NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

1. CORPORATE INFORMATION

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

- Fixed-line retail voice services to post-paid, pre-paid and private pay phone customers using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription based value added voice services and calling plans;
- Fixed-line customer premises equipment rental and sales services both voice and data needs and these include PABX, Computers, Routers, Modems, Telephone handsets and other ancillary equipment;
- 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 (Asymmetrical Digital Subscriber Line) services, packet based services, managed data networking services and Internet access and related information technology services;
- Data Centre Operations includes e-commerce, application service provider, hosting, data storage, email and security services;
- W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services;
- Mobile communication services, including voice services, data services and handset sales through its mobile brand called Telkom Mobile; and
- Other services including directory services, through Trudon (Pty) Ltd, wireless data services, through Swiftnet (Pty) Ltd and Internet services outside South Africa, through the iWayAfrica Group.

Convergence is one of our key strategic initiatives in building a sustainable future for Telkom. We will lead the provision of Converged Services in South Africa in support of our mission statement: Seamlessly connecting people to a better life. Our strategy is to transform Telkom into an integrated fixed, mobile, IT and content provider, leveraging our unique strengths in the fixed, mobile and IT markets in order to drive sustainable revenue growth, defend our core business and create efficiencies over the longer term.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated annual financial statements comply with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the Companies Act of South Africa, 2008.

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

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. Details of the Group's significant accounting policies are set out below, and are consistent with those applied in the previous financial year, except for the following standards which were early adopted:

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

Adoption of amendments to standards, new standards and new interpretations

IFRS 10 Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of amendments to standards, new standards and new interpretations (continued)

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Interests in Other Entities

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

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

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

IFRS 13 Fair Value Measurement

IFRS 13 provides a new definition of fair value and a single source of guidance for all fair value measurements used in IFRS financial statements. The proposed disclosures increase transparency about fair value measurements, including the valuation techniques and inputs used to measure fair value. The standard will have a potential fair value impact on non-recurring, non-financial assets and liabilities that are measured at fair value less cost to sell (ie. IFRS 5 and IAS 36) and fair value disclosure impact for IFRS 13. The Group is already complying with enhanced disclosures. A large amount of disclosures are required for instruments categorised under level 3 of the hierarchy. Currently, there are no recurring fair value measurements falling under level 3 but new items falling under this category will trigger additional disclosure requirements in the future. IFRS 13 also requires various disclosures on items not measured at fair value, but for which fair value needs to be disclosed. These additional disclosures are provided in note 15. The standard had no material impact on the Group.

IAS 1 (amendment) Presentation of Financial Statements

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

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

IAS 27 (amendment) Separate Financial Statements

The revised IAS 27 supersedes the previous IAS 27 (2008). The standard requires an entity that prepares separate financial statements, to account for the investments in subsidiaries, joint ventures and associates either at cost or in accordance with IAS 39/IFRS 9. The adoption of the standard had no impact on the Group as the Group already accounts for all investments either at cost or in accordance with IAS 39.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of amendments to standards, new standards and new interpretations (continued)

IAS 28 (amendment) Investments in Associates and Joint Ventures

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

Circular 3/2012 Headline Earnings

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Change in accounting policy

The Group has early adopted IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as consequential amendments to IAS 28 Investments in Associates and Joint Ventures from 1 April 2012.

IFRS 10 Consolidated Financial Statements

As a result of the adoption of IFRS 10, the Group changed is accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities. The change in policy has no impact on the Group as entities that were previously controlled by Telkom when applying the old control definition did not change as a result of changing the policy to comply with IFRS 10.

IFRS 11 Joint Arrangements

Under IFRS 11 the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

The Group has re-evaluated its joint arrangements, resulting in the reclassification of the Number Portability Company from a joint venture to an associate. Notwithstanding the reclassification, the investment continues to be recognised by applying the equity method and there has been no impact on the assets, liabilities and comprehensive income of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting policy (continued)

IAS 27 (amendment) Separate Financial Statements

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

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates and assumptions are based on management's best knowledge of current events and actions that the Group may undertake in the future, actual results may ultimately differ from those estimates and assumptions.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Group's accounting policies. These, together with the key estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, are as follows:

Property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, customer service requirements, availability of capital funding and required return on assets and equity to determine the optimum useful life expectation for each of the individual categories of property, plant and equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry as well as Telkom's plan to migrate to a next generation network over the next few years, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the roll-out strategy. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 13. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives and what their condition will be like at that time. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimates.

For intangible assets that incorporate both a tangible and intangible portion, management uses judgement to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

Asset retirement obligations

Management's judgement is exercised when determining whether an asset retirement obligation exists, and in determining the expected future cash flows and the discount rate used to determine its present value when the obligation to dismantle or restore the site arises, as well as the estimated useful life of the related asset.

Impairments of property, plant and equipment and intangible assets

Management is required to make judgements concerning the cause, timing and amount of impairment as indicated on notes 13 and 14. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services, market changes, legal changes, operating environments and other circumstances that could indicate that an impairment exists. The Group applies the impairment assessment to its cash-generating units. This requires management to make significant judgements concerning the existence of impairment indicators, identification of cash-generating units, remaining useful lives of assets and estimates of projected cash flows and fair value less costs of disposal. Management's analysis of cash-generating units involves an assessment of a group of assets' ability to independently generate cash inflows and involves analysing the extent to which different products make use of the same assets. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the fair value less costs of disposal and value in use. Recoverable amount is calculated using the discounted cash flow valuation method – also when fair value less costs of disposal is used. Key assumptions on which management has based its determination of recoverable amount include the existence of binding sale agreements, the weighted average cost of capital, projected revenues, gross margins, average revenue per customer, capital expenditure, expected customer bases and market share.

In calculating value-in-use, consideration is given to the completion of a network that is still partially completed at the date of performing the impairment test. Significant judgement is applied in determining if network expansion should be treated as the completion of a partially completed asset or the enhancement of an asset (which cash flows are not allowed to be considered in calculation of value-in-use). Refer to notes 13 and 14.

Impairment of receivables

An impairment loss is recognised on trade receivables that are assessed to be impaired (refer to notes 15 and 21). The impairment is based on an assessment of the extent to which customers have defaulted on payments already due and an assessment on their ability to make payments based on their credit worthiness and historical write-offs experience. Should the assumptions regarding the financial condition of the customer change, actual write-offs could differ significantly from the impairment loss recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

Customer relationship periods

The average customer relationship periods for Wholesale, Voice and Non-Voice services are utilised to amortise the deferred installation revenue and cost. Management makes judgements about the customer relationship period estimate based on the historical churn information. The churn is determined by considering the service installation and disconnection dates, the weighted customer base ageing and the service connection status of the customers. Changes in average customer relationships periods are accounted for as a change in accounting estimates.

Deferred taxation asset

Management's judgement is exercised when determining the probability of future taxable profits which will determine whether deferred taxation assets should be recognised or derecognised. The realisation of deferred taxation assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised deferred taxation credits as deferred tax assets, management needs to determine the extent that the future obligations are likely to be available for set-off against the deferred taxation asset. In the event that the assessment of the future obligation and future utilisation changes, the change in the recognised deferred taxation asset is recognised in profit or loss.

Taxation

The taxation rules and regulations in South Africa as well as the other African countries within which the Group operates are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects South African taxation laws to further develop through changes in South Africa's existing taxation structure as well as clarification of the existing taxation laws through published interpretations and the resolution of actual tax cases. Refer to notes 9 and 19.

The growth of the Group, following its geographical expansion into other African countries over the past few years, has made the estimation and judgement required in recognising and measuring deferred taxation balances more challenging. The resolution of taxation issues is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the consolidated statement of profit or loss and other comprehensive income and the current taxation payments.

Group entities are regularly subject to evaluation, by the relevant tax authorities, of their historical income tax filings and in connection with such reviews. Disputes can arise with the taxing authorities over the interpretation or application of certain tax rules to the business of the relevant group entities. Management makes judgement that is consistent with the principles and interpretations of the relevant countries' tax laws in determining the Group's provision for income taxes for which the ultimate tax determination is uncertain during the ordinary course of business.

Deferred taxation rate

Management makes judgements on the tax rate applicable based on the Group's expectations at reporting date on how the asset is expected to be recovered or the liability is expected to be settled.

Employee benefits

The Group provides defined benefit plans for certain post-employment benefits. The obligation and assets related to each of the post-retirement benefits are determined through an actuarial valuation. The actuarial valuation relies heavily on assumptions as disclosed in note 30. The assumptions determined by management make use of information obtained from the Group's employment agreements with staff and pensioners, market related returns on similar investments, market related discount rates and other available information. The assumptions concerning the expected return on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post-employment benefits may be affected materially.

The discount rate reflects the average timing of the estimated defined benefit payments. The discount rate is based on long-term South African Government bonds with the longest maturity period as reported by the Bond Exchange of South Africa. The discount rate is expected to follow the trend of inflation.

The overall expected rate of return on assets is determined based on the market prices prevailing at that date, applicable to the period over which the obligation is to be settled.

Leases

The Group provides customer specific solutions to certain entities using access network equipment and involving leases with the Group acting as the lessor. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains, all the significant risks and rewards of ownership of this equipment and accounts for the contracts as finance leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. This can be the case for fibre optical cables. Judgement is applied in determining if a fibre arrangement specifies the fibre/spectrum/wavelength or merely capacity. If a portion is not physically distinct, it is not considered to be a specified asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

Provisions

For other provisions, estimates are made of legal or constructive obligations resulting in the raising of provisions, and the expected date of probable outflow of economic benefits to assess whether the provision should be discounted. Refer to note 29. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the reporting date.

Contingent liabilities

On an ongoing basis the Group is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised where, based on the Group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of other contingent liabilities is made in note 38 unless the possibility of a loss arising is considered remote.

Segment information

For judgements, estimates and assumptions relating to Operating Segments refer to note 3.

Summary of significant accounting policies

Classification of associates

Telkom holds 20% ownership of the investment in the Number Portability Company. The Group has determined that it has significant influence because it has the right to appoint directors and has representation on the board of the Number Portability Company but decisions taken by the company does not require unanimous consent from investors.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Telkom and entities (including special purpose entities) controlled by Telkom, its subsidiaries and associates as well as its joint ventures.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group consolidates the financial statements of subsidiaries from the date the control of the subsidiary commences until the date that control ceases.

Transactions with non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to equity owners of Telkom.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (ie. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

Joint arrangements

A joint arrangement is an arrangement where two or more parties have joint control over another entity. In a joint arrangement parties are bound by a contractual arrangement that gives two or more of the parties joint control of the arrangement. A joint arrangement is classified and accounted for as either a joint operation or joint venture.

In a joint operation parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are the joint operators. The Group recognises its own assets, liabilities, revenues and expenses that are incurred or earned separately to other joint operators. Otherwise the Group recognises its share of assets, liabilities, revenues and expenses when these items are incurred jointly.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Joint arrangements (continued)

In a joint venture parties that jointly control the joint arrangement have rights to the net assets of the arrangement. These parties are called joint venturers. The Group accounts for the joint venture using the equity method. Under the equity accounting method, the investment in the joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture. The share of the profit of the joint venture is shown on the face of the statement of profit or loss and other comprehensive income.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used in line with those used by the Group.

Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the investee. The Group recognises its interests in associates by applying the equity method.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses power over such investees by considering factors such as the purpose and design of the investee; its practical ability to direct the activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee. Controlled structured entities are consolidated from the day they meet the control criteria definition for a structured entity until they cease to be controlled by the entity. Relationships with unconsolidated structured entities are disclosed.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree and non-controlling interest.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the date of acquisition. Subsequent changes in such fair values are adjusted against the consideration transferred only where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Any transaction costs that the Group incurs in connection with the business combination such as legal fees, due diligence fees and other professional and consultation fees are expensed as incurred.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation which arises as a result of a past event, and its fair value can be measured reliably.

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party/parties both before and after the business combinations (and where control is not transitory) are referred to as common control business combinations. The carrying amounts of the acquired entity are the consolidated carrying amounts as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions, is allocated to equity.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, structured entities, associates and joint ventures are carried at cost and adjusted for any impairment losses.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date of acquisition.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net fair value of the acquiree's identifiable net assets.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns and rebates and after eliminating sales within the Group.

Revenue is recognised when there is evidence of an arrangement, collectability is probable, and the delivery of the product or service has occurred. In certain circumstances revenue is split into separately identifiable components and recognised when the related components are delivered in order to reflect the substance of the transaction. The consideration of each component is allocated on a relative fair value basis.

Dealer incentives

The Group provides incentives to its dealers by means of trade discounts. Incentives are based on sales volume and value of transactions. Revenue is recognised gross of discounts to the extent that the discounts are not granted to the customer. Revenue is recognised net of discounts when the discounts are granted to the customer.

Retail voice

The Group provides telephone and data communication services under post-paid and pre-paid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected customer relationship period. Costs incurred on first-time installations that form an integral part of the network are capitalised and depreciated over the expected average customer relationship period. All other installation and activation costs are expensed as incurred.

Post-paid and pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Pre-paid

Pre-paid traffic service revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. The terms and conditions of certain pre-paid products allow for the carry over of unused minutes. Revenue related to the carry over of unused minutes is deferred until usage or expiration.

Pay phones

Pay phone service coin revenue is recognised when the service is provided.

Pay phone service card revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first.

Post-paid

Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided.

Interconnection

Interconnection revenue for call termination, call transit, and network usage is recognised as the traffic flow occurs.

Customer premises equipment

Revenue related to sale of communication equipment, products and value-added services is recognised upon delivery and acceptance of the product or service by the customer.

Data

The Group provides data communication services under post-paid and pre-paid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected average customer relationship period. Costs incurred on first-time installations that form an integral part of the network are capitalised and depreciated over the life of the expected average customer relationship period. All other installation and activation costs are expensed as incurred. Post-paid and pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Directory services

Included in Other South African revenue are directory services. Revenue is recognised when printed directories are released for distribution, as the significant risks and rewards of ownership have been transferred to the buyer. Electronic directories' revenue is recognised on a monthly basis, as earned.

Sundry revenue

Sundry revenue is recognised when the economic benefit flows to the Group and the earnings process is complete.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Deferred revenue and expenses

Activation revenue and costs are deferred and recognised systematically over the expected duration of the customer relationship because it is considered to be part of the customers' ongoing rights to telecommunication services and the operator's continuing involvement. Any excess of the costs over revenues is expensed immediately.

Post-paid contract and pre-paid products

Contract products are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a selling price stand-alone basis as a percentage of the aggregated fair value of individual deliverables.

- Revenue from the handset is recognised when the handset is delivered.
- Monthly service revenue received from the customer is recognised in the period in which the service is delivered.
- Airtime revenue is recognised on the usage basis commencing on activation date. Unused airtime is deferred in full and recognised in the month of usage or on termination of the contract by the subscriber.
- Revenue from the sale of pre-paid products is recognised when the product is delivered to the customer.
- Revenue from the sale of pre-paid airtime is deferred until such time as the customer uses the airtime, or the credit expires.
- Free minutes are accounted for as a separate identifiable deliverable and revenue allocated to free minutes is deferred and recognised when the free minutes are used, or expire.

Roaming agreements

Amounts paid to other mobile operators in terms of roaming agreements are expensed at the earlier of minutes being utilised or expiry thereof. A pre-payment to this effect is recognised if it is probable that the Group will obtain future economic benefits from such unused minutes.

Equipment sales

For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the equipment are transferred to the intermediary and the intermediary has no general right of return. If the significant risks are not transferred, revenue recognition is deferred until sale of the equipment to an end-customer by the intermediary or the expiry of the right of return.

Customer loyalty programmes

The free minutes (award credits) granted to Telkom Mobile pre-paid customers are accounted for as a separately identifiable component of a sales transaction in which they are granted. Award credits are determined by reference to their fair value. The fair value of award credits takes into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from the initial sale transaction. Revenue from award credits is deferred and recognised as revenue when the customer redeems the award credit.

Connection incentives

Intermediaries and customers are paid cash as a connection incentive. Cash incentives paid to intermediaries are expensed in the period in which they are incurred. Cash incentives paid to customers are recognised as intangible assets and expensed over the contract period.

Interest on debtors' accounts

Interest is raised on overdue accounts by using the effective interest rate method and recognised in profit or loss.

Marketing

Marketing costs are recognised as an expense when incurred.

Incentives

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed in the period that the related revenue is recognised.

Taxation

Current taxation

The charge for current taxation is based on the results for the year and is adjusted for non-taxable income and non-deductible expenditure. Current taxation is measured at the amount expected to be paid to the taxation authorities, using taxation rates and laws that have been enacted or substantively enacted by the reporting date. The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and the Group establishes provisions where appropriate on the basis of the amounts expected to be paid to tax authorities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Taxation (continued)

Deferred taxation

Deferred taxation is accounted for using the statement of financial position liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred taxation is not provided on the initial recognition of goodwill or initial recognition of assets or liabilities which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses, unused tax credits and deductible temporary differences can be utilised. The carrying amount of deferred taxation assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised. In respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred income taxation assets are recognised only to the extent that it is probable that temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised. Deferred taxation is not recognised in respect of temporary differences associated with investments in subsidiaries and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation relating to equity items or other comprehensive income is recognised directly in other comprehensive income and not in profit or loss.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when the asset is realised or the liability is settled, based on taxation rates (and taxation laws) that have been enacted or substantively enacted by the reporting date.

Deferred taxation assets and deferred taxation liabilities are offset, if a legally enforceable right exists to set-off current taxation assets against current taxation liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Secondary taxation on companies/Dividends tax

Secondary taxation on companies (STC) was provided for at a rate of 10% on the amount by which dividends declared by the Group exceeded dividends received. Previously deferred taxation on unutilised STC credits was recognised to the extent that STC payable on future dividend payments was likely to be available for set-off. The new withholding tax on dividends is effective for dividends declared on or after 1 April 2012 at a rate of 15%. All tax credits as at 31 March 2012 were utilised in full with the declaration of the dividend on 8 July 2011.

Property, plant and equipment

At initial recognition acquired property, plant and equipment are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use.

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised. Idle assets continue to attract depreciation.

The estimated useful life of individual assets and the depreciation method thereof are reviewed on an annual basis at reporting date. The depreciable amount is determined after taking into account the residual value of the asset. The residual value is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual values of assets are reviewed on an annual basis at reporting date.

Assets under construction represents freehold buildings, operating software, network and support equipment and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Freehold land is stated at cost and is not depreciated. Amounts paid by the Group on improvements to assets which are held in terms of operating lease agreements are depreciated on a straight-line basis over the shorter of the remaining useful life of the applicable asset or the remainder of the lease period. Where it is reasonably certain that the lease agreement will be renewed, the lease period equals the period of the initial agreement plus the renewal periods.

The estimated useful lives applied are provided in note 6.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Intangible assets

At initial recognition acquired intangible assets are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use. Internally generated intangible assets are recognised at cost comprising all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management. Licences, software, trademarks, copyrights and other intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful lives. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The residual value of intangible assets is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Due to the nature of the asset the residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life or when there is an active market that is likely to exist at the end of the asset's useful life, which can be used to estimate the residual values. The residual values of intangible assets, the amortisation methods used and their useful lives are reviewed on an annual basis at reporting date.

Intangible assets with indefinite useful lives, for example goodwill, and intangible assets not yet available for use (under construction), are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Assets under construction represent application and other non-integral software and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Intangible assets are derecognised when they have been disposed of or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of assets are recognised in profit or loss in the year in which they arise.

The expected useful lives applied are provided in note 6.

Asset retirement obligations

Asset retirement obligations related to property, plant and equipment are recognised at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in finance charges and fair value movements. Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate are accounted for as increases or decreases to the original cost of the recognised assets. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification.

In the statement of profit or loss and other comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss after tax is reported separately in the statement of profit or loss and other comprehensive income.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell and are not depreciated or amortised subsequent to classification as held for sale. Only those assets within the measurement scope of IFRS 5 are measured in terms of IFRS 5. Refer to note 10.

Impairment of property, plant and equipment and intangible assets

The Group regularly reviews its non-financial assets and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes of the asset's or cash-generating unit's estimated recoverable amount, an impairment test is performed.

Intangible assets that have an indefinite useful life, for example goodwill, are tested annually for impairment.

The recoverable amount of assets or cash-generating units is measured using the higher of the fair value less costs of disposal and its value in use, which is the present value of projected cash flows covering the remaining useful lives of the assets. The discount rate used is the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised when the asset's carrying value exceeds its estimated recoverable amount. Where applicable, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Impairment of property, plant and equipment and intangible assets (continued)

Previously recognised impairment losses, other than goodwill, are reviewed annually for any indication that they may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed in profit or loss if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

Repairs and maintenance

The Group expenses all costs associated with day-to-day repairs and maintenance, unless it is probable that such costs would result in future economic benefits flowing to the Group, and the costs can be reliably measured.

Borrowing costs

Financing costs directly associated with the acquisition or construction of assets that require more than three months to complete and place in service are capitalised at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Group borrowings was utilised. Other borrowing costs are expensed as incurred.

Inventories

Merchandise, installation material and maintenance inventories are stated at the lower of cost, determined on a weighted average basis and estimated net realisable value. Write-down of inventories arises when, for example, goods are damaged or when net realisable value is lower than carrying value.

Telkom Mobile's inventory cost is determined according to the First-In-First-Out basis.

Financial instruments

Recognition and initial measurement

All financial instruments are initially recognised at fair value, plus, in the case of financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue. Financial instruments are recognised when the Group becomes a party to the contractual arrangements. All regular way transactions are accounted for on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Subsequent to initial recognition, the Group classifies financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables', or 'available-for-sale'. Financial liabilities are classified as 'at fair value through profit or loss' or 'other financial liabilities'. The measurement of each is set out below and presented in a table in note 15.

Fair value measurement

The fair value of financial assets and liabilities that are actively traded in financial markets is determined by reference to quoted market prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques such as discounted cash flow analysis that maximise the use of relevant observable inputs and minimises the use of unobservable inputs.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the event or change in circumstances that caused the transfer has occurred.

Financial assets at fair value through profit or loss

The Group classifies financial assets that are held for trading in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the future. Derivatives and embedded derivatives not designated as hedges are also classified as held for trading. On remeasurement to fair value the gains or losses on held for trading financial assets are recognised in finance charges and fair value movements for the year. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Held-to-maturity financial assets

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity dates as held-to-maturity when the Group has the positive intention and ability to hold the instrument to maturity. These assets are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method. This calculation includes all fees paid or received between parties to the contract. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are sold or impaired as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables are carried at amortised cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss (FVTPL) where the financial liability is held for trading.

A financial liability is classified as held for trading:

- If it is acquired for the purpose of settling in the near term; or
- If it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any resultant gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, with interest expense recognised in finance charges and fair value movements, on an effective interest rate basis.

The effective interest rate is the rate that accurately discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial guarantee contracts

A financial guarantee contract is initially measured at fair value. It is subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets or the amount initially recognised less, when appropriate, cumulative amortisation, recognised in accordance with IAS 18 Revenue.

Cash and cash equivalents

Cash and cash equivalents are subsequently measured at amortised cost. This comprises cash on hand, deposits held on call and term deposits with an initial maturity of less than three months when entered into.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.

Repurchase agreements

Securities sold under repurchase agreements are not derecognised. These transactions are treated as collateralised arrangements and classified as non-trading financial liabilities and carried at amortised cost.

Securities purchased under repurchase agreements are not recognised. These transactions are treated as collateralised lending arrangements and classified as loans and receivables.

All associated finance charges are expensed in profit or loss.

Capital and money market transactions

New bonds and commercial paper bills issued are subsequently measured at amortised cost using the effective interest rate method.

Derecognition

A financial instrument or a portion of a financial instrument is derecognised and a gain or loss recognised when the Group's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year.

Bonds and commercial paper bills are derecognised when the obligation specified in the contract is discharged. The difference between the carrying value of the bond and the amount paid to extinguish the obligation is included in finance charges and fair value movements for the year.

Impairment of financial assets

At each reporting date an assessment is made of whether there are any indicators of impairment of a financial asset or a group of financial assets based on observable data about one or more loss events that occurred after the initial recognition of the asset or the group of assets. For loans and receivables carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or capital payments and the probability that they will enter bankruptcy. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued))

Financial instruments (continued)

Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss for financial assets decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed the value that would have been its amortised cost at the reversal date.

Remeasurement of embedded derivatives

The Group assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when it first becomes party to the contract. The Group re-assesses the contract when there is a change in the terms of the contract which significantly modifies the cash flows that would otherwise be required under the contract.

Financial instruments: Disclosures

The Group groups its financial instruments into classes of similar instruments and where disclosure is required, it discloses them by class. It also discloses information about the nature and extent of risks arising from its financial instruments as indicated in note 15.

Foreign currencies

Each entity within the Group determines its functional currency. The Group's presentation currency is the South African Rand (ZAR).

Transactions denominated in foreign currencies are measured at the rate of exchange at transaction date. Monetary items denominated in foreign currencies are remeasured at the rate of exchange at settlement date or reporting date whichever occurs first. Exchange differences on the settlement or translation of monetary assets and liabilities are included in finance charges and fair value movements in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated to ZAR at the rate of exchange prevailing at the reporting date and their profits and losses are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of the foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Treasury shares

Where the Group acquires, or in substance acquires, its own shares, such shares are measured at acquisition cost and disclosed as a reduction of equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such shares are not remeasured for changes in fair value.

Where the Group chooses or is required to buy equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement by delivery of its own shares, the transaction is accounted for as equity-settled. This applies regardless of whether the employee's rights to the equity instruments were granted by the Group itself or by its shareholders or was settled by the Group itself or its shareholders.

Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Where the Group enters into a service agreement as a supplier or a customer that depends on the use of a specific asset, and conveys the right to control the use of the specific asset, the arrangement is assessed to determine whether it contains a lease. Once it has been concluded that an arrangement contains a lease, it is assessed against the criteria in IAS 17 to determine if the arrangement should be recognised as a finance lease or operating lease. This also applied when assessing indefeasible rights to use (IRUs).

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

Lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

Assets acquired in terms of finance leases are capitalised at the lower of fair value or the present value of the minimum lease payments at inception of the lease and depreciated over the lesser of the useful life of the asset or the lease term. The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease finance costs are amortised in profit or loss over the lease term using the interest rate implicit in the lease. Where a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in profit or loss over the term of the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Lessor

Operating lease revenue is recognised in profit or loss on a straight-line basis over the lease term.

Assets held under a finance lease are recognised in the statement of financial position and presented as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

Employee benefits

Post-employment benefits

The Group provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Group, taking into account recommendations of the independent actuaries. The post-retirement telephone rebate liability is unfunded.

Defined contribution plans

The Group's funding of the defined contribution plans is charged to employee expenses in the same year as the related service is provided.

Defined benefit plans

The Group provides defined benefit plans for pension, retirement, post-retirement medical aid benefits and telephone rebates to qualifying employees. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount reported in the statement of financial position represents the present value of the defined benefit obligations, calculated by using the projected unit credit method, as adjusted for unrecognised past service costs and reduced by the fair value of the related plan assets. The amount of any surplus recognised and reflected as a defined benefit asset is limited to unrecognised actuarial losses and past service costs plus the present value of available refunds and reductions in future contributions to the plan. To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised. No gain is recognised solely as a result of an actuarial loss in the current period and no loss is recognised solely as a result of an actuarial gain in the current period. The effects of this asset limitation is recognised in other comprehensive income.

The Group accounts for actuarial gains and losses recognised directly in other comprehensive income in the period in which they occur. The Group believes that recognising actuarial gains and losses in other comprehensive income results in better disclosures in the statement of financial position and is consistent with the requirements of the IAS 19 amendment that will become effective in the 2014 financial year.

Past service costs are recognised immediately to the extent that the benefits are vested, otherwise they are recognised on a straight-line basis over the average period the benefits become vested.

Leave benefits

Annual leave entitlement is provided for over the period that the leave accrues and is subject to a cap of 22 days.

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the year the employees render services, unless the Group uses the services of employees in the construction of an asset and the benefits received meet the recognition criteria of an asset, at which stage it is included as part of the related property, plant and equipment or intangible asset item.

Voluntary employee severance package costs are payable when employment is terminated by the Group before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Voluntary employee severance package benefits are recognised when the entity is demonstrably committed to the plan and it is probable that the expenses will be incurred. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.