TELKOM SA LIMITED
Registration No 91/05476/06
("Telkom" or "Issuer")

PLACING DOCUMENT

in respect of
Telkom Bond (Loan TL20)
(6% Coupon, redeemable on 24 February 2020)
Nominal value R2,500,000,000

Up to 2500 Bonds in minimum denomination of R1 million each will be issued subject to the terms and conditions set out in this Placing Document ("the Bonds").

The Bonds bear interest at 6% per annum payable annually on 22 February each year, the first payment to be made on 22 February 2001. The Bonds will mature on 24 February 2020.

As at the date of this Placing Document the Bonds are not listed on the Bond Exchange of South Africa ("BESA").

Date of this Placing Document is 22 February 2000.

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INCORPORATION OF DOCUMENTS BY REFERENCE

The audited financial statements of the Issuer for the financial year ended 31 March 1999 are hereby incorporated by reference. Copies of the audited annual financial statements of the Issuer are available free of charge at the office of the Transfer Secretary.

Telkom SA Limited ("Telkom" or the "Issuer") accepts responsibility for the information contained in this Placing Document, except as may be otherwise stipulated. This Placing Document contains all information (whether expressly or by incorporation by reference) regarding the Issuer and the Bonds which is material in the context of the issue of the Bonds. All such information is true and accurate in all material respects and is not misleading in any material respect. All the opinions, predictions or intentions on the part of the Issuer expressed herein are honestly held and are not misleading in any material respect. All reasonable enquiries have been made to ascertain such facts and to verify the accuracy of all such information.

This Placing Document does not constitute an offer or an invitation by, or on behalf of, the Issuer to subscribe for or purchase, any of the Bonds in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this Placing Document and the offering or sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Placing Document comes are required by the Issuer to inform themselves about, and to observe, any such restrictions. For a description of certain restrictions on offers and sales of Bonds and on the distribution of this Placing Document see "Subscription and Sale" below.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Bonds may not be offered, sold or delivered within the United States or to US persons except in accordance with Regulation S under the Securities Act.

In connection with the issue and sale of the Bonds, no person is authorised to give any information or to make any representation relating to the issue other than those contained in this Placing Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

Neither the delivery of this Placing Document nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof.

In this Placing Document all references to "South African Rand", "Rand", "R", "ZAR" and "SA cents" are to the lawful currency of the Republic of South Africa, those to US "$" or "US Dollars" or "USD" are to the lawful currency of the United States of America, and those to UK"£" or "UK Pound" or "GBP" are to the lawful currency of the United Kingdom.

The Issuer's obligations in respect of the Bonds are not guaranteed by the Government of the Republic of South Africa.

SUMMARY OF SALIENT TERMS

Amount	The issue will be for a Principal Amount of R2,500,000,000.
Blocked Rand	Blocked Rand may be used to purchase Bonds.
Closing Date	22 February 2000.
Electronic Settlement	Bond transactions on BESA are settled in accordance with the Rules of BESA through the electronic settlement system of BESA. Euroclear and Cedel access BESA through their BESA settlement agents, The Standard Bank of South Africa Limited.
Events of Default	Upon the occurrence of any Event of Default as defined in Condition 15, the conditions for repayment set out in Condition 15.2 shall apply. The Events of Default relating to non-payment differ, depending on whether or not the Bonds are held in the BESA settlement system (See Conditions 15.3.1 and 15.3.2).
Interest Payable	Interest is payable annually in arrears on 22 February in each year until the Redemption Date with the first payment to be made on 22 February 2001.
Interest Rate (per annum)	6%.
Issue	Telkom Bonds (stock code TL20), issued pursuant to these Conditions.
Issuer	Telkom SA Limited.
Purpose	The purpose of the issue is to raise funds to finance the extension of the telecommunications network and the provision of additional telecommunications services.
Redemption Date	24 February 2020.
Redemption Value	100%.
Register Closed	The Register will be closed from 22 January to 22 February (both dates inclusive) in each year until the Redemption Date, or such shorter period as the Issuer may decide in order to determine those Bondholders entitled to receive interest.
Security	The Bonds constitute direct, unconditional and unsecured obligations of the Issuer and will at all times rank *pari passu* amongst themselves and a least *pari passu* with all other present or future unsecured and unsubordinated obligations of the Issuer for monies borrowed and guarantees given by the Issuer in respect of monies borrowed by others.
Stamp Duty	Under South African legislation no South African stamp duty or transfer tax is payable upon the issue or transfer of the Bonds.
Trading	The Bonds are not listed on BESA as at the date of this Placing Document. Application may be made for the Bonds to be listed on BESA in due course (under stock code [TL20]) and if such application is successful the Bonds will be traded on BESA and trading will take place in accordance with the rules and operating procedures for the time being of BESA from such date as may be determined by BESA.

TERMS AND CONDITIONS

1 AUTHORISATION

In terms of a Resolution of Directors of the Issuer and with the approval of the Minister of Posts, Telecommunications and Broadcasting, the Issuer has created up to R2,500,000,000 of Bonds in denominations of R1 000 000 (One Million Rand) each, on the terms and conditions set forth herein.

2 INTERPRETATION

In these terms and conditions, unless inconsistent with the context, the following expressions shall have the following meanings:

“BESA” means the Bond Exchange of South Africa, it being recorded that BESA is licensed as a financial exchange in terms of the Financial Markets Control Act, 1989;

“Bonds” means the bonds issued pursuant to these Conditions, it being recorded that such bonds fall within the definition of “loan stock” in Section 1 of the Financial Markets Control Act, 1989;

“Bondholder” means a person whose name is entered in the Register as the holder of any Bonds;

“Business Day” means any day (other than a Saturday, Sunday or official public holiday in the Republic of South Africa) on which banks generally are open for business in the Republic of South Africa;

“Certificate” means a certificate issued by Telkom in respect of any Bonds;

“Conditions” means these terms and conditions;

“Indebtedness” means any indebtedness in respect of monies borrowed and guarantees given, whether present or future, actual or contingent;

“Interest Date” means 22 February in each year that the Bonds are in issue up to and including 24 February 2020;

“Interest Period” means the 12 (twelve) month period commencing on the day after an Interest Date and ending on the next Interest Date, provided that the first Interest Period shall be from 22 February 2000 to the first Interest Date thereafter, and the last Interest Period shall end on the date that the Bonds are redeemed;

“Issuer” or “Telkom” means Telkom SA Limited, a company established in accordance with the laws of the Republic of South Africa (Registration Number 91/05476/06);

“Material Subsidiary” means any of Telkom’s Subsidiaries in which Telkom’s total shareholder’s equity exceeds 5% (five percent) of Telkom’s total assets; provided that for the aforegoing purposes: (i) “total shareholder’s equity” shall include all share capital and loans at nominal value; and (ii) the nominal value of such total shareholder’s equity shall be included in determining Telkom’s assets;

"Prime Rate" means the prime lending rate charged from time to time by The Standard Bank of South Africa Limited in respect of overdrawn current accounts to its most favoured corporate customers;

"Principal Amount" means, in relation to any number of Bonds, the number of such Bonds multiplied by R1 000 000 (One Million Rand);

"Redemption Date" means the date upon which the Bonds are to be redeemed, as envisaged in Condition 6.1 below;

"Register" means the register of Bondholders kept by Telkom in terms of Condition 11 below;

"Registered" means in relation to any address of any Bondholder, the address of the Bondholder appearing in the Register;

"Restricted Period" means the period commencing on the Closing Date and terminating 40 (forty) days thereafter, both dates inclusive;

"Settlement Agent" means a settlement agent as envisaged in the Rules of BESA;

"Subsidiary" means, in relation to Telkom, any company the shares of which are held as to 50% or more by Telkom and any company or entity which is a subsidiary of Telkom within the meaning of the South African Companies Act, 1973;

"Telkom Group" means Telkom and its Material Subsidiaries;

"Transfer Secretary" means Telkom or any person appointed by Telkom as its transfer secretary in respect of the Bonds, provided that no such appointment shall be effective until Telkom has notified all Bondholders of the name and address of the person appointed.

3 **AMOUNT, DENOMINATION AND FORM**

3.1 It is the Issuer's intention to issue Bonds for a total Principal Amount of R2,500,000,000 pursuant to these Conditions, provided that nothing herein contained precludes Telkom at any time from increasing the size of the issue and issuing further Bonds on these Conditions or similar conditions.

3.2 The denomination of each Bond is R1 000 000 (One Million Rand).

3.3 The Bonds shall be represented by Certificates substantially in the form set forth in Schedule 1 hereto (as provided for in Condition 10) and shall be transferable by registration in the Register in accordance with these Conditions. However, nothing in these Conditions precludes any Bonds from being held through any settlement system or from being registered in any depository or nominee company.

4. **STATUS**

The Bonds constitute direct, unconditional and (subject to Condition 5 below) unsecured obligations of Telkom and will at all times rank *pari passu* amongst themselves and at least *pari passu* with all other present or future unsecured and unsubordinated obligations of Telkom for monies borrowed and guarantees given by Telkom in respect of monies borrowed by others.

5. **NEGATIVE PLEDGE**

5.1 As long as any Bond remains outstanding, Telkom undertakes that it will not create any Encumbrance upon the whole or any part of its or any of its Material Subsidiaries' present or future revenues or assets to secure any

Indebtedness without securing the outstanding Bonds equally and rateably with such Indebtedness, and the instrument creating any such Encumbrance shall expressly provide therefor.

5.2 As used in these Conditions "Encumbrance" means any mortgage, charge, pledge, lien or other arrangement creating security other than any security on goods or other assets provided to or acquired by Telkom and securing a sum not greater than the purchase price (together with the interest and other related charges) on such goods or assets and any related services.

6. **REDEMPTION**

6.1 Subject to these Conditions, the Bonds shall be redeemed at their Principal Amount on 24 February 2020 or if that date is not a Business Day then on the next following Business Day.

6.2 Notwithstanding anything contained in these Conditions, no redemption in respect of any Bond shall be made unless the Certificate in respect of the Bond has been surrendered to the Transfer Secretary.

7. **INTEREST**

7.1 Subject to these Conditions each Bond shall bear interest from and including 22 February 2000 until and including the Redemption Date thereof (subject always to Condition 7.5) at 6% (six percent) per annum payable annually in arrears.

7.2 Notwithstanding the number of days in any year or in any Interest Period, Telkom shall pay interest of R60,000(sixty thousand Rand) in respect of the Principal Amount of each R1,000,000 Bond in respect of each Interest Period.

7.3 If interest is required to be calculated for a period of less than 12 (twelve) months it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (a) the number of those days falling in the leap year divided by 366 and (b) the number of those days falling in a non-leap year divided by 365).

7.4 The interest in respect of each Interest Period shall be payable on the Interest Date in that Interest Period or if that date is not a Business Day then on the next following Business Day.

7.5 Each Bond shall cease to bear interest from the Redemption Date thereof unless, upon any such date, payment of any part of the Principal Amount of, or any interest in respect of, such Bond is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest shall continue to accrue.

8. **PAYMENT**

8.1 The principal and interest of the Bonds shall be paid by Telkom in the currency of the Republic of South Africa in the Republic of South Africa.

8.2 All monies payable on or in respect of each Bond shall be paid by electronic funds transfer to the account of the relevant Bondholder as set forth in the Register or, in the case of joint Bondholders, the account of that one of them who is first named in the Register in respect of that Bond.

8.3 Any Bondholder may, upon 14 (fourteen) days' prior written notice to the Transfer Secretary, request that all payments to that Bondholder be made by cheque instead of electronic funds transfer. All monies so payable by cheque shall be sent by post to:

8.3.1 the address of that Bondholder as set forth in the Register; or

8.3.2 in the case of joint Bondholders, the Registered address of that one of them who is first named in the Register in respect of that Bond; or

8.3.3 such other address as may be designated in writing by that Bondholder; or

8.3.4 if the amount in question is legally payable to anyone else, the address designated by that person for that purpose.

8.4 Cheques shall be made payable to the relevant Bondholder or, in the case of joint Bondholders, the first one of them named in the Register.

8.5 Payment of a cheque sent in terms of Conditions 8.3 or 8.4 above shall be a complete discharge by Telkom of the amount of the cheque.

8.6 If several persons are entered in the Register as joint Bondholders, then, without affecting the provisions of Condition 8.5 above, payment to any one of them of any monies payable on or in respect of the Bond shall be an effective and complete discharge by Telkom of the amount so paid, notwithstanding any notice (express or otherwise) which Telkom may have of the right, title, interest or claim of any other person to or in any Bond or interest therein.

8.7 Subject to these Conditions, cheques shall be posted to the Registered address of the Bondholder entitled thereto:

8.7.1 in the case of interest, 7 (seven) days prior to the relevant Interest Date; or

8.7.2 in the case of redemption, 7 (seven) days prior to the Redemption Date or 14 (fourteen) days after the date on which the Certificate in respect of the Bond to be redeemed has been surrendered to Telkom (whichever is the later date).

8.8 If written notice of the intention to collect a cheque is given to and received by the Transfer Secretary at least 15 (fifteen) Business Days prior to the relevant Interest Date or Redemption Date, the cheque shall be available for collection by the Bondholder or the person entitled thereto in terms of Conditions 8.3.2 or 8.3.4, as the case may be, or their respective duly authorised representatives at the office of the Transfer Secretary:

8.8.1 in the case of interest, 7 (seven) Business Days prior to the relevant Interest Date; or

8.8.2 in the case of redemption, 7 (seven) Business Days prior to the Redemption Date or 10 (ten) Business Days after the date on which the Certificate in respect of the Bond to be redeemed has been surrendered to Telkom (whichever is the later date);

provided that, if a cheque is not collected on the day on which it becomes available for collection in terms of this Condition 8.8, or within 2 (two) Business Days after that day, the cheque shall be posted to the Registered address of the Bondholder.

8.9 Subject to these Conditions, cheques may be posted by ordinary post, provided that neither Telkom nor its agents shall be responsible for any loss in transmission and the postal authorities shall be deemed to be the agent of the Bondholders for the purpose of all cheques posted in terms of this Condition 8.

9. TAXATION

9.1 All payments in respect of the Bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by, or on behalf of, the Republic of South Africa, or any political sub-division of, or any authority in, or of, the Republic of South Africa having power to tax, unless such withholding or deduction of Taxes is required by law. In that event, Telkom will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of the withholding or deduction.

9.2 Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under these Conditions or under any undertakings given in addition to, or in substitution for, these Conditions.

10. CERTIFICATES

10.1 Each Bondholder shall be entitled:

10.1.1 without any payment therefor to receive a Certificate for the Bonds originally allotted to the Bondholder within 7 (seven) days after payment in full has been made therefor, provided that joint Bondholders will be entitled to receive only 1 (one) Certificate in respect of that joint holding and delivery to one of those joint Bondholders shall be delivery to all of them;

10.1.2 to receive a Certificate for the Bond(s) transferred to that Bondholder within 7 (seven) days after registration of that transfer subject to the provisions of Condition 12 (which will apply *mutatis mutandis* to such Certificate).

10.2 If a Certificate is worn out or defaced then upon its presentation to the Transfer Secretary, the Transfer Secretary may cancel that Certificate and issue a new Certificate in its place.

10.3 If a Certificate is lost or destroyed then upon proof thereof to the satisfaction of the Transfer Secretary, a new Certificate in lieu thereof may be issued to the person entitled to that lost or destroyed Certificate, provided that the Bondholder shall provide the Transfer Secretary and Telkom with an indemnity and pay any out-of-pocket expenses for investigating the loss. The person providing the indemnity and the form of the indemnity shall be to the satisfaction of Telkom.

10.4 An entry as to the issue of a new Certificate and indemnity (if any) shall be made in the Register.

10.5 Certificates to be provided by Telkom or its agents to Bondholders shall be collected by the Bondholders from Telkom.

10.6 It is recorded that in the event that the Bonds are listed on BESA a single Certificate in respect thereof may be lodged and immobilised in the settlement system of BESA. This will entail that the nominee of the Central Depository Limited, a central depository in terms of the Custody and Administration of Securities Act, 1992 will be reflected in the Register as the Bondholder.

11. REGISTER

11.1 The Register of Bondholders:

11.1.1 shall be kept at the office of the Transfer Secretary;

11.1.2 shall contain the names, addresses and bank account numbers of the Bondholders;

11.1.3 shall show the total Principal Amount of the Bonds represented by it;

11.1.4 shall show the dates upon which each of the Bondholders was registered as such;

11.1.5 shall show the serial numbers of the Certificates and the dates of issue thereof;

11.1.6 shall be open for inspection at all reasonable times during business hours on Business Days by any Bondholder or any person authorised in writing by a Bondholder;

11.1.7 shall be closed from 22 January to 22 February (both dates inclusive) in each year until the Redemption Date, or such shorter period as the Issuer may decide in order to determine those Bondholders entitled to receive interest.

11.2 The Transfer Secretary shall alter the Register in respect of any change of name, address or account number of any of the Bondholders of which it is notified.

11.3 Except as provided for in these Conditions or as required by law, Telkom:

11.3.1 will only recognise a Bondholder as the owner of the Bonds registered in that Bondholder's name as per the Register;

11.3.2 shall not be bound to enter any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Certificate may be subject.

12. **TRANSFER OF BONDS**

It is recorded that interests in Bonds which are lodged in the BESA settlement system may, in terms of existing law and facilities, be transferred through the BESA settlement system by way of book entry in the securities accounts of the BESA settlement agents. Such transfers will not be recorded in the Register and the nominee of The Central Depository Limited will continue to be reflected in the Register as the Bondholder notwithstanding such transfers. In order for any transfer of Bonds to be effected through the Register and for the transfer to be recognised by Telkom, the following provisions shall apply:

12.1 each transfer of a Bond:

12.1.1 must be in writing and in the usual form or in such other form approved by the Transfer Secretary;

12.1.2 must be signed by the relevant Bondholder and the transferee, or any authorised representatives of that registered Bondholder or transferee;

12.1.3 shall only be in respect of denominations of R1 000 000 (One Million Rand) each or a multiple thereof and consequently Telkom will not recognise any fraction of a denomination of R1 000 000 (One Million Rand);

12.1.4 must be delivered to the Transfer Secretary together with the Certificate in question for cancellation (if only part of the Bonds represented by a Certificate is transferred, a new Certificate for the balance will be issued to the transferor and the cancelled Certificate will be retained by the Transfer Secretary);

12.2 the transferor of any Bonds represented by a Certificate will be deemed to remain the owner thereof until the transferee is registered in the Register as the holder thereof;

12.3 before any transfer is registered all relevant transfer taxes (if any) must have been paid and such evidence must be furnished as the Transfer Secretary reasonably requires as to the identity and title of the transferor and the transferee;

12.4 no transfer will be registered whilst the Register is closed;

12.5 if a transfer is registered then the transfer form and cancelled Certificate will be retained by the Transfer Secretary.

13. **TITLE TO BONDS**

13.1 The registered Bondholder, or his executor, shall be regarded as being the only person having title to any Bond.

13.2 Telkom shall be entitled to assume for all purposes that the person reflected in the Register as the holder of any Bonds is the true owner of those Bonds.

14. **REPURCHASE OF BONDS**

Telkom or its nominee shall have the right to purchase any of the Bonds at any time on terms and conditions agreed between Telkom and the relevant Bondholder, provided that nothing in this Condition 14 shall entitle Telkom to compel or require any Bondholder to sell or transfer to Telkom any Bond at any time. Where the Bonds are or become publicly traded, Telkom shall be able to purchase Bonds in accordance with the rules and regulations of that market. Telkom may, in its sole discretion, register any Bond so purchased by it in its own name or that of its nominee, in which event such Bond may be sold by Telkom at such price, at such time and to such person as Telkom deems fit.

15. **DEFAULT**

15.1 If Telkom becomes aware of the occurrence of any event of default as described in Condition 15.3 below ("Event of Default"), Telkom shall forthwith notify all Bondholders and BESA (if the Bonds are listed on BESA).

15.2 Upon the occurrence of any Event of Default, each Bondholder shall be entitled to call upon Telkom in writing to pay immediately the Early Redemption Amount calculated according to Schedule A of these Terms and Conditions according the time when the Event of Default occurs plus accrued interest, except where the Event of

Default is an event falling within 15.3.6 or 15.3.9, in which case each Bondholder shall be entitled to call upon Telkom in writing to pay immediately the Principal Amount plus accrued interest in respect of all Bonds of that Bondholder and all such amounts shall forthwith be due and payable.

15.3 For purposes of this Condition 15 each of the following comprises an Event of Default:

15.3.1 **Non-payment of Bonds in the BESA settlement system**: The failure by Telkom to pay any amount due in respect of any of the Bonds in the BESA settlement system within 4 (four) Business Days from the due date; provided that for purposes of this Condition 15.3.1, the reference to "Bonds in the BESA settlement system " shall mean Bonds which Telkom is required in terms of these Conditions to register in the name of the nominee of The Central Depository Limited; or

15.3.2 **Non-payment of Bonds outside the BESA settlement system**: The failure by Telkom to pay any amount due in respect of any of the Bonds or under any of these Conditions within 10 (ten) Business Days after having been called upon in writing to pay the amount due; or

15.3.3 **Breach of Representation or Warranty:** Any representation, warranty or undertaking by Telkom in these Conditions or in any document delivered under any of these Conditions is not materially complied with or is proved to have been materially incorrect or misleading when made or repeated or deemed to have been made or repeated; or

15.3.4 **Breach of Undertaking:** A failure by Telkom to perform any of its other obligations in respect of the Bonds or these Conditions on due date thereof and the failure to remedy that breach, if remediable, within 10 (ten) Business Days after having been called upon to do so by any Bondholder; or

15.3.5 **Cross-default**: Any other Indebtedness of any of the Telkom Group (excluding Vodacom Group (Pty) Ltd and any entity in which Vodacom Group (Pty) Ltd holds an interest) other than Indebtedness owing to another member of the Telkom Group is or is declared to be due and payable before its agreed or normal maturity by reason of any actual Event of Default or is not paid when due or within any applicable grace period in any agreement relating to that Indebtedness or, as a result of any actual Event of Default (however described), any facility relating to any such Indebtedness is or is declared to be cancelled or terminated before its agreed or normal expiry date, or any person otherwise entitled to use any such facility is not entitled to do so. However, no Event of Default will occur under this Condition 15.3.5 unless and until the aggregate amount of the Indebtedness (whether of one or more entities within the Telkom Group) in respect of which one or more of the events mentioned above in this Condition 15.3.5 has or have occurred equals or exceeds US Dollars 10.0 million; or

15.3.6 **Insolvency:** Any of the Telkom Group is unable to pay its debts, ceases or threatens to cease to carry on the whole or a part substantial part of its business, suspends or threatens to suspend payment of all or a material part of (or of a particular type of) its Indebtedness, commences negotiations or takes any other step with the view to the deferral, rescheduling or other compromise of all or a material part of (or all of a particular type of) its Indebtedness (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or a moratorium is agreed or declared in respect of or affecting all or a material part of (or a particular type of) the Indebtedness of any of the Telkom Group; or

15.3.7 **Enforcement Proceedings:** An attachment, execution or other like legal process in an amount in excess of US Dollars 10.0 million is levied, enforced, issued or sued out on or against any assets of any of the Telkom Group and is not discharged or stayed within 30 (thirty) days; or

15.3.8 **Security Enforceable:** Any security in respect of a principal debt in excess of US Dollars 10.0 million on or over any material asset of any of the Telkom Group becomes enforceable and any step (including the taking of possession or the appointment of a receiver, manager or similar person) is taken to enforce that security. However, the exercise of a lien arising solely by operation of law (or any agreement evidencing the same) in the ordinary course of business shall not constitute an Event of Default under this Condition 15.3.8 if the Indebtedness in respect of which that lien is being exercised either (i) has been due for less than 7 (seven) days, or (ii) is being contested in good faith by appropriate means; or

15.3.9 **Winding-up:** If a resolution is taken by the members of any of the Telkom Group to voluntarily wind-up such Telkom Group entity (except for the purpose of a reconstruction, merger or an amalgamation) or if any of the Telkom Group or any of its assets seeks or becomes subject to any liquidation or judicial management order, whether provisional or final, or if any trustee, liquidator, curator, judicial manager or any similar officer is appointed in respect of any of the Telkom Group or any of its assets; or

15.3.10 **Nationalisation**: Any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of any of the Telkom Group or any of the securities of or issued by any of the Telkom Group; or

15.3.11 **Consents:** Any action, condition or thing (including the obtaining of any necessary consent) at any time required to be taken, fulfilled or done for any of the purposes of performing or maintaining any of these Conditions is not taken, fulfilled or done, or any such consent ceases to be in full force and effect without qualification or any condition in or relating to such consent is not complied with (unless that consent or condition is no longer required or applicable).

15.4 Without limiting the generality of Condition 15.3 above, Telkom shall pay penalty interest at the Prime Rate in respect of any amount, whether capital or interest, which falls due for payment hereunder but which is not paid up by Telkom on due date, such penalty interest to be calculated daily and compounded on a monthly basis from due date until date of payment thereof.

16. UNDERTAKINGS

Until Telkom has made payment of all amounts due by it in respect of the Bonds, it shall keep proper books of account and records, and, upon request, post to each Bondholder, a copy of its annual financial statements, consolidated interim reports and the consolidated annual financial statements of Telkom and its Subsidiaries, simultaneously with the posting of those documents to Telkom's shareholders.

17. AMENDMENT OF THESE CONDITIONS

17.1 Subject to Condition 17.2 below, these Conditions set out all the rights and obligations relating to the Bonds and no addition, variation or consensual cancellation of these Conditions shall be of any force or effect unless in writing and signed by or on behalf of Telkom and the Bondholders.

17.2 Telkom may, with the prior sanction of a special resolution (within the meaning of the South African Companies Act, 1973) of a meeting of Bondholders as envisaged in Condition 18 below or with the prior written consent of Bondholders holding not less than 75% (seventy five percent) in number of the Bonds outstanding from time to time, amend these Conditions, provided that no such amendment shall be of any force or effect unless notice of the intention to make such amendment shall have been given to all Bondholders by written notice posted to their Registered addresses.

18. MEETINGS

18.1 Telkom may at any time convene a meeting of Bondholders upon at least 21 (twenty-one) days' prior notice to Bondholders. Such notice shall specify the place of the meeting, which shall be in the Republic of South Africa, and the date and time thereof.

18.2 Every director and representative of Telkom may attend and speak at a meeting but shall not be entitled to vote at a meeting other than as a Bondholder or proxy for a Bondholder.

18.3 The chairman of the meeting shall be appointed by Telkom. The procedures to be followed at the meeting shall be as determined by the chairman subject to the remaining provisions of this Condition 18.

18.4 Each Bondholder that is present in person or by proxy at the meeting shall have 1 (one) vote for each R1,000,000 denomination Bond held by such Bondholder.

18.5 The instrument appointing a proxy shall be in writing under the hand of the appointer or of his authorised agent or if the appointer is a company or any other body corporate (including a benefit, pension, provident or any other similar fund) either signed by its authorised officer or agent. Such instrument shall automatically entitle a proxy to speak at a meeting.

18.6 A person appointed to act as a proxy need not be a Bondholder.

18.7 The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney shall be deposited with Telkom not less than 24 (twenty-four) hours before the time appointed for the meeting or adjourned meeting (or in the event of a poll, before the time appointed for the taking of the poll), failing which the instrument of proxy shall not be treated as valid.

19. NOTICES

19.1 Any notice to Telkom in connection with the Bonds or pursuant to these Conditions shall be deemed to have been received by Telkom if delivered to Telkom at its address for notices. Subject to the remaining provisions of this Condition 19.1, Telkom's address for notices shall be Telkom Towers North, Room 1402, 152 Proes Street, Pretoria (Attention: Transfer Secretary for TL20). Telkom may change its address for notices upon prior written notice to Bondholders, provided that such notice shall specify a new address for notices.

19.2 Any notice to a Bondholder in connection with the Bonds or pursuant to these Conditions shall be deemed to have been received by the Bondholder if (i) delivered to the Bondholder at the Bondholder's registered address, or (ii) published in one leading English language daily newspaper with circulation in Johannesburg and in one leading English language daily newspaper with circulation in London.

20. ILLEGALITY

If any Condition or term of these Conditions should be invalid, unenforceable or illegal, then the remaining terms and provisions of these Conditions shall be deemed to be severable therefrom and shall continue in full force and effect unless such invalidity, unenforceability or illegality goes to the root of these Conditions.

21. GOVERNING LAW

The Bonds and all rights and obligations relating thereto are governed by the laws of the Republic of South Africa.

Kaushik Patel

Chief Financial Officer

SCHEDULE A

Early Redemption Amount

From (Not Including)	To (Including)	Amount (Rand)	As % of Notional
22-Feb-00	22-Feb-01	2,030,826,138	81.233%
22-Feb-01	22-Feb-02	2,042,209,121	81.688%
22-Feb-02	24-Feb-03	2,054,496,673	82.180%
24-Feb-03	23-Feb-04	2,067,760,675	82.710%
23-Feb-04	22-Feb-05	2,082,078,723	83.283%
22-Feb-05	22-Feb-06	2,097,534,579	83.901%
22-Feb-06	22-Feb-07	2,114,218,660	84.569%
22-Feb-07	22-Feb-08	2,132,228,570	85.289%
22-Feb-08	23-Feb-09	2,151,669,667	86.067%
23-Feb-09	22-Feb-10	2,172,655,683	86.906%
22-Feb-10	22-Feb-11	2,195,309,388	87.812%
22-Feb-11	22-Feb-12	2,219,763,308	88.791%
22-Feb-12	22-Feb-13	2,246,160,498	89.846%
22-Feb-13	24-Feb-14	2,274,655,386	90.986%
24-Feb-14	23-Feb-15	2,305,414,667	92.217%
23-Feb-15	22-Feb-16	2,338,618,286	93.545%
22-Feb-16	22-Feb-17	2,374,460,486	94.978%
22-Feb-17	22-Feb-18	2,413,150,946	96.526%
22-Feb-18	22-Feb-19	2,454,916,008	98.197%
22-Feb-19	24-Feb-20	2,500,000,000	100.000%

CERTIFICATE
Telkom SA Limited
Internal Registered Stock
Issued in terms of the Post Office Act (Number 44 of 1958) as
amended and the articles of association of Telkom SA Limited

Redeemable

____

This is to certify that

Loan No.
Number _____

Of

is the registered holder of

Rand of the above-named stock

Signed on behalf of and by authority of Telkom SA Limited at Pretoria

this day of

NOTE:

This stock will be transferable by deed, free of stamp duty and registration charges, in amounts of R[1 million] or multiples thereof, in the Stock Register kept at the office of The General Manager: Treasury 14th Floor, Telkom Towers (North), 52 Proes Street, Pretoria 0001, only on the surrender of this **Certificate** accompanied by a duly executed **Transfer Form**. No transfer will be accepted until the relevant stock has been paid in full. This **Certificate** must be surrendered on payment of the Principal Amount and any accrued interest.

Telkom SA Ltd
Reg. No 91/05476/06

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT 1933, AS AMENDED (THE "SECURITIES ACT"). THE BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO U.S. PERSONS EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

THIS CERTIFICATE REFLECTS ONLY A SUMMARY OF CERTAIN OF THE MAIN FINANCIAL TERMS OF THE BONDS. THE BONDS ARE ISSUED SUBJECT TO THE TERMS AND CONDITIONS SIGNED ON BEHALF OF THE ISSUER ON 22 FEBRUARY 2000 PURSUANT TO A RESOLUTION OF THE BOARD OF DIRECTORS OF TELKOM DATED 18 MARCH 1999, WHICH TERMS AND CONDITIONS ARE SET OUT IN THE PLACING DOCUMENT DATED 22 FEBRUARY 2000 IN THE EVENT OF ANY INCONSISTENCY BETWEEN THIS SUMMARY AND THE TERMS AND CONDITIONS, THE TERMS AND CONDITIONS SHALL PREVAIL.

SUBSCRIPTION AND SALE

The Initial Investor (the "Subscriber") has, pursuant to a Subscription Agreement dated 22 February 2000 ("the Subscription Agreement"), agreed to subscribe and pay for R2,500,000,000 nominal of the Bonds at an issue price of 43.619815% of the Principal Amount . The Subscriber is entitled to terminate the Subscription Agreement in certain circumstances prior to the issue of the Bonds. The Issuer has agreed to indemnify the Subscriber against certain liabilities in connection with the offer and sale of the Bonds, as detailed in the Subscription Agreement.

The Bonds have not been and will not be registered under the United States Securities Act 1933, as amended ("the Securities Act"). Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to US persons.

In addition, until 40 days after the Closing Date an offer or sale of Bonds within the United States by any dealer may violate the registration requirements of the Securities Act.

The Subscriber has agreed that (i) it has not offered or sold and, prior to the expiry of six months from the Closing Date, will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the Bonds to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

No action has been, or will be, taken by the Issuer or the Subscriber that would permit a public offering of the Bonds, or possession or distribution of the Placing Document or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither the Placing Document nor any circular, prospectus, form of application, advertisement or other material, may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

SETTLEMENT, CLEARING AND TRANSFERS

If the Bonds are listed on BESA the provisions of this schedule shall apply.

Bonds which are held in the BESA settlement system are held by, and registered in the name of, the nominee company of the Central Depository.

Whilst any of the Bonds are held in the BESA settlement system, the Central Depository's nominee will be reflected as the Bondholder in the Register. Accordingly, in terms of the Conditions relating to the Bonds, all amounts to be paid and all rights to be exercised in respect of the Bonds held through the BESA settlement system, will be paid to and may be exercised only by the Central Depository for the beneficial owners of the Bonds.

The Central Depository holds Bonds subject to the Custody and Administration of Securities Act, 1992 and the Rules of the Central Depository. The Rules of the Central Depository as at the date of this Placing Document are as published by the Registrar of Financial Markets in *Government Gazette* No 17637 of 6 December 1996.

The Central Depository maintains accounts only for the participants in the Central Depository ("Participants"). The Participants are also settlement agents of BESA. As at the date of this Placing Document, the settlement agents are ABSA Bank Limited, FirstRand Bank Limited, Nedcor Bank Limited and The Standard Bank of South Africa Limited. The Participants are in turn required to maintain securities accounts for their clients. The clients of Participants may include beneficial owners of the Bonds or their custodians. The clients of Participants, as beneficial owners of the Bonds or as custodians for beneficial owners, may exercise their rights in respect of the Bonds held by them in the BESA settlement system only through the Participants. Euroclear and Cedelbank may hold Bonds through their BESA settlement agent, The Standard Bank of South Africa Limited.

Transfers of interests in Bonds in the BESA settlement system to and from clients of Participants occur by book entry in the securities accounts of the clients with settlement agents (transfers amongst settlement agents of Bonds held in the BESA settlement system occur through book entry in the Participants' central securities accounts with the Central Depository). The standard settlement period on BESA is T+3.

Transfers of Bonds that are not held in the BESA settlement system may be effected only in terms of the Conditions relating to the Bonds and the Rules of BESA ("Rules"). The Bonds will be settled by the BESA settlement agents who will follow the electronic settlements procedures prescribed in the Rules. The Rules are available on request from BESA.

DESCRIPTION OF TELKOM

Introduction

Telkom SA Limited ("Telkom" or the "Company") is a provider of telecommunications services and products in the Republic of South Africa ("RSA" or "South Africa") to business, residential and international customers in terms of the Telecommunications Act 1996, and licences issued to it under that Act..

Telkom is one of South Africa's leading 10 corporations, with total assets of R37.1 billion and annual revenue of R22.7 billion as of 31 March 1999. The number of telephone service lines per Telkom employee has increased by about 66% between October 1991 (commercialisation) and March 1999, from 50 to 83.

History

Over the last eight years, Telkom has been successfully transformed from a government department to a partially privatised enterprise. Public switched telecommunications services ("PSTS"), value added services, and radio licences have been issued to Telkom by the Minister of Posts, Telecommunications and Broadcasting, and Telkom has retained the sole right to provide PSTS until at least 2002.

On 1 October 1991 the Government embarked upon a commercialisation process through which the telecommunications and postal enterprises of the Department of Posts and Telecommunications were transferred to two state-owned companies, Telkom and SA Post Office Limited. Telkom remained a wholly-state owned enterprise until 14 May 1997, when a 30% equity stake was sold to SBC Communications Inc. (18%) and Telekom Malaysia Berhad (12%) which together comprise the consortium known as Thintana Communications LLC ("Thintana"). The renamed Department of Communications is now the centre of policy making and policy review for the postal, telecommunications and broadcasting sectors in the country. Telkom operates as an independent public company and is the leading provider of telecommunications and information services and products in the RSA.

Telkom's Management Team

Telkom's executive committee members are:

Sizwe E Nxasana	*Chief Executive Officer ("CEO")*
Thomas M Barry	*Chief Operating Officer ("COO")*
Wilbur Crossley	*Managing Executive: Technology and Network Services*
Joseph M Rajaratnam	*Group Executive: Centre for Learning*
Anthony Lewis	*Chief Financial Officer*
Shan Manickam	*Group Executive: Strategic Planning*
Victor Booysen	*Group Executive: Human Resource Services*
Khotso Ntseare	*Managing Executive: Subsidiaries, Mergers and Acquisitions*
Amanda Singleton	*Group Executive: Corporate Communications*
Francois Lutsch	*Group Executive: Legal Services*
Victor Moche	*Group Executive: Regulatory and Government Relations*
Nombulelo Moholi	*Managing Executive: International and Special Market Services*
Bheki Langa	*Deputy COO and Managing Executive: Customer Services and Sales*
Chan Hiok Ping	*Managing Executive: Re-engineering*
Randall Seidl	*Managing Executive: Corporate Accounts*

Al Todd	*Managing Executive: Marketing*
Segar Annamalai	*Managing Executive: Information Technology Services*
Bob Schlutow	*Managing Executive Procurement Services*

The business address of Telkom is Telkom Towers North, 152 Proes Street, Pretoria, 0002, Republic of South Africa.

Financial Figures and Profile

Historical Figures (Audited)

(RAND, MILLION)	**12 Months 31 March 1997**	**12 Months 31 March 1998**	**12 Months 31 March 1999**
Revenue	15 843	19 218	22 674
Revenue Growth	21.0%	21.3%	18.0%
Cash Flow From Operating Activities	5 324	3 976	6 123
Margin	45.3%	35.1%	33.9%
Operating Income (EBIT)	4 668	5 137	4 481
Operating Income Margin	30.1%	26.7%	19.8%
EBITDA	6 957	7 586	7 474
Interest Expense	(1 652)	(1 520)	(1 253)
Attributable Income	1 880	2 475	2 333
Total Assets	22 106	25 246	37 062
Fixed Assets	15 666	19 997	29 790
Interest Bearing Debt	10 525	6 347	13 541
Stockholder’s Equity	6 631	12 954	14 955
Capital Expenditure	3 681	7 030	12 888
Debt Equity Ratio	1.6	0.5	0.9
Main Telephone Lines (Company)	4 258 639	4 645 065	5 075 417
Average Number of Employees	57 496	57 813	60 613
Main Services Lines/Employee (Company)	75	82	83
EBITDA/Lines (Company)	1 561	1 485	1 239

Debt Profile

As at 31 March 1999 the Telkom Group had Gross Interest Bearing Debt (before discount and the set off of interest bearing investments) of R15109 million which consists of domestic (South African Rand) loans amounting to R11566 million and foreign loans of R3543 million. The foreign loans are in relative percentages as follows: 86% in US Dollars, 3% in Deutsche Marks, 4% in Sterling and the rest in French Francs and Swiss Francs. Loans amounting to R8 515 million mature within the next five years.

Subsidiaries and Joint Ventures

Telkom has a 50% interest in Vodacom Group (Pty) Ltd, which operates one of the two licensed cellular telephone networks and also acts as service provider. Telkom also has a 100% interest in Q-Trunk (Pty) Ltd, which provides radio-trunking services, and a 60% interest in Swiftnet (Pty) Ltd, which provides a fixed and portable radio data system. On 11 October 1996, Telkom formed a wholly owned subsidiary company, Intekom (Pty) Ltd, which acts as an Internet service provider. On 1 September 1997 Telkom sold its Directories Business Unit to Telkom Directory Services (Pty) Ltd (“TDS”) in exchange for a 61% interest in the latter company. A further 10% of Telkom’s holding in TDS was sold to organised labour during the course of 1998.

Capital Expenditure

To achieve the strategic objectives as agreed between the Minister of Posts, Telecommunications and Broadcasting, Telkom and Thintana (including the licence requirements), and to establish Telkom as a primary hub and network provider of choice in Southern Africa, one of the key requirements is to add 2.8 million new lines to Telkom's network by March 2002. Another priority is the upgrading of one million existing non-digital lines.

The PSTS licence, apart from specifying the target obligations, also sets out clear timeframes in which these must be met. Telkom has a five-year period of exclusivity, ending in May 2002, with the prospect of a sixth year if the performance exceeds the targets set. This concessionary period was granted to allow Telkom to prepare for competition while meeting its target obligations. Telkom already faces competition in the field of value added network services.

Telkom's plan is to build a market driven network by ensuring that roll-out build is based on market studies and demand analysis. These studies and analyses were carried out by Thintana, Telkom's strategic equity partner, (as part of their due diligence process), various independent research entities, as well as Telkom. Telkom is providing capacity ahead of demand to minimise service provision lead times and to have a flexible deployment plan which balances service provision with network utilisation.

The planned roll-out of total network capacity is reflected in the following table (figures presented in thousands of lines):

	97/98	**98/99**	**99/00**	**00/01**	**01/02**	**Total**
Residential and Business Lines	75	117	216	318	287	1 013
Underserviced Area	265	318	359	357	378	1 677
Payphones	20	25	25	25	25	120
Total new user Lines	360	460	600	700	690	2 810

To supply the sophisticated services demanded by customers, including the provision of multimedia services, it is planned to replace all remaining electromechanical and manual exchanges with digital equipment by 31 March 2000.

Telkom has committed to an aggressive roll-out plan. Significant new investment of up to R52 billion between 1997 and 2002 is expected to achieve a target roll-out of 2.8 million new telephone lines (including 0.12 million public pay-phones), of which 1.68 million will be in under-serviced areas, over the five-year period. Telkom's actual and expected capital expenditure program between 1997 and 2002 is shown below:

Actual and Projected Capital Expenditure and Investments R million	97/98[1]	98/99[1]	99/00[2]	00/01[2]	01/02[2]	Total
Total	6 479	10 500	10 150	14 007	12 362	53 498
Less: Investments	(39)	–	(250)	(250)	(250)	789
Net	6 440	10 500	9 900	13 757	12 112	52 709

1. Actual
2. Forecast

Telkom modernised a total of 518 105 existing lines during the year ended 31 March 1999, an almost 40-fold improvement on the target of 13 000. In terms of new lines installed, Telkom added another 502 750 to its network against a target of 460 000 over the same period – effectively connecting over 1 370 new customers every day. Telkom also took telecommunications services to communities in 920 villages, exceeding Telkom's licence target of 610 by 50%.

Telkom exceeded its payphone roll-out obligations by more than 9%, installing 27 271 new units against a target of 25 000, and provided 4 774 new services to priority customers, an increase of 24.2% on the target of 3 845.

Telkom also exceeded eight out of its ten service quality performance targets. These included business and residential fault rates, which Telkom bettered by 34% and 11% respectively. It achieved 102% of the card phone serviceability obligations and 101% of the coin phone target.

Through these efforts Telkom aims to become an internationally competitive company and a telecommunications hub for the rest of Southern Africa.

The roll-out plan requires the introduction of new technology and the transformation of Telkom’s management structure and operations, by a training programme of R2.3 billion between 1997 and 2002 which will help to ensure that service quality levels and efficiency levels can be met by bringing international skills into the country and transferring them to Telkom employees.

Network Demand

The line roll-out plan discussed above is driven by access line demand. The plan provides basic telecommunications services where viable economic demand exists, and payphones to meet the needs of the rest of the market (i.e. universal access).

Market research focused on determining long-term demand for residential telephony services was based mainly on a household’s socio-economic profile. As would be expected, residential demand demonstrated a positive relationship with household income. The research team established qualified households as being those households with monthly income of R900 (compared to GDP/capita of US$3164) as the minimum threshold to qualify for a private residential line.

With regard to business lines, the research team estimated demand based on real GDP growth rates and international benchmarks. Demand for payphones is based on recognised standards for payphones in service per 1 000 inhabitants.

Privatisation and Government’s Intentions for Telkom

In terms of addressing the strategic and financing requirements for the enterprise, the Government has partially privatised Telkom through the introduction of a strategic equity partner, Thintana, consisting of SBC of the United States of America (18%) and Telekom Malaysia Berhad (12%). SBC is rated AA- and A1 by S&P and Moody’s respectively, while Telekom Malaysia Berhad is rated BBB- by S&P and Baa3 by Moody’s.

The sale of 30% of Telkom for US$1.261 billion represents one of the largest foreign direct investments for infrastructure development in the country, of which US$ 1 billion has been injected into Telkom to maximise the capital expenditure and network expansion programme. This will have a significant effect on the economy and provide stimulus for GDP growth and growth in related sectors. As a result, Telkom is expected to be transformed into a cost effective, efficient and service-oriented world-class company. This will be accomplished through an investment in training and human resources development. To support this objective, up to 80 management experts from SBC and Telekom Malaysia Berhad have been seconded to Telkom for varying periods of time. Operational control of Telkom is vested in an Operating Committee which is controlled by Thintana. Telkom has a substantial commitment to network and telephone services expansion, improvement in service quality and transformation. In addition, the advanced telephone, multi-media and other business information services will benefit the economy.

On 16 July 1999, the Government announced its intention to sell a further 10% in Telkom, comprising 5.0% to the National Empowerment Fund (a proposed Government investment fund), 3.0% to black investors and the remaining equity to unions and Telkom staff.

TELECOMMUNICATIONS INDUSTRY

Description of Environment

The telecommunication environment in South Africa is undergoing major changes. The ongoing rapid convergence of communications, computers, content and consumer electronics continues to blur existing industry boundaries. This convergence is being spurred on by rapid advances in technology. The advent of globalisation and the shift towards the liberalisation of telecommunications operators are contributing to the need to introduce internationally competitive rates structures. In addition, customers are demanding worldwide connectivity, service quality, fast delivery, advanced voice, data and multi-media services, lower tariffs and a one-stop service.

It is expected that customers' requirements to communicate while on the move will continue to grow. Licences for operating independent cellular networks were granted to Mobile Telephone Networks Holdings (Proprietary) Limited ("MTN") and Vodacom Group (Proprietary) Limited ("Vodacom") in 1993. Commercial service commenced in June 1994. Telkom provides all fixed links for both cellular operators. The South African Telecommunications Regulatory Authority ("SATRA") is in the process of evaluating bids for an additional mobile cellular licence.

Vodacom is owned by Telkom (50%), Vodafone plc (31.5%), the Rembrandt Group (13.5%) and Descarte Investments (5%). Growth of the cellular market has far exceeded market expectations with about 2.1 million customers already connected. Vodacom has captured in excess of 57.5% of this market.

South Africa has many characteristics of both a developed industrialised country and that of a developing country with teledensity (as measured by main telephone services per 100 inhabitants) varying substantially between the major urban areas and the rural areas. The average teledensity is 10.1% (1996 figure) and the average GDP/capita in 1998 was approximately US$3164.

Regulatory Environment

The regulatory framework created by the Telecommunications Act, 1996 ("the Act") is intended to facilitate the transition to competition among a variety of service providers. The key objectives of the Act include the following:

- the creation of a Universal Service Fund and Human Resources Fund;
- the promotion of universal and affordable telecommunications services;
- the promotion of telecommunications services that are responsive to the needs of users and consumers; and
- the promotion of fair competition within the telecommunications industry.

These policy objectives underlie the specific provisions of the Act, through which the Universal Service Agency and SATRA were established. SATRA is the independent regulatory watchdog and enforcement institution for the sector, and is responsible for implementing policy by performing a broad range of regulatory functions.

New legislation, which resulted in the establishment of an Independent Telecommunications Authority, was enacted in November 1996. Competition in the telecommunications sector is being phased in gradually, starting with Customer Premises Equipment and Value Added Data Services. In 1997 the Minister of Posts, Telecommunications and Broadcasting issued PSTS, value added services and radio licences to Telkom.

Regulatory Issues

Telkom is in discussion with SATRA on a number of regulatory issues. During the financial year ended 31 March 1999 SATRA introduced proposed interconnection guidelines. Telkom participated in the public debate around these guidelines with a submission that maintained that a level playing field should be introduced for all. These guidelines should encourage facilities-based competition and network roll-out, actual cost recovery, economic feasibility and the implementation of interconnection rules on a reciprocal and symmetrical basis.

Telkom expects SATRA to issue approved interconnection guidelines during the 1999/2000 financial year. In the interim Telkom will continue to operate according to the interconnection guidelines issued by the Minister of Posts, Telecommunications and Broadcasting in 1997, which will remain valid until May 2000.

Another regulatory issue has involved the local Internet Service Providers Association ("ISPA") and revolves around Internet access. Telkom has adopted the view that ISPA should not bypass Telkom's networks or provide voice-over services via Internet. This position is in keeping with current legislation and is firmly entrenched in Telkom's licence. Telkom has engaged in comprehensive negotiations with ISPA over the past two years to settle this issue, but withdrew from further discussions after ISPA stated that it had no intention of agreeing to either provision. The dispute has therefore been referred to the courts for resolution.

During 1998/99 Telkom merged its regulatory and legislative divisions into one business unit in order to more effectively address legislative policies and their regulatory administration.

Telkom's Role in the Telecommunications Industry

Telkom employs state-of-the-art digital telecommunications technology in the majority of its transmission, exchange and data networks. The digitisation drive accelerated during 1998. 92% of automatic working lines were connected to digital exchanges compared to 74% on 31 March 1997. While the PSTS licence calls for the replacement of non-digital lines by March 2002, Telkom expects to be 100% digital by 31 March 2000.

Tariff Setting

Telkom's licence prescribes the services that are included in the basket of services that are subject to a price cap formula. Basket services prices are filed with SATRA for approval. SATRA may withhold its approval of these tariffs where the price cap has been violated or where Telkom's terms and conditions for the provision of PSTS violate applicable laws in a material respect.

Non-basket product prices, on the other hand, are not subject to the price cap formula but are submitted to SATRA for its information only.

Products and services in a competitive environment (i.e. PABX's and a variety of terminal equipment) are all non-basket products and services and market forces determine prices for these. Revenue from services for which Telkom enjoys exclusivity is not used to subsidise competitive products and services.

When setting national call pricing, three important variables are used to generate an optimal level of turnover and/or increase affordability. These include the duration of the call; the distance between the points of origin and destination; and the time of day as well as the day of the week the call is made.

Telkom still has an unbalanced call pricing structure, which leads to over-recovery on long distance and international calls, and under-recovery on local calls. While many world-class companies have a price ratio of 1:4.5 between local and international call charges, Telkom's ratio has been far wider. Rebalancing in 1997 and 1998 led to the ratio narrowing to 1:13 and 1:9.2 respectively, and the 1999 adjustment will result in a ratio of 1:7.8. The rebalancing will continue until Telkom's ratios are in line with international norms.

Competition

Although Telkom enjoys exclusivity in the provision of a significant portion of telecommunications services in South Africa, the market is under local and international competitive pressure.

The return of many multinational telecom corporations (e.g. AT&T, BT, Sprint, MCI, WorldCom) to South Africa is expected to be a further incentive for global communications operators, which already service these corporations abroad, to establish or enhance their presence in South Africa.

However, due to its exclusivity, Telkom is currently the partner of choice for international telecom companies looking to enter the South African market. This has allowed Telkom to choose alliances selectively with partners whose products and services best complement those of Telkom. Telkom has formed an alliance with AT&T, World Partners and Vodafone, and has already invested in ICO and will investigate other partnership opportunities.

Vodacom

Vodacom, in which Telkom has a 50% equity stake, is Telkom's access to a major growth area of the industry. The number of Global System for Mobile Communications ("GSM") subscribers has continued to grow rapidly since cellular telephony was launched. The explosive growth of South Africa's cellular industry continued to outpace industry forecasts during 1998. Vodacom saw its customer base climbing to 2 million by year-end 1998, of which 1.5 million were active subscribers, representing an increase of some 50%. Vodacom's financial performance has exceeded expectations as a result of this growth. This can be seen in Vodacom's break-even being achieved within two years (during the 1996/97 financial year) instead of the projected five years.

Turnover in the year ended 31 March 1999 rose by 56% to R6.8 billion from the previous year's R4.4 billion, while operating profit stood at R1.5 billion. The Vodacom board approved a capital expenditure programme of R2.5 billion for the year, an investment that was entirely self-funded. Included in the programme were 100 micro-base stations, six voicemail platforms and two additional Intelligent Network platforms. Network expansion is ongoing and expenditure is expected to exceed R2.3 billion in the coming financial year.

Another milestone for Vodacom was its entry into the Internet market with the launch of Vodacom Internet Company, its new Internet Service Provider (ISP), and Yebo!Net, which offers prepaid access to the Internet at local Telkom rates. By year-end, Yebo!Net had 60 000 subscribers, establishing itself as the fastest-growing ISP in South Africa.

CAPITALISATION

The following table sets out the audited capitalisation of Telkom as at 31 March 1998 and 1999:

	1998 R million	1999 R million
Share Capital	8 293	8 293
Outside shareholders' interest in subsidiaries	19	84
Deferred taxation	(621)	17
Accumulated reserves	4 661	6 662
Long term provisions	1 012	723
Leave pay to in -service employees	478	103
Medical benefits for employees retired before 1 October 1991	534	620
Net interest-bearing debt	6 347	13 541
– Interest bearing debt (including discounts)	*7 595*	*15 109*
Locally registered Bonds	2 998	5 088
Other local debt	483	5 139
Foreign debt		
– Bonds and loans	2 866	3 314
***Less:* Investments**	644	370
Repurchase Agreements	126	4
Deposits and money market assets		
– Bills and bankers' acceptances	304	51
– Money on call	17	226
– Cash and bank	197	89
Total	19 067	28 950

The maturity structure of interest-bearing debt as at 31 March 1999 is as follows:

	Local	Foreign	Net
Long term			
After 1 year within 5 years	271	2 739	3 010
After 5 years within 10 years	6 593	1	6 594
After 10 years			
Short term	4 702	803	5 505
Total	11 566	3 543	15 109

Since 31 March 1999 net interest-bearing debt has increased by approximately ZAR 3.5 billion, inclusive of the Bonds. The incremental debt has been sourced from the domestic market, and has been used to fund the publicly announced capital expenditure programme. Save as disclosed herein, there has been no material change in the capitalisation of the Issuer since 31 March 1999.

SUBSIDIARIES AND JOINT VENTURE

for the years ended 31 March

Issued ordinary and preference share capital and percentage held				Shares at cost		Indebtedness	
		1999	**1998**	**1999**	**1998**	**1999**	**1998**
	R	%	%	R	R	R'000	R'000
Vodacom Group (Pty) Ltd	100	50	50	50	50	535 000	575 000
Q-Trunk (Pty) Ltd	10 001 000	100	100	10 001 000	1 000	82 338	50 373
Swiftnet (Pty) Ltd	50 000 000	60	100	48 000 000	48 000 000	35 498	11 139
Intekom (Pty) Ltd	*10 001 000	100	100	*10 001 000	1 000	58 413	42 072
Telkom Directory Services (Pty) Ltd	100 000	54.9	61	54 900	61 000	–	25 000
Telesafe (Pty) Ltd	100	100	100	100	100	1 138	–
Mnati Foods (Pty) Ltd	100	100	100	100	100	5 102	–

*Including R9,900,000 in respect of share premium account.

FIVE YEAR FINANCIAL REVIEW OF THE GROUP FOR THE YEARS ENDED 31 MARCH 1999

Financial Review of the Group

The financial statements of Telkom are prepared on the historical cost basis in conformity with Generally Accepted Accounting Practice. The principal accounting policies used by Telkom for the financial year ended 31 March 1999 are consistent with those applied in the previous years, with the exception of the policy on the capitalisation of borrowing costs. During the year ended 31 March 1999 Telkom changed its accounting policy with respect to the treatment of borrowing costs. In accordance with Generally Accepted Accounting Practice borrowing costs incurred in the construction and development of the telecommunications network and other qualifying fixed assets are now capitalised. Previously all borrowing costs were expensed to the income statement as they occurred. In addition, joint-venture intercompany transactions have been excluded from Telkom's revenues and selected expense items.

In addition to the changes in accounting policies discussed above, the current and prior years' figures in this Offering Circular have been restated to take into account the following adjustment. On incorporation of Telkom on 1 October 1991, certain fixed assets were taken over from the Department of Posts and Telecommunications. During the year Telkom discovered that for certain assets the original book value for depreciation purposes was applied incorrectly at that time. As a result, the depreciation charges related to these assets were understated during the period between October 1991 and the last year. This error has been corrected and the depreciation charges on those assets have now been adjusted and restated in prior years.

	Annual compound growth (%)	1999	1998	1997	1996	1995
Income statement (R'm)						
Revenue	20.22	22 674	19 218	15 843	13 091	10 856
Operating profit	12.14	4 213	4 286	4 214	3 188	2 664
Profit before taxation	20.03	3 228	3 617	3 017	1 830	1 555
Effective rate of taxation (%)	(7.53)	26.4	31.2	37.7	26.8	36.1
Attributable profit	23.84	2 333	2 475	1 880	1 339	992
Balance sheet (R'm)						
Fixed assets and investments	23.05	29 790	19 997	15 666	14 099	12 995
Current assets	16.62	7 272	5 249	6 440	4 524	3 932
Assets to be funded	21.64	37 062	25 246	22 106	18 623	16 927
Shareholders' interest	40.16	14 955	12 954	6 631	4 911	3 875
Interest bearing debt	8.61	13 541	6 347	10 525	10 212	9 733
Provisions	(2.34)	723	1 012	1 078	988	796
Deferred taxation		17	(621)	(774)	(774)	(632)
Current liabilities	25.16	7 742	5 535	4 646	3 286	3 155
Outside shareholders' interest in subsidiaries		84	19	–	–	–
Source of funding	21.64	37 062	25 246	22 106	18 623	16 927
Cash flow (R'm)						
Cash flow from operating activities		6 123	3 976	5 324	2 857	3 344
Cash flow in investing activities		(12 658)	(6 942)	(3 549)	(2 831)	(2 769)
Cash flow from financing activities		6 383	1 218	(341)	(191)	(92)
Net increase/(decrease) in cash		(152)	(1 748)	1 434	(165)	483

	Annual compound growth (%)	1999	1998	1997	1996	1995
Ordinary share performance						
Earnings per share (cents)	13.21	418.8	461.0	482.0	343.0	255.0
Dividend per share (cents)	0.64	59.5	98.1	103.0	77.0	58.0
Dividend cover (times)	3.93	7.0	4.5	4.7	3.8	6.0
Net asset value per share (cents)	40.19	2 684.8	2 325.5	1 190.4	881.6	695.0
Profitability ratios (%)						
Profit before taxation as a percentage of revenue	(0.18)	14.2	18.8	19.0	14.0	14.3
Return on total assets	(17.88)	15.1	23.4	23.9	19.9	33.2
Return on shareholders' interest	(11.65)	15.6	19.1	28.4	27.3	25.6
Solvency and liquidity						
Debt-equity ratio (times)	(22.54)	0.9	0.5	1.6	2.1	2.5
Current ratio (times)	(6.94)	0.9	0.9	1.4	1.4	1.2
Acid test ratio (times)	(5.43)	0.8	0.8	1.3	1.2	1.0
Average credit extended to telephony customers (days)	2.47	43.0	41.6	39.9	39.0	39.0
Net operating cash flow margin (%)	(4.87)	33.9	35.1	45.3	37.1	41.4
Interest cover (times)	13.10	3.6	3.4	2.8	2.2	2.2
Productivity of the Group						
Average number of employees	0.30	60 613	57 813	57 496	57 501	59 896
Revenue per employee (R)	19.86	374 090	332 417	275 550	227 666	181 247
Operating profit per employee (R)	11.81	69 515	74 118	73 292	55 443	44 477
Value created per employee (R)	15.0	230 462	223 842	207 336	162 345	131 862
Productivity of the Company						
Main telephone service lines	7.68	5 075 417	4 645 065	4 258 639	4 002 180	3 775 355
Main service lines per employee	7.14	83	82	75	70	63
Revenue per main service line (R)	9.66	4 079	3 878	3 574	3 167	2 821
Operating costs per main service line (R)	12.84	3 434	3 073	2 622	2 380	2 118
Profit before interest, depreciation and taxation per main service line (R)	3.40	1 239	1 485	1 561	1 241	1 084

EXTRACTS FROM THE AUDITED FINANCIAL RESULTS FOR THE YEARS ENDED 31 MARCH 1998 AND 1999
BALANCE SHEET – 31 March

	Group	
	1999	**1998**
	R'm	**R'm**
Assets		
Non-current assets	29 790	19 997
Tangible fixed assets	29 504	19 723
Intangible fixed assets	36	37
Participating interests	102	117
Fixed asset investments	45	47
Investments	103	73
Current Assets	7 272	5 249
Inventories	1 065	785
Trade and other receivables	4 926	3 708
Taxation	911	112
Cash and cash equivalents	366	518
Other financial assets	4	126
Total Assets	37 062	25 246
Equity and liabilities		
Capital and reserves	14 955	12 954
Share capital	8 293	8 293
Non-distributable reserves	–	19
Retained profits	6 662	4 642
Outside shareholders' interest in subsidiaries	84	19
Non-current liabilities	14 281	6 738
Interest-bearing debt	13 541	6 347
Provisions	723	1 012
Deferred taxation	17	(621)
Current liabilities	7 742	5 535
Trade and other payables	6 943	4 761
Shareholders for dividend	331	547
Provisions	468	227
Total equity and liabilities	37 062	25 246

INCOME STATEMENT – 31 March

	Group	
	1999	**1998**
	R'm	**R'm**
Revenue	22 674	19 218
Net operating expenses	18 461	14 932
Operating profit	4 213	4 286
Income from investments	268	851
Profit before finance charges	4 481	5 137
Finance charges	1 253	1 520
Profit before taxation	3 228	3 617
Taxation	840	1 129
Profit after taxation	2 388	2 488
Attributable to outside shareholders	55	13
Net profit attributable to ordinary shareholders	2 333	2 475
Earnings per share – cents	418.8	461.0
Dividend per share – cents	59.5	98.1

SOUTH AFRICAN TAXATION

The comments below are intended as a general guide to the current position under the law of the Republic of South Africa ("South Africa"). The exact tax consequences will be dependent on the nature and circumstances of the individual investors and their countries of residence. The possible consequences of double taxation agreements between RSA and other countries are not presented. Persons who are in any doubt as to their tax position should consult their professional advisers.

Nature of the original issue discount

The original discount to the face value of the Bonds will be treated as interest for tax purposes and will be deemed to accrue to the Bondholder on a day to day basis until the Bondholder disposes of the Bond or until maturity. The day to day basis is calculated on a yield to maturity basis determined by reference to the cost of acquisition of the Bonds by the relevant Bondholder. Such calculation will also take account of any interest actually paid on the Bonds, or any gain or loss arising on the transfer of the Bonds during the relevant year of assessment.

Persons qualifying for exemption from taxes

Any interest paid or which is deemed to accrue in respect of the Bonds will be exempt from any taxes or withholdings of whatsoever nature ("Taxes") imposed or assessed by the South African Government if it is received by or accrues to (i) any natural person who is not ordinarily resident in South Africa or in Botswana, Lesotho, Namibia or Swaziland (a "Neighbouring Country") nor carries on business in South Africa and who was physically absent from South Africa for at least 183 days in aggregate during the year of assessment in which such interest is received or accrued or (ii) a company which is managed and controlled outside South Africa and the Neighbouring Countries provided that such interest is not effectively connected with a business carried on by that company in South Africa or any Neighbouring Country. For such purposes, a company includes an incorporated association, corporation or other body corporate. This exemption applies to coupon only and not discounts or face value

Persons who do not qualify for exemption from taxes

Profits or gains which are of a capital nature are generally not subject to tax, and income, profits and gains which are of a revenue nature are subject to tax in South Africa only if they are derived from a source within, or deemed to be within, South Africa. Interest of a revenue nature will be regarded as being from a South African source where such interest is derived from the utilisation or application in South Africa of the funds or credit obtained. The recipient would be liable to pay such tax and there is no obligation on the Issuer to withhold any portion of the interest on account of such taxes.

Accordingly, to the extent that the contracts relating to the issue of the Bonds are concluded outside of South Africa and subscribers for the Bonds pay the issue price for the Bonds to, or for the account of, the Issuer outside South Africa, interest payable on the Bonds should generally not be subject to South African tax.

However, by virtue of an amendment to the Income Tax Act 1962 which came into effect on 1st July, 1997, interest from a country other than South Africa will be deemed to be from a South African source if it accrues to or is received by:

(i) a resident (defined as being a natural person ordinarily resident in South Africa or a person other than a natural person which has its place of effective management in South Africa), unless such interest arises from and is effectively connected to the business activities of a substantive business enterprise conducted by such resident through a permanent establishment in any country other than South Africa, where such permanent establishment is suitably equipped for conducting the principal business of such substantive business enterprise; or

(ii) a person (other than a resident) arising from the activities carried on by such person through a permanent establishment situated in South Africa.

This provision would not affect the tax position of non-residents who qualify for the exemption referred to above

BACKGROUND ON SOUTH AFRICA

The information set out below is based on material obtained from various publicly available sources believed to be accurate, but has not been independently verified by the Issuer or the Subscriber or their advisers, and the Issuer and the Subscriber accept no responsibility for the accuracy of the information on the Background on South Africa.

1. GEOGRAPHY

The Republic of South Africa ("South Africa") covers an area of approximately 1.2 million square kilometres, which is approximately one-eighth the size of the United States and five times the size of the United Kingdom. It shares common borders with Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zimbabwe.

2. POPULATION

According to the results of the latest Census (1996), the current population of South Africa is 40.6 million, increasing at approximately 2% per annum. The 1996 Census estimates that approximately 53.7% of the population live in urban areas, with approximately 46.3% living in non-urban areas. The most densely populated parts of South Africa are the four major industrialised areas: the Pretoria/Witwatersrand/Vereeniging area of Gauteng Province, the Durban/Pinetown/Pietermaritzburg area of KwaZulu-Natal Province, the Cape Peninsula area of Western Cape Province and the Port Elizabeth/Uitenhage area of Eastern Cape Province. These areas, which occupy only 4% of the country's total surface area, account for more than a quarter of its population and over 50% of its urban population. Over three-quarters (76.7%) of South Africa's population is African/Black, whilst 10.9% is White, 8.9% is Coloured, and 2.6% is Indian/Asian. In 1996 44.5% of South Africa's population was under the age of 20.

3. GOVERNMENT

The Constitution states that South Africa is "founded on a commitment to achieve equality, to promote and protect human dignity, and to advance human rights and freedoms." The Constitution enshrines the principles of the supremacy of the rule of law, universal adult suffrage, regular elections and multi-party democracy. The constitution's Bill of Rights is one of the world's broadest, guaranteeing freedom of speech, movement and political activity, the right to legal representation for persons accused of crimes, the right to adequate housing, food, water, education and healthcare and prohibits discrimination on the basis of race, gender, sexual orientation, religion, age, pregnancy or marital status.

Under the Constitution, government is divided into three levels, national, provincial and local. At the national level, the Constitution provides for a bicameral Parliament, comprised of a 400-member National Assembly elected by proportional representation, and a National Council of Provinces, comprised of ten delegates from each of the country's nine provinces, elected on a proportional basis by the parties represented in provincial legislatures. The Constitution also provides for a President, elected by the National Assembly for a maximum of two five-year terms, and a Cabinet appointed by the President. In addition, the Constitution provides for the establishment of an independent judiciary. Changes to most sections of the Constitution require a two-thirds majority vote in the National Assembly plus the agreement of six of South Africa's nine provinces.

South Africa's second democratic elections were held on 2 June 1999. As expected the governing African National Congress (ANC) won an overwhelming majority and in fact increased its share of the popular vote. The Democratic Party (DP) supplanted the New National Party (NNP) as the official opposition, with the Zulu-based Inkatha Freedom Party (IFP) not far behind (see table).

	1999	1994			
	Party	**%**	**Seats**	**%**	**Seats**
1.	African National Congress	66.36	266	62.65	252
2.	Democratic Party	9.56	38	1.73	7
3.	Inkatha Freedom Party	8.59	34	10.54	43
4.	New National Party	6.87	28	20.38	82
5.	United Democratic Movement	3.42	14	–	–
6.	African Christian Democratic Party	1.43	3	0.45	2
7.	United Christian Democratic Party	0.78	3	–	–
8.	Pan African Congress of Azania	0.74	3	1.25	5
9.	Freedom Front/Vryheidsfront	0.8	3	2.17	9
10.	Federal Alliance	0.54	2	–	–
11.	Minority Front	0.3	1	–	–
12.	Afrikaner Eenheids Beweging	0.29	1	–	–
13.	Azanian People's Organisation	0.17	1	–	–
14.	The Government by the People Green Party	0.06	–	–	–
15.	Socialist Party of Azania	0.06	–	–	–
16.	Abolition of Income Tax and Usury Party	0.07	–	–	–

Source: Independent Electoral Commission

On 14 June 1999 Thabo Mbeki, the leader of the ANC, was elected President by the new Parliament and sworn in as President by the head of the Constitutional Court on 16 June 1999. The ANC has formed a coalition with the IFP and the Minority Front in the National Assembly, and the IFP is represented in Thabo Mbeki's Cabinet.

At the provincial level, the ANC won outright victories in seven of the nine provinces but fell short of an outright majority in KwaZulu-Natal (where the ANC has formed a coalition government with the IFP) and in the Western Cape (where a number of opposition parties may form a coalition government which excludes the ANC).

The process of political reform, which commenced in 1990, has brought South Africa increasing international acceptance. Virtually all of the financial and trade sanctions that were imposed against South Africa have been removed, resulting in increased trade and investment flows. South Africa is a member of the Southern African Common Monetary Area, the Southern African Customs Union and the Southern African Development Community ("SADC"). In addition, South Africa is a member of the World Trade Organisation and participated in the Uruguay Round. South Africa has recently signed a free trade deal with the European Union and is in the process of negotiating one with the SADC.

4. THE SOUTH AFRICAN ECONOMY

In June 1996, the National Government announced a new macroeconomic strategy (the Growth Employment and Redistribution or GEAR strategy). The GEAR strategy comprises an orthodox set of macroeconomic policy principles including monetary restraint, budget deficit reduction, trade liberalisation, and restructuring of state-owned assets. The GEAR strategy also aims to develop a competitive platform for growth, to create a stable environment for increased private investment including foreign direct investment, to improve delivery of public services, to improve the flexibility of the labour market and to enhance human resource development.

While the GEAR strategy was originally projected to deliver by the year 2000, real GDP growth of 6% per year and the creation of some 400 000 new jobs per annum, these precise numerical targets have now been abandoned in light of the intervening market and global economic turmoils. The basic policy program remains in place, as developed and articulated by various governmental initiatives and pieces of legislation including annual budgets.

A cornerstone of GEAR has been the reduction of budget deficits and the publication of rolling three year budget targets to give transparency and consistency in the process of fiscal planning. The ANC-led government has slashed the National Budget deficit of 9.1% of GDP (in Fiscal Year 1993/94, just before the ANC came to power) to an estimated 2.9% of GDP in the 1998/99 fiscal year which ended on 31 March 1999. (These ratios are based on recent revisions to GDP data). Interest payments on the existing National Government debt represented roughly one-fifth of total government expenditure.

(a) Gross Domestic Product ("GDP")

South Africa has the largest and the most developed economy in sub-Saharan Africa, with a GNP which was over 65% of that of all sub-Saharan African countries combined in 1997. In fact, South Africa's GDP is nearly six times that of its six immediate neighbours combined. Following a prolonged recession that began in 1989, the South African economy began to recover in 1993. With the reduction of political uncertainty following the lifting of sanctions, growth accelerated. Growth of real GDP increased from a little over 3.2% in 1994 and 3.1% in 1995 to 4.2% in 1996, with the growth widespread throughout all sectors of the economy, with the exception of mining and quarrying and, in 1995, agriculture, forestry and fishing. In 1997, economic activity slackened and the growth in real GDP dropped to 2.5%. Output growth declined further in 1998, with the GDP expanding just 0.5% for the year as a whole. The slowdown was particularly severe in the third quarter when interest rate hikes brought about by the global emerging market turmoils knocked domestic demand and widespread strikes undermined production. In the third quarter of 1998, real GDP contracted 2.3% on the second quarter (seasonally adjusted and annualised). Since then, however, South Africa's economy has begun to recover gradually, with a 0.2% growth rate (quarter-on-quarter seasonally adjusted and annualised) in the final quarter of 1998, and 0.4% in the first quarter of 1999.

The following table sets forth South Africa's key economic variables for 1993 to 1998:

	1993	**1994**	**1995**	**1996**	**1997**	**1998**
Nominal GDP, R millions (1)	426 133	482 120	548 180	614 912	680 212	737 813
Real GDP growth % (2)	n/a	3.2	3.1	4.2	2.5	0.5
Current account, % of GDP (3)	1.2	0.1	(1.5)	(1.3)	(1.5)	(1.6)
Average annual CPI inflation, %	9.7	9.0	8.6	7.4	8.6	6.9

Notes:

(1) At market prices on revised GDP data

(2) Annual percentage change of constant 1995 price revised GDP

(3) As % of revised GDP

Source: Statistics South Africa and the South African Reserve Bank

(b) Balance of Payments

From 1985 to 1993, South Africa was forced to run large current account surpluses in order to finance net capital outflows which were the direct consequence of the international application of financial sanctions in the mid-1980's. During this period, South Africa's external indebtedness fell sharply from an estimated 43% of GDP in 1985 to an estimated 21.6% of GDP in 1994, establishing South Africa as a low-debt country by international standards. Once sanctions were lifted in late 1993, the current account moved back into deficit as an inflow of new financing afforded a rise in the level of imports. The deficit on the current account of the balance of payments reached 1.5% of GDP in 1995 before the Rand's sharp depreciation and a domestic economic slowdown pulled the current account deficit back to 1.3 % of GDP in 1996 and 1.5% of GDP in 1997. In 1998, South Africa's merchandise trade surplus dipped to R10.2 billion (from R10.8 billion in 1997) as low gold prices and weak economic conditions in key Asian export markets had a negative effect on merchandise export receipts and as public sector enterprises' imports of capital equipment were boosted by extensive infrastructure roll-out programs. (Although South Africa's exports of manufactured products have grown strongly in recent years, the export basket still consists mainly of commodities such as gold, coal and platinum, and commodity related products like steel. Merchandise imports comprise mainly crude oil and capital goods.) This decline in the trade surplus combined with South Africa's negative balance on service, income, and current transfer payments pulled South Africa's current account deficit down to R11.6 billion, or 1.6% of GDP in 1998.

The balance of payments counterpart to South Africa's deficits on the current account and the capital transfer account since 1994 has been huge surpluses overall on the financial account, which comprises direct investment, portfolio investment (such as foreign purchases of bonds and equities) and other capital flows such as bank lending. Since 1994 the cumulative surplus on the financial account has been R82 billion, with net deficits on the foreign direct investment sub-account being more than offset by net inflows of portfolio capital and bank loans. Total net inflows on the capital account rose from R4.4 billion in 1994 (mostly after the April elections), to R19.8 billion in 1995 and R13.4 billion in 1996. In 1997 total net inflows on the financial account surged to R27.0 billion (thanks in part to the sale of a 30% stake in Telkom) before net inflows tapered off to R17.6 billion in 1998. With some of these inflows representing debt, rather than equity, South Africa's external indebtedness rose from a low of 21.8% of GDP in 1994 to 30.9% of GDP as of end-1998.

(c) *Exchange Rate*

South Africa has a freely floating exchange rate regime, though the South African Reserve Bank ("the Reserve Bank") has from time to time attempted to influence the exchange rate either through direct currency intervention, in either the spot or forward markets, or through interest rate policy. South Africa has allowed free convertibility and repatriation of both foreign investors' earnings and capital since March 1995 when the financial Rand mechanism was abolished. (The financial Rand mechanism was a parallel exchange rate for foreign capital that South Africa reintroduced in September 1985 in order to protect South Africa's economy from net disinvestment.) Since March 1995, South Africa has had a unitary exchange rate that applies to both current and capital transactions between residents and non-residents. The South African government has gradually relaxed the exchange control regime which applies to South African residents, individual, corporate, and financial institutions. For example, individuals are now allowed to invest R500 000 offshore (subject to their good standing with the South African tax authorities), exporters can keep dollar earnings offshore for up to 180 days, and financial institutions are allowed to invest up to 15% of their assets under management offshore.

The value of the Rand has fluctuated greatly during the last five years as commodity price movements have affected South Africa's terms of trade and as capital has surged in and out of the country. Between the end of 1996 and the end of 1997, the nominal effective exchange rate of the Rand declined by 0.3% and the real or inflation-adjusted effective exchange rate is estimated to have appreciated by 3.5% during the same period. The nominal effective exchange rate of the Rand declined by 24.6% from the end of December 1997 to August 1998, reaching an all-time low on 28 August 1998 following the eruption of turmoil in emerging markets globally and massive foreign disinvestment from South Africa's gilt market. Subsequently, however, the Rand has rebounded, with just a small interruption in January 1999 when investor sentiment towards emerging markets turned negative as the Brazilian authorities abandoned their exchange rate peg. As of 17 June, the nominal effective exchange rate of the Rand is some 8.8% stronger than its level on 28 August 1998. So far in 1999 the Rand has strengthened 2.4% in effective terms.

The following table sets forth, for the periods indicated, the exchange rate of the commercial Rand per US dollar.

	Rand			
Calendar Period	**High**	**Low**	**Average**	**At Period End**
1992	2.7211	3.0548	2.8516	3.0544
1993	3.0544	3.4584	3.2667	3.3985
1994	3.3967	3.6975	3.5497	3.5442
1995	3.5236	3.6989	3.6270	3.6490
1996	3.6252	4.7390	4.2964	4.6838
1997	4.3850	4.8730	4.6073	4.8662
1998	4.8721	6.6667	5.5316	5.8617

(1) Figures shown for commercial Rand for each of the years from 1992 through to March 1995, and the unified Rand thereafter.

Source: South African Reserve Bank

(d) *Inflation*

The principle objective of the Reserve Bank is the maintenance of the value of the Rand. The independence of the Reserve Bank in the pursuit of price stability is guaranteed by the Constitution. In the 1990s the Reserve Bank has followed a very restrictive monetary stance in an effort to reduce inflation which averaged some 14.6% per year in the 1980s. Inflation remained at roughly this level until 1993 when the Reserve Bank succeeded in bringing average annual consumer price inflation into single digits with a 9.7% outcome. Since then inflation has generally trended downwards though there have been temporary set backs following periods of extreme Rand weakness which pushed up import costs. Consumer price inflation averaged 9.0% in 1994, 8.6% in 1995, 7.4% in 1996, 8.6% in 1997, and 6.9% in 1998. Core consumer price inflation (which strips out mortgage costs, other administered prices and certain volatile foodstuff prices) averaged 8.8% in 1997 and 7.4% in 1998. In May, headline CPI inflation stood at 7.1% while core CPI inflation was 7.8%.

GENERAL INFORMATION

1. **AUTHORISATION**

   The issue of the Bonds was authorised by resolution of the Board of Directors of the Issuer passed on 18 March 1999.

   The Minister of Posts, Telecommunications and Broadcasting has approved the issue of the Bonds as required by section 12W(2) of the Post Office Act, 1958.

2. **LISTING**

   At this stage, no application has been made to BESA for the Bonds to be listed on BESA (although such an application may be made in the future).

3. **TRADING AND REGISTRATION**

   If listed on BESA, the Bonds may be traded on BESA.

4. **TRANSFER OFFICE**

   The address of the transfer office where Telkom's audited financial statements in respect of the financial years preceding the date of this Placing Document may be inspected, and where Telkom's Register is held, is as follows:

   Telkom SA Limited
   152 Proes Street
   Telkom Towers North
   Room 1402
   Pretoria
   0001

5. **AUDITORS**

   The auditors of Telkom are Ernst & Young and KMMT Inc. The financial statements of Telkom for the years ended 31 March 1997, 31 March 1998 and 31 March 1999 were audited in accordance with Generally Accepted Accounting Practice and Principles of the Republic of South Africa without qualification by such auditors.

6. **INTERIM STATEMENTS**

   Telkom does not publish interim reports.

7. **MATERIAL ADVERSE CHANGE**

   Save as disclosed herein, there has been no material adverse change in the financial or trading position of Telkom since the end of the last financial period for which annual financial statements have been published which would affect the ability of Telkom to perform its obligations under the Bonds.

8. **LITIGATION**

   Save as disclosed herein, there are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Telkom is aware) which, if determined adversely, would affect the ability of Telkom to perform its obligations under the Bonds.

9. POST OFFICE ACT

In terms of section 12W(9) of the Post Office Act, 1958 as it exists at the date of issue of this Placing Document, no levy, tax, stamp duty, fees or other costs of whatever nature are payable in respect of the issue of Bonds pursuant to section 12W(1) of the Post Office Act, 1958.

The provisions of section 12W of the Post Office Act, 1958 will apply for so long as the majority of the issued equity shares in the Issuer are held by the State or until the section is amended or repealed.

10. NON-SOUTH AFRICAN RESIDENT BONDHOLDERS AND EMIGRANTS FROM THE COMMON MONETARY AREA

The following guidelines are not a comprehensive statement of the South African Exchange Control Regulations, 1961 (the "Regulations") and reflect only Telkom's understanding of the Regulations. Bondholders who have any doubt as to the action they should take, should consult their professional advisers.

The Regulations affecting non-residents of the Common Monetary Area are as follows:

10.1 Blocked Rand

Blocked Rand may be used to purchase Bonds. Any amounts payable by Telkom in respect of Bonds purchased with Blocked Rand may not, in terms of the Regulations, be remitted out of South Africa or paid into any non-South African resident bank account.

For the purposes of this paragraph 10.1,"Blocked Rand" means any funds which may not be remitted out of South Africa or be paid into a non-South African resident's bank account. The relevant legislation relating to Blocked Rand is the Regulations and the Debt Standstill Regulations, both made pursuant to the Currency and Exchanges Act, 1933.

10.2 Emigrants from the Common Monetary Area

Any Certificates issued to emigrant Bondholders or, where emigrants hold Bonds through the BESA settlement system, the securities accounts maintained for emigrants by BESA settlement agents will be restrictively endorsed and will be deposited with the authorised dealer controlling such emigrant's blocked assets.

Any monies due in respect of Bonds to an emigrant holder will be deposited in the emigrant's Blocked Rand account with the authorised dealer controlling his blocked assets. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Regulations.

10.3 All Non-residents of the Common Monetary Area

Any Certificates issued to Bondholders who are not resident in the Common Monetary Area will be endorsed "non-resident". In the case where non-residents hold Bonds through the BESA settlement system, the securities accounts maintained for such non-residents by BESA settlement agents will be designated "non-resident".

It will be incumbent on any such non-resident to instruct the non-resident's nominated authorised dealer in foreign exchange as to how any funds due to such non-resident in respect of Bonds are to be dealt with. Such funds may, in terms of the Regulations, be remitted abroad only if the relevant Bonds are acquired with foreign currency introduced into South Africa and provided that the relevant Certificates or securities account, as the case may be, is designated "non-resident".

For the purposes of paragraph 10 Common Monetary Area includes the Republic of South Africa, Swaziland, Lesotho, Namibia and Botswana.

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