre optic bandwidth between Europe, Asia and Africa. Telkom has the right to approximately 24% of the capacity on the SAFE and SAT-3/WASC submarine cable systems, making us the largest capacity owner in these cable systems out of the 35 telecommunications operators who have invested over $700 million in these systems. The length of the SAFE cable is approximately 13,100 km and the SAT-3/WASC is approximately 14,300 km.

In addition, on March 9, 2007 the Eastern Africa Submarine System, or EASSy, supply contract was signed by the 23-member EASSy consortium with Alcatel-Lucent who will lay the first ever optical submarine cable network landing in East Africa. Telkom agreed to invest approximately US$18.9 million and will have an ownership interest in the EASSy cable system of approximately 8%. In addition, Telkom agreed, in a joint purchase agreement with Vodacom, to invest US$1.5 million for an approximate 10% equity stake in a special purpose vehicle that was established to coordinate the participation of smaller operators in the region. The EASSy cable will connect to South Africa at the same landing point as the SAFE cable in Mtunzini, north of Durban. Telkom will seek to provide network operations centre and administrator services to the EASSy consortium. Telkom also expects to be in a position to sell onward connectivity to Europe, America and Asia to East African operators using the EASSy cable. Telkom's primary use for the EASSy cable will be to establish and improve its East

African fibre connectivity and also to use EASSy as an alternative global diverse route out of South Africa.

The 9,900 km high performance fibre optic cable is being deployed to link eight countries from Sudan to South Africa, via Somalia, Kenya, Tanzania, Madagascar and Mozambique. Landings are planned for Port Sudan, Sudan; Djibouti; Mogadishu, Somalia; Mombasa, Kenya; Dar Es Salaam, Tanzania; Tollary, Madagascar; Maputo, Mozambique; and Mtunzini, South Africa.

EASSy is expected to provide Telkom the opportunity to expand its footprint further into Africa, creating further opportunities for access to future potential markets. In delivering a regional capacity of up to 320 Gbps, EASSy complements and increases Telkom's capacity, especially with regard to taking the 2010 World Cup to the rest of the world. By complementing existing undersea networks, EASSy is being designed to provide continuity of service in times of natural disasters and to alleviate congestion during periods of peak traffic.

By interconnecting with Sea-Me-WE 3, Sea-Me-We 4 and SAT-3/SAFE, the EASSy undersea cable will also serve as a supporting infrastructure for these networks. Landlocked states such as Ethiopia, Botswana, Rwanda, Burundi, Uganda, Zambia and Zimbabwe will also be able to access the EASSy cable. The EASSy project is scheduled for completion by the end of the 2008 calendar year.

Information technology/operations support systems

The quality of Telkom's operations support systems, which store, manage and analyse essential business information, is critical to the success of its business. Telkom's operations support systems permits it to make timely and informed business decisions and respond to its customers' needs with tailored solutions. Telkom has dedicated significant resources to the design and implementation of new operations support systems based on a comprehensive and well defined information technology strategy.

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

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

Telkom's national business solution centre was built alongside the National Network Operations Centre and the data centre providing Telkom with a centralised information technology backbone. The national business solutions centre was commissioned and Telkom is currently hosting 46 out of Telkom's 55 hosting customers in the national business solutions centre. Both the data centre and the national business solution centre are operated from a command centre and now provides an additional 3,000 square meters of computer room space designed to the same specifications as its primary data centre requirements. In addition, this new facility gives Telkom the ability to provide high availability configurations that are split between both buildings for redundancy purposes. Network reliability has also been enhanced by creating a totally redundant, shared network environment between the data centre, the national business solution centre building and the National Network Operations Centre.

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

- *Workforce management system* – an automated mechanism to manage and optimise Telkom's workforce utilisation. The first phase of the workforce management system was completed in the 2006 financial year. The roll-out of the second and third phases of the workforce management system commenced during the 2007 financial year and is planned for completion in the 2008 financial year.
- *Customer management system solution* – a system to unify both voice and data customers, to manage and maintain all customer information and interactions and to

produce an optional single bill for customers' voice and data services or products. The implementation of this solution for Telkom's customers with non-voice related products and services was successfully implemented during the 2007 financial year. The implementation for voice related products and services is targeted to commence during the 2008 financial year for completion in the 2009 financial year.

- *Product catalogue (in conjunction with the customer management system solution)* – a system to configure and maintain products and services for both voice and data domains, to bundle products and groups of products across voice and data product and service domains, and to provide contract management functionalities for both voice and data services or products and customers. The implementation of this solution for Telkom's customers with non-voice related products and services was successfully implemented during the 2007 financial year.

  The implementation for voice related products and services is targeted to commence during the 2008 financial year for completion in the 2009 financial year.

- *Order management system (in conjunction with the customer management system solution)* – a system to provide end-to-end management of customer orders. The implementation of this solution for Telkom's customers with non-voice related products and services was successfully implemented during the 2007 financial year. The implementation for voice related products and services is targeted to commence during the 2008 financial year for completion in the 2009 financial year.

- *Enterprise Portal* – the vision for Telkom's Portal, www.telkom.co.za, is to become the single point of entry for customers doing business with Telkom via the Internet. In addition to being the single point of entry, the website aims to become the preferred channel to do business with Telkom. Customer benefits of interacting with Telkom via the Portal are convenience, cost- effectiveness and shorter turn-around on assurance, fulfilment and enquiries. The new and energised Telkom Portal was successfully implemented during the 2007 financial year.

- *Fault management solution* – a system to accelerate the real-time and accurate detection of problems in Telkom's network by event collection, filtering and correlation. The first phase was successfully implemented in the National Network Operations Centre in the 2007 financial year with active surveillance now being performed on 19 technologies and the next phase is planned to be completed in the 2008 financial year.

- *Enterprise asset management platform* – a system for holistic lifecycle management of all financial, human resources and procurement processes. Various enhancements were successfully implemented during the 2007 financial year, including projects focusing on employee centricity and the shortening of internal processes to support customer centricity and overall efficiency of the Company.

- *Next generation operation support system* – Telkom's current operating support system needs to be evolved and developed to a new next generation operating support system to integrate and support its conversion to a NGN. The first phase was a comprehensive scoping exercise that was launched in the 2007 financial year. The second phase will entail a programme of various projects dealing with the implementation of solutions specifically designed to support next generation products and services.

Procurement

Telkom utilises a transparent multi-disciplined approach to purchasing and supplier management in order to ensure that it receives the best products and services from reliable suppliers at the best overall price. Telkom has established cross functional sourcing teams staffed with individuals from different areas of its organisation to evaluate and make recommendations on certain bids, which, depending on value, require the further approval of Telkom's executive committee and Board of Directors and notification of certain approvals to the Board of Directors. Bid requests are published in Telkom's weekly tender bulletin and on its web site. Telkom has adopted affirmative procurement policies that favour historically disadvantaged suppliers. Telkom seeks to utilise at least two suppliers for all critical equipment where possible in order to minimise supply risk. In the year ended March 31, 2007, Telkom's top twenty suppliers accounted for approximately 66% of all purchases and its main supplier was Total Facilities Management Company (Pty) Limited (TFMC), which accounted for approximately 11% of all expenditure. During the year ended March 31, 2007, Telkom directed R8.8 billion to black economic empowerment suppliers, representing approximately 70% of Telkom's total procurement spending, compared to R6.4 billion and R5.2 billion in the years ended March 31, 2006 and 2005, respectively.

Mobile communications

Overview

Telkom participates in the mobile business through a 50% interest in Vodacom. The review of Vodacom's South African (VSA) operations comprises of Vodacom (Proprietary) Limited, Vodacom Service Provider Company (Proprietary) Limited (VSPC), Vodacom Properties No. 2 (Proprietary) Limited and the Number Portability Company (Proprietary) Limited, but excludes Cointel V.A.S. (Proprietary) Limited, Smartphone SP (Proprietary) Limited and it subsidiaries.

Acquisitions and new ventures

Service provider acquisitions

On August 30, 2006, Vodacom purchased an additional 19% shareholding in Smartphone for R333.9 million, with goodwill amounting to R313.2 million, increasing its shareholding from 51% to 70%, while Smartphone purchased an additional 2.25% shareholding in Smartcom for R9.1 million on September 13, 2006, increasing its shareholding from 85.75% to 88% with goodwill amounting to R8.2 million.

Vodacom acquired an additional 49% in Cointel on October 4, 2006 for R147.0 million to increase its shareholding to 100%. The net goodwill arising on this acquisition amounted to R90.9 million. Cointel's core business is providing value added and m-commerce services to the telecommunications industry. Vodacom subsequently sold its entire shareholding in Cointel to Smartphone resulting in the realisation of R38.0 million of goodwill created by the original purchase.

Vodacom acquired the cellular business of Africell Cellular Services (Pty) Limited, or Africell, an exclusive Vodacom dealer in South Africa for R80 million, effective October 1, 2006. The net goodwill arising on this business combination amounted to R43.7 million.

As of March 31, 2007, 84.2% of Vodacom's contract customer base and 99.4% of its prepaid customer base in South Africa was managed by exclusive service providers or controlled directly by Vodacom.

Wireless Business Solutions

Vodacom acquired a 10% shareholding in WBS Holdings (Proprietary) Limited, or WBSH, also known as iBurst, for R80.8 million, including capitalised costs, effective January 31, 2007. iBurst supplies customers with continued high speed connectivity through broadband internet and email services. On the same date WBSH also granted Vodacom a call option to subscribe to such number of additional shares as will result in Vodacom beneficially owning 25.5% of the total issued ordinary capital of WBSH after the exercise of the option. This call option can be exercised by Vodacom at any time until September 14, 2007, provided that certain conditions are satisfied on the date of exercise. Competition Commission and ICASA approval is also required before the call option can be exercised.

On March 30, 2007 Vodacom entered into an infrastructure agreement with Wireless Business Solutions (Proprietary) Limited, or WBS, whereby WBS appointed Vodacom to design and construct a WiMAX network for use by WBS.

Vodacom's acquisitions and dispositions outside of South Africa

Vodacom Congo acquired the internet service provider business of InterConnect s.p.r.l in the Democratic Republic of the Congo for R21.2 million including capitalised costs, effective November 1, 2006. The net goodwill arising from this business combination amounted to R12.6 million.

As of March 31, 2007, Vodacom owned 98% of Vodacom Mozambique, and the remaining 2% was held by a local consortium named Empresa Moçambibicana de Telecommunicações S.A.R.L, or EMOTEL. Effective April 1, 2007, Vodacom International Limited sold an 8% stake in Vodacom Mozambique to local investors with 5% being purchased by Intelec Holdings Limitada and EMOTEL acquiring an additional 3%.

National Porting Company (Proprietary) Limited

Effective September 20, 2006, Vodacom, MTN and Cell C each acquired a 33.3% stake in National Porting Company (Proprietary) Limited, which was formed to provide the services necessary for the three mobile operators to offer mobile number portability as required by ICASA pursuant to the Telecommunications Act. Each mobile operator acquired 100 shares of National Porting Company for R1 each, and made a shareholder loan to National Porting Company of R6 million. Mobile number portability was officially launched on November 11, 2006.

Vodacom Ventures (Proprietary) Limited

Vodacom Ventures (Proprietary) Limited was formed for the purpose of generating innovative telecommunications products and services for Vodacom by investing in companies. In the 2007 financial year, Vodacom Ventures purchased a 10% equity stake in G-Mobile Holdings Limited, a WiFi corporation, and a 26% equity stake in Gogga Tracking Solutions (Proprietary) Limited, a company which services the lower end of the contract market. Vodacom Ventures has an irrevocable call option to subscribe for such number of further shares of G-Mobile Holdings as will result in Vodacom Ventures holding and beneficially owning, in aggregate together with its initial stake, 26% of the total issued share capital of G-Mobile Holding Limited after the exercise of the option. Vodacom Ventures also has a call option to purchase such number of shares in Gogga Tracking Solutions totalling 23% of the issued share capital of the Company on the date upon which the option is exercised. The option will lapse after 36 months following the month in which certain performance conditions are satisfied. If this option is exercised Vodacom will hold 49% of the issued share capital of Gogga Tracking Solutions (Proprietary) Limited.

Vodacom's BEE equity deal

Vodacom is in the process of finalising a R7.5 billion BEE equity deal whereby both the BEE partner and employees will have the opportunity to share in the success of the Vodacom going forward. The deal is anticipated to make a significant contribution to the well being of Vodacom South Africa and its employees.

Vodacom Converged Solutions

During the 2007 year, Vodacom created Vodacom Converged Solutions, which is intended to become a significant supplier of converged information, communications and technology services across the entire market, including the bundling of products across previously separate markets into a one-stop-shop for the customer. It further involves the expansion of the existing network to provide both fibre and wireless solutions as may be required.

Vodacom agreement with MultiChoice

On May 8, 2007 Vodacom formalised entry into the broadcasting and multimedia market by announcing that it had secured an exclusive pay TV agency agreement with MultiChoice. With DSTV Select, Vodacom and non-Vodacom customers have a choice between two DSTV Select bouquets, each offering a variety of the latest entertainment, news, sport, movies, documentaries and music channels.

Vodacom South Africa

Vodacom South Africa continues to grow and the number of customers have increased to 23.0 million (2006: 19.2 million). A record number of over 10 million gross new connections is proof of continued activity in the market.

Vodacom's change in South African prepaid customer base

Vodacom's South Africa operations define active customers as customers with a SIM card that have revenue generating activity in the three months leading up to the reporting date. Up to June 15, 2006, calls forwarded to voicemail were regarded as revenue generating activity and such SIM cards were classified as active customers. An analysis of the customer base, based on a statistical sampling, has revealed that a large number of SIM cards have calls forwarded to voicemail as their only revenue generating activity. The majority of such messages are never retrieved by the customer.

Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue activity effective June 15, 2006. Vodacom subsequently changed its definition of revenue generating activity back to include calls forwarded to voicemail effective September 1, 2006. Such SIM cards would be disconnected from the network after being inactive for a 215 consecutive day period in accordance with Vodacom South Africa's current disconnection policy. The retrieval of a voice mail message by a customer is classified as a revenue generating activity.

Vodacom deleted approximately 3 million customers during the period of this rule change. As a result of the rule change, prepaid churn rates and ARPU increased during the 2007 financial year.

Although Vodacom South Africa continues to expand, Telkom has started to look for growth opportunities outside its traditional cellular business. To this effect Telkom has invested in related industries such as information technology and broadcasting technology that can for example deliver 22 television channels to Vodafone live! customers. Customer retention remains a strong focus and Telkom has introduced loyalty programmes like Vodacom talking points and the Vodacom credit card to assist with this effort. The reduction in data tariffs will also contribute significantly to the total product portfolio Vodacom is committed to provide to its customers.

Mobile number portability has not had a big impact on the market, with less than 1% (net donor of just over 6 thousand) Vodacom customers utilising this facility. The regulatory environment is an important factor in the performance of all companies and Telkom anticipates that, when it comes into effect, customer registration will have an impact on Vodacom as well as other operators. The regulator has launched an investigation into mobile and retail wholesale tariffs which could also have an impact on prices in future.

Vodacom South Africa key indicators

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Customers (thousands)[1]	12,838	19,162	**23,004**	49.3	**20.1**
Contract	1,872	2,362	**3,013**	26.2	**27.6**
Prepaid	10,941	16,770	**19,896**	53.3	**18.6**
Community services	25	30	**95**	20.0	**216.7**
Gross connections (thousands)[2]	6,180	9,140	**10,859**	47.9	**18.8**
Contract	434	506	**666**	16.6	**31.6**
Prepaid	5,742	8,618	**10,124**	50.1	**17.5**
Community services	4	16	**69**	300.0	**331.3**
Total inactive mobile customers (%)[3]	7.9	8.7	**10.7**	10.1	**23.0**
Contract	1.5	2.4	**3.1**	60.0	**29.2**
Prepaid	9.0	9.6	**11.8**	6.7	**22.9**
Total churn (%)[4]	27.1	17.7	**33.8**	(34.7)	**91.0**
Contract	9.1	10.0	**9.7**	9.9	**(3.0)**
Prepaid	30.3	18.8	**37.5**	(38.0)	**99.5**
Traffic (millions of minutes)[5]	14,218	17,066	**20,383**	20.0	**19.4**
Outgoing	9,231	11,354	**13,638**	23.0	**20.1**
Incoming	4,987	5,712	**6,745**	14.5	**18.1**
ARPU (ZAR per month)[6]	163	139	**125**	(14.7)	**(10.1)**
Contract	624	572	**517**	(8.3)	**(9.6)**
Prepaid	78	69	**63**	(11.5)	**(8.7)**
Community services	2,321	1,796	**902**	(22.6)	**(49.8)**
Minutes of use per month[7]	84	74	**69**	(11.9)	**(6.8)**
Contract	226	206	**188**	(8.8)	**(8.7)**
Prepaid	52	49	**47**	(5.8)	**(4.1)**
Community services	3,185	2,327	**1,151**	(26.9)	**(50.5)**
Number of employees[8]	3,919	4,305	**4,727**	9.8	**9.8**
Customers per employee[8]	3,276	4,451	**4,867**	35.9	**9.3**
Mobile penetration (%)[9]	49.5	70.6	**84.2**	42.6	**19.3**
Mobile market share (%)[9]	56	58	**58**	3.6	**–**

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

2 *Gross connections have been restated in the 2006 and 2005 financial years due to a change in Vodacom's reporting policy. Conversions between categories have now been excluded from gross connections. Based on the previous policy, contract connections would have been 610 thousand in the 2005 financial year and 702 thousand in the 2006 financial year and prepaid connections would have been 5,566 thousand in the 2005 financial year and 8,422 thousand in the 2006 financial year.*

3 *Vodacom's inactive customers are defined as all customers registered on Vodacom's network for which no revenue generating activity has been recorded for a period of three consecutive months. In the 2005 financial year, a software error was identified in the calculation of inactive customers. Vodacom has corrected inactive customers as of March 31, 2005. Up to June 15, 2006, calls forwarded to voicemail were regarded as revenue generating activity and such SIM cards were classified as active customers. Because a large number of SIM cards have calls forwarded to voicemail as their only revenue generating activity and a majority of such messages are never retrieved by the customer, resulting in estimated ARPUs of less than R1 per month, Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue generating activity effective June 15, 2006. Vodacom subsequently changed its definition of revenue generating activity back to include calls forwarded to voicemail effective September 1, 2006. Vodacom deleted approximately 3 million customers during the period of this rule change. As a result of the rule change, prepaid churn rates and ARPUs increased during the 2007 financial year.*

4 *Churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period. Prepaid customers in South Africa are disconnected from its network if they record no revenue generating activity with a period of 215 consecutive days. Contract customers are disconnected when they terminate their contract, or their service is disconnected due to non-payment.*

5 *Vodacom's traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national roaming and incoming international roaming calls. Vodacom changed the calculation of traffic in the 2006 financial year to exclude packet switch data traffic. Traffic has been recalculated for the 2005 financial year.*

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

7 *Vodacom changed the calculation of traffic in the 2006 financial year to exclude packet switch data traffic. Traffic has been recalculated for the 2005 financial year. Vodacom's average MOU is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. MOU excludes calls to free services, bundled minutes and data minutes.*

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

9 *Mobile penetration and market share calculations are Vodacom estimates.*

Commercial

Service providers

Vodacom (Proprietary) Limited has contracts with a number of companies for the distribution of its services. These companies are referred to as service providers. They each have their own individual brand, manage the customer interface, are responsible for the billing and credit control of their own customers, on behalf of Vodacom (Proprietary) Limited, and provide individualised value-added services such as customer care, insurance, itemised billing, to name but a few. Vodacom distributes its services through five service providers.

VSPC is one of those service providers and distributes only Vodacom services. VSPC remains the flagship of Telkom's service provider channel, managing 73.9% (2006: 70.9%) of the total customer base and 79.6% (2006: 75.1%) of the contract base.

Vodacom services are also provided exclusively by the following service providers: Global Telematics (Proprietary) Limited, trading as Orchid, Smartphone SP (Proprietary) Limited, a 70% subsidiary of Vodacom Group (Proprietary) Limited, trading as Smartcall and distributing products to prepaid customers and Smartcom (Proprietary) Limited distributing products to contract customers. Together the Vodacom Group controlled service providers, control 99.4% of the prepaid customer base and 84.2% of the contract customer base.

Vodacom services are also distributed through its valued independent (non-exclusive) service providers: Nashua Mobile (Proprietary) Limited and Autopage Cellular (Proprietary) Limited.

Distribution channels

As at March 31, 2007, Vodacom's distribution network consisted of the following:

- Vodaworld: a unique one-stop mobile telecommunications mall, showcasing the latest technology in cellular hardware;
- Dealers and franchises: 945 (2006: 610) company and independently owned cellular dealer and franchise outlets which include Vodashop, Vodacare, Vodacom 4U, Chatz and Cellshack stores;
- National chains: 13,800 (2006: 9,870) retail outlets;
- Vodacom Direct: Vodacom's call centre-based selling division;
- Business solutions: an extensive direct sales division within Vodacom which concentrates on the sale of contracts, data products and value-added services to businesses;
- Wholesale: a significant channel representing the informal sector comprising of street vendors serving under-serviced areas; and
- Service provider distribution: consisting of direct sales, corporate dealers and franchise stores such as Smartcall, Smartcom, Nashua and Autopage.

Customers and traffic

Customer growth and connections

The South African customer base continued to grow, illustrating that the market is larger than previously anticipated. The total number of customers increased by 20.1% to 23.0 million (2006: 19.2 million), with the majority of the growth from the prepaid market. The number of prepaid customers increased by 18.6% to 19.9 million, while the number of contract customers increased by 27.6% to 3.0 million. The growth in customers was a direct result of the record number of gross connections achieved.

Contract gross connections increased by 31.6% to 666 thousand (2006: 506 thousand), while prepaid gross connections increased by 17.5% to 10.1 million (2006: 8.6 million), bringing the total number of connections for the year to 10.9 million (2006: 9.1 million). The growth in the contract connections was largely due to the increased connections in the hybrid product named Family Top Up. During the year, 246 thousand (2006: 195 thousand) customers converted from prepaid to contract packages. Loyalty and retention programmes continue to play an integral role in achieving the strategy of retaining market share and attracting new customers.

Average revenue per user (ARPU)

The high growth in prepaid customers continued to drive market penetration in 2007 and made up 91.0% (2006: 92.1%) of all gross connections. During the period under review, ARPU decreased to R125 (2006: R139) per month due to the continued dilution caused by the higher proportion of lower ARPU prepaid and contract connections and lower usage due to the lower end of the market being penetrated.

Contract customer ARPU decreased by 9.6% to R517 (2006: R572) per month. The main contributing factor to this decrease has been the high growth in data customers as well as in the low end hybrid, Family Top Up package. The prepaid customer ARPU decreased by 8.7% to R63 (2006: R69) per month.

Community services ARPU decreased by 49.8% to R902 (2006: R1,796) per month mainly due to increased competition from Cell C and the increased rollout by Vodacom.

Churn

The cost of acquiring contract customers in a highly developed market is considerable. Vodacom has therefore implemented retention initiatives over the last couple of years to administer this. Through the continued high level of handset support to service providers and an improvement in service to customers, Vodacom maintained a very low contract churn of 9.7% (2006: 10.0%) in 2007.

The developing prepaid market is characterised by low acquisition costs due to the flexibility required by this market to access its services. The increase in prepaid churn experienced, during the year under review, to 37.5% (2006: 18.8%) is mainly as a result of the deletion of 3 million customers during the period June to September 2006 when a clean-up of inactive customers was done. Subsequent to the clean-up, prepaid churn has stabilised around 20% which is comparable to the 2006 financial year.

Traffic and minutes of use

Total traffic on the network, excluding the impact of national and international roaming, has shown an increase of 19.4% to 20.4 billion (2006: 17.1 billion) minutes in 2007. This growth was mainly due to the 20.1% growth in the total customer base from 19.2 million to 23.0 million as at the end of March 31, 2007. Also evident was a marked change in customer calling patterns, with total mobile-to mobile traffic increasing by 23.9% while total mobile-to-fixed and fixed-to-mobile traffic increased by only 2.9%.

Minutes of use is reflective of voice trends outside and in excess of bundle minutes and shows a stabilised trend for the period under review. Contract minutes show an 8.7% decrease to 188 (2006: 206) minutes per customer per month for 2007, as a result of high connections on the low end hybrid product while prepaid minutes show a 4.1% decrease to 47 (2006: 49) minutes per customer per month.

Estimated market share

Despite strong competition, Vodacom retained its leadership in the South African market with an estimated 58% (2006: 58%) market share as at March 31, 2007. The slight decline in market share is mainly as a result of the increased prepaid customer deletions, the introduction of a fourth competitor in the market, through the launch of Virgin Mobile, as well as renewed efforts by the existing competitors to increase their share of the gross connections of both contract and prepaid customers. Increased efficiencies in the management of churn also resulted in higher net growth amongst some of the competitors. The cellular industry in South Africa grew by an estimated 20.7% since March 2006, of which Vodacom has contributed approximately 56.2%. The market penetration of the cellular industry is now an estimated 84.2% (2006: 70.6%) of the population, with a total cellular market of approximately 40 million (2006: 33 million) customers. Prepaid customers continued to dominate the market and comprised an estimated 83% (2006: 85%) of the total cellular market.

Products and services

Vodacom has a culture of innovation and its record of accomplishments with regard to its product offering bears testimony to this. Recent significant products launched include data, voice and SMS bundles for prepaid, Top Up and contract customers. Vodacom continued to launch and support Vodafone products such as Vodafone Simply, Welcome Tones, extended live television to 22 channels and Vodafone live! release 7 with its simple tabular, user-friendly approach. A number of corporate or business products were also launched, ranging from e-mail and enhanced voicemail to corporate access points which enhance the security of the mobile worker using a 3G/ HSDPA data card remotely.

Contract services

Vodacom offers contract customers a range of mobile service packages designed to appeal to specific customer segments. Packages range from consumer packages such as hybrid Top Up and Weekend Everyday to business packages such as Business Call. Additional packages like Shared Talk 1500 were launched to address the small and medium sized enterprises (SME) market.

As of March 31, 2007, 13.1% (2006: 12.3%) of Vodacom's customers were contract customers. The high spending contract customer market is of strategic importance and therefore a number of retention and upgrade strategies have been implemented to retain these customers. The decrease in churn rates for contract customers bears testimony to Vodacom's continued success in achieving this goal.

The innovative Top Up product, launched in 2003, designed to facilitate migrations to contract packages from existing prepaid packages proved to be highly successful and contributed to the growth in contract customers. As at March 31, 2007, 30.0% (2006: 27.6%) of Vodacom's contract customers comprised Top Up customers. During the year, Vodacom launched a number of new Top Up products to complete its range and lower the entry pricing.

Prepaid services

The majority of Vodacom's customers are prepaid customers and at March 31, 2007 prepaid comprised 86.5% (2006: 87.5%) of the customer base. Vodacom has three prepaid products, namely: Vodago, SmartStep and 4U. Vodacom's 4U offering, which is Vodacom's per second billing option, continues to prove highly successful and as at March 31, 2007, 85.3% (2006: 77.0%) of Vodacom's prepaid customers were 4U customers.

Value-added voice and data services

A comprehensive value-added services (VAS) portfolio complements Vodacom's contract and prepaid offerings. Vodacom's current data portfolio to prepaid, Top Up and contract customers, includes various pay-as-you-use, bundled GPRS and 3G/HSDPA offerings. Vodacom was the first operator to introduce a commercial 3G offer into the local market in December 2004 and created a new niche market in data-related products and services. The take-up by customers during this initial period deployment has been exceptional. The number of active 3G/HSDPA devices on the network as at March 31, 2007 was 733 thousand (2006: 180 thousand). The 3G launch included a number of innovative products such as the Vodafone Mobile Connect Card. As at March 31, 2007 Vodacom already connected 139 thousand (2006: 38 thousand) 3G/HSDPA users. Significant data price reductions were introduced to further establish Vodacom as a serious contender in the data connectivity space and offered a viable alternative to fixed-line as well as significantly increase the mobile data adoption. Vodacom was also the first to launch BlackBerry® devices into the South African market, shifting the focus to data and e-mail on demand. As at March 31, 2007 Vodacom had 23 thousand (2006: 12 thousand) BlackBerry® users.

During the year there was an increase in the usage of GPRS, with the number of GPRS users increasing to 2.8 million (2006: 1.4 million) at March 31, 2007.

A major contributor to the number and volume of GPRS and 3G data traffic is Vodafone live!, which was launched on March 22, 2005 and by March 31, 2007 there were 899 thousand (2006: 351 thousand) users. On December 1, 2005 Vodafone release 7 was launched with Welcome Tones and Mobile TV as major new services. At March 31, 2007 there were 22 channels available with 33 thousand (2006: 13 thousand) mobile TV users.

A focus area this year has been to enhance self service, both through the Vodacom4me portal and the *111# service. This offers customers the ability to automatic set up their own phone for data and multimedia messaging services (MMS) to check billing and bundle information real-time and even apply for, and change VAS if required.

Vodacom continued to deliver on its data strategy which is centred on a wireless application service provider (WASP) model for ease of connectivity and standardised interfaces. Currently, the WASP model is largely driven by consumer applications, with the majority of interest being in premium rated outgoing SMS and bulk incoming SMS services. As of March 31, 2007, 165 (2006: 152) WASPs applied for connectivity to the Vodacom network.

Premium rated SMS content is still focused on competitions, information and alert services. Consumer sensitivity to pricing appears to be stabilising as average monthly volumes increased to 15.8 million (2006: 13.0 million) premium rated SMSs. A number of new bearers became significant as Vodacom also provides premium rated MMS and interactive voice response (IVR) as well as the Vodacom Online Billing Service. This enables a WASP to issue Vodacom billing, tickets, enabling Vodacom to collect subscription services on their behalf. Revenues from WASP services increased by 38% year on year as the number of services and bearers have increased.

In addition, Vodacom launched the Adult Content Management System, the first, and to date, the only mobile system that enables parents to "opt out" their children from receiving mature content. Vodacom has adopted a very conservative approach which prohibits the delivery of undesirable content and limits all users to a level of content similar to that which is freely available at newsagents. Children are further protected from not only visually unsuitable material, but also chat rooms and unsuitable websites with gambling and drugs.

Handset sales

The number of handsets sold during the year was 4.6 million (2006: 3.8 million) units, which represented a year on year growth of 21.1%. The state of the art warehouse in Midrand, handled an average of 2,287 orders per day; an increase of 7.4% from the prior year figure of 2,130 orders per day. An impressive 98.3% of all deliveries to Vodacom's distribution channels are completed within 48 hours of receiving the order.

The Vodafone live! handset portfolio has increased significantly during the year, which has accounted for 32% of Vodacom's total sales for the year. 3G handset pricing has also reduced significantly in the current year, making 3G handsets now more affordable. HSDPA data card sales increased significantly, accounting for 4% of total sales for the year. Bundling offers of the HSDPA data card with laptops, will increase in the coming year as the introduction of embedded 3G modules in the laptops has been a huge success. Camera technology in the phones has improved with 1.3 mega pixel cameras currently being the standard and five mega pixel cameras now available on high end phones. HSDPA handsets also made its way into the market in 2007 financial year.

International and national roaming services

As at March 31, 2007, Vodacom had international roaming agreements with 386 mobile communications network operators in 180 countries (2006: 350 network operators in 169 countries) for contract telephony services, 146 (2006: 93) GPRS roaming contracts, 46 (2006: 36) 3G roaming contracts and 31 (2006: 22) prepaid roaming telephony contracts.

Planned actions for 2007 will focus on increasing the footprint for Vodafone Passport, prepaid and GPRS networks as well as reducing the inter-operator tariffs charged to Vodacom by other networks.

Vodacom has a national roaming agreement with Cell C which offers Cell C the ability to provide services to its customers using Vodacom's network on a national basis. The agreement is to endure for a minimum period of 15 years, being until November 14, 2016.

Customer care

Customer relationship management

Following the implementation of mobile number portability (MNP) late in 2006 and the fact that the South African market is approaching saturation, customer retention has become one of the main priorities for cellular operators in South Africa.

This year, Vodacom focused on rewarding its customers for their loyalty. In particular Vodacom strived to give contract customers benefits over and above contract upgrades.

A Vodacom credit card was implemented whereby Vodacom contract customers are given huge discounts on travel, leisure, security, education and cellular products. During this year, more than one million Vodacom prepaid customers were able to exchange their talking points, earned when recharging, for rewards such us free SMS bundles, call discounts and free cell phones. This programme has proved to be extremely popular amongst Vodacom's high end prepaid customers.

The Yebo Millionaires programme continues to be a favourite with Vodacom's emerging market customers. To date, more than 650 thousand Vodacom customers won prizes such as Ford Fiestas, cell phones, airtime and cash. Two of these customers became instant millionaires when they were able to predict the winning letters for the week. Vodacom also provided computer centres to two schools and to date has given away 32 of these computer centres. These computers are funded from the income generated from the charge of R1 per SMS, which is levied when customers exceed the two free SMSs per week that are given to all customers as a reward for their loyalty to Vodacom.

Both these programmes significantly contributed to the high levels of satisfaction among Vodacom's customers, evident in the South African customer satisfaction surveys conducted by the Department of Trade and Industry (DTI), where Vodacom not only improved their score, but also achieved the highest score in the telecommunications and banking sectors. Similar surveys, based on best practices used by Vodafone, were conducted internally and rendered equally high scores for Vodacom.

These surveys enable Vodacom to better understand its customers' preferences and how customers would prefer Vodacom to interact with them. Using these insights, Vodacom ensure that staff are trained to interact with customers in a customer-centric manner and that the business processes support the customer relationship management principles of Vodacom.

The primary focus for customer care has been on expanding capacity in the call centres. Calls answered grew by 22% over last year, and consolidated service levels also improved. Recruitment and focus management continued, and new staffing models have been adopted to improve flexibility as staff is scheduled more effectively to meet call volume demand. An additional 915 call centre staff required both training and seating capacity. Training facilities have been expanded and the new Johannesburg call centre went live in July 2006.

Specialisation of call centres has been very successful. A data call centre was established to focus on the support of GPRS and 3G/HSDPA products. For the first time staff have been trained on both telecommunications and information technology skills and customer feedback has been positive. The retentions, loyalty and trade partner support specialist call centres grew by over 35% and achieved all targets, including service levels, upgrades and contract churn management. A highly specialised dedicated port support desk was also established and is providing successful first tier and second tier support, combined with valuable statistical analysis of reasons for porting.

The e-mail contact centre continued to experience rapid growth and proved to be an effective channel with year on year volumes growing in excess of 100%.

The outsourcing of prepaid and directory enquiry calls continued successfully and is likely to be expanded in the coming year.

Alongside the expansion of call centres, there has been a focus on efficiency. Forecasting and scheduling tools were being replaced and agent behaviour received attention.

Targets for first call resolution were successfully achieved. Feedback from customers on the IVR unit was used to re-design the flow and handling of incoming calls. The aim was to improve customer experience by providing a friendlier interface and by proactively answering typical queries. A customer experience index was developed to provide ongoing feedback.

The Ladder of Learning trade training increased the number of training interventions by 25%, focusing predominately on new product, process and system training. With the evident need for consistent service delivery across all customer touch points, coupled with the ability to differentiate ourselves in the market place through customer service excellence, this division is anticipated to grow substantially in the coming year.

Walk-in customer care

Dedicated customer care centres located in busy shopping centres across the country continued to be highly successful in providing customers with a one stop shop in terms of their customer care related queries. The success of these outlets is evident from the year on year increase of 39% in foot-traffic. This increase contributed to the decision to continue increasing the number of centres with a possible further expansion into more remotely based areas. In addition to the five centres currently located in the following areas: Vodaworld – Midrand, Canal Walk – Cape Town, Gateway – Durban, Greenacres – Port Elizabeth and Mimosa Mall – Bloemfontein, three more centres will be opened in the next few months. As data services became more popular, all of these centres were upgraded to assist customers with queries of a technical nature and in the case of the Vodaworld centre, a dedicated data centre was created where customers receive personalised attention in resolving their highly technical data related queries.

Vodacare

Vodacare specialises in cellular repairs and consists of 35 branches and franchises in all the major centres, providing walk-in customer support to Vodacom customers and an advanced repair centre hub for high level repairs situated in Midrand. With an average of over 75 thousand repairs per month, this dedicated customer service support centre differentiates Vodacom's offering from that of competitors. Vodacom's primary focus with respect to repairs is to manage and facilitate the process of putting the customer back on the air with as little interruption as possible. This is achieved by using a combination of repairs, swaps, refurbished handsets, loan handsets, the 48 hour swap programme and managed repairs through third parties.

Around 20% of high level repair customers opted to use the 48 hour swap programme. The remainder of the high level repair customers selected to use the seven day turnaround time programme provided by the advanced repair centre.

The balance of the low level repair customers, which comprises over 80% of the business, was serviced within 24 hours by the franchise service centres.

Network infrastructure and technology

Vodacom operates the largest mobile communications network in South Africa with excellent network quality. As at March 31, 2007 Vodacom achieved the following 2G voice quality, measured through vehicle trialling:

- 99.7% (2006: 99.6%) call set-up success rate;
- 99.6% (2006: 99.6%) call retention rate; and
- 99.3% (2006: 99.3%) call success rate.

The network continued to deliver high levels of performance as is clearly reflected by the preceding trailing results. Extensive efforts were put into increasing the available capacity, through the introduction of new infrastructure, as well as upgrades to the existing by way of hardware and software. This ensured that the network was able to service a growing demand, whilst still improving the network quality delivered to customers.

The network's core GSM infrastructure as at March 31, 2007 consisted of the following:

CORE	GSM/GPRS/EDGE	3G/HSDPA
45 mobile switching centres* (including the HP HLRs, VLRs, STPs and gateways). *This is down from the 58 mobile switching centres in the March 2006 report due to the consolidation achieved during the HP HLR migration.	325 base station controllers (2006: 280); 5,231 macro-base transceiver stations (2006: 4,873); 1,634 micro-base transceiver stations (2006: 1,528); 69,527 transceivers (2006 : 57,223); 6,110 sites (macro/micro combination) activated with CS3 and 4 (2006: 5,882); 2,195 sites activated with EDGE (2006: 1,153 sites); and GPRS functionality across the network.	22 radio network controllers (2006: 14); 2,119 UMTS base transceiver stations (NodeB) (2006: 1,504); 9,606 UMTS transceivers (2006:4,512); and HSDPA functionality across the 3G network.

Vodacom's infrastructure covers an estimated 97.9% NM (2006: 97.5%) of the population, based on the available census information of 2001, and 71.2% (2006: 69.4%) of the geographical area of South Africa. Growth in both population and geographical coverage continued proportionally during 2007.

Vodacom continues to deploy GSM1800MHz radio equipment in all regions to provide additional customer capacity as necessitated by the increase in network traffic. Vodacom has operational dual band base stations in 2,225 (2006: 1,599) locations in South Africa. These sites comprised of 19,018 (2006: 13,945) GSM1800MHz transceivers.

Vodacom's transmission network comprised of 19,931 (2006: 18,596) E1 links and 385 (2006: 228) broadband (STM-1/4 and STM-0) links leased from Telkom, which are managed by a comprehensive New Generation synchronous digital hierarchy (SDH), digital cross-connect and multi-services platforms infrastructure. In addition, Vodacom operates an extensive data network for its internal and commercial data requirements, based on internet protocol (IP MPLS). It comprises of more than 300 nodes (2006: more than 50 nodes) and is supported (for transport) by Ethernet over SDH.

The 2007 financial year saw the Siemens intelligent networks (IN) environment replacing the entire legacy Siemens Nixdorf platforms with far superior Fujitsu Siemens servers. This went hand in hand with a total change to the architecture, operating system, database and application environments supported on these systems (collectively referred to as the IN@vantage platform).

In parallel to this, the entire prepaid data billing architecture was completely remodelled in order to provide the necessary data billing capabilities and flexibility. One of the many advantages the immediate functionality provided was the ability to charge differently for on- and off-net rating for the Vodafone live! environment i.e. free on-net browsing, but chargeable traffic when moving off-net. Four new charging@vantage platforms, three Authentication and Charging Gateway Platform Blade Systems are active, each with six blades per system, and the distributed Common User Repository (CUR) systems were implemented. This architecture and functionality were also pre-requisites to be able to introduce prepaid data bundles.

On the VAS side, the WAP Gateways were replaced to provide redundancy and enhanced capacity, Ring Back Tones for both Vodafone live! and legacy customers, which required a fairly significant deployment of Tecnomen IVR infrastructure in excess of 2,000 ports geographically distributed in the major regional MSC facility. Introduction of new LINUX routers enabled Vodacom to handle the significant Christmas peak SMS traffic without any major blockages or failures.

Adult content management was introduced. The adaptive solution integrates directly with the intelligence packet solution and CUR systems and provides the possibility to introduce multiple levels of content management and filtering for various levels of customer profiles and access.

Procurement

Vodacom solicits bids for all goods and services in excess of R1 million. Bids are via a closed tender system and by invitation only. A multi-disciplinary cross-functional team evaluates and awards bids to the best supplier, based on the best overall score, taking into account technical specification, delivery time, costing, financial viability, black economic empowerment (BEE) and quality. Vodacom spent 70.8% of its eligible procurement expenditure with BEE companies, compared to a target of 66%. Vodacom seeks to utilise at least two suppliers for all critical equipment where possible, to minimise supply risk. Vodacom's main technology suppliers are Siemens, for the core and 3G network, and Alcatel and Motorola for the radio networks.

Vodacom Tanzania

Overview

Vodacom Group (Proprietary) Limited owns a 65% interest in Vodacom Tanzania Limited; two local shareholders, Planetel Communications Limited and Caspian Construction Limited hold the remaining 16% and 19% respectively. Vodacom Tanzania was issued its licence in December 1999 and commenced operations in August 2000. The licence was re-issued and its term extended on July 26, 2006 under the new converged licensing regulatory framework. Vodacom Tanzania became the largest mobile operator in the country within one year of launching and still remains the largest mobile communications network operator in Tanzania.

The Company's operating results were in line with expectations for the year ended March 31, 2007, driven primarily by the substantial growth in the customer base although profit margins were reduced by an unexpected increase of 40% in rate of excise duty from 5% to 7% on mobile calls and the additional cost of running sites as a result of a countrywide power crisis which resulted in power rationing for a substantial period during the year.

Vodacom Tanzania key indicators

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Customers (thousands)[1]	1,201	2,091	**3,247**	74.1	**55.3**
Contract	5	7	**14**	40.0	**100.1**
Prepaid	1,193	2,081	**3,223**	74.4	**54.9**
Community services	3	3	**10**	–	**233.3**
Gross connections (thousands)	746	1,353	**2,092**	81.4	**54.6**
Churn (%)	29.6	28.5	**35.6**	(3.7)	**24.9**
ARPU (ZAR)[2]	81	67	**52**	(17.3)	**(22.4)**
Number of employees[3]	350	438	**527**	25.1	**20.3**
Customers per employee[3]	3,431	4,774	**6,161**	39.1	**29.1**
Mobile penetration(%)[4]	5	9	**16**	80.0	**77.8**
Mobile market share (%)[4]	59	58	**55**	(1.7)	**(5.2)**

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

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

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

4 *Mobile penetration and market share is calculated based on Vodacom estimates.*

Infrastructure

Vodacom Tanzania's infrastructure network comprised five MSCs, 28 BSCs, 602 Macro BTSs, one SGSN, one GGSN, one RNC and 101 Node Bs as at March 31, 2007. The network had a home location register (HLR) capacity of eight million and an effective visitors location register (VLR) capacity of 3.7 million. Vodacom Tanzania is planning to increase the capacity by the installation of two further VLRs during the following financial year, extending the capacity to 5.4 million.

Vodacom Tanzania focused its infrastructure investment in building core capacity to accommodate the substantial growth in the customer base during the year and investing in establishing a core data network for its third generation/ high speed downlink packet access (3G/HSDPA), general packet radio service/enhanced data for GSM evolution (GPRS/EDGE) and worldwide interoperability for microwave access (WiMAX) product offerings. New network coverage has been at acceptable levels with a continued emphasis on building capacity sites to improve quality of service and enhance and establish sites to deliver data product functionality in the existing coverage areas.

Products and services

In the last quarter of the year the Company commercially launched its 3G/HSDPA and GPRS data product offering, which together with the commercial launch of WiMAX in the new financial year, is anticipated to enhance data revenues. The 3G/HSDPA data product initially covered Dar es Salaam whilst the GPRS network had national coverage. Core data revenues continue to be from standard short message service (SMS), supported by Vodatariffa, a premium rated SMS-based information service and further supported by the increased focus on appointment of wireless application service providers (WASPs) during the year.

Vodachoice continues to be the preferred contract package although Vodajazza, a contract hybrid product offered on the prepaid billing platform, continues to gain popularity in the corporate market.

Vodafasta, a dynamic recharge product, was introduced during the current financial year. The product allows prepaid customers to electronically recharge airtime via registered vendors, enhances the availability of Vodago prepaid airtime and reduces the cost of physical distribution.

Competition

There are three other GSM mobile operators licensed in Tanzania namely Mobitel (re-launched as Tigo during the year), Celtel and Zantel. During the year, two further operators Tanzanian Telecommunications Company Limited (TTCL) and Benson on Line (BOL), both locally controlled companies, were granted mobile licences and launched code division multiple access (CDMA) mobile networks. Further licences have been applied for, but none have been granted by the end of the financial year. Zantel enhanced its coverage during the year whilst continuing to operate under a national roaming agreement with Vodacom Tanzania, effective from July 31, 2005, in areas not covered by its own network. Mobile Telecommunications Company (MTC) of the Kuwait holds a majority shareholding in Celtel whilst Tigo (formerly Mobitel) is controlled by Millicom International Cellular S.A.

During the year, Celtel launched a roaming product (One Network concept) over all its networks in the East African region namely Tanzania, Uganda and Kenya. This product will allow all prepaid customers to roam on these networks at the tariff of the host network. Vodacom in co-operation with Safaricom in Kenya and MTN in Uganda launched its Kama Kawaida product which allows roaming at home tariffs on these preferred roaming partner networks.

There was no national prepaid tariff reduction during the year; however, further reductions in international tariffs were made during the year, despite substantial reductions in the prior year to once again align these with those made by its competitors in particular Celtel. The estimated market share is 55% (2006: 58%).

Employees

At March 31, 2007, Vodacom Tanzania had a total headcount of 527 (2006: 438) employees, which includes secondees employed out of Vodacom International Limited (Mauritius). Vodacom Tanzania continues to support the development of local Tanzanian skills and views employee relations as a key factor in ensuring a positive working environment.

Prospects

Vodacom Tanzania is anticipating substantial growth in its existing business, customer base and profitability in the coming financial year, which will be achieved by improved coverage and quality of service to existing customers. In addition, the Company will also initiate the implementation of a comprehensive data strategy, which will include the implementation of 3G/HSDPA.

The ability to manage costs in line with the ARPUs and harness skills and resources to expand existing business and introduce new products and services will be critical to achieve the Company's objectives going forward.

Dietlof Maré was appointed as the new Managing Director of Vodacom Tanzania, effective April 1, 2007.

Vodacom Congo

Overview

Vodacom Congo (RDC) s.p.r.l. was established on December 11, 2001 in the Democratic Republic of Congo (DRC) and the network was officially launched on May 1, 2002. Vodacom International Limited (Mauritius) owns a 51% interest in Vodacom Congo, with the remaining 49% owned by Congolese Wireless Network s.p.r.l.

Vodacom Congo is currently performing well under challenging circumstances. Despite aggressive competition for market share, Vodacom has been able to surpass competition and retain dominance in the Congolese cellular market. The main contributing factors in achieving customer and profit growth include coverage rollout in strategic areas, implementation of an effective and aggressive sales and distribution strategy and improvement in consumer confidence and spending.

The DRC's first presidential and parliamentary elections took place on July 30, 2006, after an official postponement was announced in June 2005. The relative peaceful outcome of the election is anticipated to bring political stability and economic growth to the DRC. The current coverage and market share levels put Vodacom Congo in a very favourable position to benefit from such an economic upturn.

Vodacom Congo key indicators

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Customers (thousands)[1]	1,032	1,571	**2,632**	52.2	**67.5**
Contract	10	14	**17**	40.0	**21.4**
Prepaid	1,010	1,538	**2,587**	52.3	**68.2**
Community services	12	19	**28**	58.3	**47.4**
Gross connections (thousands)	565	892	**1,688**	57.9	**89.2**
Churn (%)	23.1	28.1	**30.4**	21.6	**8.2**
ARPU (ZAR)[2]	98	86	**77**	(12.2)	**(10.5)**
Number of employees[3]	538	479	**745**	(11.0)	**55.5**
Customers per employee[3]	1,918	3,280	**3,533**	71.0	**7.7**
Mobile penetration (%)[4]	4	6	**9**	50.0	**50.0**
Mobile market share (%)[4]	47	48	**47**	2.1	**(2.1)**

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

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

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

4 *Mobile penetration and market share is calculated based on Vodacom estimates.*

Infrastructure

Vodacom Congo invested R506 million or US$71.7 million year to maintain and expand its high-quality network throughout the country for the current financial year. Network coverage has been rolled out in all of the nine provinces of the DRC. This includes roll-out in 238 (2006: 184) towns and consists of 470 (2006: 373) base stations and four (2006: four) mobile service switching centres (MSCs). Vodacom Congo is financing its roll-out with a combination of external medium term facility and shareholder funding.

Products and services

Vodacom Congo offers contract, prepaid and public phone services. The contract product is aimed at the corporate market, with a focus on value-added and customer service. Service to contract customers was further enhanced, this financial year, with the possibility to migrate to Top Up options and the introduction of the corporate private automatic branch exchange (PABX) product. The prepaid and public phone products are aimed at the broad Congolese market, with the main competitive advantage being coverage, network quality and distribution. To further enhance data revenue streams, Vodacom Congo commercially launched general packet radio services (GPRS) in February 2006. The application was introduced to support data transfer requirements during the electoral process and meet the data demands of local businesses and corporate clients. Additional revenue streams were created, during the 2007 financial year, with the acquisition of the business of an internet service provider named InterConnect s.p.r.l. The acquisition offers additional products and services such as data and voice bundled packages to new and existing customers.

In May 2005, the Company launched an electronic voucher solution known as Voda-E in order to strengthen its distribution capabilities and enable customers to recharge to the value of US$0.3 (previous lowest denomination US$1) and to transfer airtime among users via text messaging with the use of a standard handset. Voda-E airtime distribution platform currently accounts for 40% of all voucher sales on the network. During the 2007 financial year, the US$1 Vodago voucher was introduced. The secured electronic distribution system (SEDS) provides secure printed voucher with extended distribution. SEDS was introduced to complement the Electronic Voucher Distribution system with enhanced voucher security and operating system capacity.

Market share and competition

Vodacom Congo continued to be the leading telecommunication network in the DRC, with an estimated market share of 47% (2006: 48%) as at March 31, 2007. Vodacom's main competitor Celtel, controls approximately 39% (2006: 44%) of the market. The remaining balance of the market is shared with Tigo and Congo Chine Telecom accounting for 5% (2006: 2%) and 9% (2006: 6%), respectively. During the year, SAIT re-launched its network under the brand name Tigo. This effort consisted of re-branding the Company through aggressive television, sponsorships and outdoor media activity.

Employees

Vodacom Congo ended the financial year with 745 (2006: 479) employees, which includes secondees. Management remains committed to the skill transfer process through the evaluation, identification and intensive training of local staff. During the 2007 financial year, the Company implemented a bursary scheme aimed at targeting and developing students as well as retaining key employees.

Prospects

Vodacom Congo is well placed to take advantage of opportunities in the market as it continues to build on the foundation of providing the highest quality and best value in wireless voice and data telecommunication. The ability to effectively manage costs and margins will ensure continued growth in EBITDA and profit from operations given that the country's economic and political environment remains stable.

Vodacom Lesotho

Overview

Vodacom International Holdings (Proprietary) Limited owns an 88.3% interest in Vodacom Lesotho (Proprietary) Limited. The remaining 11.7% stake is owned by a local company, Sekhametsi Enterprises (Proprietary) Limited.

Vodacom Lesotho launched its commercial operations in May 1996 and, although a small operation by South African standards, its strategic geographic importance in terms of market share, justifies its inclusion in the Vodacom portfolio.

Vodacom Lesotho's operating results were well above expectations for the year ended March 31, 2007, driven primarily by growth in customers, higher than expected ARPUs and containment of cost.

Vodacom Lesotho key indicators

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Customers (thousands)[1]	147	206	**279**	40.1	**35.4**
Contract	4	3	**3**	(25.0)	–
Prepaid	142	200	**272**	40.8	**36.0**
Community services	1	3	**4**	200.0	**33.3**
Gross connections (thousands)	70	98	**119**	40.0	**21.4**
Churn (%)	17.3	22.3	**19.0**	28.9	**(14.8)**
ARPU (ZAR)[2]	92	78	**75**	(15.2)	**(3.8)**
Number of employees[3]	63	67	**63**	6.3	**(6.0)**
Customers per employee[3]	2,333	3,075	**4,429**	31.8	**44.0**
Mobile penetration (%)[4]	7	13	**17**	85.7	**30.8**
Mobile market share (%)[4]	80	80	**80**	–	**–**

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

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

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

4 *Mobile penetration and market share is calculated based on Vodacom estimates.*

Infrastructure

The network consists of 66 BTSs, one MSC, three BSCs, one SMSC and one voicemail platform. Vodacom Lesotho's billing systems and billing infrastructure are hosted by Vodacom South Africa and this resulted in the disposal of redundant billing and intelligent network platform software and hardware to the value of R52 million during the year.

An additional investment of R25 million (2006: R26 million) is an indication of the Company's drive to expand and optimise the existing infrastructure, ensuring the widest coverage and superior network quality and service levels o its customers.

Products and services

Vodacom Lesotho's product offerings consist of a variety of prepaid and contract products. The current prepaid offering is known as Mochaochele. The existing free minute contract offerings such as SuperTalk50 and SuperTalk100 have been expanded to include the newly launched SuperTalk250 and SuperTalk500 for high end business users. SuperTalk contracts remain the first and only contracts in Lesotho offering bundled minutes and subsidised handsets. Additional contract packages include the Corporate Executive, Master Plan, Budget Plan and Family Plan, all of which provide connectivity options without bundled services or subsidised handsets. In addition above mentioned products, Vodacom Lesotho also offers public phone services as well as a direct connect service, allowing customers to access the mobile network directly from their PABX.

Distribution is maintained via nine Vodashop branches, eight Super Dealers, with their respective sub dealers and outlets as well as four retail groups. Products can be purchased from more than a thousands outlets and customers are serviced via either the walk-in or the customer care call centre.

Competition

Econet-Ezicell remains the only direct competitor in the country with Vodacom Lesotho still maintaining superior coverage and infrastructure. Vodacom Lesotho has commissioned seven additional base stations during the year under review. The Company has also increased its international roaming agreements to exceed that of Econet-Ezicell. This will remain a priority for the 2008 year with its core focus on retaining and expanding its estimated 80% (2006: 80%) market share.

Employees

The headcount for Vodacom Lesotho decreased to 63 (2006: 67) employees as at March 31, 2007. The decrease was as a result of staffing and operational changes and recruitment is currently in process for most of the existing vacancies. Excluding the favourable effect of vacancies, employee productivity increased as indicated by customers per employee.

Prospects

Vodacom Lesotho has proven itself as a worthy market leader within the Lesotho telecommunications industry. The management structure, dedicated staff, excellent team work, wide product range and good service levels have all greatly contributed to the Company's performance. Due to its geographical importance Telkom will continue to provide the necessary support and guidance required to ensure success at all levels.

Godfrey Mbingo was appointed as the new Managing Director of Vodacom Lesotho effective April 1, 2007.

Vodacom Mozambique

Overview

VM, S.A.R.L., trading as Vodacom Mozambique was established on October 23, 2003 and commercially launched on December 15, 2003.

At March 31, 2007 Vodacom owned 98% of Vodacom Mozambique. The remaining 2% was held by a local consortium named Empresa Moçambicana de Telecommunicações (EMOTEL). Effective April 1, 2007 Vodacom International Limited (Mauritius) sold 8% of its shares to local investors, with 5% being purchased by Intelec Lda and EMOTEL acquiring an additional 3%. Vodacom Mozambique's licence is a second generation (2G) global system for mobile communication (GSM) licence and will expire in December 2018. During the current financial year, Vodacom successfully launched national general packet radio service (GPRS) and enhanced data for GSM evolution (EDGE) services.

The Company is functioning in an extremely challenging environment which is underpinned by fierce competition, an unstable regulatory regime as well as low minutes of use and low ARPUs as a result of the impoverished environment.

Vodacom Mozambique key indicators

	Year ended March 31, 2005	2006	**2007**	2006/2005 % change	**2007/2006 % change**
Customers (thousands)[1]	265	490	**988**	84.9	**101.6**
Contract	4	8	**15**	100.0	**87.5**
Prepaid	261	482	**973**	84.7	**101.9**
Gross connections (thousands)	225	342	**797**	52.0	**133.0**
Churn (%)	11.3	32.2	**41.7**	185.0	**29.5**
ARPU (ZAR)[2]	52	36	**28**	(30.8)	**(22.2)**
Number of employees[3]	123	170	**187**	38.2	**10.0**
Customers per employee[3]	2,154	2,882	**5,283**	33.8	**83.3**
Mobile penetration (%)[4]	4	8	**14**	100.0	**75.0**
Mobile market share (%)[4]	33	30	**35**	(9.1)	**16.7**

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

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

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

4 *Mobile penetration and market share is calculated based on Vodacom estimates.*

Infrastructure

Vodacom Mozambique's infrastructure rollout consists of one MSC (HLRi), one MSC (VLR), four BSCs and 180 BTSs as at March 31, 2007. The network had a home location register (HLR) capacity of 1.5 million customers as at that date, with an increase to a capacity of 2.5 million planned for the 2008 financial year. GPRS has been implemented on all BTSs nationwide with EDGE available in the Maputo metro area and the planned expansion of this service to the Beira and Nampula areas for 2008.

Products and services

The current package offerings consist of: Bazza Bazza, a prepaid product; Fale 50, 100 and 150, and Pro 400S bundled airtime contract products; and Fale Mais 236, Fale Mais 500 and Empresas, hybrid contract products. This year marked the launch of a range of new and innovative products and promotional offerings catering to the needs of the full spectrum of the market. GPRS and MMS was launched to both prepaid and contract customers. GPRS is available as add-on bundles and dedicated contracts, the latter suited for use with mobile data cards and USB modems. In tandem with the launch of GPRS and MMS, Vodacom Mozambique also launched VodaMail, a free e-mail service available to all contract customers.

Since prepaid continues to be the bulk of the business in Mozambique, a range of new innovative services were launched during the year to enhance the overall value proposition of Bazza Bazza. These services include: Bazza Bonus, a high-spend airtime reward scheme that rewards customers daily with free airtime based on the previous day's spend. As a further measure to reward customers, 60+ was launched in August 2006 which rewards the customer with free SMS for long duration calls. Finally in February 2007 Bazza uau! was launched which introduced a third prepaid tariff plan with the unique benefit of rewarding customers for receiving calls.

Other services launched this year include SMS bundles for contract customers, electronic invoicing, an unstructured supplementary service data (USSD) based self-care menu, premium rated SMS and interactive voice response (IVR) based competitions, and content based services through third party wireless application service providers (WASPs). These product innovations greatly helped in positioning Vodacom Mozambique as the value leader in the market.

Competition and market share

Vodacom Mozambique's only competition remains Moçambique Cellular (mCel), a company owned by Telecomunicações de Moçambique (TDM), the state-owned fixed line operator.

Given mCel's parastatal heritage, it is in the unique position to have derived extraordinary benefits due to it being part of the larger system of state-owned enterprises which it continues to exploit. Consequently, Vodacom Mozambique still has to deal with the situation where factors within the Mozambican business environment have not always resulted in the realisation of equitable market dynamics.

Vodacom Mozambique managed to increase its estimated market share to 35% (2006: 30%) by focusing on coverage expansion, building sound distribution and delivering innovative value propositions underscored by a warm and receptive brand. A unique point of differentiation for Vodacom Mozambique came from its corporate social investment projects which saw the complete reconstruction of a school in Maputo and the donation of sorely needed books and encyclopaedias to more than 40 schools nationally. In addition, Vodacom Mozambique provided relief assistance to the victims of cyclone Favio in Vilankulos.

In further enhancing its Mozambican positioning, Vodacom Mozambique was accepted as a partner to the "Made in Mozambique" initiative that is being propagated by the Ministry of Industry and Commerce. This venture is designed to promote local industry and export initiatives.

mCel continues to be an aggressive competitor and displayed a pattern of imitation on the basis of having introduced exact copies of Vodacom's product offerings.

Given their greater financial and market power, they remain a formidable opponent in the foreseeable future.

Employees

The headcount for Vodacom Mozambique was 187 (2006: 170) as at March 31, 2007. Vodacom Mozambique continues to support the development of local skills whereby skills and knowledge are transferred by a succession plan and development programmes. Staff issues are addressed via a consultative forum where they are given a platform to address issues.

Prospects

The operation continued to produce exemplary performance, despite the challenges of an inequitable market dynamic and low economic activity in the market. Vodacom Mozambique is optimistic that the years ahead will prove to offer further growth insofar as its customer base and profitability is concerned and that positive changes being made in the business, will result in the achievement of a profitable and sustainable business in the future.

The ability to strictly manage costs in the face of low ARPU and low minutes of usage, whilst expanding coverage and distribution and intensifying the promotional and product offerings will be critical to achieving improved results.

Four-year financial review

for the years ended March 31,

Amounts in accordance with IFRS (in ZAR millions, except percentages)	2004	2005	2006	**2007**	CAGR (%) 3 years
Fixed-line financial data					
Revenue	31,004	31,457	32,749	**33,295**	2.4
Operating profit	6,724	8,021	10,242	**9,040**	10.4
Operating profit margin (%)	21.7	25.5	31.3	**27.2**	7.8
EBITDA	12,707	12,753	14,646	**12,663**	(0.1)
EBITDA margin (%)	41.0	40.5	44.7	**38.0**	(2.5)
Capital expenditure to revenue (%)	12.5	13.0	15.1	**20.0**	17.0
Mobile financial data (50% of Vodacom)					
Revenue	11,428	13,657	17,021	**20,573**	21.6
Operating profit	2,614	3,240	4,435	**5,430**	27.6
Operating profit margin (%)	22.9	23.7	26.1	**26.4**	4.9
EBITDA	3,879	4,796	5,907	**7,122**	22.5
EBITDA margin (%)	33.9	35.1	34.7	**34.6**	0.7
Capital expenditure to revenue (%)	13.2	12.8	15.1	**17.5**	9.9
Financial review (Group)					
Income statement data					
Operating revenue	40,582	43,160	47,625	**51,619**	8.3
Operating expenses (including depreciation)	31,499	32,179	33,428	**37,533**	6.0
EBITDA	16,586	17,549	20,553	**19,785**	6.1
Operating profit	9,338	11,261	14,677	**14,470**	15.7
Profit before tax	6,396	9,917	13,851	**13,580**	28.5
Profit after tax/net profit	4,658	6,835	9,328	**8,849**	23.9
Basic earnings per share (cents)	823.9	1,246.9	1,746.1	**1,681.0**	26.8
Headline earnings per share (cents)	875.2	1,279.2	1,728.6	**1,710.7**	25.0
Dividends per share (cents)	90	110	900	**900**	115.4
Balance sheet data					
Total assets	53,174	57,597	57,544	**59,146**	3.6
Current assets	11,423	15,045	12,731	**10,376**	(3.2)
Non-current assets	41,751	42,552	44,813	**48,770**	5.3
Total liabilities	31,346	31,236	28,078	**27,138**	(4.7)
Current liabilities	14,639	17,366	15,687	**18,584**	8.3
Non-current liabilities	16,707	13,870	12,391	**8,554**	(20.0)
Shareholders' equity	21,828	26,361	29,466	**32,008**	13.6
Total debt	17,821	15,225	12,051	**10,909**	(15.1)
Net debt	13,362	6,941	6,828	**9,901**	(9.5)
Cash flow data					
Cash flow from operating activities	13,884	15,711	9,506	**9,356**	(12.3)
Cash flow used in investing activities	(5,423)	(6,306)	(7,286)	**(10,412)**	24.3
Cash flow used in financing activities	(6,481)	(9,897)	(258)	**(2,920)**	(23.3)
Capital expenditure excluding intangibles	4,936	4,464	6,310	**8,648**	20.6
Operating free cash flow	9,009	10,034	7,104	**3,728**	(25.5)
Financial ratios					
Operating profit margin (%)	23.0	26.1	30.8	**28.0**	6.8
EBIDTA margin (%)	40.9	40.7	43.2	**38.3**	(2.2)
Net profit margin (%)	11.5	15.6	19.3	**16.7**	13.2
Net debt to equity (%)	61.2	26.3	23.2	**30.9**	(20.4)
After tax operating return of assets (%)	17.9	19.8	25.6	**22.8**	8.4
Capital expenditure to revenue (%)	13.2	13.6	15.8	**20.0**	14.9

Financial review

Results of operations

Telkom's operating structure comprises two segments, fixed-line and mobile. Telkom's fixed-line segment provides fixed-line voice and data communications services through Telkom; directory services through its 64.9% owned subsidiary, TDS Directory Operations; wireless data services through its wholly-owned subsidiary, Swiftnet; and internet services outside South Africa through its newly acquired Africa Online subsidiary. Telkom's mobile segment consists of its 50% interest in Vodacom.

Telkom proportionately consolidates Vodacom's results into the Telkom Group's consolidated financial statements. This means that Telkom includes 50% of Vodacom's results in each of the line items in the Telkom Group's consolidated financial statements and in the period-to-period discussion below. Telkom fully consolidates its TDS Directory Operations, Swiftnet and Africa Online subsidiaries in the Telkom Group's consolidated financial statements.

Consolidated results

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

Telkom Group's segmental results

	Year ended March 31,						2006/	**2007/**
	2005		2006		**2007**		2005 %	**2006 %**
(in millions, except percentages)	ZAR	%	ZAR	%	**ZAR**	**%**	change	**change**
Operating revenue	43,160	100.0	47,625	100.0	**51,619**	**100.0**	10.3	**8.4**
Fixed-line	31,457	72.9	32,749	68.8	**33,295**	**64.5**	4.1	**1.7**
Mobile	13,657	31.6	17,021	35.7	**20,573**	**39.9**	24.6	**20.9**
Intercompany eliminations	(1,954)	(4.5)	(2,145)	(4.5)	**(2,249)**	**(4.4)**	9.8	**4.8**
Other income[1]	280	100.0	480	100.0	**384**	**100.0**	71.4	**(20.0)**
Fixed-line	255	91.1	430	89.6	**342**	**89.1**	68.6	**(20.5)**
Mobile	34	12.1	50	10.4	**42**	**10.9**	47.1	**(16.0)**
Intercompany eliminations	(9)	(3.2)	–	–	**–**	**–**	–	**–**
Operating expenses	32,179	100.0	33,428	100.0	**37,533**	**100.0**	3.9	**12.3**
Fixed-line	23,691	73.6	22,937	68.6	**24,597**	**65.5**	(3.2)	**7.2**
Mobile	10,451	32.5	12,636	37.8	**15,185**	**40.5**	20.9	**20.2**
Intercompany eliminations	(1,963)	(6.1)	(2,145)	(6.4)	**(2,249)**	**(6.0)**	9.3	**4.8**
Operating profit[2]	11,261	100.0	14,677	100.0	**14,470**	**100.0**	30.3	**(1.4)**
Fixed-line	8,021	71.2	10,242	69.8	**9,040**	**62.5**	27.7	**(11.7)**
Mobile	3,240	28.8	4,435	30.2	**5,430**	**37.5**	36.9	**22.4**
Operating profit margin (%)	26.1		30.8		**28.0**		18.0	**(9.1)**
Fixed-line	25.5		31.3		**27.2**		22.7	**(13.1)**
Mobile	23.7		26.1		**26.4**		10.1	**1.1**
Profit for the year attributable to equity holders of Telkom	6,752	100.0	9,189	100.0	**8,646**	**100.0**	36.0	**(5.9)**
Profit margin (%)	15.6		19.3		**16.7**		23.7	**(13.5)**
EBITDA[2, 3]	17,549	100.0	20,553	100.0	**19,785**	**100.0**	17.1	**(3.7)**
Fixed-line	12,753	72.7	14,646	71.3	**12,663**	**64.0**	14.8	**(13.5)**
Mobile	4,796	27.3	5,907	28.7	**7,122**	**36.0**	23.2	**20.6**
EBITDA margin (%)	40.7		43.2		**38.3**		6.1	**(11.3)**

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

2 *Total operating profit and EBITDA and mobile operating profit and EBITDA include Vodacom's 50% share of Vodacom's impairment of R268 million in respect of assets in Mozambique in the 2005 financial year, a reversal of Vodacom's impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets in Mozambique and an impairment loss of R23 million in the 2007 financial year in respect of the assets in Mozambique due to a decrease in the fair value of the assets.*

3 *Total EBITDA and mobile EBITDA represent profit for the year, which includes profit on sale of investments before taxation, finance charges, investment income and depreciation, amortisation, impairments and Telkom's write-offs.*

EBITDA can be reconciled to operating profit as follows:

	Year ended March 31,		
	2005	2006	**2007**
(in millions)	ZAR	ZAR	**ZAR**
Fixed-line			
EBITDA	12,753	14,646	**12,663**
Depreciation, amortisation, impairments and write-offs	(4,732)	(4,404)	**(3,623)**
Operating profit	8,021	10,242	**9,040**
Mobile			
EBITDA	4,796	5,907	**7,122**
Depreciation, amortisation and impairments	(1,556)	(1,472)	**(1,692)**
Operating profit	3,240	4,435	**5,430**

Operating revenue

Operating revenue increased in the years ended March 31, 2007 and 2006 due to increased operating revenue in both its mobile and fixed-line segments. Vodacom's operating revenue increased in the 2007 financial year primarily due to increased data, interconnection and equipment sales revenue as a result of strong customer growth. The increase in fixed-line operating revenue in the 2007 financial year was primarily due to continued growth in data revenue and higher subscriptions and connections revenue partially offset by lower average traffic tariffs, lower local and long distance traffic and lower interconnection revenue. Fixed-line operating revenue accounted for 64.5%, 68.8% and 72.9% of Telkom's consolidated operating revenue before intercompany eliminations in the years ended March 31, 2007, 2006 and 2005, respectively.

Other income

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets. The decrease in fixed-line other income in the 2007 financial year was primarily due to lower sales of assets and properties as well as a decrease in profit on disposal of investments, which resulted from the reclassification of assets held by the Cell captive to an annuity policy that qualifies as a plan asset. The profits and losses that would have previously been included in other income are now treated as movements in the plan assets funding the post retirement medical aid obligation. The increase in fixed-line other income in the 2006 financial year was primarily due to the realisation of profits on the sale of investments held by its consolidated special purpose entity used to fund post retirement medical benefit obligations.

Operating expenses

Operating expenses increased in the year ended March 31, 2007 as a result of increased operating expenses in both its mobile and fixed-line segments. Operating expenses increased in the year ended March 31, 2006 as a result of increased operating expenses in its mobile segment, partially offset by decreased operating expenses in its fixed-line segment.

The increase in mobile operating expenses in the 2007 financial year was primarily due to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and other African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, increased depreciation, amortisation and impairment, higher employee costs as a result of increased headcount, average 7.5% annual salary increases, an increase in the provision for bonus schemes and an increase in the provision for long term incentives for executives and increased operating leases.

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

The increase in fixed-line operating expenses in the 2007 financial year was primarily attributable to increased selling, general and administrative expenses, employee expenses, payments to other operators, and services rendered, partially offset by lower depreciation, amortisation, impairments and write-offs as a result of an increase in the useful lives of certain assets. Selling, general and administrative expenses increased primarily as a result of the provision raised for possible liabilities in the Telcordia dispute, higher materials and maintenance expenses, increased marketing and sponsorships, and increased costs of sales due to the reclassification of finance leases associated with customer premises equipment in selling, general and administrative expenses, partially offset by a provision for VAT that was reversed due to a revenue ruling from SARS. Employee expenses increased due to higher salaries and wages as a result of average annual salary increases of 7.0% and related benefits, an increase in the number of employees and increased payments to part time employees and contractors. Payments to other network operators increased primarily due to higher call volumes from its fixed-line network to the mobile networks and higher payments to international network operators as a result of higher international outgoing volumes and a weaker exchange rate.

Services rendered increased in the year ended March 31, 2007 primarily due to increased payments to consultants to explore local and international investment opportunities, customer centricity and higher security and property management costs at TFMC. The decrease in fixed-line operating expenses in the 2006 financial year was primarily attributable to lower employee expenses and reduced depreciation, amortisation, impairments and write-offs, partially offset by higher payments to other network operators, services rendered, selling, general and administrative expenses and operating leases. Employee expenses decreased primarily due to reduced workforce reduction expenses, lower headcount and increased employee related expenses capitalised, partially offset by salary increases and related benefits. Depreciation, amortisation, impairments and write-offs decreased primarily as a result of an increase in the useful lives of certain assets, partially offset by ongoing investment in telecommunications network equipment and data processing equipment. Payments to other network operators increased primarily due to higher call volumes from its fixed-line network to the mobile networks and increased international outgoing traffic arising from its reduced tariffs. Services rendered increased primarily due to increased property management expenses at TFMC and increased payments to consultants, partially offset by the non-recurrence of fees paid to Thintana Communications. Selling, general and administrative expenses increased primarily due to increased other expenses resulting from higher costs of sales and higher marketing costs, partially offset by lower materials and maintenance expenses and, to a lesser extent, reduced bad debts. Operating leases increased primarily due to the impact of the straightlining of lease payments, an increase in vehicle operating costs and higher building lease costs following new lease agreements, partially offset by a reduction in the number of vehicles in Telkom's fleet.

Operating profit

Operating profit decreased in the 2007 financial year due to decreased fixed-line operating profit as a result of higher operating expenditure, partially offset by increased mobile operating profit. Operating profit increased in the 2006 financial year due to increased fixed-line operating profit as a result of higher revenue and a decline in operating expenses and increased mobile operating profit primarily as a result of increased mobile operating revenue due to customer growth, partially offset by increased operating expenses. As a result, the fixed-line operating profit margin increased from 25.5% in the 2005 financial year to 31.3% in the 2006 financial year and decreased to 27.2% in the 2007 financial year and the mobile operating profit margin increased from 23.7% in the 2005 financial year to 26.1% in the 2006 financial year and 26.4% in the 2007 financial year.

Investment income

Investment income consists of interest received on short term investments and bank accounts and income received from Telkom's investments. Investment income decreased 40.8% to R235 million in the 2007 financial year and increased 13.4% to R397 million in the 2006 financial year from R350 million in the 2005 financial year. The decrease in the 2007 financial year was primarily due to lower interest received as a result of lower cash balances available for short term investments and increased taxation payments.

Finance charges

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

The following table sets forth information related to the Telkom Group's finance charges for the periods indicated.

Finance charges

(in millions, except percentages)	Year ended March 31, 2005 ZAR	2006 ZAR	**2007 ZAR**	2006/ 2005 % change	**2007/ 2006 % change**
Interest expense	1,686	1,346	**1,327**	(20.2)	**(1.4)**
Local loans	1,515	1,506	**1,488**	(0.6)	**(1.2)**
Foreign loans	281	9	**–**	(96.8)	**–**
Finance charges capitalised	(110)	(169)	**(161)**	(53.6)	**(4.7)**
Net fair value and exchange (gains) losses on financial Instruments	8	(123)	**(202)**	n/a	**(64.2)**
Fair value (gains) on derivative instruments	(103)	(170)	**(448)**	(65.0)	**163.5**
Foreign exchange losses	111	47	**246**	(57.7)	**423.4**
	1,694	1,223	**1,125**	(27.8)	**(8.0)**

During the year ended March 31, 2007, finance charges decreased due to a slightly reduced interest expense resulting from lower interest bearing debt levels, and an increase in the net fair value and exchange gains due to currency movements and fair value adjustments of its consolidated special purpose entity used to fund Telkom's post retirement medical benefit obligation. Finance charges decreased in the year ended March 31, 2006 due to reduced interest expense as a result of lower interest bearing debt levels. In the 2006 financial year, the foreign exchange and fair value gain was R123 million primarily due to currency movements and unrealised gains relating to investments by its consolidated special purpose entity used to fund post retirement medical benefit obligations.

Taxation

Telkom's consolidated tax expense increased 4.6% to R4,731 million in the year ended March 31, 2007 and 46.8% to R4,523 million in the year ended March 31, 2006 from R3,082 million in the year ended March 31, 2005. The increase in the 2007 financial year was mainly due to the higher capital gains tax liability created and higher non-deductable expenses in Telkom company and Vodacom. The increase in the 2006 financial year was primarily due to the increase in Telkom's pre-tax income.

The following table sets forth information related to the effective tax rate for the Telkom Group, Telkom Company and Vodacom for the periods indicated:

Effective tax rate

(percentages)	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Telkom Group	31.1	32.7	**34.9**	5.1	**6.7**
Telkom Company	20.6	25.0	**24.3**	21.4	**(2.8)**
Vodacom	40.2	37.5	**36.9**	(6.7)	**(1.6)**

The increase in the Telkom Group effective tax rate in the 2007 financial year was mainly due to higher capital gains tax and higher non-deductable expenses in Telkom company and Vodacom.

The lower effective tax rate for Telkom Company in the year ended March 31, 2007 was primarily due to higher exempt income resulting mainly from dividends received primarily from Vodacom partially offset by higher non-deductable expenses relating to the Telcordia dispute. The increase in the effective tax rate for the Telkom Group and Telkom company in the 2006 financial year was mainly due to secondary tax on companies payable in respect of dividends paid by Telkom Company, partially offset by the lower effective tax rate of Vodacom. The lower effective tax rate for Vodacom in the 2007 financial year was mainly due to the utilisation of the Vodacom Congo's capital expenditure allowances. The lower effective tax rate for Vodacom in the 2006 financial year was mainly attributable to the decrease in the South African statutory tax rate from 30% to 29%, effective April 1, 2005.

Minority interests

Minority interests in the income of subsidiaries increased 46.0% to R203 million in the year ended March 31, 2007 primarily due to the increase in profits generated by Smartphone, Vodacom Tanzania and Cointel partially offset by the purchase of additional equity interests in Smartphone and Cointel. Minority interests in the income of subsidiaries increased 67.5% to R139 million in the year ended March 31, 2006 primarily due to an increase in profits at Vodacom Tanzania, the allocation of a R35 million VAT refund to minority interests of Smartphone as required by the purchase agreement, an increase in profits at Smartphone, profits of Cointel as well as a 17.0% increase in the profits at Telkom's TDS Directory Operations subsidiary.

Profit for the year attributable to equity holders of Telkom

Profit for the year attributable to equity holders of Telkom decreased in the 2007 financial year primarily due to decreased operating profit in its fixed-line segment, partially offset by increased operating profit in its mobile segment. Lower investment income and higher taxation was partially offset by an increase in net fair value and exchange gains. Profit for the year attributable to equity holders of Telkom increased in the 2006 financial year primarily due to increased operating profit in its fixed-line segment as well as in its mobile segment. The increases were bolstered by lower interest expense and lower net fair value and exchange losses on financial instruments in those years and, to a lesser extent, increased investment income, partially offset by increased taxes.

Fixed-line segment

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

Fixed-line operating revenue

Telkom's fixed-line operating revenue is derived principally from fixed-line subscriptions and connections; traffic, which comprises local and long-distance traffic, fixed-to-mobile traffic, international outgoing traffic and international voice over internet protocol services; and interconnection, which comprise terminating and hubbing traffic. Telkom also derives fixed-line operating revenue from its data business, which includes data transmission services, managed data networking services and internet access and related information technology services, its wireless data services business, its directory business and its newly acquired internet services business outside South Africa.

The following table shows operating revenue for the fixed-line segment broken down by major revenue streams and as a percentage of total revenue for its fixed-line segment and the percentage change by major revenue stream for the periods indicated.

Fixed-line operating revenue

	Year ended March 31,						2006/	**2007/**
	2005		2006		**2007**		2005	**2006**
	ZAR	%	ZAR	%	**ZAR**	**%**	%	**%**
(in millions, except percentages)							change	**change**
Subscriptions and connections	5,385	17.1	5,803	17.7	**6,286**	**18.9**	7.8	**8.3**
Traffic	17,760	56.5	17,563	53.6	**16,738**	**50.3**	(1.1)	**(4.7)**
Local	5,746	18.3	5,753	17.6	**5,382**	**16.2**	0.1	**(6.4)**
Long-distance	3,577	11.4	3,162	9.7	**2,722**	**8.2**	(11.6)	**(13.9)**
Fixed-to-mobile	7,302	23.2	7,647	23.3	**7,646**	**23.0**	4.7	**–**
International outgoing	1,135	3.6	1,001	3.0	**988**	**2.9**	(11.8)	**(1.3)**
Interconnection	1,546	4.9	1,654	5.1	**1,638**	**4.9**	7.0	**(1.0)**
Data	5,784	18.4	6,649	20.3	**7,484**	**22.5**	15.0	**12.6**
Directories and other services	982	3.1	1,080	3.3	**1,149**	**3.4**	10.0	**6.4**
	31,457	100.0	32,749	100.0	**33,295**	**100.0**	4.1	**1.7**

Fixed-line operating revenue increased in the 2007 financial year, primarily due to continued growth in data services and higher subscriptions and connections revenue, partially offset by lower average traffic tariffs, lower local and long distance traffic and lower interconnection revenue. Fixed-line operating revenue increased in the 2006 financial year primarily due to continued growth in data revenue, higher subscriptions and connections revenue, higher fixed-to-mobile traffic revenue and higher interconnection revenue, partially offset by lower average long distance and international outgoing traffic tariffs and lower local and long distance traffic.

Fixed-line operating revenue was adversely impacted in both the 2007 and 2006 financial years due to a decrease in the number of residential postpaid PSTN lines primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections, and a decrease in the number of prepaid PSTN lines as a result of customer migration to mobile services and its residential postpaid PSTN services and was positively impacted by its increase in ISDN channels, ADSL services and business postpaid PSTN lines. In addition, traffic was adversely affected in both years by the increasing substitution of calls placed using mobile services rather than Telkom's fixed-line service and dial-up traffic being substituted by the ADSL service, as well as the decrease in the number of prepaid and residential postpaid PSTN lines and increased competition in the payphones business. As a result, traffic declined 6.3% and 2.9% in the 2007 and 2006 financial years. Revenue per fixed access line decreased 0.5% to R5,275 in the 2007 financial year from R5,304 in the 2006 financial year primarily due to the decline in traffic tariffs, lower local and long distance traffic volumes and lower interconnection revenues, partially offset by higher subscriptions and connection tariffs. Revenue per fixed access line increased 1.0% to R5,304 in the 2006 financial year primarily due to higher subscriptions and connections tariffs, fixed-to-mobile traffic revenue and interconnection revenue, partially offset by lower average long distance and international outgoing traffic tariffs and lower local and long distance traffic.

Subscriptions and connections

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

Fixed-line subscription and connection revenue

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Total subscriptions and connections revenue (ZAR millions, except percentages)	5,385	5,803	**6,286**	7.8	**8.3**
Total subscription access lines (thousands, except percentages)[1]	4,567	4,551	**4,490**	(0.4)	**(1.3)**
Postpaid					
PSTN[2]	3,006	2,996	**2,971**	(0.3)	**(0.8)**
ISDN channels	664	693	**718**	4.4	**3.6**
Prepaid PSTN	887	854	**795**	(3.7)	**(6.9)**
Private payphones	10	8	**6**	(20.0)	**(25.0)**

1 *Total subscription access lines are comprised of PSTN lines, including ISDN lines and private payphones, but excluding internal lines in service and public payphones. Each analogue PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.*

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

Revenue from subscriptions and connections increased in the years ended March 31, 2007 and 2006 mainly due to increased tariffs as well as an increase in the number of ISDN and business postpaid PSTN lines, partially offset by lower residential postpaid PSTN lines and prepaid PSTN lines. The average monthly prices for subscriptions increased by 6.3% on January 1, 2005, 6.0% on September 1, 2005 and 8.3% on August 1, 2006. In the 2007 financial year, revenue from the sale of customer premises equipment increased as a result of the reclassification of the related leases previously accounted for as operating leases to finance leases, resulting in the recognition of income from the lease of customer premises equipment at the time of sale as opposed to over the life of the contract. In addition, increased revenue was received from voice enhanced services, mainly as a result of increased penetration. Revenue from the rental of customer premises equipment and voice enhanced services increased in the 2006 financial year as a result of tariff increases and an increase in the penetration of voice enhanced services.

The decrease in the number of residential postpaid PSTN lines in service in both the 2007 and 2006 financial years was primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections. The increase in the number of postpaid ISDN channels was driven by increased demand for higher bandwidth and functionality. The decrease in prepaid PSTN lines in both the 2007 and 2006 financial years was primarily due to continued migration to mobile services and its residential postpaid PSTN services. In addition, Telkom relaxed its credit policies which led to fewer migrations of its postpaid customers to prepaid service in the 2007 and 2006 financial years.

Traffic revenue

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

The following table sets forth information related to Telkom's fixed-line traffic revenue for the periods indicated.

Fixed-line traffic

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Local traffic (ZAR millions, except percentages)	5,746	5,753	**5,382**	0.1	**(6.4)**
Local traffic (millions of minutes, except percentages)[1]	19,314	18,253	**16,655**	(5.5)	**(8.6)**
Long distance traffic revenue (ZAR millions, except percentages)	3,577	3,162	**2,722**	(11.6)	**(13.9)**
Long distance traffic (millions of minutes, except percentages)[1]	4,453	4,446	**4,250**	(0.2)	**(4.4)**
Fixed-to-mobile traffic revenue (ZAR millions, except percentages)	7,302	7,647	**7,646**	4.7	**–**
Fixed-to-mobile traffic (millions of minutes, except percentages)[1]	3,911	4,064	**4,103**	3.9	**1.0**
International outgoing traffic revenue (ZAR millions, except percentages)	1,135	1,001	**988**	(11.8)	**(1.3)**
International outgoing traffic (millions of minutes, except percentages)[1]	415	515	**558**	24.1	**8.3**
International voice over internet protocol (millions of minutes, except percentages)[2]	89	83	**38**	(6.7)	**(54.2)**
Total traffic revenue (ZAR millions, except percentages)	17,760	17,563	**16,738**	(1.1)	**(4.7)**
Total traffic (millions of minutes, except percentages)[1]	28,182	27,361	**25,604**	(2.9)	**(6.4)**
Average total monthly traffic minutes per average Monthly access line (minutes)[3]	496	482	**456**	(2.8)	**(5.4)**

1 *Traffic, other than international voice over internet protocol traffic, is calculated by dividing total traffic revenue by the weighted average tariff during the relevant period. Traffic includes dial-up internet traffic.*

2 *International voice over internet protocol traffic is based on the traffic reflected in invoices.*

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

Traffic revenue declined in the 2007 financial year primarily due to lower average traffic tariffs and lower local and long distance traffic partially offset by increased international outgoing and fixed-to-mobile traffic. Traffic revenue declined in the 2006 financial year primarily due to a decline in lower average long distance and international outgoing traffic tariffs and lower local and long distance traffic, partially offset by increased local traffic tariffs, fixed-to-mobile traffic revenue and international outgoing traffic.

ICASA approved a 0.2% increase in the overall tariffs for services in the basket for which there is a price cap 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. Traffic was adversely affected in both the 2007 and 2006 financial years by the increasing substitution of calls placed using mobile services rather than its fixed-line service and dialup traffic being substituted by Telkom's ADSL service, as well as the decrease in the number of prepaid and residential postpaid PSTN lines and increased competition in the payphone business.

Local traffic revenue decreased in the 2007 financial year due to lower traffic resulting primarily from internet call usage being substituted by Telkom's ADSL service and the substitution of calls placed using mobile services. Local traffic revenue was flat in the 2006 financial year. Increased revenue attributable to increased average local traffic tariffs was partially offset by lower traffic resulting primarily from internet call usage being substituted by Telkom's ADSL service and the substitution of calls placed using mobile services. Telkom increased penetration of discount and calling plans to stimulate usage in the 2007 and 2006 financial years and to counteract mobile substitution, which effectively lowers the cost to the customer. The price of local peak calls increased by 5.3% to 40 SA Cents per minute (VAT inclusive) on January 1, 2005. On September 1, 2005, Telkom decreased the price of local peak calls after the first unit by 5.0% to 38 SA Cents per minute (VAT inclusive). This price was unchanged on August 1, 2006.

Long distance traffic revenue decreased in the 2007 financial year mainly due to a decrease in average long distance tariffs, which was partially offset by increased long distance traffic. Long distance traffic revenue decreased in the 2007 and 2006 financial years mainly due to a decrease in average long distance tariffs and lower long distance traffic. Telkom decreased its fixed-line long distance traffic tariffs by 10% on January 1, 2005, a further 10% on September 1, 2005, and a further 10% on August 1, 2006.

Revenue from fixed-to-mobile traffic consists of revenue from calls made by Telkom's fixed-line customers to the three mobile networks in South Africa and is primarily a function of fixed-to-mobile tariffs and the number, the duration and the time of calls. Fixed-to-mobile traffic revenue was flat in the 2007 financial year. Increased fixed-to-mobile traffic was partially offset by higher discounts offered to customers in order to retain traffic on its network. Fixed-to-mobile traffic revenue increased in the 2006 financial year primarily due to increased traffic as well as a marginal increase in average tariffs, partially offset by higher discounts offered to customers in order to retain traffic on Telkom's network. The increase in fixed-to-mobile traffic in the 2007 and 2006 financial years was primarily due to Telkom's CellSaver product, which offers discounts to larger customers on fixed-to-mobile calls.

Revenue from international outgoing traffic consists of revenue from calls made by its fixed-line customers to international destinations and from international voice over internet protocol services and is a function of tariffs and the number, duration and mix of calls to destinations outside South Africa. In the 2007 and 2006 financial years, international outgoing traffic revenue declined primarily as a result of a decrease in the average international outgoing tariffs, partially offset by a significant increase in international outgoing traffic primarily as a result of the reduced tariffs. The average tariffs to all international destinations decreased by 28% on January 1, 2005 with rates of R1.70 per minute (VAT inclusive) for major destinations like the United States, United Kingdom and Australia. The average tariffs to all international destinations decreased by 11.1% on August 1, 2006.

Interconnection

Telkom generates revenue from interconnection services for traffic from calls made by other operators' customers that terminate on or transit through its network. Revenue from interconnection services includes payments from domestic mobile and international operators regardless of where the traffic originates or terminates. The following table sets forth information related to interconnection revenue for the periods indicated.

Interconnection revenue

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Interconnection revenue (ZAR millions, except percentages)	1,546	1,654	**1,638**	7.0	**(1.0)**
Domestic mobile operators					
Interconnection revenue from domestic mobile operators (ZAR millions, except percentages)	748	760	**815**	1.6	**7.2**
Domestic mobile interconnection traffic (millions of minutes, except percentages)[1]	2,206	2,299	**2,419**	4.2	**5.2**
International operators					
Interconnection revenue from international operators (ZAR millions, except percentages)	798	894	**823**	12.0	**(7.9)**
International interconnection traffic (millions of minutes, except percentages)[2]	1,318	1,355	**1,321**	2.8	**(2.5)**

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

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

Interconnection revenue from domestic mobile operators includes revenue for call termination and international outgoing calls from domestic mobile networks, as well as access to other services, such as emergency services and directory enquiry services. Interconnection revenue from domestic mobile operators increased in the 2007 and 2006 financial years mainly due to increased traffic from domestic mobile operators and average tariff increases for call termination, partially offset by lower average tariffs on mobile international outgoing calls. Domestic mobile interconnection traffic increased in the years ended March 31, 2007 and 2006 primarily due to an overall increase in mobile calls as a result of a growing mobile market, partially offset by increased mobile-to-mobile calls bypassing its network.

Interconnection revenue from domestic mobile operators includes fees paid to Telkom's fixed-line business by Vodacom of R468 million in the year ended March 31, 2007, R464 million in the year ended March 31, 2006 and R465 million in the year ended March 31, 2005. Fifty percent of these amounts were attributable to Telkom's interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation. Telkom expects interconnection revenue to increase as a result of the entrance of Neotel in the future and the further liberalisation of the South African telecommunications industry, which may partially mitigate declines in revenue in other areas.

Interconnection revenue from international operators includes amounts paid by foreign operators for the use of Telkom's network to terminate calls made by customers of such operators and payments from foreign operators for interconnection hubbing traffic through Telkom's network to other foreign networks. Interconnection revenue from international operators decreased in the year ended March 31, 2007 primarily due to decreased settlement rates and volume discounts and decreased switched hubbing traffic volumes, partially offset by increased international termination tariffs and the weakening of the Rand against the SDR, the notional currency in which international rates are determined. Interconnection revenue from international operators increased in the year ended March 31, 2006 primarily due to an increase in international interconnection traffic terminating on Telkom's network and the recognition of disputed international interconnection terminating traffic revenue from the 2005 financial year following the resolution of a dispute in the 2006 financial year. However, the traffic minutes relating to the disputed traffic revenue were not transferred from the 2005 financial year to the 2006 financial year. These increases were partially offset by lower international interconnection settlement rates and a decrease in the Rand value of international settlement rates due to the strengthening of the Rand against the SDR, volume discounts and a settlement preventing an illegal operator from carrying international incoming traffic.

Data

Data services comprise data transmission services, including leased lines and packet based services, managed data networking services and internet access and related information technology services. In addition, data services include revenue from ADSL. Revenue from data services is mainly a function of the number of subscriptions, tariffs, bandwidth and distance. The following table sets forth information related to revenue from data services for the periods indicated.

Data services revenue

	Year ended March 31, 2005	2006	**2007**	2006/ 2005 % change	**2007/ 2006 % change**
Data services revenue (ZAR millions, except percentages)	5,784	6,649	**7,484**	15.0	**12.6**
Leased lines and other data revenue[1]	4,748	5,282	**5,820**	11.2	**10.2**
Leased line facilities revenues from mobile operators	1,036	1,367	**1,664**	31.9	**21.7**
Number of managed network sites (at period end)	11,961	16,887	**21,879**	41.2	**29.6**
Internet dial-up subscribers (at period end)	202,410	228,930	**210,453**	13.1	**(8.1)**
Internet ADSL subscribers (at period end)	22,870	53,997	**92,140**	136.1	**70.6**
Internet satellite subscribers (at period end)	1,427	1,981	**2,420**	38.9	**22.2**
Total ADSL subscribers (at period end)[2]	58,278	143,509	**255,633**	146.2	**78.1**

1 *Leased lines and other data revenue includes all data services revenue other than leased line facilities revenue from mobile operators.*
2 *Excludes Telkom internal ADSL services of 523, 249 and 254 as of March 31, 2007, 2006 and 2005, respectively.*

Data services revenue increased in both the 2007 and 2006 financial years primarily due to increased revenue from data connectivity service, including ADSL connectivity and SAIX, internet access, and managed data networks, including VPN Supreme and increased revenue from leased line facilities from mobile operators. These increases were partially offset by decreased tariffs for leased line facilities to mobile operators and data connectivity services. Revenue from leased line facilities from mobile operators increased in the years ended March 31, 2007 and 2006 primarily due to the roll-out of third generation and universal mobile telecommunications system products by the mobile operators.

Operating revenue from data services included R907 million, R845 million and R562 million in revenue received by Telkom's fixed-line business from Vodacom in the years ended March 31, 2007, 2006 and 2005, respectively. Fifty percent of these amounts were attributable to Telkom's interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation.

Directories and other services

Revenue from directories and other services consists primarily of advertising revenue from its subsidiary, TDS Directory Operations, and, to a substantially lesser degree, wireless data services revenue from its subsidiary, Swiftnet, and other miscellaneous revenue, including revenue from internet services outside South Africa from its newly acquired Africa Online subsidiary and from the sale of materials. Revenue from directories and other services increased in the years ended March 31, 2007 and 2006 primarily due to increases in directory services revenue from TDS Directory Operations as a result of annual tariff increases, increased marketing and online efforts resulting in increased spending on advertising by existing customers and additional advertising revenue from new customers.

Fixed-line operating expenses

The following table shows the operating expenses of Telkom's fixed-line segment broken down by expense category as a percentage of total revenue and the percentage change by operating expense category for the periods indicated.

Fixed-line operating expenses

	Year ended March 31,						2006/	**2007/**
	2005		2006		**2007**		2005	**2006**
		%		%		**%**	%	**%**
(in millions, except percentages)	ZAR	revenue	ZAR	revenue	**ZAR**	**revenue**	change	**change**
Employee expenses[1]	7,285	23.2	6,470	19.8	**7,268**	**21.8**	(11.2)	**12.3**
Payments to other network operators	5,896	18.7	6,150	18.8	**6,463**	**19.4**	4.3	**5.1**
Selling, general and administrative expenses[2]	3,046	9.7	3,086	9.4	**4,244**	**12.7**	1.3	**37.5**
Services rendered	1,976	6.3	2,050	6.3	**2,212**	**6.6**	3.7	**7.9**
Operating leases	756	2.4	777	2.4	**787**	**2.4**	2.8	**1.3**
Depreciation, amortisation, impairments and write-offs	4,732	15.0	4,404	13.4	**3,623**	**10.9**	(6.9)	**(17.7)**
	23,691	75.3	22,937	70.0	**24,597**	**73.8**	(3.2)	**7.2**

1 *Employee expenses include workforce reduction expenses of R24 million, R88 million and R961 million in the years ended March 31, 2007, 2006 and 2005, respectively.*

2 *In the year ended March 31, 2003, Telkom recorded a R117 million gain related to the R325 million provision for potential liabilities related to Telkom's arbitration with Telcordia in terms of IAS21 and IAS39 in finance charges as a result of the strengthening of the Rand. In addition, Telkom included a provision for interest of R40 million related to Telcordia in finance charges in the year ended March 31, 2003 and a provision for legal fees of R58 million related to Telcordia is included in services rendered in the year ended March 31, 2003. In the year ended March 31, 2004, all of these provisions were reversed. In the year ended March 31, 2007 Telkom recorded a provision of R527 million for probable liabilities related to Telkom's arbitration with Telcordia, excluding legal fees, of which R510 million is included in selling, general and administrative expenses and R11 million for interest and R6 million for foreign exchange rate effect is included in finance charges.*

Fixed-line operating expenses increased in the 2007 financial year primarily due to increased selling, general and administrative expenses, employee expenses, payments to other operators and services rendered, partially offset by lower depreciation, amortisation, impairments and write-offs. Selling, general and administrative expenses increased primarily as a result of the provision raised for probable liabilities in the Telcordia dispute, higher materials and maintenance expenses, increased marketing and sponsorships and increased costs of sales due to the reclassification of finance leases associated with customer premises equipment in selling, general and administrative expenses.

Employee expenses increased in the year ended March 31, 2007 primarily due to higher salaries and wages as a result of average annual salary increases of 7.0% and related benefits, a 2.5% increase in the number of fixed-line employees and increased payments to part time employees and contractors. Payments to other network operators increased in the 2007 financial year primarily due to higher call volumes from Telkom's fixed-line network to the mobile networks and higher payments to international network operators as a result of higher international outgoing volumes and a weaker exchange rate. Services rendered increased in the year ended March 31, 2007 primarily due to increased payments to consultants to explore local and international investment opportunities, customer centricity and higher security costs and property management costs at TFMC.

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

Employee expenses

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

The following table sets forth information related to Telkom's employee expenses for the periods indicated.

Fixed-line employee expenses

(in millions, except percentages and number of employees)	Year ended March 31, 2005 ZAR	2006 ZAR	**2007 ZAR**	2006/2005 % change	**2007/2006 % change**
Salaries and wages[1]	4,785	4,592	**5,225**	(4.0)	**13.8**
Benefits[1]	2,110	2,410	**2,715**	14.2	**12.7**
Workforce reduction expenses	961	88	**24**	(90.8)	**(72.7)**
Employee related expenses capitalised	(571)	(620)	**(696)**	8.6	**12.3**
	7,285	6,470	**7,268**	(11.2)	**12.3**
Number of full-time, fixed-line employees (at period end)[1]	29,544	26,156	**26,797**	(11.5)	**2.5**

1 *Includes expenses and number of employees of Telkom's TDS Directory Operations and Swiftnet subsidiaries. The 2007 financial year also includes 308 employees from Telkom's Africa Online subsidiary acquired on February 27, 2007.*

Employee expenses increased in the year ended March 31, 2007 primarily due to higher salaries and wages as a result of average annual salary increases of 7.0% and related benefits, a 1.1% increase in the number of fixed-line employees, excluding subsidiaries, and increased payments to part time employees and contractors. Employee expenses decreased in the year ended March 31, 2006 primarily due to reduced workforce reduction expenses, lower headcount and increased employee related expenses capitalised, partially offset by salary increases and related benefits, including increased performance incentives for the Telkom conditional share plan, and a change in the actuarial valuation of medical benefits.

Salaries and wages increased in the year ended March 31, 2007 primarily due to average annual salary increases of 7.0% and a 1.1% increase in the number of fixed-line employees, excluding subsidiaries, and increased payments to part time employees and contractors to meet customer centricity objectives and the deployments of next generation network objectives. Salaries and wages decreased in the year ended March 31, 2006 primarily due to a 11.5% reduction in the number of employees resulting from its workforce reduction programme, partially offset by a 7% increase in base salaries and wages in line with collective bargaining agreements and an average 6% increase in salaries and wages for management employees.

Benefits include allowances, such as bonuses, company contributions to medical aid, pension and retirement funds, leave provisions, workmen's compensation and levies payable for skills development. Benefits increased in the 2007 financial year due to increases in salaries and wages, higher pension fund contributions resulting from the movement of employees from the pension fund to the retirement fund and the funding of the related deficit, increased post-retirement telephone benefits, increased sales commissions, increased training and increased critical skills retention. Benefits increased in the 2006 financial year due to increased performance incentives for the Telkom conditional share plan, a change in assumptions used to calculate the actuarial valuation of medical benefits and increases in related benefits associated with increased salaries and wages, partially offset by the reduced number of employees.

Workforce reduction expenses include the cost of voluntary early retirement, termination severance packages offered to employees and the cost of social plan expense to prepare affected employees for new careers outside Telkom. Workforce reduction expenses decreased substantially in the years ended March 31, 2007 and 2006 due to the moratorium on voluntary severance packages taken in the 2006 and 2007 financial years. Workforce reduction expenses in the 2007 financial year included social planning expenses as part of its workforce reduction programme. An additional 13 employees in the 2007 financial year and 245 employees in the 2006 financial year left Telkom as part of the conclusion of its workforce reduction initiatives for the 2005 financial year, compared to 5,041 employees in the 2005 financial year and 1,633 employees in the 2004 financial year.

Employee related expenses capitalised include employee related expenses associated with construction and infrastructure development projects. Employee related expenses capitalised increased in the years ended March

31, 2007 and March 31, 2006 primarily due to increased capital expenditures on projects during the year and, in the 2006 financial year, to a lesser degree, the higher labour demand on many projects that are in the realisation phase.

Payments to other network operators

Payments to other network operators include settlement payments paid to the three South African mobile communications network operators for terminating calls on their net-works and to international network operators for terminating outgoing international calls and traffic transiting through their networks.

The following table sets forth information related to Telkom's payments to other network operators for the periods indicated.

Fixed-line payment to other network operators

(in millions, except percentages)	Year ended March 31, 2005 ZAR	2006 ZAR	**2007 ZAR**	2006/2005 % change	**2007/2006 % change**
Payments to mobile communications network operators	5,059	5,231	**5,435**	3.4	**3.9**
Payments to international and other network operators	837	919	**1,028**	9.8	**11.9**
Payments to other network operators	5,896	6,150	**6,463**	4.3	**5.1**

Payments to other network operators increased in the 2007 and 2006 financial years primarily due to higher call volumes from Telkom's fixed-line network to the mobile networks, resulting from discounts offered on Telkom's CellSaver product, increased fixed-to-mobile calls by business customers due to growth in the mobile market and increased international outgoing traffic arising from Telkom's reduced average international tariffs and a weaker exchange rate in the 2007 financial year. Payments to other network operators include payments made by Telkom's fixed-line business to Vodacom, which were R2,954 million, R2,855 million and R2,761 million in the years ended March 31, 2007, 2006 and 2005, respectively. Fifty percent of these amounts were attributable to Telkom's interest in Vodacom and were eliminated from the Telkom Group's expenses on consolidation.

Selling, general and administrative expenses

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

The following table sets forth information related to Telkom's fixed-line selling, general and administrative expenses for the periods indicated.

Fixed-line selling, general and administrative expenses

(in millions, except percentages)	Year ended March 31, 2005 ZAR	2006 ZAR	**2007 ZAR**	2006/2005 % change	**2007/2006 % change**
Materials and maintenance	1,726	1,617	**1,908**	(6.3)	**18.0**
Marketing	360	413	**642**	14.7	**55.4**
Bad debts	196	187	**141**	(4.6)	**(24.6)**
Other[1]	764	869	**1,553**	13.7	**78.7**
	3,046	3,086	**4,244**	1.3	**37.5**

[1] *In the year ended March 31, 2003, Telkom recorded a R117 million gain related to the R325 million provision for potential liabilities related to Telkom's arbitration with Telcordia in terms of IAS21 and IAS39 in finance charges as a result of the strengthening of the Rand. In addition, Telkom included a provision for interest of R40 million related to Telcordia in finance charges in the year ended March 31, 2003 and a provision for legal fees of R58 million related to Telcordia is included in services rendered in the year ended March 31, 2003. In the year ended March 31, 2004, all of these provisions were reversed. In the year ended March 31, 2007 Telkom recorded a provision of R527 million for probable liabilities related to Telkom's arbitration with Telcordia, excluding legal fees, of which R510 million is included in selling, general and administrative expenses and R11 million for interest and R6 million for foreign exchange rate effect is included in finance charges.*

Selling, general and administrative expenses increased in the year ended March 31, 2007 primarily due to the provision raised for probable liabilities in the Telcordia dispute, higher materials and maintenance expenses, increased marketing and sponsorships and increased costs of sales due to the reclassification of finance leases associated with customer premises equipment in selling, general and administrative expenses. Selling, general and administrative expenses increased in the year ended March 31, 2006 primarily due to increased other expenses resulting from higher costs of sales and higher marketing costs, partially offset by lower materials and maintenance expenses and, to a lesser extent, reduced bad debts.

Materials and maintenance expenses include stock write-offs, subcontractor payments and consumables required to maintain Telkom's network. Materials and maintenance expenses increased in the year ended March 31, 2007 primarily due to higher incidents of copper theft, increased operating maintenance projects and a higher number of maintenance contracts as result of new technology rollout. Materials and maintenance expenses decreased in the year ended March 31, 2006 primarily due to lower custom duties, reduced repairs and maintenance on data and processing equipment and savings on renegotiated maintenance contracts.

Marketing expenses increased in the years ended March 31, 2007 and March 31, 2006 primarily due to increased sponsorships, higher market research costs and increased advertising and media campaigns. Telkom expects marketing expenses to continue to increase in the future in response to increased competition, including from Neotel, and the further liberalisation of the South African communications industry generally, and the marketing of Telkom's packages.

Bad debt decreased in the years ended March 31, 2007 and March 31, 2006 resulting primarily from improved credit management and credit vetting policies, targeted line roll-out and an improved profiling of debtors. Bad debt as a percentage of revenue was 0.4%, 0.6% and 0.6% in the 2007, 2006 and 2005 financial years, respectively.

Other expenses include obsolete stock, cost of sales, subsistence and travel and an offset for bad debts recovered. Other expenses increased in the year ended March 31, 2007 primarily due to the provision raised for probable liabilities in the Telcordia dispute and increased costs of sales due to the reclassification of finance leases associated with customer premises equipment in selling, general and administrative expenses. Other expenses increased in the year ended March 31, 2006 primarily due to higher cost of sales for PC bundles, managed data network sites, business solutions and PABX products, as well as increased theft.

Services rendered

Services rendered include payments in respect of the management of Telkom's properties, to TFMC, a facilities and property management company, consultants and security. Consultants comprise fees paid to collection agents and to providers of other professional services, such as Thintana Communications through November 2004 and external auditors. Security refers to services to safeguard the network and contracts to ensure a safe work environment, such as guard services.

The following table sets forth information relating to services rendered expenses for the periods indicated.

Fixed-line services rendered

	Year ended March 31,			2006/	**2007/**
	2005	2006	**2007**	2005	**2006**
				%	**%**
(in millions, except percentages)	ZAR	ZAR	**ZAR**	change	**change**
Property management	1,068	1,107	**1,142**	3.7	**3.2**
Consultants, security and other	908	943	**1,070**	3.9	**13.5**
	1,976	2,050	**2,212**	3.7	**7.9**

Property management increased in the years ended March 31, 2007 and March 31, 2006 primarily as a result of increased salary, wages, maintenance, rates and taxes at TFMC, which are passed through to us. Payments to consultants increased in the year ended March 31, 2007 primarily due to increased payments to consultants to explore local and international investment opportunities, customer centricity and higher security costs. Payments to consultants increased in the year ended March 31, 2006 primarily due to regulatory and statutory compliance, collection agency commissions, transport costs, HIV awareness costs and audit costs, partially offset by the non-recurrence of fees paid to Thintana Communications following the termination of the strategic services agreement in November 2004 and reduced short term insurance costs.

Operating leases

Operating leases include payments in respect of equipment, buildings and vehicles. Operating leases was relatively flat in the year ended March 31, 2007. The marginal increase was primarily due to a slight increase in payments for the vehicle fleet due to inflation and interest rate increases that remained relatively flat at 9,694 vehicles at March 31, 2007 from 9,708 vehicles at March 31, 2006, partially offset by lower operating leases for buildings. Operating leases increased in the year ended March 31, 2006 primarily due to the impact of the straightlining of lease payments, an increase in vehicle operating costs and higher building lease costs following new lease agreements, partially offset by a reduction in the number of vehicles in Telkom's fleet from 10,458 vehicles as of March 31, 2005 to 9,708 vehicles as of March 31, 2006.

Depreciation, amortisation, impairments and write-offs

Depreciation, amortisation, impairments and write-offs decreased in the years ended March 31, 2007 and March 31, 2006 primarily as a result of an increase in the useful life of certain assets, partially offset by ongoing investment in telecommunications network equipment and data processing equipment.

Mobile segment

Mobile is Telkom's fastest growing segment and encompasses all the operating activities of Telkom's 50% joint venture investment in Vodacom, the largest mobile operator in South Africa with an approximate 58% market share as of March 31, 2007 based on total estimated customers in South Africa. In addition to its South African operations, Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique.

Vodacom's operations outside of South Africa are at an earlier stage in their expansion and market penetration than its operations in South Africa. Customers in other African countries increased significantly over the past three financial years to approximately 7.1 million as of March 31, 2007 from approximately 4.4 million as of March 31, 2006 and approximately 2.6 million as of March 31, 2005. A substantial portion of the growth was from prepaid services. Services outside of South Africa are mainly prepaid as these countries suffer from poverty and also due to the lack of banking systems and credit histories.

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

Mobile operating revenue

Vodacom derives revenue from mobile services as well as other related or value added goods and services. Vodacom's revenue is mainly in the form of airtime charges, primarily airtime payments from customers registered on Vodacom's network; data products and services; interconnection revenue from other operators for the termination of calls on Vodacom's network and national roaming revenue, revenue from equipment sales, including sales of handsets and accessories; and revenue from international services, including airtime charges for the use of Vodacom's network through roaming of customers from other international networks and Vodacom customers who roam abroad.

Mobile operating revenue and profits

	Year ended March 31,							
	2005		2006		**2007**		2006/ 2005 %	**2007/ 2006 %**
(in millions, except percentages)	ZAR	%	ZAR	%	**ZAR**	**%**	change	**change**
Operating revenue	13,657	100.0	17,021	100.0	**20,573**	**100.0**	24.6	**20.9**
South Africa	12,520	91.7	15,535	91.3	**18,504**	**89.9**	24.1	**19.1**
Other African countries	1,137	8.3	1,486	8.7	**2,069**	**10.1**	30.7	**39.2**
Operating profit[1]	3,240	100.0	4,435	100.0	**5,430**	**100.0**	36.9	**22.4**
South Africa	3,338	103.0	4,291	96.8	**5,170**	**95.2**	28.6	**20.5**
Other African countries	(98)	(3.0)	144	3.2	**260**	**4.8**	n/a	**80.6**
EBITDA[1, 2]	4,796	100.0	5,907	100.0	**7,122**	**100.0**	23.2	**20.6**

1 *Mobile operating profit and mobile EBITDA include Telkom's 50% share of Vodacom's impairment of R268 million in respect of assets in Mozambique in the 2005 financial year, a reversal of Vodacom's impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets in Mozambique and an impairment loss of R23 million in the 2007 financial year in respect of the assets in Mozambique due to a decrease in the fair value of the assets.*

2 *Telkom's mobile EBITDA comprises Telkom's 50% share of Vodacom's EBITDA, which represents mobile net profit before taxation, which includes profit on sale of investments, finance charges, investment income and depreciation, amortisation and impairments.*

The following table shows a 50% share of Vodacom's revenue broken down by major revenue type and as a percentage of total operating revenue for Telkom's mobile segment and the percentage change by revenue type for the periods indicated.

Mobile operating revenue

	Year ended March 31, 2005		2006		**2007**		2006/ 2005	**2007/ 2006**
(in millions, except percentages)	ZAR	%	ZAR	%	**ZAR**	**%**	% change	**% change**
Airtime	8,096	59.3	10,043	59.0	**11,854**	**57.6**	24.0	**18.0**
Data	670	4.9	1,019	6.0	**1,671**	**8.1**	52.1	**64.0**
Interconnection	2,962	21.7	3,348	19.7	**3,918**	**19.0**	13.0	**17.0**
Equipment sales	1,344	9.8	1,993	11.7	**2,350**	**11.4**	48.3	**17.9**
International airtime	444	3.3	486	2.9	**653**	**3.2**	9.5	**34.4**
Other sales and services	141	1.0	132	0.7	**127**	**0.7**	(6.4)	**(3.8)**
	13,657	100.0	17,021	100.0	**20,573**	**100.0**	24.6	**20.9**

Vodacom's operating revenue increased in the 2007 financial year primarily due to increased airtime, data, interconnection and equipment sales revenue as a result of strong customer growth. Vodacom's operating revenue increased in the year ended March 31, 2006 as a result of strong customer growth and a continued improvement in market share as well as increased data revenues and equipment sales. Vodacom's equipment sales increased in the 2007 and 2006 financial years primarily due to the growth of Vodacom's customer base and the continued uptake of new handsets in South Africa as a result of cheaper Rand-prices of new handsets and the added functionality of new phones based on new technologies.

Telkom's 50% share of Vodacom's revenue from operations outside of South Africa increased to R2,069 million for the year ended March 31, 2007 from R1,486 million in the year ended March 31, 2006 and R1,137 million in the year ended March 31, 2005. The increase in Vodacom's operating revenue from other African countries in the 2007 financial year was primarily due to substantial increases in the number of customers in Vodacom's operations, particularly in Tanzania, the Democratic Republic of the Congo and Mozambique, and the weakening of the Rand in the 2007 year which resulted in higher Rand converted revenue, partially offset by lower ARPU resulting from the higher volume of lower spending prepaid customers. The increase in Vodacom's operating revenue from other African countries in the 2006 financial year was primarily due to substantial increases in the number of customers in Vodacom's operations in Tanzania and the Democratic Republic of the Congo, partially offset by lower ARPU resulting from the higher volume of lower spending prepaid customers, and the strength of the Rand, which resulted in lower foreign currency denominated revenue. Revenue from Vodacom's other African countries as a percentage of Vodacom's total mobile operating revenue increased to 10.1% in the year ended March 31, 2007 from 8.7% in the year ended March 31, 2006 and 8.3% in the year ended March 31, 2005.

A large part of the growth in mobile services was due to the success of prepaid services and the increased growth in contract customers due to prepaid customers migrating to contracts.

Approximately 86.5% of Vodacom's South African mobile customers were prepaid customers at March 31, 2007 and approximately 93.2% of all gross connections were prepaid customers in the 2007 financial year. Vodacom expects the number of prepaid mobile users to continue to grow at a greater rate than contract mobile users. The increasing number of prepaid users, who tend to have lower average usage, and the lower overall usage as the lower end of the market is penetrated have resulted in decreasing overall average revenue per customer. As a result, total South African ARPU decreased to R125 per month in the 2007 financial year from R139 per month in the 2006 financial year and R163 per month in the 2005 financial year. South African contract ARPU decreased to R517 per month in the 2007 financial year from R572 per month in the 2006 financial year and R624 per month in the 2005 financial year. South African prepaid ARPU decreased to R63 per month in the 2007 financial year from R69 per month in the 2006 financial year and R78 per month in the 2005 financial year. In the 2007 and 2006 financial years, contract and prepaid customer ARPU were also negatively impacted by the high growth in Vodacom's hybrid contract product, Family Top Up, which contributed to the migration of higher spending prepaid customers, who tend to spend less than existing contract customers, to contracts. In the 2007 financial year, Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue generating activity for a six-month period, resulting in the deletion of approximately 3 million customers. Prepaid ARPU was positively impacted by this temporary rule change in the 2007 financial year.

Service providers in South Africa generally subsidise handsets when a contract customer enters into a new contract or renews an existing contract depending on the airtime and tariff plan and type of handset purchased. Subsidised handset sales give customers an incentive to switch operators to obtain new handsets and have contributed to churn. Handsets for prepaid customers are not subsidised by Vodacom as these users have the freedom of switching operators and contribute to churn. Vodacom is more vulnerable to churn than other mobile communications providers in South Africa since it has the largest number of customers in South Africa. To date, mobile number portability had no significant impact on churn.

The cost to acquire contract customers in a highly developed market is high. Vodacom has therefore implemented upgrade and retention policies over the last few years and has strived to maintain a high level of incentives to service providers in order to reduce churn. Vodacom's churn rate for contract customers in South Africa decreased to 9.7% in the 2007 financial year from 10.0% in the 2006 financial year mainly due to an improvement in service and products to customers and the continued high level of handset support to retain customers. Vodacom's churn rate for contract customers in South Africa increased to 10.0% in the 2006 financial year from 9.1% in the 2005 financial year mainly due to the migration of payphone operators which are contract customers to community services. Vodacom's churn rate for prepaid customers in South Africa increased to 37.5% in the 2007 financial year from 18.8% in the 2006 financial year. Vodacom's churn rate for prepaid customers in South Africa was 30.3% in the 2005 financial year. The increase in prepaid churn in the 2007 financial year was mainly due to the deletion of 3 million customers as a result of the rule change for revenue generating activity and the resulting clean up of inactive customers. Subsequent to the clean up, prepaid churn declined to 20%. The reduction in prepaid churn in South Africa in the 2006 financial year was primarily due to a combination of innovative products and services and loyalty initiatives. Prepaid customers in South Africa are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days. Prepaid churn is adversely impeded by an increasingly competitive market, lower barriers to entry for prepaid customers in South Africa and the volatile nature of the prepaid customer base.

Airtime

Vodacom derives airtime revenue from connection and monthly rental fees and airtime usage fees paid by Vodacom's contract customers for use of its mobile networks. Airtime revenue also includes fees paid by Vodacom's prepaid phone customers for prepaid starter phone packages and airtime recharge vouchers utilised, which entitle customers to receive unlimited incoming calls up to 365 days. Airtime revenue depends on the total number of customers, traffic volume, mix of prepaid and contract customers and tariffs.

Vodacom's airtime revenue increased in the years ended March 31, 2007 and March 31, 2006 primarily due to continued customer growth, partially offset by an overall continued decline in ARPU resulting from the effect of growth in lower spending prepaid customers. As Vodacom's primary market in South Africa continues to mature and Vodacom continues to connect more marginal customers in its South African operations, Vodacom expects that growth in airtime in South Africa will continue to slow. Total customers increased 28.2% and 51.9% in the years ended March 31, 2007 and 2006, respectively, primarily due to strong prepaid customer growth in South Africa and significant customer growth in Vodacom's operations outside of South Africa, particularly in Tanzania and the Democratic Republic of the Congo in the 2007 and 2006 financial years and Mozambique in the 2007 financial year. New products, packages and services also had a role in Vodacom's customer growth in the 2007 and 2006 financial years.

Data revenue

Vodacom derives data revenue from mobile data, including short messaging services, or SMSs, and multimedia messaging services, or MMSs, general packet radio services, or GPRS, and third generation services, or 3G. Vodacom's mobile data revenue increased in the year ended March 31, 2007 primarily due to significant growth in SMS usage and the continued rollout of data initiatives such as Vodafone Mobile Connect Cards, Vodafone Live!, Mobile TV, BlackBerry® and the continued delivery of wireless application services. Vodacom's mobile data revenue increased in the year ended March 31, 2006 primarily due to continued significant growth in SMS usage and, to a lesser extent, new data initiatives such as Vodafone Mobile Connect Cards, Vodafone live!, Mobile TV and BlackBerry®.

Vodacom's SMS traffic increased to approximately 4.5 billion SMSs in the year ended March 31, 2007 from approximately 3.5 billion SMSs in the year ended March 31, 2006 and approximately 2.4 billion SMSs in the year ended March 31, 2005. The number of MMS users increased to 1.2 million as of March 31, 2007 from 867,119 as of March 31, 2006 and 328,974 as of March 31, 2005 and the number of GPRS users increased to 2.8 million as of March 31, 2007 from 1.4 million as of March 31, 2006 and 579,581 as of March 31, 2005. The number of 3G active handsets increased to 733,043 as of March 31, 2007 from 179,576 as of March 31, 2006 and 10,878 as of March 31, 2005 and the number of Vodafone

Mobile Connect customers increased to 138,863 as of March 31, 2007 from 37,798 as of March 31, 2006 and 5,101 as of March 31, 2005. As of March 31, 2007 Vodacom had 898,527 Vodafone live! and 33,482 Unique Mobile TV users on its network compared to 351,427 Vodafone live! and 12,903 Unique Mobile TV users as of March 31, 2006.

Interconnection

Vodacom generates interconnection revenue when a call originating from Telkom's fixed-line network or one of the other mobile operators' networks terminates on Vodacom's network. Interconnection revenue also includes revenue from Cell C for national roaming services. Vodacom does not have a roaming agreement with MTN. Vodacom generates national roaming revenue when its mobile network carries a call made from a Cell C customer. Interconnection revenue depends on the volume of traffic terminating on Vodacom's network, the interconnection termination rates payable by ourselves and the other mobile operators to Vodacom and national roaming rates.

Vodacom's interconnection revenue increased in the years ended March 31, 2007 and March 31, 2006 primarily due to an increase in the number of calls terminating on Vodacom's network as a result of the increased number of Vodacom's customers and South African mobile users generally. The growth in the 2007 and 2006 financial years was also attributable to the growth in the substitution of fixed-line calls by mobile calls and incoming traffic resulting from an overall increase in the customer base of other mobile operators. The increase in national roaming revenue from Cell C also contributed to the growth in interconnection revenue in the 2006 financial year. The increases were partially offset by a reduced number of fixed-line calls from Telkom's network terminating on Vodacom's network. Interconnection revenue in Telkom's mobile segment included R1,454 million, R1,409 million and R1,364 million in the years ended March 31, 2007, 2006 and 2005, respectively, for calls received from Telkom's fixed-line business, which were eliminated from the Telkom Group's revenue on consolidation.

Equipment sales

Vodacom generates revenue from equipment sales primarily from the sale of mobile phones and accessories. Vodacom purchases handsets for itself and for external service providers in bulk at purchase discounts in order to lower the cost of handset subsidisation for contract customers. Equipment sales revenue fluctuates based on whether external providers and Vodacom's other African operators source equipment from Vodacom in South Africa or purchase equipment from third party suppliers.

Vodacom's equipment sales increased in the 2007 and 2006 financial years primarily due to the growth of Vodacom's customer base and the continued uptake of new handsets in South Africa as a result of cheaper Rand-prices of new handsets and the added functionality of new phones based on new technologies such as 3G enabled phones, camera phones and colour screens. Sales of the Vodafone live! handset increased significantly to 1,475,115 handsets in the 2007 financial year from 510,283 handsets in the 2006 financial year.

International airtime

International airtime revenues are predominantly from international calls by Vodacom customers, roaming revenue from Vodacom's customers making and receiving calls while abroad and revenue from international customers roaming on Vodacom's networks. International airtime increased 34.4% to R653 million in the year ended March 31, 2007 primarily as a result of an increase in customers resulting in increased traffic. International airtime increased 9.5% to R486 million in the year ended March 31, 2006 primarily as a result of an increase in customers resulting in increased traffic, marginally offset by lower international tariffs due to country rezoning.

Other

Other revenue includes, among other things, revenue from non-core operations. Vodacom's other sales and services revenue decreased 3.8% to R127 million in the 2007 financial year primarily due to lower income recognised as a result of a reduction in inactivated starter packs which do not contain an expiration date, partially offset by higher revenue of Cointel and higher site rental income. Vodacom's other sales and services revenue decreased 6.4% to R132 million in the 2006 financial year primarily due to lower income recognised as a result of a reduction in the occurrence of unactivated starter packs which do not contain an expiration date and lower repair income, partially offset by higher revenue at Cointel.

Mobile operating expenses

The following is a discussion of Telkom's mobile segment's operating expenses which are comprised of Telkom's 50% interest in Vodacom's operating expenses. Vodacom's operating expense line items are presented in accordance with the line items reflected in the Telkom Group's consolidated operating expenses which are different from the operating expense line items contained in Vodacom's consolidated financial statements.

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

Mobile operating expenses

(in millions, except percentages)	Year ended March 31, 2005 ZAR	2006 ZAR	**2007 ZAR**	2006/ 2005 % change	**2007/ 2006 % change**
Employee expenses	826	1,019	**1,186**	23.4	**16.4**
Payments to other network operators	1,826	2,317	**2,818**	26.9	**21.6**
Selling, general and administrative expenses	5,891	7,328	**8,778**	24.4	**19.8**
Services rendered	45	65	**82**	44.4	**26.2**
Operating leases	307	435	**629**	41.7	**44.6**
Depreciation, amortisation and impairments	1,556	1,472	**1,692**	(5.4)	**14.9**
	10,451	12,636	**15,185**	20.9	**20.2**

The increase in mobile operating expenses in the 2007 financial year was primarily due to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, increased depreciation, amortisation and impairment, higher employee costs as a result of increased headcount, average 7.5% annual salary increases, an increase in the provision for deferred bonus schemes and an increase in the provision for long term incentives for executives and increased operating leases. Mobile operating expenses increased in the 2006 financial year primarily due to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition and as a result of increased cost of equipment for increased handset sales and maintenance of the GSM infrastructure and billing systems, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, higher employee costs as a result of increased headcount, average 6% annual salary increases, the inclusion of a provision for long-term incentives for executives and an increase in the provision for bonus schemes due to increased profits, increased operating leases and increased services rendered, partially offset by decreased depreciation, amortisation and impairments.

Employee expenses

Employee expenses consist mainly of salaries and wages of employees as well as contributions to employee pension, medical aid funds and benefits and the deferred bonus incentive scheme.

Vodacom's employee expenses increased in the year ended March 31, 2007 primarily as a result of an 8.4% increase in the number of employees to support the growth in operations as well as a 7.5% average annual salary increases, an increase in the provision for deferred bonus schemes and an increase in the provision for long term incentives for executives. Vodacom's employee expenses increased in the year ended March 31, 2006 primarily as a result of a 9.3% increase in the number of employees to support the growth in operations, a 6% annual salary increases, the inclusion of a provision for long-term incentives for executives and an increase in the provision for bonus schemes due to increased profits.

Total headcount in Vodacom's South African operations increased 9.8% to 4,727 employees as of March 31, 2007 and 9.8% to 4,305 employees as of March 31, 2006 from 3,919 employees as of March 31, 2005. Total headcount in Vodacom's other African countries increased 31.9% to 1,522 employees as of March 31, 2007 and 7.4% to 1,154 employees as of March 31, 2006 from 1,074 employees as of March 31, 2005. Total headcount includes temporary agency employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees. Employee productivity in South Africa and other African countries, as measured by customers per employee, increased 12.0% to 4,825 customers per employee as of March 31, 2007 and 38.9% to 4,308 customers per employee as of March 31, 2006 from 3,101 customers per employee as of March 31, 2005.

Payments to other network operators

Payments to other network operators consist mainly of interconnection payments made by Vodacom's South African and other African operations for terminating calls on other operators' networks. Vodacom's payments to other network operators increased significantly in the years ended March 31, 2007 and 2006 as a result of increased outgoing traffic in line with increased customer growth and the increasing percentage of outgoing traffic terminating on the other mobile networks rather than Telkom's fixed-line network as the cost of terminating calls on other mobile networks is higher than calls terminating on Telkom's fixed-line network. As the mobile communications market continues to grow in South Africa, Vodacom expects that interconnection charges will continue to increase and adversely impact Vodacom's profit margins.

Payments to other network operators in Telkom's mobile segment included R234 million, R232 million and R233 million in the years ended March 31, 2007, 2006 and 2005, respectively, for interconnection fees paid to Telkom's fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Selling, general and administrative expenses

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

Mobile selling, general and administrative expenses

(in millions, except percentages)	Year ended March 31, 2005 ZAR	2006 ZAR	**2007 ZAR**	2006/2005 % change	**2007/2006 % change**
Selling, distribution and other	5,140	6,416	**7,704**	24.8	**20.1**
Marketing	384	488	**573**	27.1	**17.4**
Regulatory and licence fees	335	406	**490**	21.2	**20.7**
Bad debts	32	18	**11**	(43.8)	**(38.9)**
	5,891	7,328	**8,778**	24.4	**19.8**

Selling, general and administrative expenses include customer acquisition and retention costs, packaging, distribution, marketing, regulatory licence fees, bad debts and various other general administrative expenses, including accommodation, information technology costs, office administration, consultant expenses, social economic investment and insurance.

Vodacom's selling, general and administrative expenses increased in the years ended March 31, 2007 and 2006 primarily due to an increase in selling, distribution and other expenses, incentive costs, regulatory and licence fees and marketing expenses to support the launch and expansion of 3G, growth in Vodacom's South African and African operations and increased competition.

Selling, distribution and other expenses include cost of goods sold, commissions, customer acquisition and retention expenses, distribution expenses and insurance. The increase in selling, distribution and other expenses in the 2007 and 2006 financial years was primarily due to increased customer connections, competition, revenue, cost of equipment as a result of increased handset sales and maintenance of the GSM infrastructure and billing systems as well as due to the Vodafone global alliance fee.

The increase in marketing expenses in the 2007 and 2006 financial years was mainly due to promoting new technologies, including 3G and Vodafone live!, promoting number portability in the 2007 financial year and further promoting the Vodacom brand in all operations. The introduction of mobile number portability also contributed to the increase in the 2007 financial year. The increases in regulatory and licence fees during the reporting periods were directly related to the increase in operating revenues and corresponding payments under Vodacom's existing licences.

Services rendered

Services rendered include consultancy services for technical, administrative and managerial services, audit fees, legal fees and communication and information technology costs. Services rendered increased in the years ended March 31, 2007 and 2006 primarily due to higher consultancy costs relating to facility management and special projects and in the 2006 financial year, higher audit costs resulting from scope changes.

Operating leases

Operating leases include payments in respect of rentals of GSM transmission lines as well as office accommodation, office equipment and motor vehicles. The increase in Vodacom's operating leases in the year ended March 31, 2007 was primarily due to an increase in the lease of transmission lines and other accommodation. The increase in Vodacom's operating leases in the year ended March 31, 2006 was primarily due to an increase in the lease of transmission lines. Operating leases in Telkom's mobile segment included R453 million, R423 million and R281 million in the years ended March 31, 2007, 2006 and 2005, respectively, for operating lease payments to Telkom's fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Depreciation, amortisation and impairments

Depreciation, amortisation and impairments increased in the year ended March 31, 2007 primarily due to higher capital expenditure as a result of the implementation and expansion of 3G/HSDPA networks, the weakening of the Rand against the other functional currencies of Vodacom and the impairment of assets in Vodacom Mozambique. Amortisation of intangibles was higher in the year ended March 31, 2007 due to the business acquisitions in that financial year. The decrease in Vodacom's depreciation, amortisation and impairments in the year ended March 31, 2006 was primarily due to lower depreciation and amortisation, resulting from the change in the useful lives of certain assets and a reversal of a portion of the prior year impairment of Vodacom Mozambique's assets resulting from an increase in the fair value, partially offset by higher depreciation as a result of the network and 3G roll-out. Additionally, because of the strengthening of the Rand against the US dollar in the years ended March 31, 2006 and 2005, depreciation on foreign denominated capital expenditure in Vodacom's other African operations have been translated at a lower exchange rate than in the past, which resulted in a relatively lower depreciation charge in Vodacom's other African operations. Amortisation of intangibles was lower in the year ended March 31, 2006 due to some of the customer bases being fully amortised in the previous year.

LIQUIDITY AND CAPITAL RESOURCES

Group liquidity and capital resources

Cash flows

The following table shows information regarding Telkom's consolidated cash flows for the periods indicated.

	Year ended March 31,			2006/	**2007/**
	2005	2006	**2007**	2005	**2006**
				%	**%**
(in millions, except percentages)	ZAR	ZAR	**ZAR**	change	**change**
Cash flows from operating activities	15,711	9,506	**9,356**	(39.5)	**(1.6)**
Cash flows from investing activities	(6,306)	(7,286)	**(10,412)**	15.5	**42.9**
Cash flows from financing activities	(9,897)	(258)	**(2,920)**	(97.4)	**n/a**
Net (decrease)/increase in cash and cash equivalents	(492)	1,962	**(3,976)**	498.8	**(302.7)**
Effect of foreign exchange rate differences	(3)	(8)	**29**	166.7	**(462.5)**
Net cash and cash equivalents at the beginning of the year	2,796	2,301	**4,255**	(17.7)	**84.9**
Net cash and cash equivalents at the end of the year	2,301	4,255	**308**	84.9	**(92.8)**

Cash flows from operating activities

Telkom's primary sources of liquidity are cash flows from operating activities and borrowings. Telkom intends to fund its expenses, indebtedness and working capital requirements from cash generated from its operations and from capital raised in the markets. The decrease in cash flows from operating activities in the 2007 financial year is mainly due to higher taxation payments, partially offset by the increase in cash generated from operations. The decrease in cash flows from operating activities in the 2006 financial year was primarily due to the substantially higher dividends and taxation paid, as well as increased cash paid to suppliers, partially offset by higher cash receipts from customers.

Cash flows from investing activities

Cash flows from investing activities relate primarily to investments in Telkom's fixed-line network and Telkom's 50% share of Vodacom's investments in its mobile networks in South Africa and other African countries. The increase in cash flows used in investing activities is as a result of increased capital expenditure in both the fixed-line and mobile segments and acquisitions of subsidiaries and reduced disposals and additions to investments. The increase in cash flows used in investing activities in the 2006 financial year was primarily due to higher capital expenditure in Telkom's fixed-line and mobile segments, partially offset by increased proceeds on disposal of property, plant and equipment and intangible assets and investments in the 2006 financial year.

Cash flows from financing activities

Cash flows from financing activities are primarily a function of borrowing and share buy back activities. In the 2007 financial year, loans and finance leases repaid and shares repurchased and cancelled exceeded loans raised and the decrease in net financial assets, by R2,920 million. In the 2007 financial year cash flows used in financing activities increased primarily due to the lower sale of repurchase agreements and derivative instruments that were sold in the 2006 financial year to fund dividends and tax payments.

On October 31, 2006, Telkom repaid the TL06 local bond having a nominal value of R2,100 million and during the 2007 financial year, Telkom repaid R3,731 million in nominal value of commercial paper bill debt. Commercial paper bills having a nominal value of R4,651 million were issued in the 2007 financial year.

In the 2006 financial year, loans and finance lease repaid and shares repurchased and cancelled exceeded loans raised and the decrease in financial assets by R258 million. On April 11, 2005, Telkom repaid Euro 500 million of its 7.125% unsecured Euro bond that was issued on April 12, 2000 by issuing commercial paper bills ranging in maturities from one month to one year, with yields of between 7.00% and 7.51% and by issuing a further R600 million 10.5% unsecured local bond (TL06) due October 31, 2006 at a yield to maturity of 8.18% . In addition, Telkom repaid a net of R2,720 million of commercial paper bills and utilised R1,502 million for the share buy-back. Cash inflows from maturing financial assets amounted to R4,544 million in the 2006 financial year.

In the 2005 financial year, loans and finance lease repaid, the increase in financial assets and the purchase of treasury shares, exceeded loans raised by R9,897 million. Telkom repaid a R2,299 million 13% unsecured local bond due May 31, 2004 and a net of R1,445 million of commercial paper bills and utilised R1,710 million for the repurchase of Telkom shares. Telkom further increased its interest-bearing investments by R4,303 million by placing excess cash in short-term repurchase agreements. Vodacom entered into a US$180 million, medium term loan for Vodacom Congo to replace Vodacom Group's share of extended credit facilities relating to Vodacom Congo of US$16.3 million and Euro 38.8 million, which were repaid during the year. Telkom's 50% share of the Vodacom debt is included in Telkom's consolidated financial statements.

Working capital

Telkom had negative consolidated working capital of approximately R8.2 billion as of March 31, 2007, compared to negative consolidated working capital of approximately R3.0 billion as of March 31, 2006 and approximately R2.3 billion as of March 31, 2005 and Vodacom had negative working capital of approximately R7.4 billion as of March 31, 2007, compared to negative working capital of approximately R5.2 billion as of March 31, 2006 and approximately R2.8 billion as of March 31, 2005 Negative working capital arises when current liabilities are greater than current assets. The increase in negative working capital in the 2007 financial year was primarily due to a reduction in cash used to pay dividends, tax and capital expenditures and an increase in the current portion of interest bearing debt, as a result of the TK01 local bond becoming due on March 31, 2008. The increased negative working capital in the 2006 financial year resulted primarily from maturing short term repurchase agreements, the proceeds of which were used in part for the payment of increased ordinary dividends, the payment of a special dividend and the payment of increased taxation. Telkom is of the opinion that the Telkom Group's cash flows from operations, together with proceeds from liquidity available under credit facilities and in the capital markets, will be sufficient to meet its present working capital requirements for the twelve months following the date of this annual report. Telkom intends to fund current liabilities through a combination of operating cash flows and with new borrowings and borrowings available under existing credit facilities. Telkom had R8.7 billion available under existing credit facilities as of March 31, 2007.

Capital expenditures and investments

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

Capital expenditures and investments

(in millions)	Year ended March 31, 2005 ZAR	2006 ZAR	**2007 ZAR**
Group capital expenditure			
Fixed-line	4,104	4,935	**6,641**
Baseline	1,596	2,128	**3,409**
Revenue generating	244	374	**159**
Network evolution	420	330	**784**
Sustainment	309	596	**416**
Effectiveness and efficiencies	1,177	1,080	**1,141**
Company support	211	376	**501**
Regulatory	116	15	**188**
Other	31	36	**43**
Mobile	1,747	2,571	**3,608**
Total investment in property, plant and equipment and intangibles	5,851	7,506	**10,249**

Telkom's capital expenditure of approximately R6.6 billion on fixed-line capital expenditure in the year ended March 31, 2007 was higher than the budgeted fixed-line capital expenditure for the 2007 financial year of R6.5 billion largely due to investment in broadband services and an unfavourable exchange rate. The 34.6% increase in fixed-line capital expenditure in the 2007 financial year was primarily due to higher expenditure for business and residential broadband services, wholesale services to the mobile cellular operators, access line deployment in selected high growth residential areas, technologies to support the continued growth in its data services business, the ongoing rehabilitation of Telkom's access network and increasing the efficiencies and redundancies in its transport network in line with its planned migration to an internet protocol next generation network. The 40.3% increase in mobile capital expenditure in the 2007 financial year reflects the increased investment in South Africa and other African countries in network infrastructure due primarily to the increased customer base and higher traffic and to further support 3G technologies.

Telkom's capital expenditure of approximately R4.9 billion on fixed-line capital expenditure in the year ended March 31, 2006 was lower than the budgeted fixed-line capital expenditure for the 2006 financial year of R5.0 billion largely due to unplanned delays and a more favourable exchange rate. The 20.2% increase in fixed-line capital expenditure in the 2006 financial year was primarily due to higher expenditure for access line deployment in selected high growth residential areas, technologies to support the continued growth in Telkom's data services business and the ongoing rehabilitation of its access network and increasing the efficiencies and redundancies in its transport network in line with Telkom's planned migration to an internet protocol next generation network. The 47.2% increase in mobile capital expenditure in the 2006 financial year reflects the increased investment in South Africa in network infrastructure due primarily to the increased customer base and higher traffic and to further support 3G technologies.

Historically, Telkom's fixed-line capital expenditures were aimed primarily at modernising its network and rolling out lines in order to comply with its licence obligations and prepare for competition. As Telkom seeks to implement its current strategy in the face of a significantly more competitive environment due to the entry of Neotel and the further liberalisation of the South African communications market as a result of the enactment of the Electronic Communications Act, Telkom has shifted its capital expenditure focus as Telkom seeks to evolve its fixed-line network to an internet protocol-based next generation network. As a result, Telkom expects that its fixed-line capital expenditures in the 2008 financial year will be spent primarily in the following areas:

- Maintaining current service levels and growth;
- Improvements to current networks;
- Enhancing customer centricity;
- Next generation network; and
- Regulatory and legal to comply with regulatory obligations.

Telkom's consolidated capital expenditures in property, plant and equipment for the 2008 financial year is budgeted to be approximately R11.2 billion, of which approximately R7.0 billion is budgeted to be spent in Telkom's fixed-line segment and approximately R4.2 billion is budgeted to be spent in the mobile segment, which is Telkom's 50% share of Vodacom's budgeted capital expenditure of approximately R8.4 billion. Telkom's capital expenditures are continuously examined and evaluated against the perceived economic benefit and may be revised in light of changing business conditions, regulatory requirements, investment opportunities and other business factors.

Contingent liabilities

Telcordia instituted arbitration proceedings against Telkom in March 2001 seeking to recover approximately $130 million for monies outstanding and damages, plus costs and interest at a rate of 15.5% per year which was subsequently increased to US$172 million. The arbitration proceedings relate to the cancellation of an agreement entered into between Telkom and Telcordia during June 1999 for the development and supply of an integrated end-to-end customer assurance and activation system by Telcordia. In September 2002, a partial award was issued by the arbitrator in favour of Telcordia. Telkom subsequently filed an application in the South African High Court to review and set aside the partial award. On November 27, 2003, the South African High Court set aside the partial award and issued a cost order in favour of Telkom. On May 3, 2004, the South African High Court dismissed an application by Telcordia for leave to appeal and ordered Telcordia to pay the legal costs of Telkom. On November 29, 2004, the Supreme Court of Appeals granted Telcordia leave to appeal. Telcordia also petitioned the United States District Court for the District of Columbia to confirm the partial award, which petition was dismissed, along with a subsequent appeal. Following the dismissal of the appeal, Telcordia filed a similar petition in United States District Court of New Jersey. The United States District Court of New Jersey also dismissed Telcordia's petition, reaffirming the decision of the United States District Court of Columbia. Telcordia appealed this dismissal, which was later dismissed by the Appeals Court of New Jersey. The appeal by Telcordia in the Supreme Court of Appeals was set down for and heard on October 30 and October 31, 2006. Following the successful upholding of the appeal, Telkom filed an application for leave to appeal to the Constitutional Court on the issue revolving around the

Supreme Court of Appeals' failure to recognise Telkom's rights of access to the courts under the South African Arbitration Act. The Constitutional Court dismissed Telkom's appeal with costs. As a result, the Supreme Court of Appeals' judgment brought to finality the dispute over the merits of Telcordia's claim against Telkom and the parties are expected to reconvene the arbitration solely for the purposes of determining the amount of damages to which Telcordia is entitled. Prior to the arbitration proceedings, tentatively scheduled for September 2007, the parties have an option of considering possible settlement. Following the ruling by the Constitutional Court, two hearings were held at the International Dispute Resolutions Centre, or IDRC. The first hearing was held in London on May 21, 2007 and was a 'directions hearing', in terms of which the parties consented to a ruling by the arbitrator setting out a consolidated list of proposals and issues to form part of the damages hearing in September 2007.

The second hearing was held in London at the IDRC on June 25 and 26, 2007 and dealt with the application by Telcordia for the striking out of part of Telkom's defence on the basis that Telkom had raised issues in its defence that had already been heard by the arbitrator prior to his partial award. This application was dismissed by the arbitrator. The arbitrator also made a ruling compelling Telcordia to provide certain particulars requested by Telkom with regard to the claims by Telcordia. In his ruling, the arbitrator also set out a list of issues for determination at the damages hearing to be held during September 2007.

Although Telkom is currently unable to predict the exact amount that it may eventually be required to pay Telcordia, it has made provision for estimated liabilities in respect of the Telcordia claim in the sum of US$70 million (R527 million), including interest but excluding legal fees. If Telcordia recovers substantial damages from Telkom, Telkom would be required to fund such payments from cash flows or the incurrence of debt and the amount of any damages above Telkom's provision would increase Telkom's liabilities and decrease its net profit, which could have a material adverse effect on its financial condition and results of operations.

Competition Commission

Telkom is party to a number of legal proceedings filed by parties with the South African Competition Commission alleging anti-competitive practices described below. If Telkom were found to have committed prohibited practices as contained in the Competition Act, 1998, as amended, Telkom could be required to cease these practices, divest these businesses and be fined a penalty of up to 10% of Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial years prior to the dates of the complaints. The Competition Commission has to date not imposed the maximum penalty on any offender.

As competition continues to increase, Telkom expects that it will become involved in an increasing number of disputes regarding the legality of services and products provided by us and third parties. These disputes may range from court lawsuits to complaints lodged by or against us with various regulatory bodies. Telkom is currently unable to predict the amount that it may eventually be required to pay in these proceedings, however, it has not included provisions for any of these claims in its financial statements. In addition, Telkom may need to spend substantial amounts defending or prosecuting these claims even if Telkom is ultimately successful.

Internet Service Providers Association (ISPA)

In December 2005, ISPA, an association of internet service providers, or ISPs, filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. The complaints deal with the cost of access to SAIX, the prices offered by Telkom*Internet*, the alleged delay in provision of facilities to ISPs and the alleged favourable installation timelines offered to Telkom*Internet* customers. The Competition Commission has formally requested Telkom to provide it with certain records of orders placed for certain services, in an attempt to first investigate the latter aspects of the complaint. Telkom provided the Competition Commission with the information and is awaiting the Commission's response. This matter and the amount of Telkom's liability are not expected to be finalised within the next financial year.

Independent Cellular Service Provider Association of South Africa (ICSPA)

In 2002, the ICSPA filed a complaint against Telkom at the Competition Commission in terms of the Competition Act alleging that Telkom had entered into contracts with large corporations for its Cellsaver product, providing large discounts with the effect of discouraging corporations from using the 'premicell' device installed by their members. They alleged various contraventions of the Competition Act. Telkom provided the Competition Commission with certain information requested.

Telkom also referred the Competition Commission to its High Court application in respect of utilisation of the 'premicell' device. The Competition Commission declined to refer the matter to the Competition Tribunal. ICSPA then referred the matter to the Competition Tribunal on September 18, 2003. Telkom filed its answering affidavit on November 28, 2003.

The South African Value Added Network Services (SAVA)

On May 7, 2002, the South African Value Added Network Services Providers' Association, an association of VANS providers, filed complaints against Telkom at the Competition Commission of the Republic of South Africa under the South African Competition Act, 89 of 1998, alleging, among other things, that Telkom was abusing its dominant position in contravention of the Competition Act, 89 of 1998, and that it was engaged in price discrimination. The

Competition Commission found, among other things, that several aspects of Telkom's conduct prima facie contravened the Competition Act, 89 of 1998, and referred certain of the complaints to the Competition Tribunal for adjudication. The complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, refusal to lease access facilities to VANS providers, provision of bundled and cross subsidised competitive services with monopoly services, discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers.

Telkom has brought an application in the South African High Court to review the decision by the Competition Commission, on the basis that the Tribunal does not have the jurisdiction to adjudicate the matter. The Competition Commission has opposed the application, but the application has not yet been finally determined by the High Court. The review procedure requires that the Competition Commission file a full record of its proceedings pursuant to which is decision was taken. Once the record is filed, Telkom would have an opportunity to supplement its original papers, if required. The Competition Commission approached the High Court for an order as to how to deal with certain documents that it regarded as confidential. The Competition Commission subsequently filed its record of proceedings, but Telkom was of the view that the record was incomplete. Recently the Competition Commission filed the remainder of its record, including the confidential documents, and Telkom has supplemented its papers by filling a further affidavit. The Commission has now filed its answering affidavit. These matters and the amount of Telkom's liability are expected to be finalised within the next financial year.

Omnilink

On August 22, 2002 Omnilink filed a complaint against Telkom of the Competition Commission alleging that Telkom was abusing its dominance by discriminating in its price for Diginet services as against those charged to VANS and the price charged to customers who apply for a Telkom IVPN solution. The Competition Commission conducted an enquiry and subsequently referred the complaint, together with the SAVA complaint, to the Competition Tribunal for adjudication. This matter is currently being dealt with together with the SAVA matter.

Orion/Telkom (Standard Bank and Edcon)

In April 2003, Orion filed a complaint against Telkom, Standard Bank and Edcon at the Competition Commission concerning Telkom's discounts offered on public switched telecommunication services to corporate customers. In terms of the rules of the Competition Commission, the Competition Commission, who acts as an investigator, had one year to investigate the complaint. Orion simultaneously with the filing of the complaint, also filed an application against Telkom, Standard Bank and Edcon at the Competition Tribunal, for an interim order interdicting and restraining Telkom from offering Orion's corporate customers reduced rates associated with Telkom's Cellsaver discount plan.

The Competition Commission completed its investigation and decided that there was no prima facie evidence of any contravention of the Competition Act. Orion however referred the matter to the Competition Tribunal in terms of section 51 of the Competition Act, which allows for parties to refer matters to the Competition Tribunal themselves. Telkom has not yet filed its answering affidavit in the main complaint before the Competition Tribunal. To date there has been no further developments on this matter. These matters and the amount of Telkom's liability, if any, are not expected to be finalised within the next financial year.

M-Web and Internet Solutions (IS)

On June 29, 2005, M-Web and Internet Solutions, or IS, jointly lodged a complaint with the Competition Commission against Telkom and also requested interim relief at the Competition Tribunal. The complaint at the Competition Commission mainly deals with Telkom's pricing for ADSL retail products and its IP Connect products, the termination of the peering link between Telkom and IS, the wholesale pricing of SAIX bandwidth for ADSL users of other internet service providers, the architecture of Telkom's ADSL access route and the manner in which internet service providers can only connect to Telkom's edge service router via IP Connect as well as alleged excessive pricing for bandwidth on Telkom's international undersea cable. The application for interim relief at the Competition Tribunal dealt with allegations that Telkom should maintain the peering link between IS and Telkom in terms of its current peering agreement, and demanded that Telkom treat the traffic generated by ADSL customers of M-Web as traffic destined for the peering link and that Telkom upgrade its peering link to accommodate the increased ADSL traffic emanating from M-Web and maintain a maximum of 65% utilisation. Telkom filed its answering affidavit, and is awaiting IS and M-Web's replying affidavit.

Since then Telkom has entered into a new peering agreement with IS. To date there has been no further developments on this matter, either in the filing of a replying affidavit by IS/M-Web in the interim relief application or in the investigation of the matter by the Competition Commission.

M-Web

On June 5, 2007, M-Web brought an application against Telkom for interim relief at the Competition Tribunal with regard to the manner in which Telkom provides wholesale ADSL internet connections. M-Web requested the Competition Tribunal to grant an order of interim relief against Telkom to charge M-Web a wholesale price for the provision of ADSL internet connections which is not higher than the lowest retail price. M-Web further applied for an order that Telkom implement the migration of end customers from Telkom PSTS ADSL access to M-Web without interruption of the service. Telkom raised the objection that the Competition Tribunal does not have jurisdiction to hear the matter in its answering affidavit filed at the Competition Tribunal. Telkom still had to "plead over" as to the merits of the matter. Telkom has also filed an application in the High Court of the Transvaal Provincial Division on July 3, 2007 for an order declaring that the Competition Tribunal does not have jurisdiction to hear the application made to it by M-Web.

Employee benefit special purpose entity

Telkom had liabilities of R1,139 million, R2,607 million and R2,430 million in the years ended March 31, 2007, 2006 and 2005, respectively, in respect of post retirement medical aid obligations for current and retired employees.

In order to fund the liability towards the Medical aid, Telkom set up a special purpose entity in the 2002 financial year for the purposes of funding these post retirement medical benefit obligations. In prior years this special purpose entity was purely used as a financing tool as Telkom still retained its obligation to provide post retirement medical aid benefits to retired employees. The sinking fund held in the special purpose entity did not meet the definition of a plan asset in terms of IAS19 – Employee Benefits. Telkom's interest in the special purpose entity was by way of equity, and this entity was fully consolidated in the Telkom Group's financial statements.

During the 2006 financial year, a portion of the funds held in the sinking fund of the special purpose entity was transferred to an annuity policy with the intention of specifically ringfencing funds towards the liability for pensioners over the age of 65. As of the end of 2006 financial year, the annuity policy did not meet the definition of a plan asset in terms of IAS19 – Employee Benefits and therefore the annuity fund portion was still included in the investments value as noted above. During the 2007 financial year an addendum to the cell captive annuity policy contract was signed, which ensured that the annuity fund in the special purpose entity qualifies as a plan asset with effect from June 1, 2006. This has changed the presentation of the liability and asset as the annuity policy meets the definition of a plan asset in terms of IAS19, which requires that the liability be reduced by the fair value of the plan asset. The effect of this on the consolidated annual financial statements is a reduction in investments as well as liabilities in the amount of R1,961 million. The amount of the reduction would have been approximately R1,731 million as of March 31, 2006 had this arrangement been in place as of that date. The fair value of the funds in this special purpose entity was R1,279 million, R2,819 million and R2,208 million as of March 31, 2007, 2006 and 2005, respectively, which was included in investments.

Telkom has renewed its full maintenance lease agreement for its vehicles with Debis Fleet Management (Pty) Limited, a company incorporated in South Africa, as of April 1, 2005. The original master lease agreement was for a period of five years and expired on March 31, 2005. The agreement has been extended for a further period of three years until March 31, 2008.

Funding sources

To date, Telkom has financed its operations primarily from cash flows from operations and by borrowings in the South African and international capital markets. Access to international capital markets and its associated cost of funding depends in part on its credit ratings. Telkom maintains an active dialog with the principal credit rating agencies who review Telkom's ratings periodically. Standard & Poor's International Ratings, LLC, a division of McGraw-Hill Companies Inc. has rated Telkom's foreign debt BBB, and Moody's Investors Services Inc., has rated Telkom's foreign currency long term issuer rating A3. Telkom has not solicited a rating on local Rand denominated debt due to Telkom's long standing relationships with Rand denominated investors. As of March 31, 2007, 90.6% of Telkom's debt was local debt, compared to 92.3% as of March 31, 2006 and 66.4% as of March 31, 2005. Telkom's Rand denominated debt bears interest at rates ranging from 10 basis points to 60 basis points above treasuries and the effective interest rate for the year ended March 31, 2007 was 14.8%. Fixed rate debt represented approximately 90.4% of Telkom's total consolidated debt as of March 31, 2007.

Off balance sheet transactions

Telkom did not have any off balance sheet transactions during the year ended March 31, 2007.

Contractual obligations

The following table sets forth the Telkom Group's contractual obligations as of March 31, 2007:

		Payments due by period			
	Less than	1-3	3-5	More than	
(In ZAR millions)	Total	1 year	years	years	5 years
Long-term debt obligations	12,549	6,285	876	1,957	3,431
Capital (finance) lease obligations	1,220	61	195	124	840
Operating leases					
Buildings	1,465	289	464	307	405
Rental receivable on buildings	(269)	(91)	(129)	(45)	(4)
Transmission and data lines	262	68	82	77	35
Vehicles	573	568	5	–	–
Equipment	23	6	11	6	–
Sport and marketing contracts	441	164	245	30	2
Forward exchange contracts					
To buy	3,538	3,538	–	–	–
To sell	(1,567)	(1,567)	–	–	–
Other long-term liabilities[1]	9,995	763	1,661	1,863	5,708
Total	28,230	10,084	3,410	4,319	10,417

1 *Other long-term liabilities comprise the expected benefit payments from the Telkom Retirement Fund and the Telkom Pension Fund for the following ten years. These benefit payments are funded by the plan assets in the Telkom Retirement Fund and Telkom Pension Fund, respectively. The contributions to the fund in each year is determined on a statutory basis. In addition Telkom may be required to make additional contributions should there be a short fall in the fund. In addition to the above, Telkom has an obligation under its post-retirement medical aid liability of R4,384 million which includes an unrecognised net actuarial loss of R1,284 million which is funded by plan assets of R1,961 million resulting in a recognised liability of R1,139 million. Telkom is required to fund the short fall in this obligation in future years, as and when the obligation becomes payable.*

The following table sets forth Telkom's consolidated indebtedness, including finance leases as of March 31, 2007.

(in millions)	Interest payment dates	Interest rate (%) ZAR	Outstanding as of March 31, 2007 ZAR
TELKOM			
Bonds			
10% statutorily guaranteed local bond due not later than March 31, 2008 (TK01)[1,2,3]	March 31, September 30	10	4,432
6% unsecured local bond due February 24, 2020 (TL20)[4]	February 22	6	1,246
Zero coupon unsecured loan stock due September 30, 2010 (PP02)[5]	–	–	264
Zero coupon unsecured loan stock due June 15, 2010 (PP03)[6]	–	–	844
Finance leases	n/a	13.43%	852
		37.78%	
Repurchase agreements	n/a	–	–
Commercial paper	–	–	1,339
Zero coupon unsecured commercial paper bills with a maturity not later than June 1, 2007. The average discount rate on these commercial paper bills is 9.044% per annum.			
Bank facilities			
R600 million unsecured overdraft facility with ABSA Bank Limited, repayable on demand	–	Mutually agreed	Not utilised
R4 billion unsecured overdraft facility with The Standard Bank of South Africa Limited, repayable on demand	–	Mutually agreed	Not utilised
R500 million unsecured overdraft facility with FirstRand Bank Limited, repayable on demand	–	Mutually agreed	Not utilised
R150 million unsecured overdraft facility with Commerzbank AG, repayable on demand	–	Mutually agreed	Not utilised
$35 million unsecured short-term loan facility with Calyon Corporate and Investment bank, various repayment dates	–	Mutually agreed	Not utilised
R1 billion uncommitted/short-term facility with Sumitomo Mitsui Banking Corporation	–	Mutually agreed	Not utilised
R62.75 million unsecured short-term facility with Standard Chartered Bank		Mutually	
Various bank loans[3]	–	agreed	Not utilised
		Various	106
Bank overdraft and other short-term debt	–	–	–
Total Telkom	**–**	**–**	**9,083**

Nominal amount out-standing as of March 31, 2007 ZAR	Maturing year ended March 31,					
	2008 ZAR	2009 ZAR	2010 ZAR	2011 ZAR	2012 ZAR	After 2012 ZAR
4,680	4,680	–	–	–	–	–
2,500	–	–	–	–	–	2,500
430	–	–	–	430	–	–
1,350	–	–	–	1,350	–	–
852	4	12	–	10	18	808
–	–	–	–	–	–	–
1,350	1,350	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
106	–	–	–	16	10	80
–	–	–	–	–	–	–
11,268	**6,034**	**12**	**–**	**1,806**	**28**	**3,388**

(in millions)	Interest payment dates	Interest rate (%) ZAR	Outstanding as of March 31, 2007 ZAR
VODACOM[7]			
$8.4 million shareholders Loan with Planetel Communications Limited[8]	–	LIBOR + 5%	27
$10 million shareholders loan with Caspian Construction Company[8]	–	LIBOR + 5%	32
$7.8 million/Euro 3.9 project finance for Vodacom Tanzania Limited	–	6% – 14.4%	47
$180 million medium-term loan to Vodacom International Limited	–	LIBOR + 0.35%	655
$37.0 million preference shares by Vodacom Congo (R.D.C) s.p.r.l.[9]	–	4%	135
R2.5 million shareholder loan with Sekhametsi Investment Consortium Limited	–	13.7%	1
R6.0 million of the shareholder loan with Number Portability Company (Proprietary) Limited	–	Prime	3
Various finance leases[10]	–	12.1 – 16.9%	364
Various other short-term loans	–	various	13
Bank overdrafts and other short-term debt	–	–	441
Total Vodacom[7]			**1,718**
TDS DIRECTORY OPERATIONS			
Various finance leases[10]	–	–	4
Total TDS Directory Operations	**–**	**–**	**4**
Total			**10,805**

1 *Listed on the Bond Exchange of South Africa.*
2 *Open ended bond issue, and number of bonds issued varies from time to time. As of March 31, 2007, R4,680 million of these bonds were in issue.*
3 *R4,537 million of Telkom's indebtedness outstanding as of March 31, 2007 was guaranteed by the Government of the Republic of South Africa.*
4 *2,500 of these bonds were issued on February 22, 2000 at a yield to maturity of 15.00%. The TL20 bond was listed on the Bond Exchange of South Africa with effect from April 1, 2005.*
5 *Issued on February 25, 2000. Original amount issued was R430 million. The yield to maturity of this instrument issued by Telkom is 14.37%.*
6 *Issued on June 15, 2000. Original amount issued was R1,350 million. The yield to maturity of this instrument is 15.175%.*
7 *Represents Telkom's 50% share of Vodacom's indebtedness.*
8 *Repayable on approval of at least 60% of the shareholders of Vodacom Tanzania Limited.*
9 *The preference shares are redeemable, but only after the first three years from date of issuance, and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.*
10 *Secured by land and buildings.*

Nominal amount outstanding as of March 31, 2007 ZAR	Maturing year ended March 31, 2008 ZAR	2009 ZAR	2010 ZAR	2011 ZAR	2012 ZAR	After 2012 ZAR
27	–	27	–	–	–	–
32	–	32	–	–	–	–
47	47	–	–	–	–	–
655	–	–	655	–	–	–
135	135	–	–	–	–	–
1	–	1	–	–	–	–
3	–	–	–	–	–	3
364	57	97	49	81	42	38
13	11	–	–	–	–	2
441	441	–	–	–	–	–
1,718	**691**	**157**	**704**	**81**	**42**	**43**
4	1	3	–	–	–	–
4	**1**	**3**	**–**	**–**	**–**	**–**
12,990	**6,726**	**172**	**704**	**1,887**	**70**	**3,431**

Telkom expects to repay the indebtedness and other obligations in the above table with cash flows from operations, and the refinancing of debt with new borrowings and borrowings available under existing credit facilities. Telkom's special purpose entity established to fund post retirement medical benefits obligations indirectly held 171,002 of Telkom's ordinary shares as of March 31, 2007.

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

The debt instruments in the above table do not contain any restrictive covenants except a number of the instruments contain provisions limiting its ability to create loans. Some of Telkom's debt contains cross default provisions. In addition, a side letter to the subscription agreement (as amended) of Telkom's R2.5 billion 6% local bonds due February 24, 2020 contain financial maintenance covenants requiring the Telkom Group to maintain the following ratios:

- EBITDA to net interest expense ratio of no less than 3.5:1; and
- net interest bearing debt to EBITDA ratio of no greater than 2.0:1 in the 2003 financial year, increasing to 3.0:1 in the years thereafter.

The above ratios are calculated semi-annually based on accounting policies in use at the time the indebtedness was incurred. Because the above ratios are calculated based on accounting policies in use at the time the indebtedness was incurred, EBITDA for purposes of the ratios is not calculated in the same manner as it is calculated elsewhere in this document. The covenants will be effective for so long as the initial subscriber holds at least 70% in nominal value of the bonds. Telkom was in compliance with the above ratios during the year ended March 31, 2007.

All debt incurred by Telkom prior to 1991 is guaranteed by the Government of the Republic of South Africa pursuant to Section 35 of the South African Exchequer Act, 66 of 1975. The Government of the Republic of South Africa does not guarantee debt incurred thereafter or Vodacom's debt. As of March 31, 2007, R4.5 billion of Telkom's total debt of R10.8 billion was guaranteed by the Government of the Republic of South Africa.

No loans have been furnished by Telkom or any of its subsidiaries for the benefit of any director or any member of Telkom's senior management team as of March 31, 2007.

Telkom's policy is to hedge its exposure to foreign exchange rate fluctuations. Currency exchange hedges are not always commercially available in other African countries. Interest rate risk is converted to Rands and managed per Telkom's policy and control manual which stipulates guidelines on exposure to fixed and floating rate debt. Telkom's philosophy is to target a fixed/floating debt ratio of at least 65% fixed, adjusted to market conditions considering the interest rates at that time. If interest rates are low, Telkom will establish a higher than 65% fixed/floating debt ratio and when interest rates are high, Telkom seeks to establish the ratio closer to a 65% fixed/floating debt ratio.