



# 2013

**Integrated Report**  
for the year ended 31 March



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# COMMITMENT TO INTEGRATED REPORTING

## SCOPE OF THE REPORT

This report provides an overview of Telkom SA SOC Limited's business activities including all operating subsidiaries, for the year ended 31 March 2013. It details the Group's financial statements and looks at the Group's prospects for the next financial year. The previous reporting period ended 31 March 2012 was covered in the 2012 Telkom integrated report. There were no significant changes from the previous reporting period in the scope, boundary or measurement method applied in the report.

This report includes an overview of the business operations as well as the financial statements relating to the Group's activities over the period. It has been prepared in accordance with the Global Reporting Initiative 3 guidelines and represents a balanced and reasonable presentation of Telkom's financial, economic, environmental and social performance.

While this document is designed to be an integrated report, a more focused description of Telkom's sustainable development activities can be found in the "People and environment" section. This section includes data and information based only on operations within the Republic of South Africa for the year ended 31 March 2013. The South African operating subsidiaries Swiftnet (Pty) Limited (trading as Fastnet Wireless Service) and Trudon (Pty) Limited have been included in this report unless otherwise stated.

The data relating to the Broad-Based Black Economic Empowerment (B-BBEE) scorecard also reflects data from the current reporting cycle.

## ABOUT THIS REPORT

This is Telkom's third integrated report which continues to be guided by best practice as outlined in the Companies Act and King III. Telkom is aware of the need to improve the service experience at every level. Since this report is one way of achieving this, we hope to have provided a transparent document that lays out the risks and opportunities ahead, and a clear picture of how we are shaping and fulfilling our strategies to fit an ever-evolving telecoms environment.

The guidance set out by King III states that companies should openly portray the relevant risks, opportunities, governance processes and strategies so that stakeholders can make well-informed choices in their dealings with the Group. We could not agree more and hence have laid out a clear structure and easy way to use this report by referring to the sections listed on the contents page. There are also a number of references that we have included to make it easier for you to refer to places of interest elsewhere in the report, or ways in which you can access additional information.

Telkom SA SOC Limited is the registered name of the organisation and is listed on the Johannesburg Stock Exchange. For ease of reference we have used Telkom or "the Group" to represent the Company and its Group entities.

All subsidiaries, business divisions and products are referred to by their branded names for easy recognition.

If you have any recommendations or suggestions as to how we can improve on our reporting, please refer to the last page of this report for the relevant contact details.

## FORWARD-LOOKING STATEMENT

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

All statements, other than statements of historical facts, including, among others, statements regarding our convergence and other strategies, future financial position and plans, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward-looking statements. Forward-looking statements can generally be identified by the use of terminology such as "may", "will", "should", "expect", "envisage", "intend", "plan", "project", "estimate", "anticipate", "believe", "hope", "can", "is designed to" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward looking. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. The factors that could cause our actual results or outcomes to differ materially from our expectations include, but are not limited to, those risks identified commencing on page 34.

We caution you not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this document, either to conform them to actual results or to changes in our expectations.



GRI

### Key



Please refer to Telkom's sustainability assurance statements which can be found on our website: [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

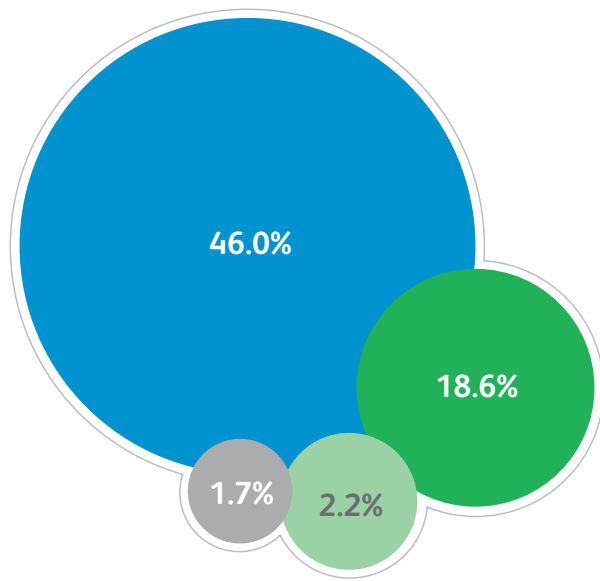


**WEB:** please visit [www.telkom.co.za/ir](http://www.telkom.co.za/ir)



**GRI:** please refer to pages 107 to 111 for Telkom's Global Reporting Initiative (GRI) index.

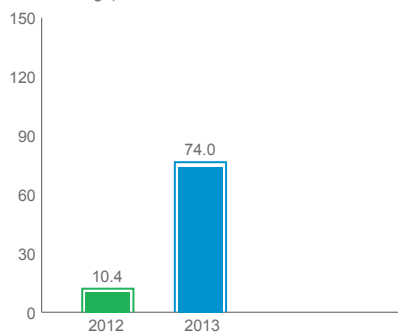
# THE YEAR AT A GLANCE



- Net debt decreased to R2.1 billion
- Free cash flow increased to R2.1 billion
- Operating costs, excluding the R12 billion impairment increased to R32.0 billion
- Revenue decreased to R32.5 billion

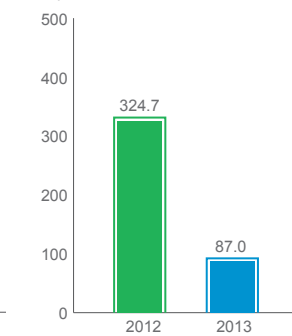
## BEPS\*

Cents per share (\*excludes the R12 billion impairment charge)



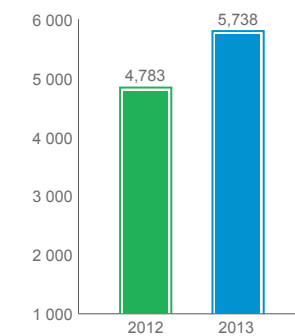
## HEPS

Cents per share



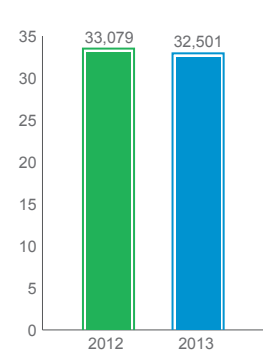
## Capital expenditure

ZAR Million



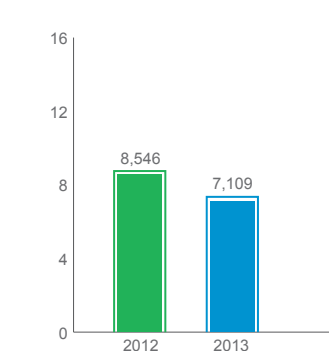
## Operating revenue

ZAR Million



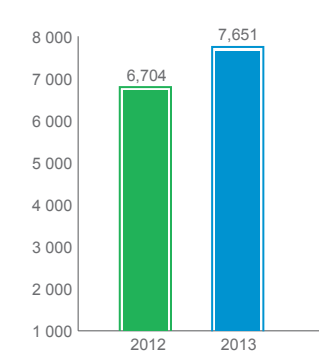
## EBITDA

ZAR Million



## Cash flows from operating activities before dividend paid

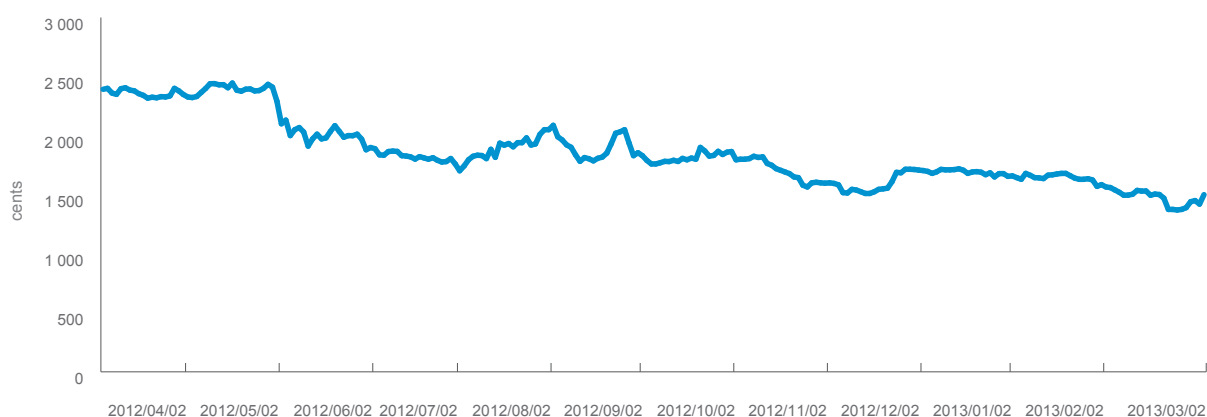
ZAR Million



## Share performance

	2012	2013	%
Number of ordinary shares in issue	520,783,900	<b>520,783,900</b>	–
Weighted number of ordinary shares in issue	510,593,816	<b>510,593,816</b>	–
Headline earnings per share (cents)	324.7	<b>87.0</b>	(73.2)
Dividends per share (cents)	145.0	–	–
Market capitalisation at 31 March (Rm)	12,499	<b>7,812</b>	(37.5)
Number of ordinary shares traded ('000)	290,691	<b>365,034</b>	25.6
Highest price traded (R)	38.49	<b>24.45</b>	(36.5)
Lowest price traded (R)	24.00	<b>13.50</b>	(43.8)
Closing price at 31 March (R)	24.00	<b>15.00</b>	(37.5)

Telkom (TKG) share price for the year ended 31 March 2013



# CREATING VALUE FOR OUR STAKEHOLDERS

- INTEGRATED PERFORMANCE INDICATORS
- OUR BUSINESS
- OUR PHILOSOPHY
- OUR VALUE TO SOCIETY



# INTEGRATED PERFORMANCE INDICATORS

(In ZAR millions unless otherwise stated)				
Financial	Year ended 31 March			% change 12/13
	2013	2012	2011	
Operating revenue	32,501	33,079	33,308	(1.7)
EBITDA	7,109	8,546	9,370	(16.8)
Opex as a % of operating revenue <sup>1</sup>	98.3	94.5	88.4	(4.0)
Capex as a % of operating revenue	17.7	14.5	13.6	22.1
Cash flow from operating activities	7,474	5,892	5,188	26.8
Free cash flow	2,132	1,797	2,233	18.6
Headline earnings per share from continuing operations (cents)	87.0	324.7	484.8	(73.2)
Basic earnings per share from continuing operations (cents) <sup>1</sup>	74.0	10.4	481.2	611.5
<b>Economic</b>				
Economic	Year ended 31 March			% change 12/13
	2013	2012	2011	
Distributed to employees	9,861	8,636	9,716	14.2
Capital expenditure	5,738	4,783	4,541	20.0
Distributed to government	1,111	1,089	1,264	2.0
Distributed to providers of finance	660	765	898	(13.7)
B-BBEE score (%)	76.98	79.25	76.60	(2.9)
B-BBEE level	3	3	3	–
B-BBEE procurement spend	14,436	12,293	12,263	17.4
B-BBEE enterprise development cumulative spend	114	100	76	14.0
<b>Social – Employees</b>				
Social – Employees	Year ended 31 March			% change 12/13
	2013	2012	2011	
Number of group employees	22,192	22,045	24,028	0.7
Revenue per employee (R)	1,463,877	1,500,522	1,386,216	(2.4)
Employee turnover (%)	2.80	2.31	2.65	21.2
Women representation in senior management (%)	27	25	29	8.0
Black representation in senior management (%)	53	53	51	–
Total training days	92,751	101,628	114,500	(8.7)
Lost time injury frequency rate	1.42	1.44	1.37	(1.4)
<b>Social – Communities</b>				
Social – Communities	Year ended 31 March			% change 12/13
	2013	2012	2011	
Active mobile subscribers	1,534,265	1,483,401	473,604	3.4
Fixed access lines (thousands)	3,800	3,995	4,152	(4.9)
Telkom Foundation total spend	42	41	37	2.4
<b>Environment</b>				
Environment	Year ended 31 March			% change 12/13
	2013	2012	2011	
Electricity consumption (KWh)	658,636,533	669,235,368	700,940,529	1.6
Co <sub>2</sub> emissions (tonnes)	769,216	776,715	790,626	1.0
Recycled copper (tonnes)	1,231	1,279	1,387	(3.8)
Recycled optic fibre (tonnes)	281	251	203	12.0

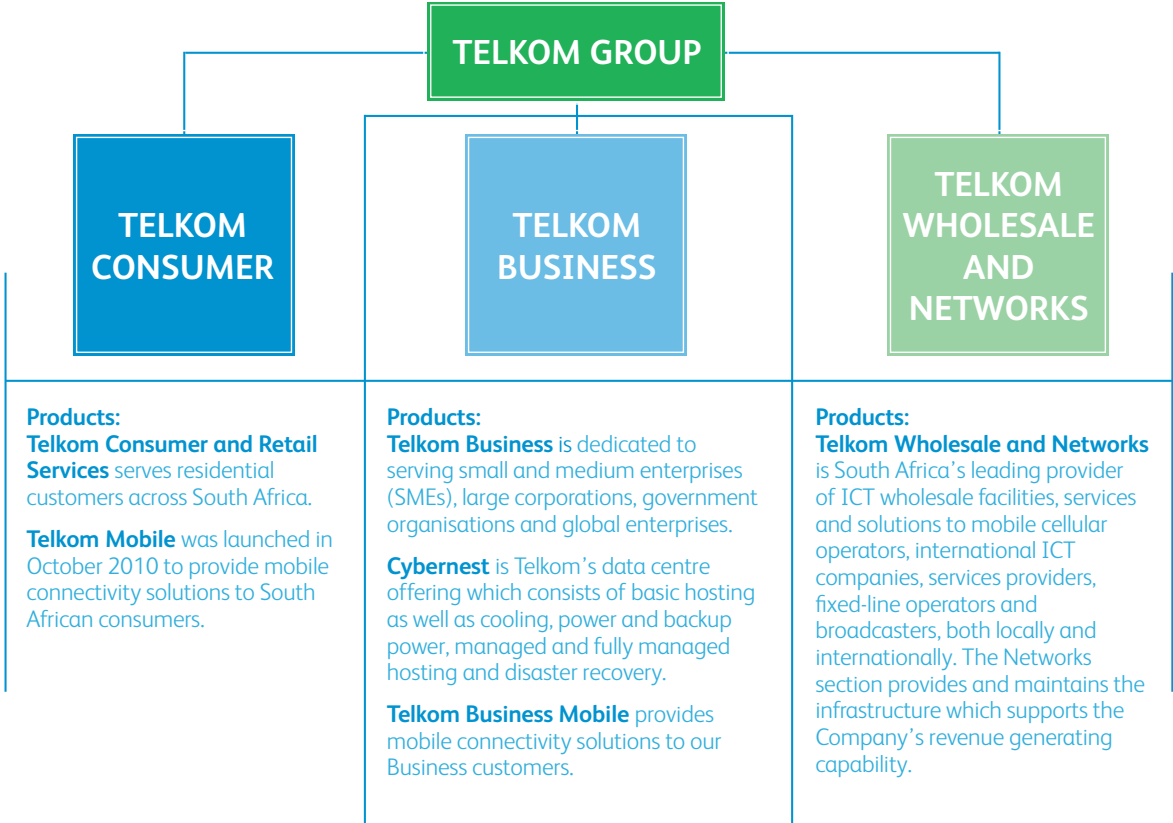
<sup>1</sup> Excluding the R12 billion impairment charge.

# OUR BUSINESS

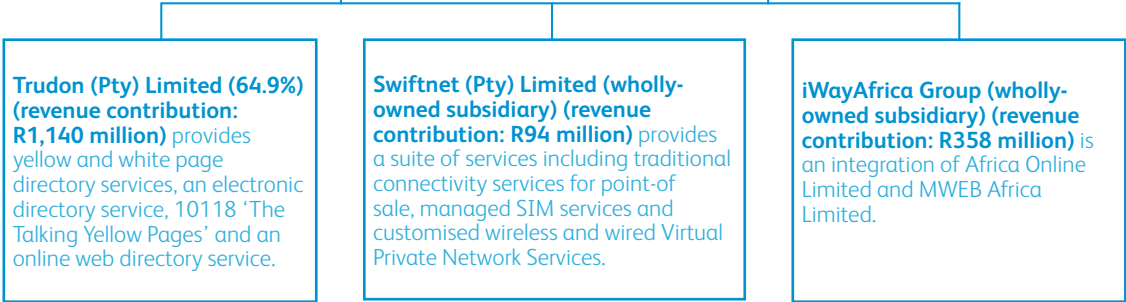
Telkom is a leading communications services provider in South Africa. We provide fixed-line, mobile, ICT and data services to the business and consumer markets and offer a wide range of products to suit the needs of our customers. We operate in nine different countries across Africa, with South Africa making up 98.9% of Telkom’s total revenue.

As of 31 March 2013, the Group had approximately 3.8 million telephone access lines in service and 73,400 ports connected via MSAN access.

The announcement of the Convergence Strategy in July 2012 triggered a change in the way Telkom is managed from a financial reporting perspective as it is now managed as a single business, based on a common network, providing a complete service to various types of customers. In order to meet the needs of their different customer profiles, Telkom markets products based on the service lines listed below:



The Telkom Group consists of Telkom SA SOC Limited and the following subsidiaries:



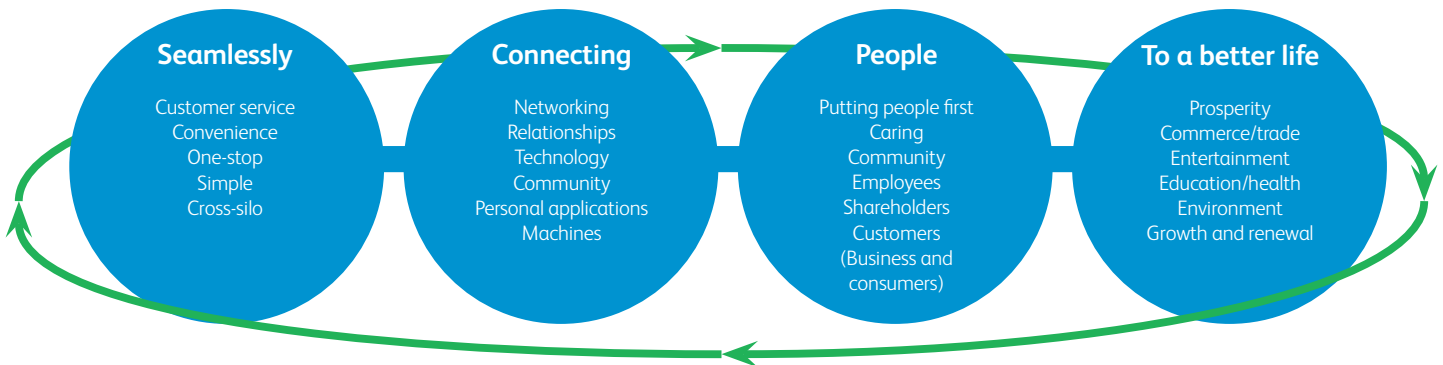
Information is provided on these subsidiaries in the Integrated Report, however are insufficiently material to be considered a separate segment for the purposes of IFRS 8 Operating Segments.



# OUR PHILOSOPHY

## MISSION

To seamlessly connect people to a better life.



## VISION

Leading in the converged ICT market through deep and credible relationships and a distinctive customer experience.

### Our vision includes:

- Leading the provision of converged solutions;
- Providing a quality network with reach that is unmatched;
- Maintaining our leading brand promise in the business community;
- Creating innovative and pervasive broadband consumer services;
- Being the wholesale provider of choice in selected areas; and
- Being the best place to work for, for committed and accountable people.

## OUR VALUES

**Continuous improvement** – Listen, act, learn, innovate.

**Honesty** – Be real, be open, be truthful.

**Accountability** – If it's to be, it's up to me.

**Respect** – Ensure dignity to all. Protect the environment.

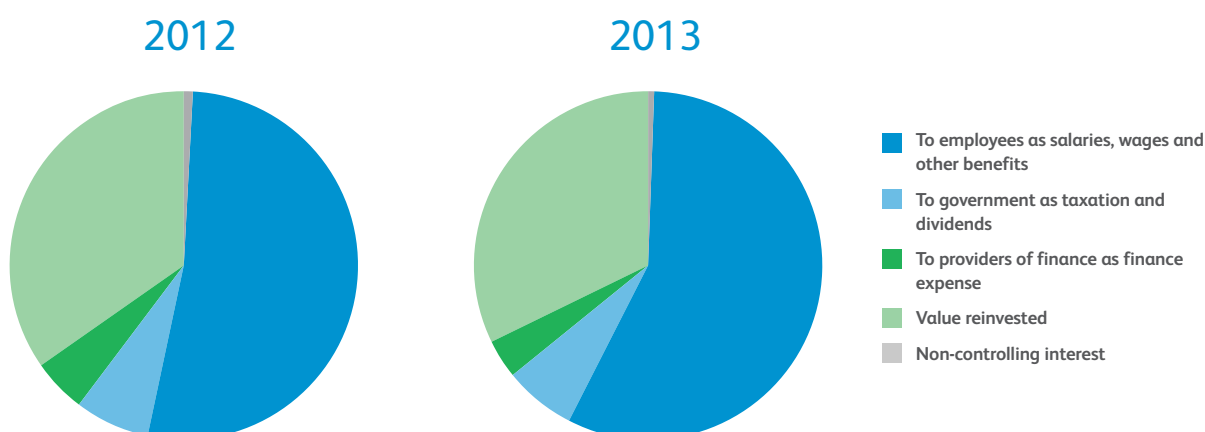
**Teamwork** – Together we win.

# OUR VALUE TO SOCIETY

Telkom adds significant value to South African society. Our business operations directly contribute value to the economy as a whole, and the extensive reach of our products and services are indirectly integral to the functioning and development of society.

## GROUP VALUE ADDED STATEMENT

	2013 Rm	2012 Rm
<b>Value added</b>		
Revenue	32,501	33,079
Net costs of services and other operating expenses*	(15,933)	(17,583)
Investment income	301	238
Other income	402	579
	<b>17,271</b>	16,313
<b>Value distributed</b>		
To employees as salaries, wages and other benefits	9,861	8,636
To government as taxation and dividends	1,111	1,089
To providers of finance as finance expense	660	765
Value reinvested	5,535	5,644
Net earnings retained	(19)	53
Non-controlling interest	123	126
	<b>17,271</b>	16,313
<p>The amounts reflected above have been extracted from the Telkom SA SOC Limited consolidated annual financial statements for the year end 31 March 2013 and excludes the R12 billion impairment charge. For a full appreciation of the Financial Results readers should refer to pages 113 to 239.</p> <p>* Included in the figure above is the following distributions:</p>		
Distributed to suppliers	15,891	16,435
Distributed to corporate social investment through Telkom Foundation	42	41



# LEADERSHIP AND STRATEGIC OBJECTIVES

- CHAIRMAN'S REPORT
- PERFORMANCE AGAINST STRATEGIC OBJECTIVES
- GROUP CHIEF EXECUTIVE OFFICER'S REPORT



# CHAIRMAN'S REPORT



**Jabulane A Mabuza**

Chairman

“As the chairman of Telkom, I acknowledge the complexities of turning around our performance. While we need to act with urgency, the trust of our stakeholders will only be restored over time and on delivery of sustained results.”

## INTRODUCTION AND OVERVIEW

The 2013 financial year was a challenging one in the wake of the failed strategic equity shareholding transaction with Korea Telecom. The resultant discontent and loss in shareholder confidence led to a major overhaul of the Telkom board. These events revealed the extent of the deterioration of the relationship between government, Telkom's major shareholder, and the Board. Subsequently, concerns were raised over Telkom's strategic direction, management stability and long-term commercial viability. This has emphasised the importance of rebuilding mutual trust between shareholders and seeking alignment with our key stakeholders.

The financial results for 2013 are indicative of the challenges the Group faced over the period. Headline earnings of 87 cents per share and a return on equity of 2.1 %, excluding the impairment charge, were reported for the year.

The Board took the decision to make a R12 billion impairment to the carrying value of the assets of the Group, bringing the net asset value per share to R34 (2012: R57). For a considerable period of time, Telkom's shares

have been trading far below their net asset value. The non-cash impairment also took into account the impact that changes in technology, competition from mobile operators and the evolving regulatory landscape have had on the Group's financial returns, particularly on legacy assets, over the past decade.

As the chairman of Telkom, I acknowledge the complexities of turning around our performance. Bold decisions such as the one to impair the Group's legacy assets are needed to achieve this. While we need to act with urgency, the trust of our stakeholders will only be restored over time and on delivery of sustained results.

My priority as chairman is to work with the Board and our new GCEO, Siphon Maseko on the following three core areas that I have identified:

- The need for a stable and effective board and management team;
- Building a constructive relationship with our major shareholder, the South African government and other stakeholders alike; and



- Crafting and executing a compelling strategy that will allow Telkom to deliver solid returns and contribute to South Africa's economy.

## MAINTAINING GOOD GOVERNANCE AND BOARD STABILITY

Effective corporate governance is largely dependent on the skills, experience and capabilities of the individuals on the Board. Their ability to work effectively with the management team is integral to enabling improved company performance and sustaining value for shareholders.

The Telkom board was reconstituted last year following a turbulent period. An intensive process was undertaken to appoint individuals with the requisite expertise, skills and track records to guide the Group through this time of change and uncertainty. In maintaining balance and diversity, it was necessary to reinforce the non-executive presence on the Board.

The appointments of Kholeka Mzondeki, Leslie Maasdorp, Clive Fynn, Susan Botha, Khanyisile Kweyama, Louis von Zeuner and Fagmeedah Petersen, should provide a level of comfort and assurance to our shareholders.

Following reconstitution of the Board we embarked on the process of appointing a new GCEO and identified Siphos Maseko as our preferred candidate. I am confident that he is the right person to lead the Group in its transformation.

The stability and determination of the current Board leaves me with no doubt of its ability to successfully fulfil its mandate and respond to the challenges that lie ahead.

## BUILDING A CONSTRUCTIVE RELATIONSHIP WITH GOVERNMENT

The ongoing deterioration of Telkom's financial performance underpins the need for measures that will transform Telkom into a commercially viable business. A constructive relationship with our major shareholder, the government, is critical to achieving long-term financial success. This is particularly important, given government's other roles as industry regulator, policy maker and significant buyer of ICT products and services.

As a board we acknowledge the role that Telkom has to play in supporting South Africa's socio-economic development. Going forward, we want to achieve alignment of strategic intent regarding our social obligations that does not jeopardise our long-term financial health. I cannot emphasise enough how critical it is to strike this balance. To do so will require an easing of regulatory constraints and the freedom to pursue a commercially-led strategy.

The onerous policy and regulatory burdens such as the current interconnection rate dispensation, the threats of Local Loop Unbundling (LLU), increased spectrum fees, service charters and pay phone obligations continue to place a significant financial burden on the Group.

Effectively addressing these issues is a top priority for the Board and management, and is paramount in realising a turnaround in Telkom's strategic and financial position.

The Board is committed to the application of commercial principles to decisions regarding strategy. This has ramifications in the rollout of national broadband as, while we believe Telkom will need to play a leading role in this, we must ensure that our participation will be commercially led. As a commercial entity, Telkom needs to operate in viable segments of the market. In areas where it does not make financial sense for us to do business, we require the support of government.

## STRATEGICALLY REPOSITIONING TELKOM

There has been much conjecture about the role that government will play in Telkom's strategic direction, but I would like to be clear that it is the role of the Board and management to inform strategy. I do however recognise that in order to be successful, the support of our major shareholder is required.

Telkom is embarking on a transformation journey. We are in the process of reviewing the group strategy. This repositioning is aimed at improving the Group's financial performance and providing clear strategic direction. The Board is committed to supporting management in taking the necessary steps to address the major challenges that have impacted the financial performance of the Group in recent years.

Telkom's fibre infrastructure is unrivalled. To take advantage of this unique capability, we must ensure that we have the best available network in South Africa. In the year under review, we made great strides in our transition to becoming IP compliant. We continued to channel significant capital expenditure into the transformation of our networks. These investments will allow Telkom to fully exploit the convergence opportunity, which is the core of our value proposition over the long term.

We are aware that from a service perspective we need to improve our brand and reputation if we are to meet and exceed the needs of our customers. This can be achieved by upholding exceptional levels of service and affecting a significant cultural shift in the way we operate. We recognise that one of our material limitations is execution capability. This needs to be addressed with urgency, particularly in the ICT space, to regain our competitiveness in the consumer market and to expand our Business service portfolio.

Strategically repositioning Telkom through its transformation programme requires dedication and focus in executing those key projects that will unlock value over time. I am confident that our current management team has the capability to address the many challenges and opportunities that lie ahead.

South Africa needs a commercially viable and successful Telkom that will better equip us to accelerate government's social objectives, benefit shareholders and meet the needs of all stakeholders.

# CHAIRMAN'S REPORT

## APPRECIATION

Lastly, I would like to thank my predecessor, Lazarus Zim, as well as the following directors: Neo Dongwana, Jackie Huntley, Sibusiso Luthuli, Younaid Waja, Dr Sibusiso Sibisi, Nomavuso Mnxasana and Julia Hope, who served on the Telkom board during the past year, for their invaluable contribution to Telkom. I welcome our new directors to the Group and look forward to navigating Telkom through the year ahead.

Thank you to the management team, particularly the outgoing GCEO Nombulelo Moholi for leading the Group with sincere professionalism and dedication. On behalf of the Board we wish her all the best for the future.

I am immensely privileged to be chairman of Telkom at such an exciting time in its history. To all our employees, I recognise that many mistakes have been made in the past, but now is the time to look forward with clarity and determination to make this organisation one of which we can be proud. Thank you all for your loyalty and support over the past year.



**Jabulane A Mabuza**

*Chairman*

Lead in data



Performance  
against  
strategic  
objectives

Lead in convergence

# PERFORMANCE AGAINST STRATEGIC OBJECTIVES

## TELKOM BUSINESS

OBJECTIVE	PERFORMANCE
<b>Launch productised cloud services</b>	<ul style="list-style-type: none"> <li>• Launched ViP Payroll and Pastel Accounting as an expansion of SaaS product portfolio.</li> <li>• Achieved 144% growth in Cybernest external revenue.</li> <li>• Cybernest launched Do Business into the workplace services space.</li> <li>• 50% of ICT product normalisation initiative completed.</li> <li>• Cybernest launched public cloud offering targeted at the SMB market.</li> </ul>
<b>Launch pre-packaged and tailor-made FMC bundles</b>	<ul style="list-style-type: none"> <li>• Launched Single Bill service, further extending convergence offering.</li> <li>• Created capability for customers to create own converged deals or add mobile to their current Telkom account.</li> <li>• Launched approximately 60 bundles, including Fixed Voice and Data, Mobile Voice and Data and Cloud products.</li> <li>• Launched APN Integration into VPNS.</li> <li>• Launched Hosted Business Telephony, creating a “cloud platform” for customers to adopt converged business solutions with embedded unified communications.</li> <li>• Enabled the sale of 42,000 FMC bundles across business and consumer customers.</li> </ul>
<b>Repositioning our fibre portfolio, making it easier and cheaper for our customers to access fibre services to satisfy their ever increasing demand for bandwidth</b>	<ul style="list-style-type: none"> <li>• New fibre prices were introduced in October 2012.</li> <li>• High end Diginet services to Metro Ethernet offered with initial focus on sites where fibre infrastructure exists.</li> <li>• Migrated existing fibre-based services such as Megalines and ATM Express to Metro Ethernet services.</li> <li>• Retail Metro Ethernet services revenue doubled during the financial year.</li> </ul>
<b>Pilot and launch high-speed broadband access based on the Next Generation Network programme</b>	<ul style="list-style-type: none"> <li>• High-speed (20 Mbps and 40 Mbps) broadband access successfully piloted from October 2012 to February 2013.</li> <li>• High-speed broadband access and related Telkom Internet bundles successfully launched in March 2013.</li> </ul>

## HIGHLIGHTS

- Cybernest more than doubled its revenues in FY 2013;
- Concluded important strategic growth deals with key enterprise and public sector clients;
- Improved customer satisfaction and service perception metrics across all business segments;
- Launched 20 Mbps and 40 Mbps broadband access through NGN;
- Successfully enabled Convergence Sales through External Sales Agents (ESAs) via Usage Based Commissions; and
- In partnership with the Department of Communication we began the process of connecting 1,500 schools to make e-learning and e-education accessible.

## CHALLENGES

- Maturity in voice is hampering revenue growth; and
- Slow initial uptake of Business Mobile offering.



## TELKOM CONSUMER AND RETAIL

OBJECTIVE	PERFORMANCE
<b>Rationalise and simplify fixed voice portfolio</b>	<ul style="list-style-type: none"> <li>Reduced the voice product catalogue from 47 to seven.</li> <li>Launched simplified and enhanced Unlimited Anytime calling plan.</li> </ul>
<b>Improve broadband and Internet product proposition to sufficiently differentiate from mobile</b>	<ul style="list-style-type: none"> <li>Improved entry-level broadband proposition by increasing speed from 384 Kbps to 1 Mbps.</li> <li>Implemented a complete change in the ISP technology and business model enabling the introduction of soft capped products and a significant reduction in uncapped prices.</li> <li>Launched NGNEC product options (20 Mbps and 40 Mbps ADSL and Telkom Internet product bundles).</li> </ul>
<b>Launch new FMC and content services for broadband</b>	<ul style="list-style-type: none"> <li>Launched an enhanced Telkom-Mix 2.</li> <li>Introduced mobile data add-on as a standard feature of Broadband Simple bundle.</li> </ul>
<b>Increase retail footprint</b>	<ul style="list-style-type: none"> <li>Increased retail footprint with 38 new Telkom Express stores and presence in 18 DionWired stores and in 10 Pick n Pay Hyper stores.</li> </ul>
<b>Improve customer service and experience</b>	<ul style="list-style-type: none"> <li>Integrated the ADSL and ISP activation process to enhance customer service experience.</li> <li>Simplified the process to upgrade and downgrade services.</li> <li>Simplified Telkom invoices.</li> <li>Increased social media presence.</li> <li>Enhanced self-help capability and simplified the fault-logging process.</li> </ul>

### HIGHLIGHTS

- Achieved 5.2% growth in the ADSL broadband subscribers;
- Implemented aggressive retention programmes; and
- Exceeded targeted retail channel growth.

### CHALLENGES

- Need to differentiate entry-level broadband offering from our competitors;
- Declining fixed-voice usage continues to pressurise revenue; and
- Pay phone business is being pressurised by fixed-mobile substitution.

## TELKOM WHOLESALE AND NETWORKS

OBJECTIVE	PERFORMANCE
<b>Enable the network to support higher entry level fixed-line broadband access speeds</b>	<ul style="list-style-type: none"> <li>• Completed preparation for network pilot.</li> <li>• Rolled out pilot in October 2012.</li> <li>• Commenced upgrade of 1 Mbps to 2 Mbps product in August 2012 and completed during September 2012.</li> </ul>
<b>Establish and complete the pilot footprint for our new high-speed broadband network</b>	<ul style="list-style-type: none"> <li>• Pilot project successfully completed in March 2013 with 83 remote MSANs installed in the access network.</li> <li>• Achieved speeds of up to 20 to 40 Mbps.</li> </ul>
<b>Install 90% of all new ADSL orders within seven working days</b>	<ul style="list-style-type: none"> <li>• Completed measurement definition.</li> <li>• Completed 90.9% of all ADSL installations within seven working days.</li> </ul>
<b>Commence enablement of FMC in network and IP systems</b>	<ul style="list-style-type: none"> <li>• Enabled launch of Telkom Mix 2 and Awesome deals.</li> <li>• Enabled launch of New Business add-on tablet deals for FMC.</li> </ul>

### HIGHLIGHTS

- Successful rollout of NGN commercial pilot and commercial launch in March 2013;
- Installation of 52 pilot multi-service access nodes (MSANs) and an additional 31 during the year;
- Fibre deployed to 512 identified priority buildings in the enterprise segment; and
- Launched ultra-high capacity West African Cable System (WACS) in May 2012.

### CHALLENGES

- Increased self-provisioning by other licensed operators (OLOs) and mobile cellular operators (MCOs).

## TELKOM MOBILE

OBJECTIVE	PERFORMANCE
<b>Build mobile network</b>	<ul style="list-style-type: none"> <li>• 2,299 base stations acquired, with 1,985 sites integrated.</li> <li>• Launched LTE in November 2012.</li> <li>• 651 LTE sites were integrated into the network.</li> <li>• Launched new price offering to consumers in May 2013.</li> <li>• 649 Wi-Fi access points installed with free unlimited WiFi made available to Telkom Mobile subscribers in April 2013.</li> </ul>
<b>Expand mobile retail footprint</b>	<ul style="list-style-type: none"> <li>• 38 Telkom Express stores built and launched successfully in malls countrywide.</li> <li>• Increased the number of flagship stores to nine.</li> <li>• Entered into a service provider agreement with Nashua Mobile.</li> <li>• Launched 11 Smart Internet and 10 Smart Internet Saver data offerings with 10 GB product modified.</li> <li>• Grew active subscribers by 3.4% to 1.53 million from 1.48 million in the prior year.</li> <li>• 76% and 92% of voice and data subscribers active on Mobile's own network, respectively – end March 2013.</li> </ul>
<b>Cost optimisation</b>	<ul style="list-style-type: none"> <li>• Improved billing process and software.</li> <li>• Enhanced credit management.</li> <li>• Improved call centre customer experience.</li> </ul>

## HIGHLIGHTS

- Three-month LTE trial was launched to gated communities in November 2012;
- Exceeded target to reduce EBITDA loss by 20%;
- Launched R1,199 Unlimited Voice post-paid contract; and
- Significant improvement to debtors' book.

## CHALLENGES


- Gaining market share in a mature and highly penetrated mobile market; and
- Fierce price-driven competition.

# GROUP CHIEF EXECUTIVE OFFICER'S REPORT



**Siphon Maseko**

Group chief executive officer

 Scan this picture to view our GCEO's interview and access the online report using Layar.

“Despite the current financial position, I see a significant opportunity to transform Telkom into a profitable and sustainable business able to support South Africa’s economic development.”

## INTRODUCTION

Before I begin with the review of Telkom’s performance for the year, I would like to express my condolences on behalf of the Board and management team to the families of the two members of staff, Captain Phopolo Phenya and Mokopa Phillip Swarts, who lost their lives in vehicle accidents during the year. Fatalities are unacceptable in the workplace and we need to ensure that our people are operating in a safe work environment. I will pay particular attention to issues of workplace safety going forward.

Telkom’s performance trajectory has been disappointing in recent years. The erosion of traditional revenue streams in the telecoms industry globally has proven exceptionally challenging for fixed-line incumbents. The contribution of strategic errors and poor decisions towards the Group’s current financial state must also be acknowledged. This has also resulted in a loss of confidence of our stakeholders. I am determined that we will not repeat the mistakes of the past, and while I recognise the challenges that Telkom faces, the potential of its people, technology and infrastructure places it in an inherently unique position within the ICT industry. This opportunity needs to be harnessed to evolve our business into one that better meets the needs of all stakeholder groups: our shareholders, customers, employees and the broader society that Telkom reaches.

As the newly appointed group chief executive officer, I am committed to the transformation of Telkom’s financial

performance, restoring confidence of government and our shareholders and rejuvenating Telkom as a national asset.

## FINANCIAL PERFORMANCE

The 2013 financial results re-affirm the need to act with urgency to turn around the Group’s performance. Headline earnings from continuing operations for the year was 237.7 cents per share (73.2%) lower than the prior year. The decline in headline earnings was largely a result of the cost of voluntary severance packages (VSPs), the provision for the Competition Tribunal fines and continued pressure on our fixed voice revenues.

Basic earnings per share was affected by a R12 billion impairment charge on the carrying value of the Group’s legacy assets resulting in a basic loss per share of 2,276 cents. The impairment charge is a non-cash item and did not impact the significant cash flow (EBITDA) that the Group generates from its operations.

Revenue for the year continued to decline. The Group reported revenue of R32.5 billion, versus R33.1 billion in the prior period as a result of sustained pressure on fixed-line operations. Expenses, excluding the R12 billion impairment of legacy assets, grew 2.2% to R32.0 billion primarily due to provisions for voluntary severance and early retirement packages, as well as a provision for the Competition Tribunal fines.



Lower revenue and higher operating costs placed strain on EBITDA, which declined 16.8% to R7,109 million. Notably, however, free cash flow remained strong at R2,132 million after capital investment of R5,738 million, which increased 20% year-on-year. This can be largely attributed to the substantial investment in the upgrade of the Group's network. The Group is lowly geared, with year-on-year net debt decreasing 46.0% to R2.1 billion which places us in a solid position to fund our capital expenditure programme.

The Board has reviewed its dividend policy and has chosen to withhold payment of dividends until the Group's financials show sufficient signs of recovery.

## OPERATIONAL OVERVIEW

Telkom Business is the Group's largest revenue generator. This year the business achieved a number of strategic growth deals with key clients across the enterprise and public sector segments.

Through the upgrade of our networks, we were able to provide our customers with faster, better quality broadband. Telkom has an unrivalled network of more than 147,000 cable kilometres of terrestrial fibre which is now widely available to business customers in metro areas across the country. This will secure Telkom Business' leadership in the data market, thereby preserving existing revenues.

The network upgrade attained full momentum during the financial year under review. We were able to put in place 83 fully operational MSANs. The commercial pilot of this upgrade, consisting of 437 customers, delivered broadband speeds of up to 40 Mbps to 66% of the participants.

While migrating customers onto our IP network, we experienced a fall out rate of less than 5%. This is a tremendous achievement when compared with international benchmarks. We will continue the network migration during the next financial year and preparation of sites is already underway.

The Consumer business continues to face significant challenges of declining fixed-line usage and revenues. This has necessitated consolidation and innovation to defend and grow the subscriber base. Rationalisation of the Consumer voice portfolio has assisted in streamlining the product offering and allowed us to maintain focus on profitable products and services.

While it is encouraging that Telkom Mobile exceeded the targeted 20% reduction in EBITDA losses for the financial year, it continues to face formidable competition from established players in the market. We are undertaking a thorough strategic review of the business to manage the inherent risk around building a mobile business as the fourth entrant. It is our view that mobile is vital to our future, especially from a revenue growth and convergence perspective.

## GROUP-WIDE STRATEGIC REVIEW UNDERWAY

Despite the current financial position, I see a significant opportunity to transform Telkom into a profitable and

sustainable business able to generate appropriate returns for its shareholders and support South Africa's economic development. We are in the process of performing a group-wide strategic review as part of this transformation, with a focus on improved operational efficiencies over the short-term and unlocking value through longer-term strategic considerations. A summary of initial thinking can be noted in the table below:

Performance improvement	Strategic focus areas
<p>Focus on operational efficiencies</p> <ul style="list-style-type: none"> <li>• Maximising NGN efficiencies and returns</li> <li>• Effective management of third party spend</li> <li>• Customer service effectiveness, integration and innovation</li> <li>• HR optimisation and capacity building</li> </ul>	<p>Focus on future operating model</p> <ul style="list-style-type: none"> <li>• Defining mid to long-term strategy and plan</li> <li>• Wholesale/Retail structural options</li> <li>• Participation in the National Broadband Plan</li> <li>• Effective management of regulatory and policy framework</li> <li>• Mobile/Consumer business options</li> <li>• Telkom Business (government and SMME) value propositions</li> </ul>

Greater detail of the revised strategy will be provided during the course of the year once it has been finalised.

## The future will be data-led

It has been widely reported globally that mobile handset data and fixed and mobile broadband are expected to be the most important revenue growth areas over the next three to five years. This is being driven by higher data usage and increased penetration of smartphones and broadband services.

In developed markets, we have already seen this change in revenue mix in line with evolving consumer behaviour. Many emerging markets are investing heavily in mobile networks, with mobile data particularly seen as strategic in terms of future growth.

Telkom, through its superior fixed network, is well-positioned to provide quality, high-speed broadband services to customers across market segments. It is therefore crucial to continue to invest in an IP-compliant network. In addition, a well-developed mobile infrastructure will support Telkom's convergence offering and the rollout of broadband. The abundant spectrum available to us lends an additional competitive advantage in capitalising on the data opportunity.

## Profitable market segments and services

A high quality network is meaningless in the absence of a good business model able to drive profitability. As such, Telkom is focusing on profitable market segments and services where there is strong opportunity to grow active

# GROUP CHIEF EXECUTIVE OFFICER'S REPORT

users, average revenue per user (ARPU) and stimulate uptake of value added services.

From a wholesale perspective, we need to employ strategies that stimulate widespread data growth in line with government's broadband strategy, thereby working towards South Africa's developmental objectives. By reducing the incentive to self-provide, we will also be able to defend and grow our Wholesale business.

## Focus on operational efficiency

To improve our performance in the short-term we are reviewing the business from an operational standpoint. Measures to achieve cost reduction and greater efficiency and the identification of growth opportunities, as noted in the table above, have been initiated. Our focus areas in this regard are the effective management of third party spend, HR optimisation and capacity building, rationalising the property portfolio, consolidating the pay phone business and exploring IT adjacencies. We also intend to maximise NGN efficiencies and returns, and improve customer service effectiveness.

## STAKEHOLDER RELATIONS

### Restoring our relationship with government

One of my top priorities is to rebuild Telkom's relationship with government and other key stakeholders. My early engagements have confirmed that there is substantial goodwill and commitment regarding Telkom within government. We are committed to working with government to discharge our duties as a national incumbent and, through this, re-invigorate the relationship.

I see Telkom playing a meaningful part in the rollout of broadband, however we are mindful of the financial implications involved and we need to guard against any adverse effects to our long-term financial health. We have submitted a proposal to government, which is currently under review. We look forward to further engagements to arrive at a workable and sustainable solution for all parties involved. This will also ensure that the expectations of our minority shareholders are met.

As part of Telkom's broader role in South Africa's development, working with government to provide broadband connectivity in schools has been a key focus. In conjunction with the Department of Communication (DoC), Telkom Business is in the process of connecting 1,500 schools across the country, making e-learning and e-education accessible. We are committed to continued collaboration to drive such developments forward.

### Mobilising our people

People are Telkom's greatest asset. The voluntary retrenchment programme that we started in 2013 was, as expected, a difficult but necessary exercise. It is therefore critical that we continue to build upon our relationships with our people, particularly during these times of change. We will continue to make efforts to increase our levels of employee engagement, satisfaction and motivation to participate in Telkom's transformation in the years ahead.

Over the course of the year, a reduction in the number of health and safety incidents of 6% was achieved. It is unacceptable however, that we suffered two fatalities during the year and it is my commitment going forward to ensure that our people operate in a safe environment.

## Delivering quality customer service

I cannot emphasise enough the importance of our customers. The perceptions of both our business and consumer clients regarding our reputation and the value of our products and services, is central to our success. Our core focus has therefore been to drive quality and innovation to ensure that our customers' ever-changing needs are consistently met. To achieve this, we need to instil a culture of customer centricity among our employees. It is my hope that, in the years to come, Telkom will report much improved measures in terms of quality of customer service.

## REGULATORY ENVIRONMENT

### Competition law compliance

Settlement discussions with the Competition Commission were initiated and successfully concluded in April 2013. This ruling related to the case between Telkom and the South African Value Added Networks Services Association (SAVA) and various other complainants pertaining to alleged anti-competitive behaviour between 1999 and 2002. Telkom and the Commission agreed to withdraw their respective appeals against the Tribunal's initial ruling in August 2012, resulting in the said ruling remaining unaltered. Accordingly, Telkom will pay the fine that was awarded by the Tribunal in the sum of R 449 million.

We have also subsequently negotiated to settle a second claim relating to a Multiple Complaints Referral by several complainants including Internet Solutions (Pty) Limited, the internet division of MultiChoice Subscriber Management Services (Pty) Limited, Verizon (Pty) Limited and the Internet Service Providers Association.

As part of this settlement, Telkom is required to pay a penalty of R200 million which has been fully provided for. The settlement also requires an undertaking by Telkom regarding the functional separation between the Group's retail and wholesale divisions.

We are committed to understanding the unique responsibility that we have as the national incumbent. We acknowledge that past actions of the Group have had a negative impact on our business and we take accountability for this. We have been and will continue to uphold responsible conduct and compliance in all our businesses.

### Asymmetric termination rates critical to sustainable competition

I strongly believe that the current interconnection rate dispensation hampers competition and new entrants such as Telkom Mobile should be allowed to compete on a level playing field. The current interconnection rates are set at an inappropriate level and are discriminatory towards less established market participants. We have proposed simplified and converged mobile termination rates (MTR) and fixed termination rates (FTR) to the regulator. To this

end, Telkom will participate at public hearings to be held by the Portfolio Committee on Communications on this topic and will also participate in the Independent Communications Authority of South Africa's (ICASAs) process of reviewing the existing regulations, including their "Cost to Communicate" programme.

We are also engaging with the regulator on issues relating to spectrum licensing fees and access, LLU, and relief of universal service obligations as we believe these to be unnecessary burdens on Telkom's already strained financial position. I intend to deal with all regulatory matters assertively, decisively and expeditiously going forward.

## APPRECIATION

I would like to thank the Board and our chairman, Jabulane Mabuzo, for appointing me to lead Telkom through this period of transition. I would like to congratulate my predecessor Nombulelo Moholi for making progress in key areas, despite the complexities of our operating environment.

I acknowledge the hard work that remains in transforming the business into a highly profitable one that earns a position of leadership in its chosen segments. A fundamental weakness of ours has been our inability to execute and deliver results. With tenacity and renewed focus on execution, I am confident that we can turn around Telkom's performance. Doing so requires the setting out of clearly defined objectives and performance measures. Developing a successful track record of execution will rebuild our credibility among our stakeholders.

It is up to each and every Telkom employee to rise to this challenge and take an active role in re-invigorating our company.



**Sipho N Maseko**

*Group chief executive officer*

# OPERATING ENVIRONMENT

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# INDUSTRY OVERVIEW

## MARKET DYNAMICS

While traditional telecoms revenue growth has continued its decline over the last year across the globe, the explosion of internet applications and rapid innovation in smartphone capability, LTE and the Cloud, is revolutionising the sector, driving growth in data-intense pockets of the market. However, monetising this growth in data demand has proved difficult as customers are demanding more minutes and higher bandwidth while spending less and less. Adding to this pressure, telecoms operators are also seeing an increase in their cost base as inflation, regulation and capital expenditure take their toll on the bottom line.

Increasing competition from non-traditional players such as Internet companies like Google and Skype, retailers, media players, and handset manufacturers is also placing traditional telecoms operators under pressure.

However, a number of adjacencies such as ICT services and content do offer additional grounds for operators to grow revenues and defend their existing franchise. Capturing these will require telecoms players to explore new business models, including selected partnerships, which will enable them to tap into innovations and aggregate the most relevant services and applications.

Further to this, the business-to-business ICT space represents an attractive opportunity, expected to grow faster than business-to-consumer and to provide a way for telecoms companies to deepen their enterprise customer relationships.

Data traffic including Internet, Voice over IP, Point-to-Point, video and IPTV is growing rapidly. Internet user data growth is expected to remain robust in South Africa, passing 50% before the end of 2017<sup>1</sup>.

Many telecoms operators around the world are already deploying or planning to deploy fibre networks as consumer demand for high-speed data access and volumes continues to rise.

In South Africa, the telecoms market mirrors the global industry. Between 2013 and 2018, fixed and mobile voice market revenues are expected to decline by 3% and 2% per annum<sup>2</sup>, respectively, while demand for data, IT services and TV will increase at attractive rates.

Penetration of fixed broadband services is low among South African households. This suggests an opportunity for growth in the fixed broadband market, which Telkom is well-positioned to exploit, given its extensive infrastructure across the country.

Conversely, mobile broadband penetration in South Africa is high. Unlike in developed countries, mobile broadband usage dominates fixed. However, the recent decline in MTR has put increasing pressure on mobile ARPU. Less established mobile operators, including Telkom Mobile, are engaging the regulator on this issue.

<sup>1</sup> Source: *Business Monitor International, South Africa telecommunications report, Q3 2013.*

<sup>2</sup> Source: *Pyramid; Ovum; IDC.*

Over the next decade, a larger ecosystem of disruptive Over-The-Top (OTT) and Voice over IP (VoIP) players such as Google, Skype and locally, Vox, ECN and AppChat, will see the introduction of a broader field of competitors to the local telecoms market.

## COMPETITION

It is anticipated that the other licensed operators (OLOs) and internet service providers (ISPs) will increasingly move into the corporate and voice service markets, with telecoms service providers expanding into managed data networks and international traffic markets. Over the next few years the formation of alliances between smaller licensed operators, established telecoms service providers and content providers, to focus on the delivery of converged services, can be expected.

Market consolidation is also anticipated, with Telkom's competitors expected to grow through mergers, acquisitions and alliances. Furthermore, the entry of multinational corporations into South Africa will provide an incentive for their service providers to establish or enhance their presence in South Africa.

The effect of declining demand for voice on revenue has been further compounded by fixed-mobile substitution and growing customer demand for faster data services at cheaper rates. This has prompted highly aggressive and targeted pricing tactics by OLOs and ISPs, which could greatly intensify with the forthcoming launch of fibre services. This pricing pressure is particularly disadvantageous for Telkom, given its service obligations as the national incumbent, and the associated cost base.

The South African mobile market is already a contested space, with more established players like MTN and Vodacom holding most of the market share. The price competition seen in the fixed market is also active in the mobile arena as competitors vie for a greater portion of the market. As the fourth entrant into the market space, Telkom Mobile has chosen to follow a niched approach to its target market that will place it out of direct competition with MTN, Vodacom and Cell C.

Global trends have shown that fixed-line operators have benefitted from spectrum constraints placed on mobile operators, which have forced them to offload data onto fixed networks. Accordingly, Telkom as both a fixed and mobile operator is better insulated than its mobile competitors in this regard. The Group's complement of mobile and fixed services also means that Telkom is well-placed to satisfy the recent explosive growth in data demand with unique converged solutions.

Telkom is the only player with developed fixed and mobile infrastructure and is plugged into main business areas in South Africa enabling easy provision of bundled services.

The integrated use of mobile and fixed is pivotal to the achievement of meaningful socio-economic development

# INDUSTRY OVERVIEW

in South Africa and in fulfilling government's service delivery objectives. Telkom's unique infrastructure and network places it in a strong position to support e-enablement in South Africa, which has the ability to empower businesses through the integration of technology into their operations.

Despite Telkom's differentiated position within the telecoms market, there are a number of regulatory issues affecting its ability to compete on a level playing field.

## REGULATORY ISSUES INFLUENCING COMPETITION

Telkom continues to engage with the ICASA on a variety of issues including local loop unbundling, the access line deficit, interconnection rates, spectrum fees, licence fees and quality of service issues.

### Self-provision and fixed-line voice competition

As the incumbent fixed-line operator in South Africa, fixed-line voice revenue remains at the core of our business. The playing field was changed with the introduction of Neotel, which competes with us in all markets, and the granting of an electronic communications network service (ECNS) licences to the State-owned Broadband Infraco (Pty) Limited, whose main objective is the provision of wholesale bandwidth to other licensees at cost-based prices. Other licensees, including the mobile operators, who used to obtain their transmission infrastructure from Telkom, are now adequately licensed to provide their own infrastructure and also to provide it to other licensees, in competition with Telkom's network services.

### Spectrum licence fees

The Administrative Incentive Pricing basis for spectrum licence fees was introduced through regulation by ICASA in 2010 to incentivise spectrum users to make the most effective and efficient use of the radio frequency spectrum, specifically with regard to spectrum use in rural areas. Telkom has paid spectrum licence fees of R100 million for the 2013 period. The Authority also intends amending Telkom's radio frequency spectrum licences in order to capture Telkom's current use of spectrum. Following these activities the total fees payable should remain below R100 million.

### Review of universal service obligations

In August 2010, ICASA issued a discussion document on the review of universal service and access obligations (USAOs). As indicated in last year's report, we have submitted our views on the proposed USAO model to ICASA but no further progress has taken place. We are still of the view that there will need to be further consultations with ICASA before the regulations are finalised. The latest consultation with the Minister of Communications on a national broadband strategy for South Africa may also result in a rethink of the

concept of universal service and access and Telkom has made suggestions to the Minister in this regard to achieve a more balanced obligation regime on operators.

### Price controls

We have filed our retail tariffs in accordance with the regulations governing the standard terms and conditions for individual licences, which contemplate that such tariffs be filed with ICASA but do not require ICASA approval to be implemented.

### Local loop unbundling

LLU in its original form is a regulatory remedy that enables telecommunications operators to access customers and competitively provide broadband services to them over the 'last mile' infrastructure of an incumbent operator. This was deemed necessary by regulators when there were no efficient alternative methods to enable this form of competition among operators. However, other forms of wholesale services are now available, including BitStream, which can give operators access to Telkom's broadband infrastructure without requiring the physical unbundling of the loop.

After a lengthy consultation process, ICASA has come to the conclusion that LLU is a fairly complex and costly process that will require ICASA to conduct a regulatory impact assessment, as well as a market review to determine the necessity and scope of any LLU remedy, before it can be mandated by regulation. ICASA, however, has suggested that in the interim a BitStream product should be offered by Telkom from 1 November 2012 subject to the recovery of Telkom's Access Line Deficit (ALD). However, since ICASA has not yet agreed to a process to recover the ALD, Telkom has not been obligated to introduce BitStream.

### Mobile and fixed-line termination rates

ICASA has imposed a three-year glide-path for new termination rates, which came into effect on 1 March 2010. From 1 March 2013, Telkom's fixed termination rates were reduced to R0.19 (between 0N area codes) and R0.12 (within 0N area codes) and the mobile termination rates of Vodacom and MTN were set at R0.40. There will also be no difference between peak and off-peak rates for call termination services. The smaller players – being ourselves (Telkom Mobile) and Cell C – are entitled to charge up to 10% more for calls terminated on each of our respective networks.

# REVIEW OF TELKOM'S OPERATIONS

## TELKOM BUSINESS

Telkom Business aims to be the leading provider of fixed and converged communication and network services to the South African business market, and to drive transformation in IT through the Cloud.

During the year under review Telkom Business successfully launched initiatives to create and maintain market leadership in voice and data, convergence, broadband, ISP and value added services.

We were able to deliver pleasing performance for the period under review and will continue to focus on profitable products and services that ensure consistently solid performance for customers and shareholders year after year.

We concluded important strategic growth deals with key clients across our enterprise and public sector segments, which included a number of top JSE listed companies and various government departments. These deals mark solid progress towards sustainable growth and market leadership for Telkom Business.

The delivery of sustainable growth hinges on service perceptions and customer satisfaction. Improving these metrics has been challenging, but over the period we succeeded in moving the dial across all five of the customer groups. We exceeded our targeted improvement, most notably among our large, medium and small business customers. Customer satisfaction in our enterprise segment is now at global benchmark levels.

We saw a rise in operational expenditure for the year resulting from investment in new capabilities and channels. Despite this we were able to contain expenditure below inflation.

During the year we were able to elevate our broadband value proposition through a variety of major initiatives. Foremost is Telkom's NGN project which enabled the introduction of high-speed 20 Mbps and 40 Mbps broadband services for the mass market segments, using copper-based VDSL technology. The rollout of this broadband network upgrade will continue over the next two years.

The NGN project also includes the deployment of fibre and the migration of copper data services to fibre. Fibre is now widely available to business customers in metro areas across the country.

NGN is a key part of Telkom's strategy for sustainability and growth; it will secure a leadership position within the Business data market and preserve existing revenues. NGN offers customers much higher speeds and will significantly improve the reliability of the network.

In line with market requirements, more competitive products for our ISP, Telkom Internet, were launched during the year with soft caps and better value uncapped products being made available in March. Hosting Internet Access was also launched as a more cost effective internet access option for customers hosting their infrastructure in the Telkom data centre.

These network upgrades also support migration to VoIP services. The new network also enables Telkom Business to offer best in breed converged, Unified Communications (UC) and networked ICT infrastructure services. This is an opportunity to up sell bandwidth.

SIP trunking was introduced as a NGN alternative to ISDN Primary Rate services and has been well received, with several key customers having already migrated to this new voice technology.

Growing Telkom Business Mobile on the path to convergence is a key driver of the Telkom Business strategy. We are in the process of building out our LTE mobile network in South Africa. Our mobile capabilities, coupled with our fibre based infrastructure, demonstrate Telkom's ability to offer seamless connectivity in support of genuine convergence.

Initial uptake of Business Mobile services has been slow, but we achieved moderate, encouraging growth in the year under review. In the year ahead we will grow ARPU through more compelling voice offers, with a strong focus on convergence.

Converged products and capabilities that offer savings when buying both fixed and mobile offerings were introduced. These capabilities include single bill and single point of sale for our customers. Until now, Telkom Business has been offering bundled solutions, however the year ahead will see the introduction of more integrated fixed, mobile and IT service offerings that unlock the true value of convergence for our customers.

Our vision is to transform the way that IT is delivered through the Cloud and through convergence. We view IT services as a natural adjacency to Telkom's fixed and mobile services that will complete our convergence value proposition. We intend to drive the development of IT services through our Cybernest business.

Our roadmap to UC as a Service is evolving fast and a full suite of hosted and enterprise based UC and Collaboration solutions will be available in the 2014 financial year. Telkom already offers a range of solutions in both the hosted and premise based areas, catering for business needs ranging from medium sized companies through to large enterprises.

In a drive to improve operational efficiencies and reduce IT complexity, Telkom Business simplified its product portfolio, removing 450 offerings from the system. We will continue to identify and retire products and services that are underutilised or obsolete.

As part of Telkom's broader role in South Africa's development, working with government to provide broadband connectivity in schools has been a key focus. In conjunction with the Department of Communication, Telkom Business is in the process of connecting 1,500 schools across the country, making e-learning and e-education accessible.

# REVIEW OF TELKOM'S OPERATIONS

## CYBERNEST

We have observed strong growth in the data centre and IT markets. Telkom Business intends to grow organically into adjacent areas like IaaS, SaaS, LAN and Desktop Management, cloud services, UC and IT Outsourcing through closer alignment to our managed IT infrastructure business, Cybernest.

Pleasing progress was made in aligning Cybernest with Telkom Business and our sales channels, resulting in Cybernest performing remarkably well over the period, more than doubling its revenues and achieving a six-fold year-on-year increase in total contract value sold.

By leveraging the scale of Telkom's infrastructure, Cybernest will transform the way that IT and cloud services are delivered to the business market. With six national data centres, Telkom has the largest operational data centre capacity in the country, enabling lower acquisition costs and greater operational efficiency.

## TELKOM CONSUMER SERVICES AND RETAIL

The improving accessibility and affordability of data has been the catalyst for significant growth in broadband usage in South Africa. This has presented an opportunity for Telkom to increase its broadband subscriber base and data related revenues. The sustained trend of fixed-mobile substitution, although advantageous for our consumer mobile brand, Telkom Mobile, has been detrimental to fixed broadband penetration and, consequently, to our fixed-line business, which experienced 6.8% churn during the period.

During the 2013 financial year, continued pressure was felt on operating revenues from the decline in fixed voice usage. Despite this, the Consumer business was able to grow its data revenues year-on-year by 11%. However, competition in the data market and continued strain posed by fixed-mobile substitution resulted in relatively flat DSL subscriber growth.

Convergence is how Telkom plans to reach a balanced outcome in this situation. By demonstrating the synergies between fixed and mobile as a converged offering, we aim to stabilise declining revenues in our fixed-line business while moving Telkom Mobile to high value segments. Mobile will enable Telkom to capture broadband market share in areas without fixed-line access, while fixed broadband can provide the stability and bandwidth required to support rich media content.

We are constantly seeking ways to improve our value proposition and meet the needs of the connected individual. In a drive to boost the competitiveness of our ISP offering, Telkom Internet, a number of initiatives were implemented. This year we were able to increase our entry-level ADSL speeds, moving the bulk of our customers from 384 Kbps to 1 Mbps and our 1 Mbps customers to 2 Mbps. We also migrated our Telkom Internet customers to a new technology model enabling us to provide a more competitive service and greater value for money. In February 2013 we implemented price cuts on our uncapped Internet products of up to 40%. In addition, we enhanced our capped Internet services with a soft cap. This means that customers are not limited to local data once reaching their Internet cap, and can also access international sites.

Telkom commercially launched its NGN programme in March, which has allowed us to launch our 20 Mbps and 40 Mbps fixed broadband products. During the pilot project a reduction in faults of 67% was observed. The significantly faster speeds and reduction in faults enabled by NGN will allow Telkom Internet to gain market share, improve customer satisfaction and deliver on our promise of value for money.

Resolving service related perceptions that could affect the Telkom brand has been and remains top of mind. As such, one of our primary strategic focus areas for the year under review has been customer experience improvement.

A number of service improvement initiatives aimed at simplifying customer interface processes have been implemented. The changes include an improved online fault logging portal as well as our customer service app for iPad and Android, which has experienced good utilisation since its launch. Telkom is now active on social media site, Twitter, facilitating more direct engagement with

customers. We were also able to reduce ADSL installation times, with 90.9% of installations now being completed within seven working days.

As a result of these and other initiatives, we have been able to reduce service related traffic in our retail stores. This has created room for more in-store transactional activity, which now accounts for about 50% to 70% of total activity. This is largely attributed to the expansion of our retail footprint via third party partnerships, and organic growth through Telkom's owned-and-operated channels.

We were able to exceed the target we set of increasing the total retail channel growth, increasing total Telkom outlets from 117 to 155. Our partnerships with third party retailers have facilitated quick expansion in a cost effective manner. Telkom's presence within these stores also offers consumers a new level of convenience through enabling the purchase of smart devices and connectivity in one place. We now have a presence in 18 DionWired stores and 10 Pick n Pay Hyper stores. We will continue to assess similar partnership opportunities in the year ahead.

Declining fixed-line voice usage and revenues have necessitated consolidation and innovation to defend and grow our subscriber base. Rationalising our voice portfolio has allowed us to streamline our product offering. This has clarified our value proposition for customers and simplified our sales activities. We also discontinued some value added services and integrated others into the basic cost structure of our voice contracts.

During the year we launched a number of converged products in the data and voice space across fixed and mobile. This year, we launched two new Telkom Mix voice propositions: Telkom Mix 2 and Telkom Mix 3. We also introduced the Telkom Simple product bundle which includes Telkom Mobile data as a standard value add, and an all-inclusive converged voice and data bundle called The Killer Deal.

Bundles that include streaming devices, such as Boxee, were introduced towards the end of 2012 and are available in all TDS stores. By enabling the utilisation of rich media content, we are able to demonstrate the relevance and value of high-speed, uncapped, fixed broadband. This area has the potential to drive broadband growth and is hence a priority for the Consumer business.

Telkom's pay phone business has come under significant pressure as a result of fixed-mobile substitution. During the year we implemented a commercially led plan to consolidate our pay phone business and we began removing unprofitable phones. We have, however, ensured that phones remained in essential service areas such as prisons, hospitals, clinics, schools and old age homes. We will continually assess the viability of our pay phone business and action our strategy accordingly.

Voice usage is expected to continue its downward trend, but will be offset by increased tariffs on line rentals. During 2013 we began to implement churn reduction initiatives. This, along with channel improvement and expansion, enhancements to the Telkom Internet value proposition and price cuts, is expected to have a positive impact on our DSL subscriber growth in 2014.

## TELKOM MOBILE

Central to the 2014 strategy for Mobile is leadership in broadband, which will position the business to benefit from the steady growth in data usage and declining voice utilisation. The successful launch of LTE in South Africa's four major metropolitan areas, and continued innovation in convergence, will see us increasing the value gained on our investment in Telkom Mobile in the year ahead.

During March we launched Telkom Mobile, a high-quality network offering great value to data hungry consumers and those making high volumes of voice calls. It is important to note that 8•ta will continue to be the brand name for a differentiated core set of products within Telkom Mobile, which is a business unit within the Telkom Group. 8•ta has developed a strong and loyal following in key segments of the market and will therefore remain as an important product for those customers.

The decision to launch Telkom Mobile was informed by a great deal of investigation into market dynamics, the benefits of leveraging the strong Telkom brand heritage and its unrivalled infrastructure. We believe Telkom Mobile will position the Group uniquely in the convergence arena.

Over the past year we were able to reduce Mobile's EBITDA losses from R2.2 billion in 2012 to a loss of R1.7 billion, exceeding our loss reduction target of 20%. The allocation of network-related and other costs to Telkom Mobile was done consistently with the methods applied in previous years.

In November 2012, Telkom Mobile launched its free five-month non-commercial LTE trial in select parts of Gauteng. The trial was an important milestone in demonstrating Telkom's ability to bring the fourth-generation (4G) technology to market.

Mobile's commercial LTE offering was launched in April 2013 in parts of Johannesburg, Pretoria, Durban and Cape Town. The commercially-led rollout focuses on communities without fixed-line access.

Despite this progress, this financial year was a challenging one for the Mobile business. Being the fourth entrant into a highly-competitive, price-driven market has demanded innovative solutions to capture market share and greater efficiencies to improve profitability.

Our focus for the year ahead is to deliver a value for money product offering that will allow us to compete on a basis that is more sustainable than price.

Our value proposition is based firstly on the delivery of high-speed mobile broadband in areas without fixed-line broadband, satisfying a latent demand for broadband and moving our mobile subscriber base of 1.5 million towards critical mass.

The second pillar of our value proposition is convergence, which will allow us to further leverage off our existing fixed-line infrastructure and provide customers with the 24-hour convenience of uninterrupted connectivity. Accordingly, the year ahead is about ensuring the delivery of high-speed broadband across our mobile and fixed-line networks through capacity building, network upgrades and expansion.

To this end, we were able to integrate 637 base stations into the field during the year, bringing the total to 1,985. As at 31 March 2013, Telkom Mobile had 651 integrated LTE base stations.

Given the sustained trend of fixed-mobile substitution, convergence provides an opportunity for Telkom to defend its fixed-line business, while capitalising on the rapid uptake of mobile in South Africa. Our mobile business is not viewed as an alternative to our fixed-line operations, but an opportunity to grow and sustain a single customer base that uses Telkom's products and services across both platforms. We will, therefore, continue to develop and market fixed-mobile data bundles and converged offerings in the year ahead.

Declining voice utilisation continues to put pressure on revenues. Although data is our primary focus going forward, we will continue to operate at the high end of the voice market. In October 2012, Mobile introduced its R1,199 Unlimited Voice Postpaid contract, a first for the South African mobile market.

Continued retail channel growth is critical to growing our mobile customer base. For the consumer mobile business, expanding Telkom's retail presence, particularly via third party partnerships, is an efficient and high impact strategy to improve accessibility of our mobile offering. For Telkom Business Mobile, we have entered into a service provider agreement with Nashua Mobile. Organic growth is also being pursued through our owned and operated stores.

In the past, driving customer acquisitions via call centres has focused on the volume of subscribers rather than on quality. We experienced a significant improvement in our debtors' book due to a reduction in call centre driven sales, the introduction of more stringent credit measures and a renewed value over volume approach to customer acquisitions.

## TELKOM WHOLESALE AND NETWORKS

Telkom Wholesale and Networks is driving transformation through the adoption of an IP-compliant network, designed to enable fixed-mobile convergence and high-speed, quality broadband.

Telkom's network and IT transformation programme, NGN, attained full momentum during the financial year under review. We were able to put in place 52 fully operational Multi-Service Access Nodes (MSAN) in five exchange areas by the second quarter of this financial year. Telkom also commenced the commercial pilot of the NGN programme at the beginning of October 2012 which ran through to the end of February 2013. The participants' lines were cut-over from TDM exchanges to the MSANs, enabling the delivery of traditional voice, high-speed DSL and new emerging IP-based services from the same hardware. Of the 437 customers who participated in the commercial pilot, 66% attained a broadband speed of 40 Mbps.

The NGN pilot verified the considerable cost savings of the new network, particularly through greater energy efficiency, reduced maintenance costs and better utilisation of Telkom's workforce.

During the migration to MSANs, seven local exchanges, were completed with high efficiency and low fault rates, with less than 5% fall out rate and no roll back. This is a tremendous achievement when compared to international benchmarks. We will continue to migrate the network during the next financial year and preparation of sites is already underway.

In addition to the 52 pilot MSANs, 31 more were deployed during the year under review and are already fully-commissioned and integrated into the network. Through the deployment, we have achieved an average copper loop length of 800 metres, which will support higher broadband speeds with VDSL technology.

NGN was commercially launched on 4 March 2013. Future expansion will focus on high density areas where significant overhead costs such as trenching can be optimised. In remote exchange areas, we will rely on our fixed wireless or satellite broadband capability to meet customers' connectivity needs.

Telkom Wholesale and Networks is also in the process of taking fibre deeper into the Telkom network, thanks to new fibre capabilities and leveraging a mix of access technologies including very high-speed DSL technology (VDSL2) in a fibre-to-the-curb configuration and passive optic fibre (PON) configuration directly to the customers' premises. Telkom's unrivalled fibre network of more than 147,000 kilometres and 16,500 Fibre Distribution Points, that enable over 107,500 services, is a valuable asset in terms of providing last mile access.

On the enterprise side, 578 priority buildings have been identified for fibre deployment. Of the 578 buildings, 512 have already been completed with 66 more planned for the near future. Telkom will be able to lead in the converged ICT market and benefit from the strong growth expected in the enterprise data segment through the provision of a distinctive customer experience.

However, revenue in the Wholesale business remains under pressure due to increased self-provisioning by MCOs. Wholesale is thus reliant on the Networks business to provide a network that meets its customers' needs, is efficiently run, well-maintained and available where the demand exists. NGN is therefore critical to contain the effects of self-provisioning and strengthen our position in the wholesale market. Despite this risk, the full impact of self-provisioning has not yet been seen.

In the year under review a number of additional transformation initiatives were successfully completed. In the fixed-line business uncapped ADSL prices were dropped by up to 40% in the Consumer division. We raised the entry-level ADSL speeds from 384 Kbps to 1 Mbps and from 1,024 Kbps to 2 Mbps.

Over the past six months, Telkom has transferred the remaining 2,700 manual customers served by manual boards around the country to a modern, automated technology. The last manual service was decommissioned in February 2013. The new service is provided by satellite technology. Previously these customers could only have basic voice functionality, whereas now they will also have access to broadband.

In May 2012, Telkom launched the ultra-high capacity West African Cable System (WACS), linking Southern Africa and Europe. This is a significant addition to Telkom's vast international submarine cable portfolio.

Equipped with extensive undersea cable development and maintenance experience as well as the availability of the necessary facilities, Telkom was given the responsibility of landing WACS in South Africa. Since the landing of the cable in April 2011, a new Cable Landing Station has been established in Yzerfontein, north of Cape Town. The Cable Landing Station is owned, operated and maintained by Telkom. However, the costs of the facilities will be shared by the WACS Consortium parties using the station.

Telkom is pleased to report smooth operations for the duration of the 2013 African Cup of Nations (AFCON) from 19 January 2013 to 10 February 2013. The Group seamlessly delivered a range of critical Information Technology and Telecommunications (IT&T) services for the major sporting event. Optimal technical services were crucial for the success of AFCON and Telkom exceeded all expectations.

Telkom delivered an IP-based Virtual Private Network (VPN) for the sporting event which facilitated voice, data and video traffic. This ensured that the Local Organising Committee's (LOC) Sandton headquarters were connected in real-time to the five stadiums: Johannesburg, Nelspruit, Durban, Port Elizabeth and Rustenburg.

# SUBSIDIARIES

## TRUDON

Trudon, Telkom's publisher of local and commercial search directories, and advertiser, experienced a change in ownership in the financial year under review. This was as a result of the TruManCo consortium taking over Truvo's minority shareholding.

The appointment of Olaf Brinkman, managing director of Purple Cow and his firm's development of the advertising agency, 360 Eight, will aid Trudon's communications strategy. This also forms part of Trudon's strategic objective to become a multimedia organisation that successfully sells across all platforms, offering comprehensive advertising solutions to the SMME market.

Trudon's digital platforms matured over the financial year, which led to a 423% growth in mobile offerings and an overall online revenue growth rate of 10%, whilst print revenue remained relatively flat.

Yellow Pages increased its internet usage by 125% while the website (IYP) usage achieved 19.3% growth during the financial year. The mobile application increased by over 60,000 downloads, suggesting that users are finding cumulative value in this offering.

The next phase of the Company's mobile development plan includes user-engagement by means of a geospatial offering.

Trudon has made headway in the social media communications arena this year. This area remains important for the Company in providing products to the SMME market and assists in increasing engagement with customers, creating brand awareness and improving page ranking and revenue. Yellow Pages also increased membership on its Facebook fan page, by 28,000; the social media site has a total reach of 10 million people. The Yellow Pages application for Microsoft Windows Phone 7 and Windows 8 is unique in the SMME market, and has been well received by customers.

Trudon partnered with the Facebook-approved company, Zibaba, to launch the Facebook Product Suite. The suite of products will enable SMMEs using Yellow Pages products to increase and generate revenue from online sales by opening a new sales channel inside one of the most visited websites on the internet. Advertisers that elect to take the Facebook Product Suite have the added value of featuring in Trudon's YP Mall, which is the first social directory and virtual mall on Facebook. The YP Mall is a central location for Facebook fans to discover businesses, advertise products and services, take advantage of networking opportunities and gain direct access to new customers.

Trudon also partnered with Google during the year, as the search engine's SMME partner. This partnership helped generate substantial revenue for the Company for the year.

To grow its product offering further, Trudon launched a hosted and managed online platform for the Namibian market. The MySite and Mobisite product was enhanced to offer users their own domains, which led to an increased uptake of the product.

Toodu was strategically rebranded to Connecto™ during the year. The aim of this was to enable both small and large businesses to engage its customers through an interactive contact profile sent to their mobile phones. Connecto is designed to improve customer loyalty and drive continuous contact with customers.

The decision to expand print products by enlisting the services of Paarl Media, which has state of the art printing technology, has seen Trudon producing more high-end directories lending the Company a competitive advantage.

Telkom's subsidiary, Trudon (Proprietary) Limited – Registration number 1992/002329/07 – passed a special resolution on 8 November 2012, in terms of which it adopted a new Memorandum of Incorporation.

## SWIFNET

Swiftnet continues to offer valuable services in the wireless data credit clearance and debit card market as well as the wireless VPN market. Following a major technology refresh programme towards mobile technology to offer better service coverage and overall service experience to our customers in the M2M, point-of-sale verification, security and fleet management services; the business remained vulnerable to increasing levels of competition and technology changes in the market.

## iWAYAFRICA

iWayAfrica was formed as a result of integrating the business operations of Africa Online and MWEB Africa. It is a satellite-based (VSAT) ISP aimed at the enterprise market in Africa. Due to the advancement of available technologies across the continent, iWayAfrica has faced serious competition from cheaper offerings in terms of fixed and mobile broadband.

We will review our investments in Africa and those we consider non-core in South Africa. Our aim is to first get the basics of our core business right in South Africa.







Telkom new store opening: Centurion

# AWARDS AND ACHIEVEMENTS

Telkom received the following awards during the 2013 financial year. These accolades demonstrate our commitment and the progress we have made in improving the perception of Telkom as a brand and developing our people.

<p><b>Telkom flexes its muscles at MyBroadband Conference</b></p>	<ul style="list-style-type: none"> <li>Telkom has once again demonstrated its prowess in the South African broadband industry. For the second year running, Telkom was awarded the Best Fixed Broadband Service Provider for our upgraded 10 Mbps service.</li> </ul>
<p><b>Telkom ranked among South Africa's best employers</b></p>	<ul style="list-style-type: none"> <li>In 2012 Telkom was ranked among South Africa's top 10 employers in the annual BEST Employer™ campaign of the Corporate Research Foundation (CRF) Institute for the third year running. This year, Telkom was ranked seventh overall in the medium, large and giant organisations categories. Attributes for which Telkom was commended include training and development, as well as the development of succession pools.</li> </ul>
<p><b>Tier III design certification awarded to NBSC 2 data centre</b></p>	<ul style="list-style-type: none"> <li>In August 2012, the Uptime Institute of New York awarded tier III design certification to the NBSC 2 data centre of Cybernest, Telkom's data centre operation. The ranking lends recognition to the data centre's concurrently maintainable site infrastructure and its 99.98 % availability.</li> </ul>
<p><b>Telkom voted as one of top three most desirable brands to work for</b></p>	<ul style="list-style-type: none"> <li>Telkom was voted one of the top three "Most desirable brands to work for" in the 2012 <i>Sunday Times</i> Top Brands survey. The Group also made the top 10 in two other categories: brands that have done most for the environment and community upliftment.</li> </ul>
<p><b>Virgin Active Sports Industry Award</b></p>	<ul style="list-style-type: none"> <li>Telkom's Rural Splash Programme won gold in the community programme category. The programme promotes water safety in rural areas in South Africa. It is one of the 'Learn to Swim' initiatives of Swimming South Africa, which Telkom has supported for many years.</li> </ul>
<p><b>Public Sector Excellence Award</b></p>	<ul style="list-style-type: none"> <li>Telkom received a gold award for community engagement. The Group also received two silver awards, one for leadership and the other for excellence in the communications sector.</li> </ul>



# RISK AND RESPONSIBILITY

- OUR MATERIAL RISKS
- ENTERPRISE RISK MANAGEMENT
- GOVERNANCE
- ALIGNING GOVERNANCE, RISK AND CONTROLS
- BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE
- STAKEHOLDER ENGAGEMENT



# OUR MATERIAL RISKS

Identifying, measuring, managing and reporting on material risks is key to ensuring a sustainable future for Telkom. Furthermore, highlighting these issues is a critical aspect of reporting in accordance with the guidelines of the Global Reporting Initiatives (GRI), King III and the International Integrated Reporting Council (IIRC). As such, Telkom undertakes formal risk assessments that are tabled at Exco for approval throughout the year.

Material risks are established in line with GRI principles and tests of materiality and relevance. Doing so ensures that the risks identified are sufficiently important economic, environmental and social concerns, which could substantively influence the assessments and decisions of stakeholders. This process involved the analysis of the following internal and external factors listed below:

## Internal tests

- Significant risks to Telkom as defined by our Enterprise Risk Management (ERM) process described on pages 38 to 45;
- Opportunities in Telkom's core business and how they can contribute to sustainable development;
- Concerns and expectations of our internal and external stakeholders as identified by our stakeholder management processes;
- Internal and external audit findings;
- Strategic focus areas in the group strategy; and
- Telkom's vision, mission, values, policies and objectives.

## External tests

- Review and benchmarking material industry-wide issues reported by other companies in the telecoms sector;
- Key legislation, principles and protocols, including but not limited to B-BBEE, the UN Global Compact principles, the Montreal Protocol and the National Waste Management Act;
- Advice from external experts regarding sustainable development; and
- Challenges and emerging issues for the telecoms sector.

Telkom categorises its material sustainability risks into key focus areas. This provides a context for performance which is reported back to the Group and its stakeholders. There are nine sustainability focus areas in this year's Integrated Report:

1. B-BBEE
2. Human capital
3. Energy and environmental management
4. Occupational health and safety
5. Value to society (including corporate social investment (CSI))
6. Procurement and supply chain
7. Product responsibility
8. Ethical conduct and anti-corruption
9. Strategy

The material sustainability risks identified, together with the related GRI and non-GRI performance indicators have been summarised in the table on pages 107 to 111.

As part of enabling a sustainable future, closely monitoring these key material risks needs to become a priority. In order to do so, we will be monitoring performance in the nine key areas by way of a scorecard, which will be presented to the Executive and Social and Ethics Committees on a quarterly basis.



High level risk description	Overview	Mitigating factors
Execution of the Mobile strategy	The Group is undertaking a thorough strategic review of its mobile arm to manage the inherent risk around succeeding as the fourth entrant. This risk is amplified by the high capital expenditure needed to grow the business and the barriers to entry into the market.	<ul style="list-style-type: none"> <li>• Rebrand the mobile business to Telkom Mobile to target profitable segments of the market and high value customers.</li> <li>• Launch new product offerings and continue to develop our pipeline.</li> <li>• The business is focusing on owned and operated channels and has short listed available channels.</li> </ul>
Realisation of fixed line data growth	Broadband is key to Telkom's strategy. Fixed-line data growth is low due to low penetration in the South African market.	<ul style="list-style-type: none"> <li>• Review of service delivery and product development currently underway.</li> <li>• Broadband policy proposal sent to government.</li> <li>• Network transformation is underway.</li> </ul>
Legal and regulatory compliance	Telkom is facing certain legal risks. The regulatory uncertainty within the market and unforeseen regulatory changes could negatively impact the Group.	<ul style="list-style-type: none"> <li>• Telkom continually engages with the Competition Commission.</li> <li>• Telkom appoints legal counsel to advise the Group from a regulatory perspective.</li> <li>• Ongoing awareness and training to ensure compliance with regulatory and legal requirements.</li> <li>• Telkom is engaging with ICASA on key regulatory matters including ALD, LLU, spectrum and others.</li> </ul>
Customer loyalty	Declining fixed voice utilisation poses a threat to our business making it increasingly difficult to retain customers.	<ul style="list-style-type: none"> <li>• Build third party partnerships during seasonal assurance demands.</li> <li>• Ensure preventative maintenance is scheduled during off-peak periods.</li> <li>• Initiate ease of shop through product rationalisation.</li> <li>• Develop customer experience management to track customer experience rating.</li> </ul>
Human capital	Telkom requires resources to operate the NGN technology and therefore requires a different skills base. The possibility of industrial actions is a threat. Telkom's employee costs are high.	<ul style="list-style-type: none"> <li>• Implement training plan to equip staff with skills to operate the NGN technology.</li> <li>• Active and open dialogue with labour unions.</li> <li>• Voluntary Early Retirement Packages/ Voluntary Severance Packages have been offered and the Group consistently reviews its workforce strategy to manage the associated risks.</li> </ul>
Debt and capital market expectations	Telkom continues to face financial pressures. Key financial metrics and indicators have been deteriorating and our investment required to grow our business is significant. These indicators and uncertainties relevant to future performance could lead to a cautious approach by funders.	<ul style="list-style-type: none"> <li>• Initiatives to increase ROA.</li> <li>• The Asset and Liability Committee (ALCO) manages financial risk, including balance sheet management: asset management, liability management and working capital.</li> <li>• Budgets remain tightly monitored and controlled.</li> <li>• Credit rating strategy is in place.</li> </ul>

# OUR MATERIAL RISKS

High level risk description	Overview	Mitigating factors
Impairment of assets	Telkom has a substantial investment in legacy assets that are carried at historical cost in the Group's books. The returns from these assets will not be realised due to rapidly changing technology, competition and regulations.	<ul style="list-style-type: none"> <li>• Took an immediate impairment of R12 billion during the financial year to realign the value of the Group's assets with market sentiment.</li> <li>• The Group continues to invest large sums in its new fixed and mobile network technology to meet customer needs in respect of data transmission in particular.</li> </ul>
Stakeholder relationship management	A number of stakeholders are key to Telkom's business objectives. These objectives need to be aligned in order to achieve a balanced outcome.	<ul style="list-style-type: none"> <li>• A revised stakeholder engagement plan and matrix has been mapped out by the Group to manage key stakeholder relationships.</li> </ul>
Occupational health and safety	Management of fatalities, lost time injuries. Management of HIV/AIDS and chronic diseases. Absenteeism trends and management of emerging issues. Management and control of non-ionising. Electromagnetic radiation exposure to employees and third parties.	<ul style="list-style-type: none"> <li>• Occupational health and safety performance targets for all business units have been put in place, with an ultimate goal of maintaining an incident frequency rate below 4 per 100 and a lost-time injury rate of below 2 per 100 employees.</li> <li>• Achieved a sick absenteeism rate (SAR) of less than 2.5% through the effective implementation of wellness interventions.</li> <li>• Occupational health and safety working group has been formed and terms of reference were approved to adopt sustainability practices to monitor and manage associated risks.</li> </ul>
Business continuity management (BCM) readiness and preparedness	BCM is critical to an organisation of Telkom's nature.	<ul style="list-style-type: none"> <li>• Telkom management ensures that business continuity plans are in place and are implemented.</li> </ul>
Competitiveness	Market competitiveness continues to pose a threat in an already-contested mobile market space. Self-providing by other operators is also an issue for the Group.	<ul style="list-style-type: none"> <li>• Telkom continues to differentiate its sales offering by up selling customers to higher value bundles.</li> <li>• The Group plans to offer greater value through improvements in its network through the network upgrade.</li> <li>• Continuously remove obsolete products from product suite.</li> <li>• Improve product development processes.</li> <li>• Use new system tools to streamline processes and respond quicker to opportunities.</li> </ul>
Leadership continuity	Leadership continuity is critical to the success of the Group's strategic direction.	<ul style="list-style-type: none"> <li>• Implement an effective leadership development programme.</li> <li>• Assessment process to identify successors for critical senior positions is being implemented.</li> </ul>
Reputation	A negative reputation could harm Telkom and prove detrimental to the business.	<ul style="list-style-type: none"> <li>• Telkom has put in place a reputational tracking survey. The outcome of the survey will be translated into action plans.</li> </ul>

High level risk description	Overview	Mitigating factors
Information security	Telkom carries large amounts of customer information over its network, which needs to be protected against hacking and other security hazards.	<ul style="list-style-type: none"> <li>• Enhancement of the information security management system (ISMS).</li> <li>• An approved information security policy and strategy are in place.</li> <li>• A dedicated Information Security Council is in place.</li> </ul>
IT and network technology	This risk relates to the Group's ability to generate a return on investment on IT and network investments.	<ul style="list-style-type: none"> <li>• Telkom has a dedicated steering committee to monitor and manage the required outcomes.</li> <li>• The Funding Council and Investment and Transaction Committee track the associated benefits of the investment on an ongoing basis.</li> </ul>
B-BBEE	Transformation of the ICT sector, the Telkom Group and the economy.	<ul style="list-style-type: none"> <li>• Approval of the B-BBEE policy by Exco and formation of working groups for each element on the scorecard.</li> <li>• Allocation of resources towards meaningful transformation.</li> </ul>
Energy and environmental management	Energy cost and business continuity. Management of carbon footprint. Cost and commitment of the implementation of sustainability initiatives. Telkom's geographic foot print (bio-diversity). Recycling of e-waste and hazardous waste.	<ul style="list-style-type: none"> <li>• An energy and environmental management working group has been established and meets on a monthly basis.</li> <li>• Sustainability strategy in place, embedding energy and environmental management across the Group.</li> </ul>
Procurement and supply chain	Supply chain compliance to environmental/social criteria. Ensure business continuity.	<ul style="list-style-type: none"> <li>• Group Procurement Council was established to oversee compliance and ensure continuity.</li> <li>• Procurement working group was formed with terms of reference to adopt sustainability practices and supplier development, and to monitor and manage the associated risks.</li> </ul>
Product responsibility	Defending profitable revenue through supply of safe and high quality goods. Investigate environmentally and socially responsible products. Legislative compliance (Consumer Protection Act).	<ul style="list-style-type: none"> <li>• Stringent procurement processes implemented when acquiring products from manufacturers.</li> <li>• A National Consumer Commission complaints register is maintained which identifies non-compliances with the Consumer Protection Act and where there is an urgent need to address any gaps in existing processes.</li> </ul>
Ethical conduct and anti-corruption	Minimise exposure with regard to fraud and irregular conduct. Management of Telkom's reputation. Compliance to legislation.	<ul style="list-style-type: none"> <li>• Fraud risk assessments are performed per service organisation.</li> <li>• Training and awareness of the business Code of Ethics together with supplementary policies, such as the prevention of fraud and corruption policy, takes place as part of the ethics programme.</li> <li>• A Telkom crime hotline is in place.</li> <li>• A whistle-blowing policy is in place.</li> <li>• An ethics mailbox is in place to provide staff with advice on ethical dilemmas.</li> <li>• Implementation of enterprise-wide compliance programme.</li> </ul>

# ENTERPRISE RISK MANAGEMENT

## Our philosophy

Effective risk management is critical in managing Telkom's risk profile. The realisation of our strategy depends on our ability to take calculated risks that do not jeopardise the direct interests of our shareholders, employees, customers, regulators, broader society and other stakeholders. Sound risk management helps us anticipate and respond to changes in our environment and to make informed decisions under conditions of uncertainty.

At Telkom, we are committed to optimising risk management in order to achieve our vision and objectives, and protect our core values. Doing this requires a strategic and functional approach to risk management. Telkom's NGNEC project and the recent investment in Telkom Mobile were the most significant risks to the Group from a strategy perspective. The main focus of ERM for 2013 has thus been to de-risk these strategies as far as possible to provide sustainable value to the Group.

Telkom has adopted a group-wide approach to risk management where each risk is managed in an integrated, structured and systematic process within a unitary framework aligned with Telkom's corporate governance responsibilities.

The Board is committed to a process that complies with the principles of the King III Report on Corporate Governance 2010 and the COSO Integrated Enterprise Risk Management Framework of 2004. All divisions, supporting functions, processes, projects and other controlled entities are subject to the Enterprise Risk Management Policy.

Telkom's board of directors holds ultimate responsibility for the Group's risk management process and the evaluation of its effectiveness. Executive management is accountable for identifying major risks, designing, implementing and monitoring the risk identification process, and integrating it into the Group's day-to-day activities.

It is important that risk management processes become embedded in the Group's systems and processes to ensure current and dynamic responses to risk. All key risks associated with major changes and significant actions by Telkom fall within the processes of risk management.

## The enterprise risk management division

The ERM division set out to achieve the following key objectives:

**Oversight:** All critical risks are identified group-wide and are managed and monitored under a holistic approach consistent with the Risk Committee approved risk appetite statement.

**Ownership and responsibility:** The ownership of risk is assigned to management individuals who are responsible for identifying, evaluating, mitigating and reporting risk exposures.

**Assurance:** The Board, Exco, Risk Committee, Telkom Executive Risk Management Council and management have reasonable assurance that the risk is being appropriately managed within defined levels to bring value to the organisation.

To achieve these high-level objectives the Group employs the following tactics:

- De-risking all business plans based on risk appetite and risk bearing capacity (RBC), through regular assessment and monitoring with management;
- Ensuring timely identification of all risks;
- Completing timely, accurate and relevant risk reporting and monitoring of key risk indicators (KRIs);
- Quantifying loss events (Business Continuity Management (BCM) and insurance);
- Assessing unpredictable risks with management and the Group's exposure to these risks;
- Proactively identifying and addressing bottlenecks in performance with management; and
- Tracking action plans on a monthly basis for effective mitigation.

In order to optimise the risk management process, Telkom applies all resources used in its risk management process in an economic manner. This is to ensure:

- The highest standards of service delivery;
- A management system that aims to minimise risk and costs in the interest of all stakeholders;
- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities to maintain conformance with stakeholders expectations; and
- An environment that promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

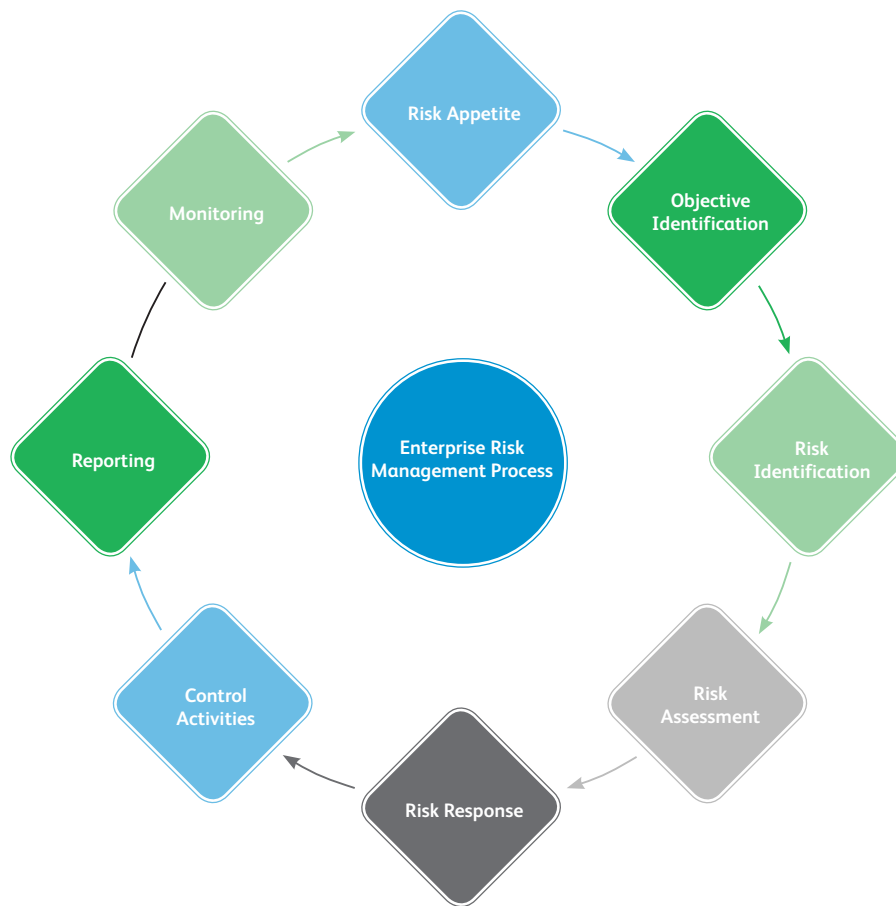
## Risk management process

The ERM process is driven by a series of activities and events designed to integrate ERM within business processes across the enterprise and ensure that there is standardisation across all these occurrences.

ERM is not strictly a serial process, where one component affects only the next. It is a multi-directional, iterative process in which almost any component can and does influence another. It is also important to ensure that the ERM process and risks are re-evaluated and updated on an ongoing basis to reflect new information and experiences so that all significant risks are appropriately identified and addressed and that any material opportunities are not overlooked.

The following cyclical flow depicts the critical enterprise functional risk management responsibilities undertaken on an ongoing basis:





## Maturity

The rising prominence of governance and risk management is a response to the increasing complexity of large and global organisations, corporate scandals and the collapse of the banking sector. The table below contextualises GRECS (Governance, risk, ethics, compliance and sustainability) convergence:

<p><b>Current state</b></p>	<p>To prevent business failure and non-compliance, companies have expanded their governance, risk, ethics, compliance and sustainability departments, often resulting in a web of unco-ordinated structures, policies, committees and reports.</p> <p>To improve this, internal auditors, risk officers and compliance officers have begun to work closely to find commonalities among disparate GRECS projects. Some organisations have formed GRECS committees. Such efforts have increasingly come under the banner of GRECS convergence.</p> <p>GRECS convergence is a way to rationalise risk management and controls, providing management with the information needed to improve business performance and achieve compliance.</p>
<p><b>Internal and external influences</b></p>	<p>Business complexity, a desire to reduce organisational risk exposure and improve corporate performance is fuelling GRECS convergence.</p> <p>Recent economic events have rekindled interest in corporate governance and operational risk management among regulators, ratings agencies, politicians, media and the public.</p> <p>Executive management and regulators are the main driving forces behind GRECS convergence across publicly listed companies and State-owned organisations.</p>
<p><b>Costs and benefits</b></p>	<p>Key benefits of GRECS convergence include the ability to identify and manage risks more quickly, improve corporate performance and help reduce the costs of duplication.</p> <p>Rationalising GRECS through integration could go a long way to reduce the ultimate GRECS cost.</p> <p>Any move towards GRECS convergence is likely to be a lengthy process that requires an accompanying shift in corporate culture.</p>

# ENTERPRISE RISK MANAGEMENT

## Telkom's current state risk maturity

A crucial element of a successful and effective ERM programme is assessing and enhancing the maturity of the programme across the Group. In this context, as emphasised in King III, risk is positioned as a cornerstone of corporate governance and risk governance.

Telkom's risk appetite has been developed and calculated and is still to be fully implemented into the business. Because Telkom's risk appetite has not been fully operationalised there might be a misalignment between strategic direction and risk taking.

During the current year we enhanced our risk methodology to integrate BCM, insurance and risk finance, compliance and fraud management into a single risk and reporting framework.

## Key achievements and initiatives in 2013

The two most significant strategic initiatives undertaken from a risk perspective during 2013 were Telkom's NGNEC project and the ongoing investment in Telkom Mobile.

### NGNEC

The NGNEC project was undertaken to modernise Telkom's network in order to defend and grow our position in a highly competitive market. It is therefore critical that this highly intensive capital investment yields a sustainable outcome and creates opportunities for the Group. This required ERM to be implemented throughout the life cycle of the project, which allowed us to achieve the following:

- Strong presence on all steering committees;
- Identification, assessment and monitoring of all risks;
- Integration of NGNEC risks into business unit's risk registers;
- Reporting on the risks to all interested parties; and
- Actively identifying opportunities.

### Telkom mobile

Telkom Mobile was established to offset the decline in fixed-line voice revenues. Given the significant amount of capital invested in this business, it is imperative that ERM has a strong presence in the Mobile division. The ERM function has helped facilitate the following:

- Creating a strong presence on all committees and projects;
- De-risking growth in pre-paid, post-paid and data;
- Assisting with the identification, assessment and monitoring of all risks;
- Reporting on the risks to all interested parties; and
- Focusing on identifying and seizing opportunities.

During the financial year under review we continued to make progress towards an enhanced ERM programme.

Notable achievements for 2013 include:

- Completion of the GRECS convergence project in November 2012, which has since been operationalised as business as usual;
- Successful integration of business continuity management (BCM) with the ERM methodology, with 88% of all business continuity plans completed;
- Development of a risk appetite framework and associated monitoring in order to increase the effectiveness and maturity of risk management;
- Development of an enhanced report on risk indicators;
- Effectively increased the maturity of ERM;
- The formation of a new dedicated Risk Committee, where previously ERM was dealt with by the Audit and Risk Committee;
- The Risk Committee developed a new Risk Charter, which monitors BCM, capital expenditure, IT governance and fraud;
- An Asset and Liability Committee (ALCO) was formed during the year due to manage, monitor and address the Group's financial risks. ALCO manages all financial risk which includes interest rate risk, liquidity risk, funding, foreign currency exposure risk, treasury credit risk, credit ratings, and asset and liability management;
- An IT Governance Council was established to ensure the effective and efficient use of IT in enabling Telkom to achieve its goals, and maintain compliance with King III Code. It includes a process to ensure effective evaluation, selection, prioritisation, and funding of competing IT investments for business benefits; and
- Feedback from the 2013 ERM survey, which aimed to assess the effectiveness of Telkom's ERM programme revealed that 77.31% of respondents felt they were increasingly realising the value that ERM adds to Telkom as an organisation. This was based on a sample of 119 surveys of which 92 responded compared to only 54 respondents in 2012.

## Risk appetite and risk bearing capacity

Risk appetite is a measure of the amount of risk the Group is willing to take in the pursuit of value. Risk bearing capacity is the maximum amount of risk that Telkom can bear before it is damaged beyond repair or will at least not be able to continue the business in a similar fashion as before.

In order to integrate a risk dimension into a business, the business needs to know how much risk it is willing to take on and how it wants to balance risks and opportunities. Defining risk appetite is thus an essential element of an organisation's ERM as it establishes a direct link between its strategic and functional objectives.

A risk appetite framework is therefore a key business performance tool and is central to strategic planning, delegation of authorities and establishment of aligned roles and responsibilities within the Group. Implementation of processes within the Group requires substantial effort and resources.

A risk appetite framework is used to evaluate and monitor Telkom's risk appetite. This involves:

- Development of a risk appetite statement on an annual basis;
- Determination of performance metrics and risk tolerance limits based on the risk appetite statement;
- Embedding the risk appetite framework in risk based decision-making to monitor performance of the Group using the metrics and tolerance limits identified;
- Reporting of these results to the various governance structures; and
- Revision of risk appetite statements if necessary.

### Commitments

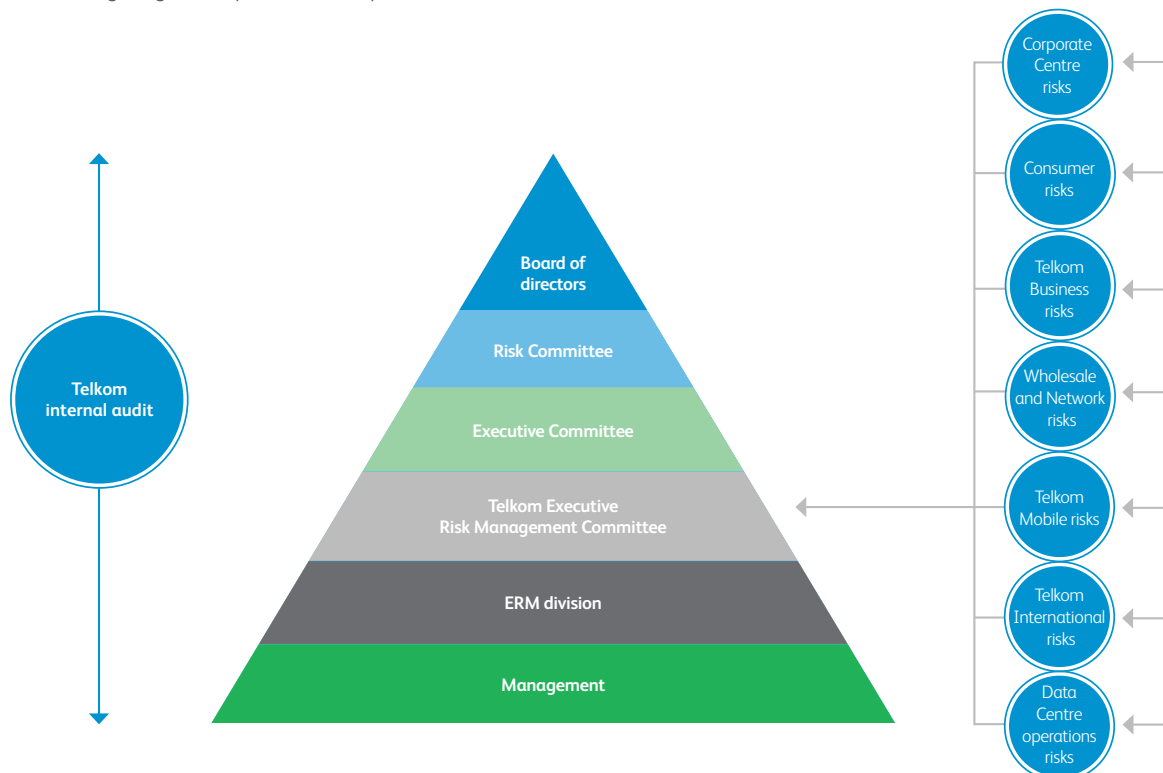
One of the key objectives for the 2014 financial year is to continue growing the effectiveness of ERM across the

Group. While significant progress has been made over the past 12 months, the focus areas for the year ahead include:

- Continue to ensure NGNEC and Telkom Mobile result in sustainable outcomes and opportunities;
- Ensure that convergence results in sustainable outcomes and opportunities;
- Facilitate enhanced risk communication, awareness and training;
- Implement risk appetite, RBC and risk tolerance levels within the Group; and
- Reflect a more holistic risk profile in co-operation with other risk disciplines.

### Governance structure

The implementation of an ERM structure that supports the achievement of the enterprise management objectives is essential. The following diagram depicts the Group ERM structure:



# ENTERPRISE RISK MANAGEMENT

**The board of directors** drives total enterprise risk management through the approval of the ERM policy and framework.

**The Risk Committee** convenes on a quarterly basis and assists the Board in fulfilling its corporate governance responsibilities by monitoring and reviewing the identification and management of strategic and functional risks associated with the Group’s business.

**The Executive Committee** convenes on a monthly basis to discuss the strategic risks associated with the Group’s business, monitors the effectiveness of the risk response strategies implemented and considers the impact of the risk profile on future strategic decisions.

**The Telkom Executive Risk Management Council** convenes on a quarterly basis to examine the risk profile of the Group, monitors the implementation of actions and KRIs and gives effect to the risk response strategies.

**Enterprise risk management** is driven from a centralised group enterprise risk management division within the Corporate Centre under the auspices of corporate governance. The role of this division is to implement, facilitate and monitor the ERM process, with management, across all business units of the Group.

**Management** is the ultimate owner of the risk and responsible for managing the risk exposure within the defined risk appetite as approved by the board of directors.

In order to ensure effective reporting and management of risks, risk has been incorporated into the operating committees of the various business units. This provides management of the respective businesses with the responsibility and accountability to effectively manage the risk within their domains. This requires a risk profile submission from the relevant managing directors or chiefs to the ERM division.

## Monitoring and reporting

Monitoring of the ERM process and plan is an ongoing initiative where the relevant committees convene on a regular basis and interact with management as part of the combined assurance process.

Furthermore, Telkom’s risk exposure is continually monitored through the identification and analysis of appropriate KRIs. KRIs act as early warning signals by highlighting any changes to the Group’s risk profile. KRIs, controls and action plans are fundamental components of a comprehensive and sound risk management practice, which help reduce losses and prevent risk exposure by proactively dealing with a risk threat before an event actually occurs.

Reporting of risk information takes place on an ongoing basis as depicted in the diagram below:



## ETHICAL CONDUCT AND ANTI-CORRUPTION

Telkom recognises that organisations which conduct business in an ethical manner, have a far greater potential for continued success and a sustainable future, than those that are not. We also recognise that ethical, non-corrupt employees are vital to Telkom's success.

The profound negative consequences of unethical conduct and corrupt behaviour adversely affect companies in a number of ways (financial losses, fines, penalties and reputational damage), and it is therefore vital to proactively manage ethical performance. As such, we are committed to raising and maintaining our ethics levels across all aspects of our business.

Progress towards achieving the required level of ethical behaviour is attained through ongoing employee awareness and education efforts, and a "zero tolerance" approach to ethical misconduct. In order to prevent unethical conduct and corrupt behaviour, and the associated negative consequences, Telkom has put the following in place to educate, create awareness, provide advice, and provide opportunities in reporting unethical behaviour:

- Fraud risk assessments are performed per service organisation and cover all types of fraud risks and violations of the business Code of Ethics. Line management will assist with the implementation of relevant controls to mitigate the risks;
- Business Code of Ethics and the supplementary policies such as the Prevention of Fraud and Corruption Policy, took place as part of the ethics programme.

Through this programme, a total of 5,230 employees completed online training, and 467 employees received training through the induction sessions. The continued implementation of our programme of measures to raise awareness, understanding and management of fraud and corruption during the 2013 financial year should have a positive impact in reducing the likelihood of this risk;

- Extensive awareness and training sessions are run throughout the year to communicate critical and general areas of fraud concerns, the business Code of Ethics, and the Telkom Crime Hotline. Furthermore, the whistle-blowing policy has been reviewed and updated to conform to relevant sections of the Companies Act of 2008. Awareness of the whistle-blowing hotline has been improved through a marketing campaign; and
- This is also supported through our independent whistle-blowing hotline, for reporting of matters relating to unethical behaviour, fraud and corruption. The hotline received 1,865 calls during the reporting period, compared to 2,232 calls in the previous period. Our anti-corruption mailboxes received 988 messages in the reporting period and 1,119 in the previous period. The reasons for the decrease in incident reporting will be investigated in 2014.

Our Ethics Mailbox provides staff with advice on ethical dilemmas. This mailbox received 90 matters in the 2013 year (only three of which are still to be finalised), compared to 56 in the previous reporting period. The table on the following page describes the types of matters that were dealt with in 2013:

## ETHICAL CONDUCT AND ANTI-CORRUPTION

Type of ethics matters reported	2013	2012
Conflict of interest/Private work	13	7
Unfair treatment	7	10
Gifts	9	5
Share dealing	7	3
Unethical behaviour of management	4	5
Telkom Retirement Fund	1	5
Other, i.e. sponsorships, dress code	36	21
Ethics training	8	0
Compliance	5	0

In line with the King III Report's recommendations for the management of ethics, Telkom conducted an Ethical Risk Assessment during the reporting period. The assessment looked at respondents' perceptions of the following key areas: Clarity; Positive role-modelling; Feasibility; Supportability/Commitment; Transparency; Discussability; Approachability; and Sanctionability/Enforcement.

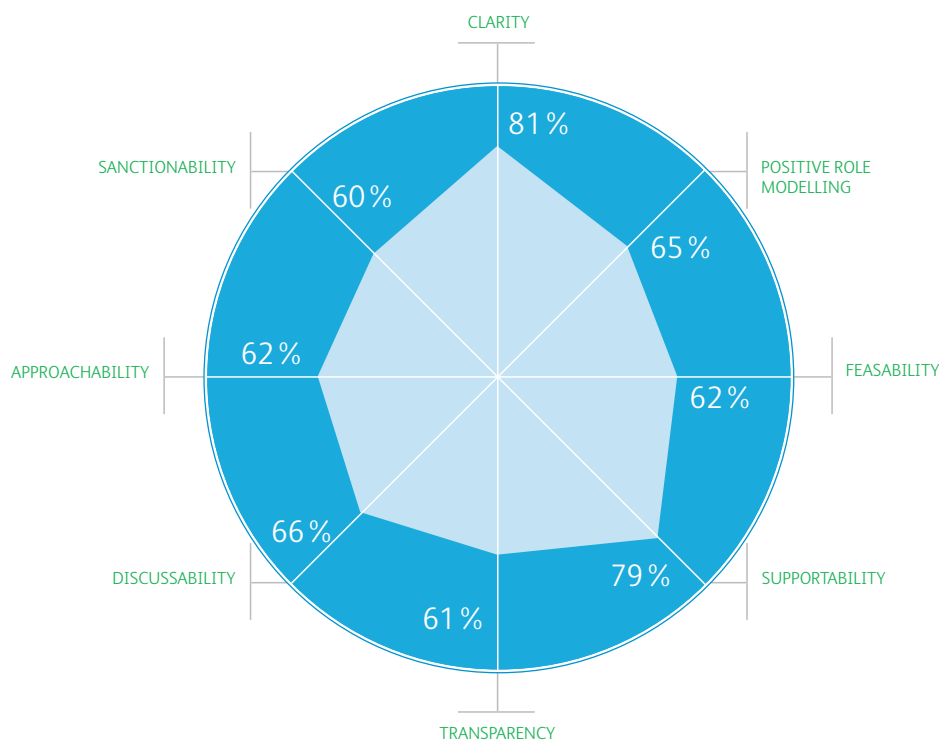
The average score for Telkom, across all the dimensions was 67%. This is an indication that there is room to improve Telkom's climate for ethical conduct. The strongest dimensions were Clarity and Supportability/Commitment. This means that employees are familiar with and understand Telkom's standards of conduct and are generally motivated to act in ethically responsible ways. They receive information and guidance with regard to the ethical expectations at Telkom. They also feel that Telkom's values reflect their own, and that they will find support for ethical behaviour among their peers.

The weakest dimensions were Sanctionability/Enforcement and Transparency. This indicates that employees are less convinced that management is aware of what happens in the organisation. They believe that the existing controls may not be adequate for detecting violations, and that it is possible to conceal misconduct within the organisation. Staff are also not convinced that transgressions will be consistently sanctioned, or that ethical behaviour is recognised. Feasibility highlighted concerns around unrealistic targets being set by senior executives which compromise ethics. This pressure to achieve business targets is an important motivator of unethical conduct in a business environment. Approachability can also be described as accountability, and refers to the degree to which employees feel comfortable in reporting misconduct. Employees felt most comfortable in reporting misconduct to their direct line manager or the Telkom Crime hotline.

## ETHICAL RISK ASSESSMENT

### The eight ethical dimensions results

Telkom's average scoring over the 8 key ethical dimensions is 67%. Below is a visual overview of the different dimensions and the results for each.



Telkom's average score on the eight key ethical dimensions

### Going forward

In order to address unethical and corrupt behaviour and the associated negative consequences, Telkom Asset and Revenue Protection Services (TARPS) and the Telkom Ethics Office are currently implementing the following:

- Further analysis to determine the reasons for the decline in calls to the whistle-blowing hotline;
- Continue to conduct regular reviews of the business Code of Ethics and supplementary ethics policies;
- Evaluate the reports received from the Telkom Crime Hotline;
- Provide advice on matters referred to the ethics mailbox;
- Promote whistle-blowing at Telkom and among its stakeholders;
- Conduct investigations into suspected fraudulent and irregular conduct;
- Ensure that collaborative efforts with stakeholders are embarked upon to promote ethical conduct and good corporate citizenship; and
- Ensure that internal and external ethics performance is aligned around the same ethical standards.

### Business continuity management (BCM)

Business continuity is an integral part of good management practice and corporate governance at Telkom. The focus of BCM is to constitute, organise and improve the management, performance and alignment of business continuity and disaster recovery related activities, services, functions, operations, systems, structures and networks group-wide. BCM is an integrated management process that identifies potential threats to the organisation and the consequences to the business if they occur. BCM provides a framework for building a resilient organisation capable of responding effectively to protect the interest of its key stakeholders, its reputation, and business activities which create value.

# GOVERNANCE

The following statement sets out the corporate governance framework adopted by the board of Telkom and highlights the work undertaken by the Board and its committees over the past financial year.

## Approach to governance

Corporate governance is at the core of the Board's approach to ensuring a sustainable future for the Company and its stakeholders, the protection of shareholders' funds and the creation and enhancement of shareholder value. Telkom is committed to ensuring that its policies and practices in the critical areas of financial reporting, sustainability reporting, remuneration reporting and general corporate governance meet high levels of disclosure and compliance.

## Compliance with governance standards

The board of Telkom is fully committed to the values and principles of good governance espoused in the King Code on Corporate Governance for South Africa 2009 ("King III"). As a Company listed on the JSE, Telkom is required generally either to apply the principles espoused in King III or explain any non-adherence to such principles.

The Company has reviewed its current corporate governance policies and practices against the JSE's requirements and considers that it substantially met the principles and recommendations outlined in King III for the financial period ended 31 March 2013. Instances where the Company has not applied the principles as outlined in King III have been identified and explained on pages 57 and 58 of this report.

## THE BOARD

### Composition and membership

Telkom has a unitary board structure comprising fourteen directors, made up of two executive directors, ten independent non-executive directors and two non-executive directors. The Board has adopted a policy of ensuring that its composition reflects an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet its responsibilities and objectives.



The procedure for the selection and appointment of new directors and or the re-election of incumbent directors, and the Board's policy for the nomination and appointment of directors, is set out in the Company's Memorandum of Incorporation, read together with the Nominations Committee Charter.

The Nominations Committee, when assisting the Board in reviewing potential candidates for board appointment and assessing retiring directors standing for re-election, considers a number of factors including:

- Skills, experience, expertise and personal qualities and attributes that will best complement the skill set and characteristics of existing directors and enhance board effectiveness;
- The diversity of the Board;
- The capability of the candidate to devote the necessary time and commitment to the role;
- Potential conflicts of interest; and
- Independence.

## Skills and attributes

The Board recognises that having a range of different skills, backgrounds and experience represented among its directors is important to ensuring robust decision-making processes. The diversity of viewpoints enhances the effective governance of the Group. The range of skills, backgrounds and experience currently represented on the Board includes experience in senior roles in retail, property, banking and finance, transport, ICT, oil and gas, construction, management consultancy and telecommunications, as well as qualifications across a range of fields including business management, economics, accounting, engineering, actuarial science, law and the humanities.

Details of the composition of and movements on the Telkom board of directors during the year under review are as follows:



Director	Date of appointment	Date of change	Nature of change
PL Zim	16 February 2011	24 October 2012	Resignation
Dr SP Sibisi	20 February 2012	24 October 2012	Not elected at AGM
RJ Huntley	20 September 2007	24 October 2012	Resignation
NP Mnxasana	20 February 2012	24 October 2012	Not elected at AGM
PSC Luthuli	29 July 2005	24 October 2012	Retirement by rotation
JN Hope	01 November 2009	24 October 2012	Resignation
Y Waja	20 April 2010	24 October 2012	Retirement by rotation
NP Dongwana	20 February 2012	2 November 2012	Resignation
NT Moholi	01 April 2011	31 March 2013	Resignation
JA Mabuza (Chairman)	14 November 2012		
K Mzondeki	14 November 2012		
L Maasdorp	16 November 2012		
S Botha	10 December 2012		
Dr CA Fynn	10 December 2012		
K Kweyama	10 December 2012		
F Petersen	10 December 2012		
LL von Zeuner	10 December 2012		
B Du Plessis	02 December 2004		
I Kgaboesele	01 July 2011		
J Molobela	01 November 2009		
N Kapila	16 February 2011		
JH Schindehütte	01 August 2011		

The Board was led by Mr PL Zim until 24 October 2012 when he resigned. Mr PSC Luthuli was appointed as lead independent director, a role he played until 24 October 2012 when he retired. Mr JA Mabuza was appointed as independent non-executive chairman on 14 November 2012. The chairman of the board is appointed on an annual basis in accordance with the memorandum of incorporation (MOI) read together with the Nominations Committee's terms of reference. In line with best practice, the roles of the chairman and GCEO are separated. All non-executive directors are subject to retirement by rotation and re-election by shareholders in accordance with the MOI, King III and JSE Listings Requirements.

Details concerning the directors' qualifications and experience are included on pages 60 and 61 of this report and the directors' records of attendance at board and committee meetings are included in the respective board and committee reports.

## The role of the board

The Board's principal objective is to direct the Group towards the achievement of its vision while ensuring that Telkom's overall activities are properly managed. The Board is ultimately accountable for the Group's strategy, operating performance and financial results. The Board has adopted a Board Charter which sets out how its role, powers and responsibilities are exercised, having regard to principles of good corporate governance, international best practice and applicable laws.

## Responsibilities and objectives

Subject to any limitations imposed by the Companies Act, JSE Listings Requirements and the MOI, the management

of the business of the Company is vested in the directors. The roles, powers and responsibilities of the Board are formalised in the Board Charter, which defines the matters that are mandated to the Board and its committees. As set out in the Board Charter, the Board is responsible for, amongst others:

- Scanning the environment to understand and anticipate economic, industry and competitive threats likely to affect the Company;
- Reviewing and evaluating present and future strengths and weaknesses of the Company;
- Approving and reviewing the Company's competitive strategy and adopting business plans and budgets for the achievement thereof;
- Retaining full and effective control of the Company, monitoring and directing management's implementation of Board approved strategies, structures plans and budgets;
- Establishing and monitoring a relevant set of financial and non-financial measures of indicators to predict, measure and control the performance of the Company, its business risk and the ability of the Company to implement its strategy and achieve its objectives;
- Ensuring that appropriate systems are in place to identify, monitor and manage business risks and to ensure regulatory and legal compliance and that there is an effective risk-based internal audit;
- Ensuring that a relevant system of policies and procedures is operative to ensure control and the devolution of authority and responsibility;
- Approving the annual budget;

# GOVERNANCE

- Approving specific financial and non-financial objectives;
- Reviewing investment capital and funding proposals;
- Defining levels of materiality and authority for commitments made on behalf of the Company;
- Considering the adoption of any significant changes in accounting policies and practices; the extent of debt permitted by the Group: AGM agendas; changes to the MOI and compliance with JSE Listings Requirements and other relevant regulations;
- Reviewing the Company's audit requirements;
- Acting in the interests of the Company's stakeholders;
- Ensuring ethical behaviour and compliance with laws and regulations and the Company's own governing documents, codes of conduct and ethical standards;
- Acting as the focal point for, and custodian of, Corporate Governance by managing its relationship with management, the shareholders and other stakeholders of the Company along with sound Corporate Governance principles;
- Ensuring comprehensive reporting to shareholders;
- Approving the preliminary financial statements, annual report and other reports and announcements to shareholders;
- Considering the declaration of dividends;
- Reviewing the Board's composition, structure and succession;
- Reviewing succession planning and endorsing senior executive appointments and high-level remuneration issues;
- Establishing the measures for, and reviewing the GCEO's performance. The chairman of the board shall conduct the performance assessment of the GCEO;
- Reviewing non-executive directors' remuneration;
- Ensuring that information technology (IT) governance is in place;
- Ensuring that the Company is, and is seen to be a responsible corporate citizen by having regard to not only the financial aspects of the business of the Company but also the impact that business operations have on the environment and the society within which it operates;
- Establishment by the Board of an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. The annual plan must ensure proper coverage of the matters tabled in the Board charter. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan; and
- Ensuring that business rescue proceedings commence as soon as the Company is financially distressed.

## Board meetings

Board meetings are held at least five times a year, one of which is devoted to strategic review. In addition to these meetings and whenever circumstances dictate the necessity, special board meetings are convened. During the year under review, five scheduled board meetings were held and seven additional special board meetings were convened. Details of attendance by each director of the Board have been set out in the table below. Certain senior management members attend board meetings when invited to make presentations on particular issues of interest to the Board. For a board meeting to constitute a quorum, a majority of directors are required to attend.

The following table presents the attendance of meetings held during the period ended 31 March 2013 by directors:

Director	Scheduled board meetings					Special board meetings						
	07 Jun 2012	04 Jul 2012	16 Nov 2012	18 Feb 2013	27 Mar 2013	07 May 2012	28 Aug 2012	14 Sep 2012	29 Oct 2012	03 Nov 2012	10 Dec 2012	13 Dec 2012
JA Mabuza	–	–	✓	✓	✓	–	–	–	–	–	✓	✓
J Molobela	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	*
B Du Plessis	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	*	*
N Kapila	✓	✓	*	✓	✓	*	*	✓	✓	*	*	*
F Petersen	–	–	–	✓	✓	–	–	–	–	–	–	– <sup>(1)</sup>
Dr CA Fynn	–	–	–	✓	✓	–	–	–	–	–	–	– <sup>(1)</sup>
LL von Zeuner	–	–	–	✓	✓	–	–	–	–	–	–	– <sup>(1)</sup>
K Kweyama	–	–	–	✓	✓	–	–	–	–	–	–	– <sup>(1)</sup>
I Kgaboesele	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	*
S Botha	–	–	–	✓	✓	–	–	–	–	–	–	–
L Maasdorp	–	–	✓	✓	✓	–	–	–	–	–	✓	✓
K Mzondeki	–	–	*	✓	✓	–	–	–	–	–	✓	✓
JH Schindehütte	✓	✓	✓	✓	✓	✓	✓	✓	✓	*	*	✓
NT Moholi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
NP Dongwana	✓	✓	–	–	–	✓	X	✓	✓	–	–	–
SP Sibisi	✓	X	–	–	–	✓	✓	✓	–	–	–	–
NP Mnxasana	✓	✓	–	–	–	✓	✓	✓	–	–	–	–
RJ Huntley	✓	✓	–	–	–	✓	✓	✓	–	–	–	–
PSC Luthuli	✓	✓	–	–	–	*	✓	✓	–	–	–	–
Y Waja	✓	✓	–	–	–	✓	*	✓	–	–	–	–
PL Zim	✓	✓	–	–	–	✓	✓	✓	–	–	–	–
JN Hope	✓	✓	–	–	–	✓	✓	✓	–	–	–	–

✓ Attended in person

\* Teleconference

X Apologies

– Was not a member at this time

<sup>(1)</sup> Members were not invited as this was a follow up of the meeting held before their appointment date.

## Delegation of authority

The ultimate responsibility for the Group's operations rests with the Board. The Board retains effective control through a well-developed governance structure of board committees, each specialising in certain areas of the business. Certain authorities have been delegated to the GCEO to manage the day-to-day business affairs of the Group. The executive committee assists the GCEO in discharging his duties and those of the Board when it is not in session. However, in terms of statute and the Company's constitution, read together with the Delegation of Authority, certain matters are still reserved for board and/or shareholder approval.

## Committees

While at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its responsibilities, it makes use of board committees to perform certain of its functions and to provide it with recommendations and advice. The Board has established the following committees for this purpose:

- Audit Committee
- Risk Committee
- Nominations Committee
- Investment and Transactions Committee
- Remuneration Committee
- Social and Ethics Committee

## Audit Committee (formerly part of the Audit and Risk Committee)

The Audit Committee is chaired by Mr I Kgaboesele, an independent non-executive director who is a chartered accountant by profession. The Committee held four scheduled meetings and two special meetings during the financial year.

The Committee's mandate is defined in its terms of reference and includes:

- Monitoring the integrity of the financial statements of the Company;
- Reviewing the Company's internal financial control system;
- Monitoring and reviewing the effectiveness and performance of the Company's internal audit function;
- Making recommendations to the Board in relation to the appointment of the external auditor and approving the remuneration and terms of engagement of the external auditor following their appointment by the shareholders at a general meeting;
- Monitoring the effectiveness of the external auditor's performance and their independence and objectivity;
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services;

# GOVERNANCE

- Ensuring the safeguarding of assets;
- Monitoring compliance with applicable laws, regulations and standards;
- Monitoring the adequacy of corrective action taken in terms of the recommendations and observations of internal and external auditors; and
- Reviewing financial information and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

As at 31 March 2013, the committee comprised the following five independent non-executive directors.

I Kgaboesele (chairman)  
 B du Plessis  
 K Mzondeki  
 F Petersen  
 LL von Zeuner

Director	Scheduled Audit meetings				Special Audit meetings	
	04 Jun 2012	06 Sep 2012	13 Nov 2012	18 Mar 2013	25 Apr 2012	15 Feb 2013
I Kgaboesele	✓	✓	✓	✓	✓	*
B Du Plessis	✓	✓	✓	✓	✓	*
K Mzondeki	–	–	–	✓	–	*
F Petersen	–	–	–	✓	–	–
LL von Zeuner	–	–	–	✓	–	–
PSC Luthuli	✓	✓	–	–	✓	–
NP Mnxasana	✓	✓	–	–	✓	–
NP Dongwana	✓	✓	–	–	X	–

✓ Attended in person

\* Teleconference

X Apologies

– Was not a member at this time

The Audit Committee evaluates the chief financial officer's function as well as conducts a self-evaluation exercise into its effectiveness, on an annual basis. After conducting the evaluation of the chief financial officer, Mr Jacques Schindehütte, the committee confirmed that it was satisfied with the appropriateness of the expertise and experience of the chief financial officer.

The internal and external auditors have unlimited access to the chairman of the Audit Committee.

The Audit Committee is satisfied that Ernst & Young Inc. is independent in accordance with Section 94(8) of the Companies Act 71 of 2008, and has recommended the re-appointment of Ernst & Young Inc. as the registered auditors for the Company for the 2014 financial year.

## Audit Committee pre-approval policy

In accordance with the Audit Committee pre-approval policy, all audit and non-audit services performed for the Company by the independent auditors were pre-approved by the Telkom Board's Audit Committee, which concluded that the provision of such services by the independent auditors was not incompatible with the maintenance of that firm's independence in the conduct of its auditing functions.

The annual audit services engagement terms and fees are subject to the specific pre-approval of the audit committee. The Audit Committee may grant general pre-approval for other audit services that only the independent auditor may reasonably provide.

Requests or applications for services that require specific separate approval by the Audit Committee are required to be submitted to the Audit Committee by both management and the independent auditors, and must include a detailed description of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent auditors. The Audit Committee may delegate pre-approval authority to one or more of its members. The member, or members, to whom such authority is delegated, shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate to management its responsibilities to pre-approve services to be performed by the independent auditors.

## Risk Committee

The Risk Committee, which is chaired by Mr LL von Zeuner, was previously part of the Audit and Risk Committee.

The Risk Committee's main functions are:

- Dealing with governance of risk comprehensively and reporting to the Board;
- Monitoring the implementation of the policy and plan for risk management taking place by means of risk management systems and processes;
- Ensuring that continuous risk monitoring by management takes place; and

- Ensuring the adequacy of and overall effectiveness of the corporate enterprise risk management function and the business continuity plans for all the companies in the Group to ensure that the Directors have identified and monitor risk in the widest sense including Strategic risk, Operational risk, Compliance risk and reporting risk.

As at 31 March 2013, the committee comprised six directors, as follows:

LL von Zeuner (chairman) – Independent non-executive  
 F Petersen – Independent non-executive  
 L Maasdorp – Independent non-executive  
 I Kgaboesele – Independent non-executive  
 N Kapila – Non-executive  
 Dr CA Fynn – Independent non-executive

Director	Scheduled Risk meetings				Special Risk meeting
	04 Jun 2012 <sup>(1)</sup>	24 Aug 2012	07 Sep 2012	26 Mar 2013	25 Apr 2012 <sup>(1)</sup>
LL von Zeuner	–	–	–	✓	–
F Petersen	–	–	–	✓	–
I Kgaboesele	✓	–	–	✓	✓
N Kapila	–	–	–	✓	–
Dr CA Fynn	–	–	–	✓	–
L Maasdorp	–	–	–	X	–
NP Dongwana	✓	–	–	–	X
B du Plessis	✓	–	–	–	✓
J Molobela	–	✓	✓	–	–
PSC Luthuli	✓	✓	✓	–	✓
RJ Huntley	–	✓	–	–	–
Y Waja	–	✓	✓	–	–
NP Mnxasana	✓	✓	✓	–	✓
Dr SP Sibisi	–	✓	X	–	–

✓ Attended in person

<sup>1</sup> This meeting formed part of the previous Audit and Risk Committee meeting

X Apologies

– Was not a member at this time

## Nominations Committee

The Nominations Committee provides advice and support to the Board in relation to board composition, governance and performance evaluation.

### Responsibilities

The Nomination Committee's roles and responsibilities are set out in its terms of reference and include the following:

- Making recommendations on the composition of the Board with respect to all aspects of diversity including academic qualification, technical expertise, industry knowledge, experience, business acumen, race and gender as well as the balance between executive, non-executive and independent non-executive members appointed to the Board;
- Identifying and nominating candidates and formulating succession plans in conjunction with the Remuneration Committee for the approval by the Board of the appointment of new executives and non-executive directors, GCEO and CFO;
- Recommending to the Board the retirement of any director holding office for an aggregate period in excess of nine years since his/her first appointment;

- Ensuring that the revision and assessment of the Board, individual directors as well as committee members is conducted on an annual basis;
- Recommending directors who are retiring by rotation, for re-election;
- Monitoring the principles of governance and code of best practice in respect of board composition, structure and process;
- Ensuring that induction and on-going training and development of directors takes place; and

In terms of its terms of reference, the Nominations Committee must comprise only of non-executive directors, one of which shall be the chairman of the board. A quorum for Nomination Committee meetings is two directors.

The Committee comprises five independent non-executive directors:

JA Mabuza (Chairman)  
 S Botha  
 B du Plessis  
 I Kgaboesele  
 K Kweyama

The Nominations Committee held three scheduled meetings and three special meeting during the 2013 financial year.

# GOVERNANCE

Director	Scheduled Nominations meetings			Special Nominations meetings		
	22 May 2012	11 Oct 2012	01 Feb 2013	28 May 2012	09 Nov 2012	04 Dec 2012
JA Mabuza	–	–	*	–	–	✓
J Molobela	✓	✓	✓	*	✓	✓
B Du Plessis	✓	X	✓	*	✓	*
I Kgaboesele	–	*	✓	–	✓	*
NP Mnxasana	–	✓	–	–	–	–
PSC Luthuli	✓	*	–	*	–	–
JN Hope	✓	✓	–	*	–	–
PL Zim	✓	✓	–	✓	–	–
S Botha	–	–	–	–	–	–
K Kweyama	–	–	–	–	–	–

✓ Attended in person

\* Teleconference

X Apologies

– Was not a member at this time

During the year ended 31 March 2013, the Nominations Committee dealt with the following specific matters in addition to its normal annual programme:

- The appointment of Mr Siphon Maseko as group chief executive officer of the Company; and
- The appointment of Dr Brian Armstrong as chief operating officer of the Company.

## Investment and Transactions Committee

The role of the Investment and Transactions Committee is defined in its terms of reference and the primary function of the committee is to assist the Board in evaluating investments, corporate actions and key funding and financial proposals.

The Investment and Transactions Committee:

- Reviews and recommends to the Board any investment decision appropriate to the Group's strategy, gearing and risk appetite. For clarity, policy proposals will be drawn up by, and agreed to by the Executive Committee prior to review by the Investment Committee;
- Reviews and recommends to the Board investment proposals submitted by the Executive Committee ensuring compliance with the Group's investment policy and the Group's strategy as agreed by the Board;
- Monitors the performance of investments against original investment criteria and pre-investment assumptions until the conclusion of the first complete financial year after acquisition. At this stage the

Executive Committee will prepare a formal post-acquisition review and on-going performance monitoring will become part of normal reporting to the Board;

- Reviews and recommends to the Board the introduction of strategic equity partners to the Group;
- Reviews a semi-annual report from the chief financial officer and makes recommendations to the Board if necessary, concerning the Group's financial facilities and financing structures; and
- Reviews and recommends to the Board the performance and strategies of subsidiaries and investments.

The Investment and Transactions Committee consists of one executive director and five non-executive directors:

L Maasdorp (chairman) – Independent non-executive

Dr CA Fynn – Independent non-executive

N Kapila – Non-executive

I Kgaboesele – Independent non-executive

K Mzondeki – Independent non-executive

JH Schindehütte – Executive

A quorum for a meeting is a majority of members. The Investment and Transactions Committee held three scheduled meetings and three special meetings during the financial year.

Director	Scheduled Investment meetings			Special Investment meetings		
	06 Jun 2012	26 Jul 2012	25 Mar 2013	04 May 2012	21 Jun 2012	27 Sep 2012
L Maasdorp	–	–	✓	–	–	–
I Kgaboesele	✓	✓	✓	✓	✓	✓
N Kapila	*	*	✓	*	*	*
K Mzondeki	–	–	✓	–	–	–
Dr CA Fynn	–	–	✓	–	–	–
JH Schindehütte	–	–	✓	–	–	–
Y Waja	✗	✓	–	✓	*	✓
RJ Huntley	*	*	–	✓	✓	✓
JN Hope	*	✓	–	✓	✓	✗
PSC Luthuli	✓	✓	–	*	✓	✗

✓ Attended in person

\* Teleconference

✗ Apologies

– Was not a member at this time

### Remuneration Committee (Remco) (Formerly Human Resources Review and Remuneration Committee (HRRRC))

The role of the committee is to assist the Board to ensure that the Company remunerates directors and executives fairly and responsibly in alignment with the creation of long-term shareholder value and to ensure that the disclosure of director and senior management remuneration is accurate, complete and transparent.

The committee consists of non-executive directors and executive management as provided by its terms

of reference. As at 31 March 2013 the Remuneration Committee comprised the following members:

S Botha (Chairman) – Independent non-executive

B du Plessis – Independent non-executive

K Kweyama – Independent non-executive

JA Mabuza – Independent non-executive

J Molobela – Non-executive

The Remuneration Committee held four scheduled meetings during the financial year. A quorum for a meeting is 50% of members.

Director	Scheduled Remuneration meetings			
	01 Jun 12	07 Sep 12	12 Nov 12	19 Mar 13
S Botha	–	–	–	✓
JA Mabuza	–	–	–	*
J Molobela	✓	✓	*	✓
K Kweyama	–	–	–	✗
B Du Plessis	✓	*	✓	✓
JN Hope	✓	✓	–	–
NT Moholi	✓	✓	✓	–
NP Dongwana	✓	✓	–	–

✓ Attended in person

\* Teleconference

✗ Apologies

– Was not a member at this time

# GOVERNANCE

The Committee must perform all the functions necessary to fulfil its role including the following:

- Review the terms upon which executive directors and senior executives are employed and remunerated;
- Review the remuneration of non-executive directors and make recommendations to the Board;
- Approve the disclosure on remuneration of executive and non-executive directors in the annual report and the statement of remuneration policy advised to shareholders;
- Determine targets and performance-related incentive schemes implemented in the Company;
- Seek Board and shareholder approval for any long-term incentive scheme and determine annual grants and share allocations to executive directors and senior management;
- Review succession and recruitment plans including performance assessments of executive directors and senior managers;
- Determine the framework and policy for attraction and retention of key staff;
- In fulfilling its duties, the Remco gives consideration to industry and local benchmarks to ensure that remuneration packages remain competitive;
- Non-executive directors are paid fees for their services as directors of the Group and for their participation as members of the Board committees.

The Remuneration Committee employs the services of specialist consultants in the field of executive remuneration to assist it when necessary.

During the year ended 31 March 2013, the Remuneration Committee worked on the following specific matters in addition to its normal annual programme:

- The development of a share incentive schemes for executive management and employees of the Company, which are to be tabled at the Annual General Meeting for shareholder approval.

## Social and Ethics Committee (SEC) (formerly Social, Ethics and Sustainability Committee (SESC))

In accordance Regulation 43 of the Companies Act, the committee is responsible for monitoring the Company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:

- Social and economic development, including the Company's standing in terms of the goals and purposes of:
  - The 10 principles set out in the United Nations Global Compact Principles (being those recorded in Appendix);

- The Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption;
- The Employment Equity Act; and
- The Broad-Based Black Economic Empowerment Act.
- Good corporate citizenship, including the Company's:
  - Promotion of equality, prevention of unfair discrimination, and reduction of corruption;
  - Contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
  - Record of sponsorship, donations and charitable giving.
- The environment, health and public safety, including the impact of the Company's activities and of its products or services.
- Consumer relationships, including the Company's advertising, public relations and compliance with consumer protection laws.
- Labour and employment, including:
  - The Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
  - The Company's employment relationships, and its contribution toward the educational development of its employees;
  - Drawing matters within its mandate to the attention of the Board as occasion requires; and
  - Reporting, through one of its members, to the shareholders at the Company's Annual General Meeting on the matters within its mandate;
  - Considering any other matters as requested by the Board,

The committee comprises the following non-executive directors:

- J Molobela (chairman) – Non-executive
- K Kweyama – Independent non-executive
- L Maasdorp – Independent non-executive
- F Petersen – Independent non-executive
- LL von Zeuner – Independent non-executive

The SEC held three scheduled meetings during the financial year. A quorum for a meeting is a majority of members.



Director	Total scheduled meetings		
	30 May 2012	10 Sep 2012	15 Mar 2013
J Molobela	–	–	✓
K Kweyama	–	–	X
L Maasdorp	–	–	X
F Petersen	–	–	✓
LL von Zeuner	–	–	✓
JN Hope	✓	✓	–
RJ Huntley	✓	*	–
Y Waja	✓	✓	–
NP Mnxasana	X	✓	–
NP Dongwana	X	✓	–

✓ Attended in person

\* Teleconference

X Apologies

– Was not a member

The chairman of the Social and Ethics Committee reports at the Company's Annual General Meeting on the matters within the Committee's mandate.

## The group chief executive officer (GCEO)

### THE ROLE OF THE GCEO AND MANAGEMENT

Pursuant to formal delegations of authority, the Board has delegated the management of day to day operations to the GCEO. However, ultimate accountability for strategy and control rests with the board of directors. The Board approves corporate objectives for the GCEO to satisfy and, jointly with the GCEO, develops the duties and responsibilities of the GCEO.

The GCEO is accountable to the Board for the exercise of the delegated authority and, with the support of the Exco, must report to the Board on the exercise of the authority through reports, briefings and presentations.

### Responsibilities and objectives

The day-to-day management and operations of the Company are the responsibility of the GCEO who reports to the Board on key management and operational issues, including:

- Developing and implementing corporate strategies and making recommendations to the Board on significant corporate strategic initiatives;
- Appointing and determining the terms of appointment of executive and senior management, developing and maintaining succession plans, and evaluating the performance of key executives;
- Developing Telkom's annual budget and managing day-to-day operations within the budget (approved by the Board);
- Maintaining effective risk management and compliance management frameworks;
- Keeping the Board and market fully informed about material continuous disclosure; and

- Managing day-to-day operations in accordance with standards for social, ethical and environmental practices.

## Director tenure, election and appointment

At each Annual General Meeting ("AGM") of the Company, at least a third of the directors in office must retire by rotation and those directors may, if eligible, offer themselves for re-election. Any non-executive director who would otherwise hold office without re-election beyond the third AGM since their appointment or last election, or for at least three years, whichever is the longer, must retire. Any non-executive director who has been appointed during the year must stand for election by shareholders at the next AGM.

Any director who has held office in excess of nine years in aggregate must also retire, notwithstanding that such director may have retired at the previous AGM.

## Independence of directors

The majority of Telkom directors are independent non-executive directors as the term is defined in King III. In order for a director to be considered independent, the Board needs to have determined that the director meets the criteria set out in King III to be regarded as such. An independent non-executive director is a non-executive director who:

- Is not a representative of a shareholder who has the ability to control or significantly influence management or the Board;
- Does not have a direct or indirect interest in the Company (including any parent or subsidiary in a consolidated group with the Company) which exceeds 5% of the Group's total number of shares in issue;
- Does not have a direct or indirect interest in the Company which is less than 5% of the Group's total number of shares in issue, but is material to his personal wealth;
- Has not been employed by the Company or the Group of which it currently forms part in any executive capacity, or appointed as the designated auditor or partner in the Group's external audit firm, or senior legal advisor for the preceding three financial years;
- Is not a member of the immediate family of an individual who is, or has during the preceding three financial years, been employed by the Company or the Group in an executive capacity;
- Is not a professional advisor to the Company or the Group, other than as a director;
- Is free from any business or other relationship (contractual or statutory), which could be seen by an objective outsider to interfere materially with the individual's capacity to act in an independent manner, such as being a director of a material customer of or supplier to the Company; or
- Does not receive remuneration contingent upon the performance of the Company.

# GOVERNANCE

The Board only considers directors to be independent where they are independent of management or shareholders and are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

Any director who considers that he/she has or may have a conflict of interest or a material personal interest in any matter concerning the Company is required to give the Board notice of such interest.

The Independent non-executive directors and non-executive directors of the Board periodically meet without the executive directors or management being present.

## Board effectiveness

The chairman is responsible for monitoring the contribution of individual directors and counselling them on any areas which might help improve board performance. The chairman is also responsible for the process of evaluating the performance of the directors, board committees and the Board as a whole. The Board engages external assistance, as appropriate, in reviewing the performance of the Board.

An appraisal of the effectiveness of the Board was conducted externally during the latter part of the financial year. The appraisal was benchmarked against the strategic requirements of Telkom to ensure the capacity to deliver these requirements and strengthen the diversity and sector expertise of directors. Whilst the composition of the Board has changed substantially since the appraisal, the results of the appraisal will be a useful tool for learning and will be instructive in designing the Board's plans and work programmes for the future.

## Induction and director development

New directors receive a letter of appointment which sets out the Company's expectations of the role, their duties, the terms and conditions of their appointment and their remuneration. The appointment letter forms the initial part of the programme of induction for directors.

Directors are also expected to participate in all induction and orientation programmes and continuing education, training or development programmes arranged for them by the company secretary. The company secretary, in consultation with the chairman, oversees and reviews the director induction process in order to ensure that it remains effective and up-to-date.

The company secretarial function supports directors by providing:

- Access to information in appropriate form, currency and quality, including procedures to cover additional requests of management;
- Continuing education to update and enhance their knowledge as the business environment changes; and
- Access to independent professional advice, where requested.

## Company Secretary

All directors have access to the advice and services of the group company secretary, who is responsible for ensuring the proper administration of the Board and Corporate Governance procedures. The group company secretary provides guidance to the directors on their responsibilities within the prevailing regulatory and statutory environment and the manner in which such responsibilities should be discharged.

During the year under review Ms Mmathoto Lephadi resigned as group company secretary and Ms Andisa Ditle was appointed as acting group company secretary with effect from 1 November 2012 until 17 March 2013. Ms Xoliswa Mpongoshe Makasi was appointed group company secretary with effect from 18 March 2013.

The Board can confirm that the company secretary possesses the necessary qualifications, relevant experience and the competence to discharge her duties. The company secretary is suitably qualified for the role, maintains an arm's length relationship with the Board and is not a director.

Details of the group company secretary's business address and the Group's registered office are set out on the inside back cover of this integrated report.

## Directors' independent advice

The directors, the Board and the board committees are empowered to seek external professional advice, as considered necessary, at the Company's expense, subject to prior consultation with the chairman.

## Business code of ethics

### ETHICS PERFORMANCE

The Business Code of Ethics applies to all employees and sets out the standards in accordance with which they are expected to act. The policy is aimed at the maintenance of standards of honesty, integrity and fair dealing by all employees in their interaction with customers, suppliers, the community, competitors and each other in the performance of their duties and responsibilities. All employees are provided with a copy of the Code of Ethics on the commencement of their employment.

The focus in the last year was on establishing a dedicated ethics function, and raising awareness on the Business Code of Ethics. An ethics officer was appointed and an ethics office responsible for the implementation of the Telkom ethics programme was established. The following initiatives formed part of the roll-out of Telkom's ethics programme:

- Extensive internal communication on the business code of ethics and the supplementary policies;
- Training and awareness, which included the development and launch of an online training course;
- The introduction of an ethics helpline where employees could obtain confidential advice on ethical dilemmas; and
- The compilation of an ethics risk and opportunity profile.

In addition to the Business Code of Ethics, there are a range of activities and compliance programs across the Company designed to promote and encourage the responsibility and accountability of individuals for avoiding unethical practices or reporting such practices should they become aware of them.

### Share dealings

In line with JSE Listings Requirements and the Group's insider trading policy directors and executives who wish to trade in Telkom securities are required to obtain prior written approval from the chairman of the board and the group company secretary before dealing in Telkom securities. The Group operates closed periods as defined in the JSE Listings Requirements.

Additional prohibited periods are enforced, when required, in relation to corporate activities as and when these occur.

### Application of King III

Telkom strives to apply the principles of King III to the extent practical and fit for the business. Telkom recently completed its own assessment of the application of the King III principles. The following table outlines areas where, based on our own assessment, the Company did not apply the principles of King III, and provides explanations for each of those instances of non-compliance, as required in terms of King III:

King III principles	Telkom's explanation
Ensure that collaborative efforts with stakeholders are embarked upon to promote ethical conduct and good corporate citizenship; and internal and external ethics performance is aligned around the same ethical standards.	Telkom is currently considering the implementation of projects and efforts that will encompass alignment of internal and external engagement to promote standardised ethical conduct and good corporate citizenship.
Background and reference checks should be performed before the nomination and appointment of directors.	Background and reference checks have been performed on members of the current board of directors and this will be embedded in the process going forward.
An overview of the Board appraisal process, results and action plans should be disclosed in the integrated report.	A Board appraisal process which commenced in the latter part of the year has recently been completed by an independent service provider and the recommendations are to be presented to the Board for its consideration.
The nomination for the re-appointment of a director should only occur after the evaluation of the performance and attendance of the director.	The MOI requires that one third of directors must retire each year, and they may be re-elected by shareholders, in line with the JSE Listings Requirements.
Compliance should be a regular item on the agenda of the Board; and the Board should disclose details in the integrated report on how it discharged its responsibility to establish an effective compliance framework and processes.	Compliance is a regular item on the agenda of the Board and the Risk Committee is charged with oversight responsibility for Compliance. Details of the work of the Risk Committee are included in this integrated report.
The induction and ongoing training programmes of directors should incorporate an overview of and any changes to applicable laws, rules, codes and standards; and directors should sufficiently familiarise themselves with the general content of applicable laws, rules, codes and standards to discharge their legal duties.	The compliance officer together with the company secretary inform the Board of any changes to applicable laws, rules, codes and standards and in future will incorporate these in formalised induction and ongoing training programmes for directors.
The compliance officer should be a suitably skilled and experienced person who should have access and interact regularly on strategic compliance matters with the Board and/or appropriate board committee and executive management.	The group executive responsible for this function is suitably skilled and experienced and does have access to and interacts with the Risk Committee and executive management on strategic compliance matters.

# GOVERNANCE



GRI

King III principles	Telkom's explanation
The chairman of the board should be an independent director.	The current chairman is classified as independent in accordance with the definitions set out in King III.
The chairman should be appointed by the Board every year (after an assessment of his independence).	The chairman is appointed by the Board until the next annual general meeting.
A governance framework has not been agreed by the Group and its subsidiaries.	Telkom has embarked on a GRECS (Governance, Risk, Ethics Compliance and Sustainability) alignment project, aimed at providing a structured and co-ordinated framework for governance management within the Group
The Audit Committee does not comprise of only independent non-executive directors.	For a portion of the year not all members were independent. However, when the Board's capacity was increased to 14 members, the Audit Committee membership was aligned to the requirements of the Companies' Act and King III respectively.
Material deviations from the Company's risk limits that the Board is willing to take should be disclosed in the integrated report.	The risk appetite strategy and framework have been developed. The initial risk appetite and risk bearing capacity figures have been calculated. These are currently in the process of being benchmarked after which they will be presented to the Board for approval. A comprehensive dashboard has been developed to enable the effective monitoring of these limits going forward.
The Company's reputation and its linkage with stakeholder relationships is not a regular board agenda item.	Telkom is currently piloting an approach to measure the quality of relationships with its stakeholders. Once approved, these measures will be used to guide discussions at board level.

We have the following mechanisms in place for shareholders and employees to provide recommendations or direction to the highest governing body:

- Shareholder meetings are held where shareholders have an opportunity to provide input to Telkom.
- Investor relations interact with shareholders on an ongoing basis, and the feedback from these interactions is communicated to the executive committee and the Board.
- When both final and interim results are announced, the GCEO and executive management go on shareholder road-shows to address shareholders and feedback from these road shows is filtered to the Board.
- Similarly road-shows are arranged by the GCEO and executive management to address employees on a range of issues affecting the Company.

# ALIGNING GOVERNANCE, RISK AND CONTROLS

Over the past year Telkom has placed extensive effort on aligning and streamlining the Group's strategies and operations to enhance its effectiveness, accountability, and transparency to better deliver value going forward.

As Telkom's strategy and operations shifted in response to market realities, industry regulation and stakeholder expectations, it became even more important for Telkom to maintain a high level of governance, risk management and control systems to demonstrate responsible stewardship. Maintaining high standards included the continued empowerment of assurance providers to independently assess the efficiency and effectiveness of these risk management and control mechanisms.

Telkom Audit Services is governed by an internal audit charter which is approved by the Audit Committee and is reviewed annually. The charter defines the purpose, authority and responsibilities of the function.

Telkom Audit Services, in accordance with best in class practices, is an independent, objective assurance and advisory function designed to add value and improve Telkom's operations. Telkom Audit Services aims to assist Telkom in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

The Telkom organisational structure promotes the independence of Telkom Audit Services as a whole and allows it to form its judgments objectively. In order to ensure the independence; permit sufficient objectivity and ensure the accomplishment of audit responsibilities, the group executive (GE): Telkom Audit Services functionally reports to the chairman of the Telkom Audit Committee. The GE: Telkom Audit Services also interacts directly with the Board and reports administratively to the CFO. The GE: Telkom Audit Services has unlimited access to all employees of the company, including the chairman of the Telkom Board, the chairman and members of the Audit Committee as well as the GCEO.

Annually, Telkom Audit Services compiles a comprehensive risk-based audit plan which is derived from various sources of key risks. The assessment and audit plan is validated by executive management and approved by the Audit Committee. The audit plan is benchmarked by our co-sourced service providers against organisations in similar industry verticals and audit functions of a similar nature and size.

Telkom Audit Services also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance and test the veracity of the audit plan. The audit plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The Audit Committee approves any changes to the plan.

A summary of audit results, performance against the approved audit plan, and progress on the resolution of management action items is presented quarterly to the Audit Committee and monthly to the Exco.

The Telkom Audit Services team conducts audit work, or any other task, in accordance with the internal auditing standards set by the globally recognised Institute of Internal Auditing (IIA). This requires compliance with the Standards for Professional Practice of Internal Auditing (SPPIA), in particular, the codes of conduct and ethics that are promulgated from time to time by relevant professional bodies, and any other corporate governance initiatives.

Through the use of the company-wide system of management action tracking, Telkom Audit Services continues to monitor the

timely remediation of reported control deficiencies. This system has empowered management to pro-actively manage the establishment of controls in their environments as well as to support the establishment and maintenance of a sound control environment. Telkom Audit Services will continue to provide reports to the Audit Committee and Exco on the status of agreed remedial actions implemented by management.

Telkom Audit Services was assessed as "generally conforms" to the IIA standards by KPMG in an external assurance review in 2010, which is the highest level of conformance as defined by the Standards. Furthermore Telkom Audit Services adopted strategies and techniques aimed at addressing the specific internal audit requirements of King III, which includes better strategic alignment of the assurance efforts of Telkom Audit Services.

During the year, Telkom Audit Services established a quality assurance function as well as developed a quality assurance and improvement programme (QAIP) to cover all aspects of the internal audit activity. The programme includes both internal and external evaluations which assess the effectiveness and efficiency of the internal audit activity.

The internal audit activities are performed by teams of appropriate, qualified and experienced employees, supplemented by co-sourced service provider resources. This augmentation has enabled sufficient attention being directed towards the growth aspirations of Telkom in areas of new business as well as key capital-intensive programmes, whilst ensuring that existing business areas receive due attention.

The role of Telkom Audit Services and its prominence in improving the control environment has increased through key contributions made towards embedding an effective combined assurance framework and model as well as the piloting of the Control Self-Assessment (CSA) process in selected functional areas.

The 2013 financial year marked a significant transition for Telkom Audit Services from an assurance provider to a control champion. During the year, Telkom Audit Services implemented a strategic change in our stakeholder engagement process and introduced a number of control awareness initiatives that included targeted information sessions, monthly newsletters as well as the establishment of a control advice centre. Telkom Audit Services enjoys a remit that spans the entire company and we have leveraged this unique position to promulgate good control practices that would further improve the operations of Telkom.

The GE: Telkom Audit Services continues to chair the Telkom Combined Assurance Forum (TCAF), which provides a communication platform for the assurance providers in Telkom as well as constituting a springboard for the provision of a written assessment on the effectiveness of the internal control environment. The TCAF under the stewardship of the GE: Telkom Audit Services yielded the following benefits to Telkom during the year that included:

- Avoidance of duplication of assurance effort
- A better understanding of Telkom's business operations through sharing of knowledge of the business and emerging and current business issues
- Timing assurance efforts to minimise business interruption and avoidance of assurance fatigue on the business
- Developing a portfolio view of assurance efforts for management and the Audit Committee.

# BOARD OF DIRECTORS



**JABULANE A MABUZA**  
Effective Leadership Programme,  
Executive Development Programme:  
Financial Statement Analysis  
Chairman of Telkom board  
Independent non-executive director  
Chairman of the Nominations Committee

Jabulane Mabuza was appointed to the Board in November 2012. He is widely recognised as a successful entrepreneur. Mr Mabuza is also the deputy chairman of Tsogo Sun Holdings and president of Business Unity South Africa (BUSA).

He serves on the boards of ACE Insurance Limited, Eglin Investments No. 44 (Pty) Limited, Hyprop Investments Limited, Kuncedzana Investment Holdings and Lexshell 627 Investments (Pty) Limited, among others. Prior to this, he was managing director of Southern Sun Gaming, group chief executive officer of Tsogo Sun and a chairman of the board of South African Tourism.

Mr Mabuza has attended several executive courses including, the Effective Leadership Programme from the Wharton School of the University of Pennsylvania and the Executive Development Program: Financial Statement Analysis from the John E Anderson Graduate School of Management at the University of California, Los Angeles.



**JACQUES H SCHINDEHÜTTE**  
CA (SA), BCom (Hons), Higher Diploma  
in Taxation  
Executive director, chief financial officer

Jacques Schindehütte served his articles with Arthur Young & Company.

He served as chief financial officer of Absa Group Limited from October 1999 to 2010 and was the financial director of the group from 2005 to February 2010.

Prior to joining Absa, Mr Schindehütte was employed by Transnet Limited in a number of senior roles over more than a decade. During his career, he has amassed a broad range of experience from disciplines such as general management, financial services, finance, auditing, marketing, transport, property development and telecommunications, to name but a few.

Mr Schindehütte currently serves on the board and audit committee of JD Group Limited.

He is a chartered accountant, holds a Bachelor of Commerce degree with honours and a higher diploma in taxation.

**SIPHON MASEKO**  
BA (Law), LLB  
Executive director, group chief  
executive officer

Sipho Maseko was appointed as group chief executive officer and an executive director of Telkom in April 2013. Prior to joining Telkom, he served as group chief operating officer and managing director at Vodacom. Mr Maseko held various roles at BP starting in 1997, serving as the chief executive officer of BP Southern Africa (Pty) Limited from 2008 to 2012 and chief operating officer before this.

Mr Maseko has served as a non-executive director of the Centre for Development and Enterprise's board since 2009 and the Afrox board since 2012. He also served as chairman of the board of SAPREF between July 2010 and August 2011.

Mr Maseko holds a Bachelor of Arts degree in Law from Wits University and an LLB from the University of Natal.



**ITUMELENG KGABOESELE**  
CA (SA), BCom, Post-Graduate Diploma  
in Accounting  
Independent non-executive director  
Chairman of the Audit Committee

Itumeleng Kgaboesele was appointed to the Telkom board in July 2011. He is the co-founder and chief executive officer of Sphere Holdings (Pty) Limited, a leading mid-market investment holding and private equity company.

Prior to founding Sphere in 2003, he spent several years in investment banking in London and Johannesburg and was vice president – Investment Banking at Citi. He represents Sphere on the boards of a number of investments in which Sphere has invested and is also an independent non-executive director of Old Mutual Investment Group.

He is a trustee of the Student Sponsorship Programme and the African Leadership Academy.

Mr Kgaboesele is a chartered accountant (SA). He holds a Bachelor of Commerce degree as well as a Post Graduate Diploma in Accounting from the University of Cape Town.



**BRAHM DU PLESSIS**  
BA (Law) LLB, LLM  
Independent non-executive  
director

Brahm du Plessis was appointed to the Board in December 2004. A practising advocate at the Johannesburg Bar since 1987, advocate Du Plessis, who holds Bachelor of Arts and a LLB from the University of Stellenbosch and an LLM degree from the London University, has also served as a member of the Johannesburg Bar Council.



**KHOLEKA MZONDEKI**  
FCCA (UK), BCom, Diploma in  
Investment Management  
Independent non-executive  
director

Ms Kholeka Mzondeki was appointed to the Board in November 2012. She is a qualified UK chartered accountant and has served as financial director at various companies such as 3M and Masana Petroleum Solutions.

Apart from her financial management and strategy experience, she has ICT transformational strategy formulation and implementation experience using technology as a customer value proposition. In 2008 she was a finalist in the Nedbank Business Woman of the Year Awards.

Ms Mzondeki also sits on boards of other JSE listed companies and is a member of the UN World Food programme. She holds a Bachelor of Commerce degree from the University of Botswana and a Diploma in Investment Management from the University of Johannesburg.



**SUSAN BOTHA**  
BCom (Economics)  
Independent non-executive  
director  
Chairman of the  
Remuneration Committee

Susan Botha was appointed to the Board in December 2012. She is currently the chairman of Curro Holdings Limited and serves on other boards, including Tiger Brands Limited, Imperial Holdings Limited and Famous Brands Limited.

Ms Botha was previously an executive director of MTN Group Limited and Absa Bank Limited.

She has a Bachelor of Commerce degree in Economics with honours from the University of Stellenbosch. She is also chancellor of Nelson Mandela Metropolitan University.



**KHANYISILE KWEYAMA**  
MSc (Management)  
Independent non-executive director

Khanyisile Kweyama was appointed to the Board in December 2012. She is currently the head of Anglo American Southern Africa Limited. Prior to this, she was the executive head of Human Resources at Anglo American Platinum Limited. She was also the group executive of Global Human Resources at Barloworld Limited.

Ms Kweyama also serves as vice president of the Chamber of Mines and as a non-executive director of Anglo American Platinum and Kumba Iron Ore.

She is a trustee of the Walter Sisulu University Foundation and Commissioner on the Commission for Employment Equity.

Ms Kweyama holds a Masters degree in Management from the University of Witwatersrand.



**LESLIE MAASDORP**  
BA (Economics & Psychology), MSc (Economics)  
Independent non-executive director  
Chairman of the Investment and Transactions Committee

Leslie Maasdorp was appointed to the Board in November 2012. He is the president for Southern Africa at the Bank of America Merrill Lynch. He has extensive experience in investment banking in South Africa, having taken on roles as international advisor to Goldman Sachs International and vice chairman of Absa Capital. Mr Maasdorp has also served in various roles in government, including deputy director general of the Department of Public Enterprises and special adviser to the Minister of Labour.

Mr Maasdorp currently serves as the chairman of Advtech and until recently was an independent non-executive director on the board of Cell C. He was also a non-executive director of Absa Group and is a former chairman of TCTA.

He holds a Bachelor of Arts degree in Economics and Psychology from the University of Western Cape and a Masters degree in Economics from the School of Oriental and African Studies at the University of London.

**CLIVE A FYNN**  
PhD (Entrepreneurship), M (Phil), MBA  
Independent non-executive director

Clive Fynn was appointed to the Board in December 2012. He is the managing director and senior vice president of CFIT (Pty) Limited. He is a board member of several South African companies in the industrial sector and plays an active role in various ICT policy committees.

Dr Fynn was previously the managing director of Cisco Systems, chairman of Cisco Systems Capital and executive director of Siemens Business Services.

Dr Fynn holds a PhD in Entrepreneurship from the University of Pretoria, a Master of Philosophy degree from the University of the Western Cape and an MBA from the University of Sheffield in the United Kingdom.

He is also a professor, and PhD and Masters external examiner to several international ICT schools.



**JEFF MOLOBELA**  
BSc (Engineering), MBA  
Non-executive director  
Chairman of the Social and Ethics Committee

Jeff Molobela was appointed to the Board in November 2009 and served as chairman until 15 February 2011. He was subsequently reappointed as a non-executive director in the same month. Mr Molobela currently serves on the boards of N3TC Limited, African Value Investment Holdings, Concorde Metals and Labemo Properties among others.

He has extensive experience in the financial services, property and ICT sectors, has served on numerous company boards and board committees and consulted to Denel and Armscor.

He has also served on the boards of Africon Engineering Limited, Transnet, Primegro Limited, CBS Properties Limited, Growthpoint Properties Limited, Decillion Limited and Cashbuild Limited.

He holds a Bachelor of Science degree in Engineering from Imperial College in London and an MBA from Imperial College Business School.

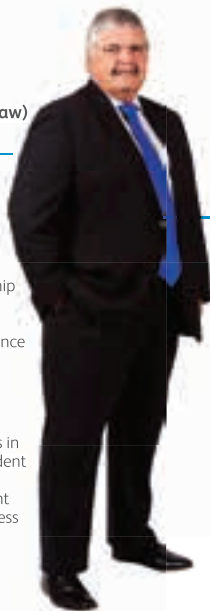


**NAVIN KAPILA**  
BA (Eng) (Economics) (Law)  
Non-executive director

Navin Kapila was appointed to the Board in February 2011. He has over 20 years' experience in diverse fields including investment, business and product development, and relationship and alliance management. He also has in-depth telecommunications experience and was involved in policy formulation and market deregulation in India.

He took on various roles at ICO Global Communications in London, including vice president of Corporate Development, vice president of Government Affairs and director of Business Development.

Mr Kapila holds a Bachelor of Arts degree in English, Economics and Law from India's Punjab University.



**LOUIS L VON ZEUNER**  
BCom (Economics)  
Independent non-executive director  
Chairman of the Risk Committee

Louis von Zeuner was appointed to the Board in December 2012.

Mr von Zeuner's retirement as deputy group chief executive of Absa Group earlier in 2012 followed 32 years of service during which time he was part of several subsidiary boards.

He remains on the Absa board as a non-executive director. Mr von Zeuner was recently appointed as a non-executive director of the Edcon Group.

He holds a Bachelor of Commerce degree in Economics from the University of Stellenbosch and has completed several international training programmes.



**FAGMEEDAH PETERSEN**  
B. Bus Sci (Actuarial Science),  
PG Diploma (Management Practice)  
Independent non-executive director

Fagmeedah Petersen was appointed to the Board in December 2012.

She is an investment expert trustee of the Government Employee Pension Fund and former acting chief investment officer of Eskom Pension and Provident Fund.

Ms Petersen is a specialist trustee of Lifestyle Retirement Annuity and Preserver Suite of Funds, and the Corporate Selection Suite of Funds. She was also the principal consultant and valuator at Alexander Forbes Financial Services and Sanlam Employee Benefits.

She holds a Bachelor of Business Science degree in Actuarial Science from the University of Cape Town and is a fellow of the Institute of Actuaries and the Actuarial Society of South Africa.

# EXECUTIVE COMMITTEE

## SIPHO N MASEKO

BA, LLB

Group chief executive officer

Age: 44

Joined Telkom: April 2013

Sipho Maseko was appointed as group chief executive officer and an executive director of Telkom on 1 April 2013. Prior to joining Telkom, he served as group chief operating officer and managing director at Vodacom. Mr Maseko held various roles at BP starting in 1997, serving as the chief executive officer of BP Southern Africa (Pty) Limited from 2008 to 2012 and chief operating officer before this.

Mr Maseko has served as a non-executive director of the Centre for Development and Enterprise's board since 2009 and the Afrox board since 2012. He also served as chairman of the board of SAPREF between July 2010 and August 2011.

Mr Maseko holds a Bachelor of Arts degree in Law from Wits University and an LLB from the University of Natal.

## JACQUES H SCHINDEHÜTTE

CA (SA), BCom (Hons),  
Higher Diploma in Taxation

Chief financial officer

Age: 54

Joined Telkom: August 2011

Jacques Schindehütte served his articles with Arthur Young & Company. He served as chief financial officer of Absa Group Limited from October 1999 to 2010 and was the financial director of the group from 2005 to February 2010.

Prior to joining Absa, Mr Schindehütte was employed by Transnet Limited in a number of senior roles over more than a decade. During his career, he has amassed a broad range of experience from disciplines such as general management, financial services, finance, auditing, marketing, transport, property development and telecommunications, to name but a few.

Mr Schindehütte currently serves on the board and audit committee of JD Group Limited.

He is a chartered accountant, holds a Bachelor of Commerce degree with honours and a higher diploma in taxation.



## DEON FREDERICKS

CA (SA), BCom (Business Management)  
(Hon), ACMA

Deputy to chief financial officer

Age: 52

Joined Telkom: April 1993

Deon Fredericks was appointed as deputy to the chief financial officer in August 2011. He previously served as Telkom's acting chief financial officer, group executive of corporate finance accounting services, and as chief accountant from November 2004 to August 2010.

He originally joined Telkom in 1993 as a senior manager in internal audit and has held several executive positions in the finance department.

Mr Fredericks is a chartered accountant and holds a Bachelor of Commerce degree in Business Management with honours. He is also a member of the Chartered Institute of Management Accountants (UK).

## OUMA RASETHABA

BProc, LLB (Hons), Higher Diploma in  
Company Law, LLM

Chief of Regulatory and Corporate Affairs

Age: 52

Joined Telkom: February 2006

Advocate Ouma Rasethaba joined Telkom as group executive of Regulatory and Public Policy in 2006. She was later appointed as chief of corporate governance in November 2007.

Ms Rasethaba is also a former special director of Public Prosecutions at the National Prosecuting authority and has practised as an attorney and advocate.

She holds a LLB with honours and a higher diploma in Company Law.



**THAMI MSUBO**

BA (Economics & Administration) (Hons), MDP,  
MSc (Management Sciences)  
Chief of Human Resources

Age: 47

Joined Telkom: January 2011

Thami Msubo joined Telkom as chief of Human Resources in January 2011. He was previously chief of Human Resources, Corporate Affairs and Empowerment at Tata. Mr Msubo also has experience in transformation, business culture change, leadership development and organisational development.

He has held senior roles in HR, Corporate Affairs and Transformation in multinational companies abroad and locally in greenfield operations and established companies.

Mr Msubo has served as a member on the board of the World Association for Co-operative Education (WACE). He is former deputy chair of Business Against Crime (BAC), Northern KwaZulu-Natal branch.

Mr Msubo holds a Bachelor of Arts degree in Economics and Administration with honours, a Master of Science in Management Sciences. He also completed a Management Development Programme.

**BASHIER SALLIE**

MDP

Managing director: Wholesale and Networks

Age: 45

Joined Telkom: March 1986

Bashier Sallie spent most of his early tenure at Telkom in technology and network services. He was appointed managing director of Wholesale and Networks in May 2011. Bashier held various positions including senior managing executive for Wholesale and Networks since August 2009 and group executive for Information Technology from November 2007. Between January 2002 and October 2007, Mr. Sallie served in managing executive roles in Data and Special Services, Service Management and Field Operations. He also served as the Company's, acting chief technical officer from March 2007 to October 2007.

**BRIAN ARMSTRONG**

BSc (Engineering), MSc (Engineering), PhD

Chief operating officer

Age: 52

Joined Telkom: May 2011

Brian Armstrong was appointed managing director of Telkom Business in May 2011. In April this year he took on the role of chief operating officer. He previously served as senior managing executive for Enterprise Markets. Prior to joining Telkom, Dr Armstrong was vice president of British Telecoms (BT) for the Middle East and Africa (MEA) region. In this role, he had the responsibility to oversee and grow BT's activities across the region, extending from North Turkey through to Pakistan in the East and South Africa in the South.

With his 25 years' experience, Dr Armstrong has served in various positions including, director of the Division for Information and Communications Technology at CSIR and as managing director of AST Networks.

Dr Armstrong has experience in numerous industries, including ICT research and development, telecommunications, technology management, networking services and outsourcing.

He holds a Bachelor of Science degree, a Masters and a PhD in Engineering.

**MANELISA MAVUSO**

BEcon (Rhodes)

Managing director: Consumer Services and Retail

Age: 42

Joined Telkom: November 2009

Manelisa Mavuso was appointed senior managing executive: Consumer Services and Retail at Telkom in 2009, and subsequently appointed as managing director in May 2011.

He is the chairperson of the Brand Council and a trustee of Telkom Foundation. Prior to joining Telkom, Mr Mavuso was director: Marketing at Standard Bank South Africa, managing executive: Marketing at Nedbank Limited and deputy managing director at Ogilvy in Cape Town.

Mr Mavuso recently attended Strategic IQ at Harvard and holds a Bachelor of Commerce degree in Economics.

**ATTILA VITAI**

CA, MBA

Managing director: Telkom Mobile

Age: 57

Joined Telkom: November 2012

Attila Vitai was appointed managing director of Telkom Mobile on 14 November 2012. He has over 25 years' experience in the telecommunications industry. He worked at Vodafone from 1999 to 2006, initially as global commercial director, before moving to Hungary where as chief executive officer he set up and managed the operator. Thereafter he moved to Turkey as chief executive officer. Mr Vitai left Vodafone in 2008 to invest in a number of small technology companies in the UK, providing them with strategic and operations advice. During the same period he also consulted to the telecoms industry.

Mr Vitai also served as trustee of the Philharmonic Orchestra in London from 1992 to 1998 and chairman of the Hungarian Golf Federation from 2003 to 2006. He was appointed OBE in 2005 during which year he also received the Knight's Cross of Hungary for services to the telecommunications industry. Mr Vitai is a chartered accountant and holds an MBA.

# STAKEHOLDER ENGAGEMENT

The focus on stakeholder management has sharpened as the difficult prevailing economic conditions have highlighted the importance of stakeholder inclusivity and responsiveness in achieving strategic objectives.

As stated in the 2012 Integrated Report, we have embarked on a process to bolster our stakeholder engagements and processes. Feedback received on last year's stakeholder engagement section revealed a need for greater clarity around the value-add of stakeholder engagements and how it facilitates the achievement of strategic objectives.

Further areas of improvement as per the 2012 audit findings suggested that responses to stakeholder issues and concerns should be tracked, measured and reviewed at least every quarter and that the mitigating actions are continually assessed. A further recommendation to ensure greater robustness was to review the process followed by stakeholder owners to identify their stakeholders' issues.

A fully functional stakeholder management working group was introduced in 2013 and will be responsible for driving and monitoring our responsiveness to stakeholder issues and ensuring continuous assessment of the effectiveness of our responses to stakeholder issues.

Telkom is in the process of implementing an automated centralised stakeholder issues database that will enable a common view of material issues across the organisation, ease of monitoring and evaluation as well as reporting on stakeholder issues to various structures.

Improvements to stakeholder management reporting over the last financial year include linking a stakeholder

material issue to specific interventions and the separation of customer material issues so that each customer segment and the respective material issues are dealt with individually.

The 2013 financial year saw an exodus of Telkom board members when government exercised its rights as majority shareholder to elect a board that it believed could steer Telkom in the desired strategic direction. Immediate stability was brought about with the election of the new board members and chairman. Following the resignation of the GCEO, a new GCEO and chief operating officer were appointed on 1 April 2013. These appointments will further enable the achievement of top management's strategic objectives.

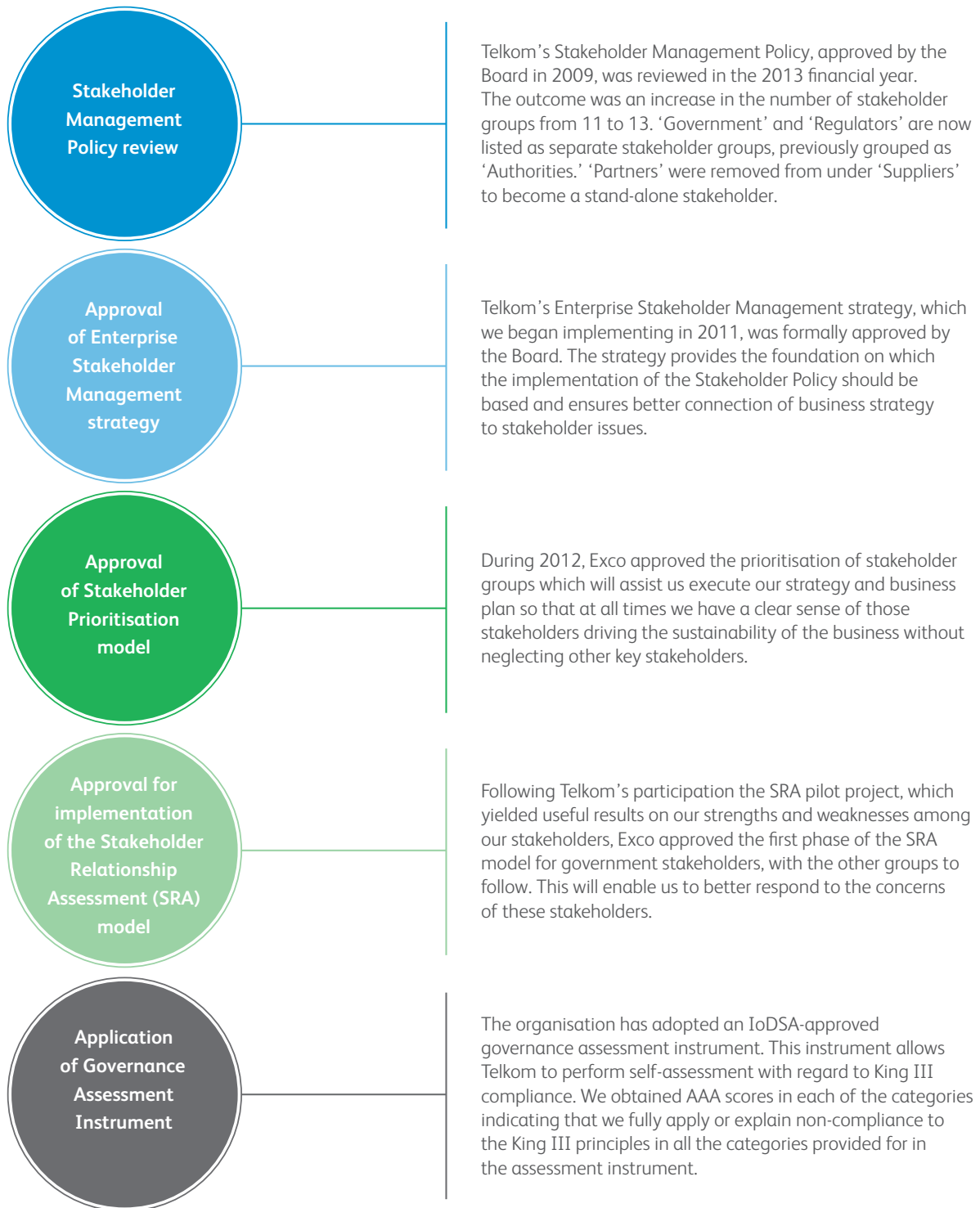
Owing to the changes that occurred at board level during the reporting year, there were no material issues from the recently appointed Board, however, the board effectiveness report highlights the concerns for 2013.

## STAKEHOLDER MANAGEMENT PROGRESS

Telkom has placed greater impetus on its approach to enterprise stakeholder management. The organisation has over the past few years focused on the alignment of its stakeholder relationships with its strategic objectives. Telkom has a dedicated unit that focuses strictly on stakeholder management and reports into the Social and Ethics Committee.



Below are the highlights of our stakeholder management journey for the 2013 financial year:



# STAKEHOLDER ENGAGEMENT

## MATERIAL ISSUES RAISED DURING THE 2013 FINANCIAL YEAR

Stakeholder	2013 Material issues	Telkom response	Method of engagement	Progress
<b>Enterprise business customers</b>	a. Lack of innovation	Telkom has a network transformation programme which will provide the Group with the latitude for product and service innovation.	<ul style="list-style-type: none"> <li>• Forums</li> <li>• One-on-one</li> <li>• Website</li> </ul>	<ul style="list-style-type: none"> <li>• Perceptions about overall products and services improved from 50% to 57%, according to our Customer Loyalty survey:                             <ul style="list-style-type: none"> <li>– Customers believe that Telkom products and services lack innovation.</li> <li>– Telkom products and services are reliable and add value.</li> </ul> </li> </ul>
	b. Lack of or insufficient communication	We are committed to improving our existing communication channels. Telkom is always seeking better methods to interact with customers, e.g. social media.	<ul style="list-style-type: none"> <li>• Electronic newsletters including products and services information to targeted customers</li> <li>• Presence on social media</li> <li>• Face-to-face interaction</li> <li>• Breakfasts</li> </ul>	<ul style="list-style-type: none"> <li>• 2013 Customer Loyalty survey shows critical improvement in customer satisfaction with our communication.</li> </ul>
	c. Inflexible products and services	Products and services are bundled to meet customer needs.	<ul style="list-style-type: none"> <li>• One-on-one</li> <li>• Ongoing engagement with account representatives</li> <li>• Improved products and services information</li> </ul>	<ul style="list-style-type: none"> <li>• The network upgrade will be accelerated over the next three years and will improve service delivery through:                             <ul style="list-style-type: none"> <li>– faster internet</li> <li>– easy connection</li> <li>– wireless services</li> <li>– cellular services</li> </ul> </li> </ul>
	d. Account management	Telkom has dedicated representatives for certain customer accounts.  An escalation process is also in place to assist with speedy resolution of customer queries.	<ul style="list-style-type: none"> <li>• Ongoing engagement with account representatives</li> </ul>	<ul style="list-style-type: none"> <li>• Overall satisfaction with account representatives improved from 64% in FY 2012 to 71% in FY2013.</li> </ul>
<b>Retail and consumer customers</b>	a. Customer experience, broadband, billing and communication	Telkom has a team in place to develop an operational plan to improve service delivery.  Best practice peer review.	<ul style="list-style-type: none"> <li>• Pinnacle magazine</li> <li>• One-on-one</li> <li>• MI survey</li> <li>• Customer perception study</li> </ul>	<ul style="list-style-type: none"> <li>• The operational plan is being developed and will be finalised in 2014.</li> </ul>



Stakeholder	2013 Material issues	Telkom response	Method of engagement	Progress
Wholesale customers	a. Products and services	Improvement of our products and services through technology and bundling. Telkom is transforming its technology to replace existing legacy technology with a view to improve its product and service offering.	<ul style="list-style-type: none"> <li>• Products and services information</li> <li>• Ongoing engagement with account managers</li> </ul>	<ul style="list-style-type: none"> <li>• Telkom has successfully undertaken the 20 Mbps and 40 Mbps broadband trial plans, which include locations and trial objectives. The project has focused on FTTx and high-speed DSL services.</li> </ul>
	b. Pricing	Legacy technologies inhibit our ability to reduce prices. The network transformation programme will assist us to provide greater value for money on products and services.	<ul style="list-style-type: none"> <li>• Products and services information</li> <li>• Email</li> <li>• One-on-one engagement</li> <li>• Ongoing engagement with account managers</li> </ul>	<ul style="list-style-type: none"> <li>• Customer satisfaction improvements of between 3% and 13% across all customer segments was achieved.</li> </ul>
Investors	a. Lack of clarity/alignment with government	Telkom is working with government to build a more positive, constructive relationship. More regular engagement with government will help achieve clarity around the role of Telkom in the broadband rollout and our ability to service developmental versus commercial objectives.	<ul style="list-style-type: none"> <li>• The chairman, GCEO and other Telkom executives and representatives interact with government on a regular basis</li> </ul>	<ul style="list-style-type: none"> <li>• Initial engagements with government have been positive.</li> <li>• Positive relationships with the GCEO and chairman.</li> <li>• Submission of national broadband proposal to government.</li> </ul>
	b. Operational concerns including historic track record of poor investment, high execution risk and a high cost base	A review of the group strategy is currently underway. Telkom is committed to reporting on delivery of operational performance against financial metrics, e.g. cost reduction.	<ul style="list-style-type: none"> <li>• One-on-one meetings</li> <li>• Conference calls</li> <li>• Attendance of conferences</li> </ul>	<ul style="list-style-type: none"> <li>• Feedback from investors has been positive regarding recent decision to impair legacy assets.</li> <li>• Details on the group strategy will be provided within the next 6 to 9 months.</li> </ul>

# STAKEHOLDER ENGAGEMENT

Stakeholder	2013 Material issues	Telkom response	Method of engagement	Progress
<b>Investors (continued)</b>	c. Risks associated with the mobile business: <ul style="list-style-type: none"> <li>– Telkom’s ability to fund and absorb the losses associated with a start-up business</li> <li>– Building a fourth mobile entrant in a mature, competitive market</li> </ul>	Currently reviewing the mobile business to de-risk the business case. Mobile is central to Telkom’s future and critical to the provision of converged solutions. Our focus on profitable segments of the market follows a niched approach.	<ul style="list-style-type: none"> <li>• One-on-one meetings</li> <li>• Conference calls</li> <li>• Attendance of conferences</li> <li>• Investor presentations</li> </ul>	<ul style="list-style-type: none"> <li>• An update on the Mobile business will be provided to the market once the Group strategy is finalised. This will be done in the next six to nine months.</li> </ul>
	d. Regulatory risks: competition fines, lack of sub-1,000 Ghz spectrum, LLU obligations, etc.	Telkom has taken the view to settle competition and other legal issues expediently where this is in the best interests of the Group. We aim to engage proactively with the Regulator on issues impacting the industry.	<ul style="list-style-type: none"> <li>• One-on-one meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Competition Commission fines settled.</li> <li>• ICASA has postponed LLU for re-assessment.</li> </ul>
<b>Government</b>	a. Achieving the rollout of broadband to all households by 2020	<p>Telkom will seek alignment with government to ensure that it fulfils its objectives as national incumbent.</p> <p>Telkom seeks to form a partnership with government on the commercial rollout of broadband.</p>	<ul style="list-style-type: none"> <li>• Participation in policy forums               <ul style="list-style-type: none"> <li>– Treasury’s market sounding</li> <li>– ICT and job competitiveness</li> </ul> </li> <li>• Vision 2020</li> <li>• Inputs and presentations on NDP</li> <li>• SIP15</li> <li>• ICT Panel Review Committee and its processes</li> <li>• Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• National broadband policy document submitted to government; awaiting feedback.</li> <li>• Ongoing engagement with relevant government bodies and stakeholders.</li> </ul>
	b. Strategy not aligned to government goals	Ongoing interaction with government in order to ensure better communication and alignment of objectives.	<ul style="list-style-type: none"> <li>• Meetings</li> </ul>	
<b>Regulators</b>	a. Rollout to underserved areas, particularly rural communities, at affordable prices	Promoting Telkom’s partnership with government.	<ul style="list-style-type: none"> <li>• Correspondence</li> <li>• Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Recent government documents show an understanding of the critical role Telkom can play in delivering telecoms solutions to under-served areas with support of government.</li> </ul>
	b. Quality of service	Legal challenge to regulations.	<ul style="list-style-type: none"> <li>• Correspondence</li> <li>• Meetings</li> </ul>	
	c. Increased spectrum licence fees	Co-operation with ICASA to reduce financial impact.	<ul style="list-style-type: none"> <li>• Correspondence</li> <li>• Meetings</li> </ul>	
	d. Local Loop sub-leasing (unused Loops)	This is a work in progress. Achieved postponement beyond November 2011.	<ul style="list-style-type: none"> <li>• Correspondence</li> <li>• Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Work in progress to find alternative solutions to LLU.</li> </ul>

Stakeholder	2013 Material issues	Telkom response	Method of engagement	Progress
Regulators (continued)	e. Charging for numbers	No action by ICASA.	<ul style="list-style-type: none"> <li>Correspondence</li> <li>Meetings</li> </ul>	<ul style="list-style-type: none"> <li>Work in progress.</li> </ul>
	f. Increased revenue from operating licence fees	Meeting with regulator on this issue.	<ul style="list-style-type: none"> <li>Formal submissions</li> <li>Correspondence</li> <li>Meetings</li> </ul>	
Employees	a. Ageing workforce	Started VSP, VERP and retrenchments. Telkom has performed a qualifications and skills audit. Currently implementing a strategic workforce plan.	<ul style="list-style-type: none"> <li>Intranet</li> <li>Performance management/one-on-one discussions</li> <li>Staff meetings</li> <li>CEO road shows</li> <li>Electronic Newsletter, T-News</li> <li>Online/Telkom Touch Magazine</li> <li>DMS/Skytrain</li> <li>Business Planning/ team building sessions</li> <li>Culture Values Assessment</li> <li>Employee Engagement Survey</li> </ul>	<ul style="list-style-type: none"> <li>The VSP and VERP will focus mainly on employees who have reached retirement age.</li> <li>The qualifications and skills audit will assist the Group align skills to organisational needs and identify gaps.</li> <li>These interventions are critical to the successful implementation of Telkom's strategic workforce plan.</li> </ul>
	b. Job insecurities	Employee skills development through certified SAQA-accredited training.	<ul style="list-style-type: none"> <li>Skills training programmes</li> <li>Conferences</li> <li>Workshops</li> </ul>	<ul style="list-style-type: none"> <li>Telkom provides internal and external skills development interventions that enable employees to grow into other areas of business where there are skills shortages.</li> <li>In 2012 financial year Telkom trained 4,414 employees on NGN related courses, while 6,329 employees were trained in the 2013 financial year.</li> </ul>
	c. Job creation	Shrinking revenues make it difficult for Telkom to make a contribution to the government's job creation agenda. Escalating labour costs erode profitability of the Group. Broadband rollout may assist in this regard.	<ul style="list-style-type: none"> <li>One-on-one with government</li> <li>Job forum</li> <li>Transformation forum</li> </ul>	<ul style="list-style-type: none"> <li>The current financial performance makes it difficult to create direct employment.</li> <li>Empowerment initiatives like bursary schemes, learnerships and supplier development programmes.</li> </ul>

# STAKEHOLDER ENGAGEMENT

Stakeholder	2013 Material issues	Telkom response	Method of engagement	Progress
<b>Employees (continued)</b>	d. Career development and planning; succession planning	New succession planning map approved. Rollout happening at Executive and senior management level.	<ul style="list-style-type: none"> <li>• Succession planning framework</li> </ul>	<ul style="list-style-type: none"> <li>• Telkom has career development and succession plans to enable the nurturing of talent, retention of critical skills and leadership development.</li> </ul>
<b>Organised Labour</b>	a. Telkom's role in transformation of society through universal service and access	Recognition of the need to balance financial and social aspects.	<ul style="list-style-type: none"> <li>• Forums</li> </ul>	<ul style="list-style-type: none"> <li>• Work in progress, with positive gains made in addressing inequalities and discrepancies in remuneration as well as ensuring a transformed environment.</li> </ul>
	b. Lack of trust by organised labour	Telkom engages with organised labour on an ongoing basis.	<ul style="list-style-type: none"> <li>• HR</li> <li>• Forums</li> </ul>	
	c. Matters relating to transformation, diversity, employment equity and skills development	National Equity and Development Transformation Forum address transformation and diversity. Gender and Disability Programmes target specific groupings. Telkom has appointed a company to assist in recruitment of persons with disability.  Programme on declaration of disability.	<ul style="list-style-type: none"> <li>• National Equity and Development Transformation Forum</li> </ul>	
<b>Media</b>	a. Lack of high-level executive on/off-the record engagement with media and Telkom GCEO/Exco team	Telkom has embarked on a high-level media engagement process for Telkom executives to improve accessibility and combat negative press.	<ul style="list-style-type: none"> <li>• One-on-one meetings</li> <li>• Media briefings</li> <li>• Press releases</li> </ul>	<ul style="list-style-type: none"> <li>• Renewed focus on engagements with the media will ensure that we report positively in new financial year.</li> <li>• Fair coverage of results and the legacy asset impairment among business and ICT media.</li> <li>• GCEO introductory media road show successfully executed.</li> </ul>
	b. Negative perceptions of Telkom in the media	We began a structured programme to introduce new GCEO to key media audiences.		



Stakeholder	2013 Material issues	Telkom response	Method of engagement	Progress
Suppliers	a. Cost containment	Cost of doing business is monitored to ensure that the total cost of procuring or sourcing goods is not exceeded.	<ul style="list-style-type: none"> <li>Email</li> </ul>	<ul style="list-style-type: none"> <li>Telkom scored 2.80, while the benchmark supplier average is 3.30.</li> <li>Telkom will identify drivers of cost-to-serve like multiple contracts, guaranteed rush delivery, and fines.</li> <li>Voice of Supplier report.</li> </ul>
	b. Relationship	Telkom has commodity managers responsible for managing relationships with suppliers.	<ul style="list-style-type: none"> <li>Email</li> </ul>	<ul style="list-style-type: none"> <li>Telkom scored 3.08, while the benchmark supplier average is 3.87.</li> <li>Telkom will build awareness around the concept of 'customer of choice' through various initiatives including assessment of customer profitability and improving forecast accuracy.</li> <li>Voice of Supplier report.</li> </ul>
	c. Project management	Telkom seeks to improve the procurement cycle time. This will assist to contain the total cost procuring or sourcing goods.	<ul style="list-style-type: none"> <li>Email</li> </ul>	<ul style="list-style-type: none"> <li>Telkom scored 3.05, while the benchmark supplier average is 3.59.</li> <li>Accurate forecasting has been identified as an area for improvement.</li> <li>Voice of Supplier report.</li> </ul>
Business partners	a. Lack of clarity whether Telkom is pursuing a commercial or social mandate	We are engaging government with a view to aligning its commercial and social agenda.	<ul style="list-style-type: none"> <li>One-on-one</li> <li>Meetings</li> </ul>	<ul style="list-style-type: none"> <li>The review of the Telkom strategy by the new Board and GCEO will provide a new perspective and clarity on mobile strategy.</li> </ul>
	b. The logic behind Telkom Mobile and 8•ta as two mobile brands	The brands are aimed at different mobile segments.		
	c. The viability of Telkom Mobile	Telkom continuously reviews the mobile business case to ensure viability.		

# STAKEHOLDER ENGAGEMENT

Stakeholder	2013 Material issues	Telkom response	Method of engagement	Progress
Opinion makers	a. Lack of continuity with regards to the GCEO of the company	Telkom has appointed the new GCEO and the COO. This will assist in ensuring continuity.	<ul style="list-style-type: none"> <li>• AGM</li> <li>• GCEO road shows</li> <li>• Analyst presentations</li> </ul>	<ul style="list-style-type: none"> <li>• Engagements with government on Telkom's role in ICT aspiration will address issues of influence.</li> </ul>
	b. The influence of government on Telkom	Telkom is engaging with government with a view to aligning expectations.	<ul style="list-style-type: none"> <li>• One-on-one</li> <li>• Meetings</li> </ul>	
Civil society	a. Lack of access to funding	Telkom Foundation has a policy which clearly articulates areas of focus.	<ul style="list-style-type: none"> <li>• Email</li> <li>• Evaluation of proposals</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewed engagements with civil society to determine inroads made and the work by Telkom Foundation continues to yield positive results.</li> </ul>
Competitors	Local loop unbundling	Telkom is engaging relevant authorities in the sector on this matter	<ul style="list-style-type: none"> <li>• Submissions</li> <li>• Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Engagements with Authority are ongoing</li> </ul>
	Telkom is seen as monopolistic	Telkom is not a significant market leader	<ul style="list-style-type: none"> <li>• Meetings</li> </ul>	

# PEOPLE AND THE ENVIRONMENT

- OUR PEOPLE
- OCCUPATIONAL HEALTH AND SAFETY
- EMPOWERMENT
- PROCUREMENT AND SUPPLY CHAIN
- CSI AND VALUE TO SOCIETY
- ENVIRONMENTAL MANAGEMENT
- PRODUCT RESPONSIBILITY
- GRI INDEX



# OUR PEOPLE

The Telkom Group identified four strategic human resource objectives for the 2013 financial year: developing leaders and catalysing change; transforming skills; creating a high performance culture; and human capital rebalancing.

The key challenges in achieving these objectives are:

- Ensuring that Telkom has a culturally diverse and adequately skilled workforce to deliver on its strategy;
- The development and implementation of skills development programmes that keep pace with technological evolution;
- Managing trends including an ageing workforce and transformation; and
- Ensuring a sustainable leadership pipeline.

Telkom's ability to deliver on its strategy rests not only on staying abreast of evolving technologies, but also on ensuring that the utilisation of these technologies is optimised to provide the best products to its customers. Achieving this rests heavily on the ability of Telkom's

people to deploy and manage technology. Our employees are therefore a key enabler of our strategy.

We believe that driving transformation and developing of our workforce is essential to create the corporate culture and values associated with a high performing company. The Group's entropy levels are tracked on a yearly basis to monitor the impact of a changing corporate culture on our performance. The entropy level fell from 30% to 25% in the year under review, indicating that the current culture is shifting in the desired direction.

Another key material issue for Telkom is the development and implementation of skills development programmes that remain relevant to constant technological evolution. Telkom has undertaken to provide staff with the requisite training for its NGN technology, and to address the broader skills shortage within the ICT sector. On a permanent employee base of 21,209, a total of 92,751 facilitator-led training days were delivered. This means that some employees completed more than one day of training during the financial year.

## Staff per business unit

Telkom currently operate seven business units, supported by the Corporate Support Centre. The headcount per business unit is shown below:

Business unit	2013	2012
Corporate Centre	1,785	1,791
Networks and Wholesale	14,115	14,265
Telkom Business	837	821
Consumer Services and Retail	3,378	3,144
Telkom Mobile	480	355
Telkom Data Centre Operation	603	538
Telkom International	11	25
<b>Total</b>	<b>21,209</b>	20,939

Table: Number of permanent staff per business unit.

## Strategic workforce and cost planning

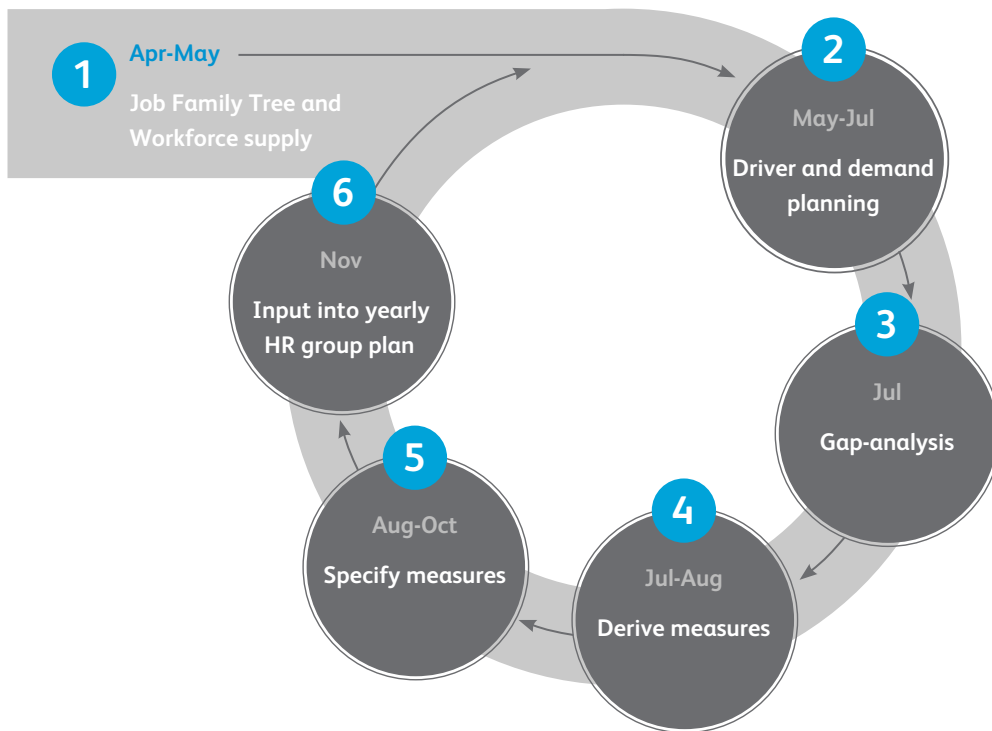
The Strategic Workforce and Cost Planning (SWCP) methodology uses the group strategy as the point of departure to identify the gap between our current workforce and future needs. As a result of international trends affecting traditional fixed line operators (e.g. flat/declining revenue due to increased competition, migration of voice to mobile, commoditisation of voice, growth in

data and the need for high-speed networks) our workforce needs are declining. However, we endeavour to minimise the impact of this on our employees and thus commenced with a voluntary separation offer to employees towards the end of the 2013 financial year.

The SWCP process and methodology is repeated annually as illustrated in the update cycle on the following page:



GRI



#### HOW SWCP INFORMS BUSINESS AND BUDGET DECISIONS

The result of this process is a solid indication of workforce requirements that allows us to plan accordingly. Strategic workforce planning helps to achieve the transparency needed to facilitate the development of detailed, measurable initiatives that inform budget requirements. These initiatives are incorporated into the group business plans.

#### WORKFORCE MOVEMENTS

Description	2009	2010	2011	2012	2013
<b>Opening balance</b>	24,879	23,520	23,247	22,884	<b>20,939</b>
<b>Employee gains</b>	1,047	592	439	435	<b>915</b>
Appointments	1,034	584	428	428	<b>906</b>
Re-instatement	13	8	11	7	<b>9</b>
<b>Employee losses</b>	2,406	865	802	2,380	<b>645</b>
Voluntary reduction (employee initiated)	10	1	191	1,873	<b>(#)55</b>
Early retirement	5	1	110	1,013	<b>49</b>
Severance	5	0	81	860	<b>6</b>
Natural attrition	2,396	863	611	507	<b>590</b>
<b>Closing balance</b>	23,520	23,247	22,884	20,939	<b>21,209</b>
Other employees*	4,307	3,557	2,550	3,028	<b>2,938</b>
<b>Total headcount</b>	27,827	26,804	25,434	23,967	<b>24,147</b>

Table: Staff trends at Telkom: 2009 – 2013.

\* Refers to contract or temporary employees but excludes board members, learnerships and bursary students (Telkom SA employees only).

(#) Employee retrenchments took place more specifically in the manual exchange environment where it has been phased out.

# OUR PEOPLE

## EMPLOYEE TRENDS IN SUBSIDIARIES

Description	Trudon	Swiftnet
<b>Opening balance</b>	<b>520</b>	<b>107</b>
<b>Employee gains</b>	<b>69</b>	<b>29</b>
Appointments	69	29
<b>Employee losses</b>	<b>80</b>	<b>23</b>
Employee retrenchments (employee initiated)	3	0
Natural attrition	77	23
<b>Closing balance</b>	<b>509</b>	<b>113</b>
Other employees	22	49
<b>Total headcount</b>	<b>531</b>	<b>162</b>



Please refer to the full sustainability review online for workforce demographics, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

### Culture revitalisation

Culture revitalisation across the Group was identified as a priority in our transformation process. The Barrett Culture Tools and transformation process are being used to advance the Group to a value-based performance culture. Following the 2009 Culture Values Assessment (CVA), five core values – Continuous performance improvement, Honesty, Accountability, Respect and Teamwork (CHART) – were identified.

Employees then identified five desired behaviours associated with each of the core values. Interventions to entrench these new values and the associated behaviours were then put into place through the use of an online awareness tool, workshops, discussion sessions, and cultural fit assessments.

### ENTROPY

Entropy is the identification of non-productive or limiting aspects of Telkom's organisational culture. It is encouraging that the level of entropy decreased by 5% to 25% in the year under review. An entropy level of 10% is regarded as healthy.

Companies with highly engaged employees usually have low levels of cultural entropy that, in turn, results in:

- Improved financial performance;
- High levels of customer satisfaction; and
- Improved overall company performance.

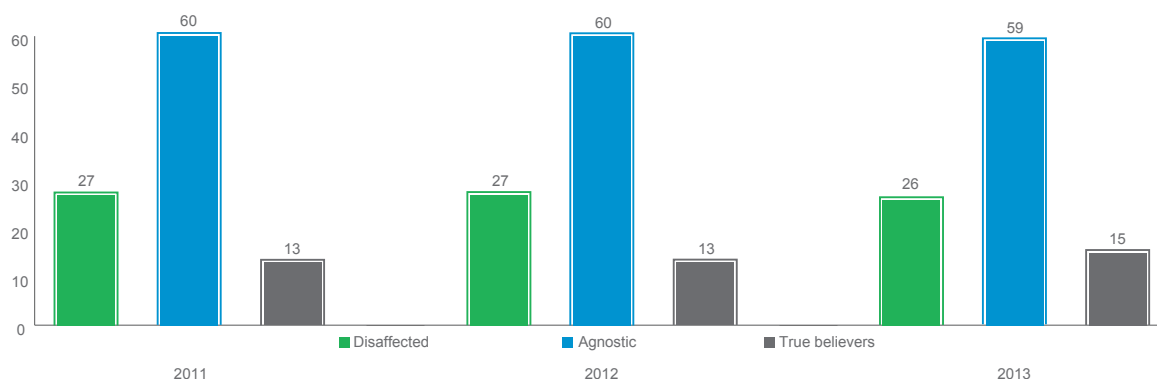


Diagram: entropy levels for the Group.

## Diversity and transformation

We were able to positively influence the Group's workforce demographics during the financial year.

### Status of workforce demographics at 31 March 2013 – Telkom SA

Grades	Black		White		Foreign nationals		Grand Total	Black	Female
	Male	Female	Male	Female	Male	Female		Total	Total
Top management	3 38%	2 25%	2 25%	0 0%	1 13%	0 0%	8	5 63%	2 25%
Senior management	51 35%	26 18%	56 38%	13 9%	0 0%	0 0%	146	77 53%	39 27%
Middle management	858 34%	347 14%	968 39%	294 12%	20 1%	6 0%	2,493	1,205 48%	647 26%
Junior management	8,066 46%	3,679 21%	4,228 24%	1,528 9%	24 0%	2 0%	17,527	11,745 67%	5,209 30%
Operational	302 30%	395 39%	71 7%	236 23%	0 0%	1 0%	1,005	697 69%	632 63%
Support	11 37%	16 53%	1 3%	1 3%	1 3%	0 0%	30	27 90%	17 57%
Total	9,291 44%	4,465 21%	5,326 25%	2,072 10%	46 0%	9 0%	21,209	13,756 65%	6,546 31%



Please refer to the full sustainability review online for employment equity statistics, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

## Performance management

All employees undergo regular performance assessments. This is a process that involves regular feedback and review sessions, which provide performance and development plans.

A short-term incentive plan to reward the achievement of group and business unit performance targets has been in place for a number of years. In addition, we embarked on a process to develop a differentiated reward model, which is intended to link remuneration to market related salaries and also differentiate pay based on performance.

For more information refer to the remuneration report commencing on page 126 of this report.

**TALENT, TRAINING AND RETENTION MANAGEMENT**  
During the financial year, R255 million (2012: R245 million) was invested in training.

We recently completed the first phase of the installation and commissioning of a new training network. This dedicated training network is a protected simulated learning environment that poses very limited security risks to the production network. This network will enable high-quality training at a significantly lower cost than would be possible through the use of external vendors.



GRI

# OUR PEOPLE

Levels	Permanent employees (31 March 2013)	Facilitator led training days	Average training days
Top management	8	1	0.1
Senior management	146	35	0.2
Middle management	2,493	7,234	3.0
Junior management	17,527	21,170	1.2
Operational	1,005	64,302	63.8
Support	30	9	0.3
<b>Total</b>	<b>21,209</b>	<b>92,751</b>	<b>4.4</b>
Training days per employment category		Trudon	Swiftnet
Management		3.56	4.20
Specialists		8.48	0.63
Operational		3.32	1.69

Table: Comparison of training days (Telkom SA only)

## Executive leadership development

The development of a sustainable leadership pipeline is critical to Telkom's continuity from a human capital perspective. This has become increasingly pertinent to the organisation following the resignations of senior leaders during the 2013 financial year.

A revised succession planning process was implemented in April 2012. A phased implementation approach was followed, commencing with succession planning for the GCEO and Exco roles. Further to this, we have identified frontline leadership and critical skills positions to ensure that successors are identified and developed for those specific areas of the business.



Please refer to the full sustainability review for more information on people development, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

### IMPACT OF THE NGNEC ROLLOUT

To ensure staff are prepared for the migration to an IP network, we commenced training of field staff in NGN skills to facilitate a smooth transition from legacy technology in which they were trained and to which they are accustomed. Since February 2012, 1,267 candidates were trained, amounting to 6,335 training days. Training is planned in a just-in-time manner to occur alongside the planned network rollout over the next three years.

### PROGRAMMES FOR SKILLS MANAGEMENT AND LIFELONG LEARNING

#### CENTRE OF EXCELLENCE PROGRAMME

This is a collaborative programme between Telkom, academia, the telecommunications industry and government to promote research in communication technology and associated sciences. Sixteen Centres of Excellence have been established across the country,

making it the largest co-ordinated research effort in ICT in South Africa. Telkom participates in this collaborative programme by granting full-time bursars the opportunity to continue their studies and research via the Telkom Centre of Excellence programme. At present there are 34 individuals conducting research at the various Centres of Excellence.

In addition, Telkom provides sponsorship to three universities (University of KwaZulu-Natal, North West University and the University of Limpopo). This commitment assists previously disadvantaged students who fail to meet the university entrance requirements in gaining eligibility to study engineering via the bridging programme.

Please refer to the full sustainability review online for information on graduate development schemes, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)



## Change management

Telkom carried out various change management initiatives over the past year at the individual, group and organisational level to ensure business projects and initiatives are implemented successfully. Examples are the implementation of shared services and customer experience projects as well as other initiatives prompted by technological, structural and system changes. These change initiatives help employees to deal with and understand change.

Telkom established a change management philosophy, methodology, process and tools based on the Prosci's Change Management Model.



GRI



## Employee relations

The table below records the percentage of employees covered by collective bargaining agreements.

Type of employees	Union	Total	%
Bargaining unit	CWU	7,161	38.58
	S.A.C.U.	3,819	20.57
	Solidarity	2,880	15.52
	No union	4,702	25.33
Bargaining unit total		18,562	100.00
Management	CWU	201	7.59
	S.A.C.U.	275	10.39
	Solidarity	194	7.33
	No union	1,977	74.69
Management total		2,647	100.00
<b>Grand total</b>		<b>21,209</b>	

Table: union membership as at 31 March 2013



Please refer to the full sustainability review online for Telkom's consultative framework, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

### LOST DAYS DUE TO INDUSTRIAL ACTION

In December 2012, 56 man-days were lost as a result of the Cosatu organised e-toll strike. Man-days are counted on an individual employee basis, meaning that 56 employees went on strike for one day.

# OCCUPATIONAL HEALTH AND SAFETY

Telkom has implemented occupational safety as a cross-disciplinary responsibility protecting the safety of employees at work, as well as the safety of co-workers, family members, customers, service providers, nearby communities and other members of public who are also affected. Over the past few years Telkom has introduced many campaigns, policies, procedures and programmes to prevent Occupational Health and Safety (OHS) related incidents.

During this reporting period, our health programmes focused on a reduction in healthcare costs and absenteeism. This resulted in improved productivity and contributed towards the creation of a more supportive and sustainable working environment. OHS also seeks to assist employees making choices that facilitate work-life balance and a more sustainable workforce.



Please refer to the full sustainability review online for information on meeting GRI LA7 and LA8, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

Telkom has education, training, counselling, prevention, and risk-control programmes in place to assist employees, their direct dependents and contract workers with serious diseases. Telkom believes that employees who are physically and emotionally well, and have a positive and committed attitude, are more motivated to achieve business success.

This, in turn, can greatly influence productivity, which is a key aspect in ensuring the sustainability of our business.

It is therefore the objective of Telkom's Thuso HIV/AIDS and Wellness Workplace programme to keep employees healthy. This is accomplished by highlighting the importance of good health through education and regular screening. The programme also assists employees that are already at risk of developing chronic lifestyle conditions to adapt their lifestyles.

The Thuso HIV/AIDS programme is in place across Telkom's South African operations to educate, train, counsel, prevent, and manage the risk of employees contracting serious diseases.

The programme includes:

- A series of wellness days that aim to:
  - Educate and provide information concerning healthy living and prevention of serious diseases including HIV/AIDS, tuberculosis, PSA (prostate antigen screening test), high blood pressure, obesity, type II diabetes, high cholesterol and cardiac conditions.
- On-site health risk assessments covering HIV, tuberculosis, diabetes, cholesterol, blood pressure and body mass index (BMI):
  - In the reporting period, 5,903 employees (3,621 in 2012) were tested for HIV and 6,455 employees (3,952 in 2012) participated in the on-site wellness screenings.
  - The number of employees and dependants tested for HIV since the programme's inception in 2004 is 37,930 and the actual HIV tested prevalence rate for all those tested is 3.21 %.

- The Thuso 24-hour medical call centre provides counselling, care and support to Telkom employees and their immediate dependants in relation to any health matter, including HIV/AIDS and tuberculosis treatment. The call centre is staffed by qualified medical professionals that can assist individuals in any health matter.

As part of our education and awareness strategy, the Thuso Workplace Programme is included in Telkom's induction programme for all newly appointed or recently promoted employees to educate them about its objectives, roles and benefits.

Telkom's HIV/AIDS prevention strategy includes a nationwide free condom dispensing programme.

In addition, the Telkom Foundation provides funding to a number of programmes that have education, training, counselling, prevention, and risk-control programmes in place to assist communities with serious diseases, primarily HIV/AIDS. The total Telkom Foundation spend on programmes that address serious diseases amounts to R1,435,100 (total Telkom Foundation spend is R42 million for the financial year).

Please refer to the full sustainability review online for details on the above mentioned programmes, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)



## WORKPLACE SAFETY

Telkom's OHS management system is OHSAS 18001 certified and aligned to the Telkom Health and Safety Policy (OHSP). Telkom has a detailed OHS policy which takes a holistic approach towards ensuring overall compliance with the legal requirements of the Occupational Health and Safety Act (OHS Act), 85 of 1993. To maintain compliance with applicable legislation and the Telkom OHSP, it is imperative that Telkom initiates OHS performance targets which drive a more specific approach in managing certain identified legal requirements and emerging statistical trends. The OHS performance targets are reviewed periodically to address any current OHS needs. The respective service organisations within the Group ensure the implementation and achievement of the Telkom OHS performance targets on a quarterly basis. The safety, health and environment (SHE) management division monitors these targets accordingly and provides support where intervention is required.

During this reporting cycle, internal OHS legal compliance audits were carried out on operational managers to determine a baseline compliance rating for the Group. The methodology used during the audit programme took a slightly different approach whereby the audit team utilised each individual audit session to identify compliance gaps and to coach, train and support line managers immediately. The response from line management indicated that the exercise was extremely well received.

The ultimate goal of this exercise is to maintain an overall compliance rating of at least 85% and to improve the incident frequency rate of 2.66 per 100 employees and a lost time incident frequency rate of 1.42 per 100 employees. This will ultimately contribute to an improved lost time and productivity performance for the Group.

Please refer to the full sustainability review online for information on Telkom's OHS performance targets, [www.telkom.co.za/ir](http://www.telkom.co.za/ir)



As stipulated in the OHS Act and associated ISO 18001 Standard, periodic reviews of a company's performance against the requirements of the OHS Act are imperative in determining overall compliance and effectiveness of the OHS management system. The audits incorporated an assessment of OHS compliance and achievement towards the Telkom OHS performance targets as listed above.

During this reporting period a stratified sample of 492 operational managers was audited. The findings of the collective audits yielded an 82% compliance rating, an improvement of 3% when compared with last year's performance results.

### OVERALL OHS COMPLIANCE AND TELKOM SHE PERFORMANCE TARGETS

An overall compliance rating of 82% indicates that Telkom is committed to ensuring the health and safety of its employees. The quality of Telkom's OHS document management system website also demonstrates its support towards assisting both the employer and employees by providing online access to methods, procedures, guidelines, policies and the necessary forms to successfully implement a sustainable OHS management system.

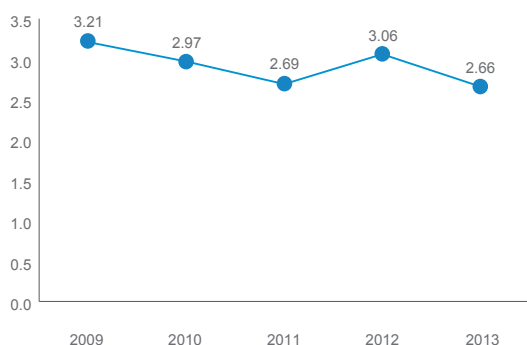
### SECTION 16(2) ASSIGNEES TRAINED

During the 2013 financial year, 53 selected executive management employees were appointed as Section 16(2)'s by the GCEO to assist with the requirements of the OHS Act. The Section 16(2) appointees have undergone formal training provided by an external training institution.

In the period under review, the Incident Frequency Rate (IFR) improved by 13%, while the Lost Time Frequency Rate (LTIFR) experienced only a marginal improvement. The Group aims to maintain an LTIFR below 1.5 and to improve IFR to below 2.5. Data excludes Trudon and Swiftnet.

IOD description	2009	2010	2011	2012	2013
Bitten by dog	44	49	43	35	39
Fall/trip/slipped/from ladder	295	292	255	273	248
Insect stings	60	43	28	46	31
Struck by object/against	210	120	126	129	135
Lifting/pushing	65	82	77	84	62
Vehicle accident	117	112	103	96	65

Table: injuries on duty (IOD) 2009 to 2013



Graph: incident frequency rate

The newly appointed Telkom GCEO will undertake to appoint designated Section 16(2)'s executives to assist with the implementation of his OHS Act mandate in the next period. Further training opportunities will be provided to ensure compliance.

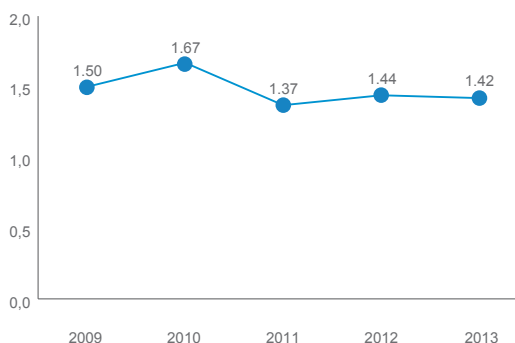
### Injuries on duty (IOD)

It is with deep regret that we report that two Telkom employees lost their lives as a result of a vehicle accident. The Telkom board and executive management extend their condolences to the employees' families and colleagues. Through Telkom's Retirement Fund the necessary financial support to the families of the deceased, as per rules of the fund, was made available and bereavement support was also offered through the Company's Employment Assistance programme. Their names and details are recorded below:

Name	Region	Cause of fatality
CP Phenya	North Eastern region	Vehicle accident
MP Swarts	North Eastern region	Vehicle accident

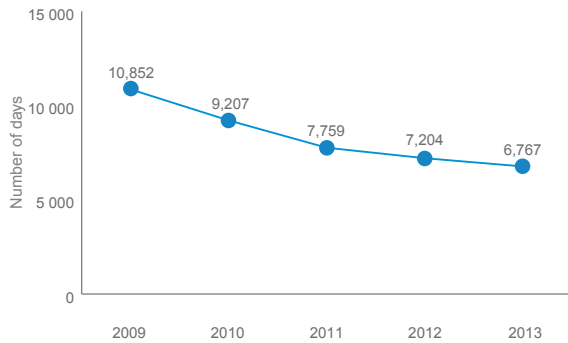
No fatality on duty is acceptable and Telkom will continue to work with all employees, unions and stakeholders to reduce the number of fatalities to zero.

The following tables and graphs exclude Trudon and Swiftnet:

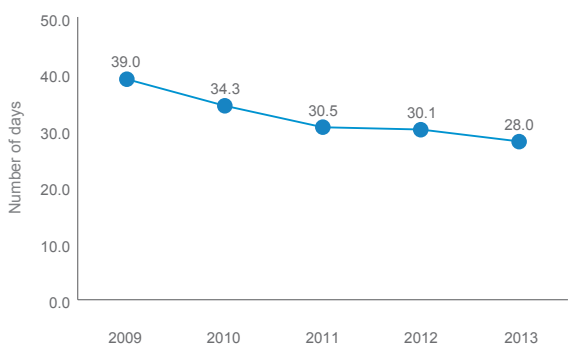


Graph: lost time incident frequency rate

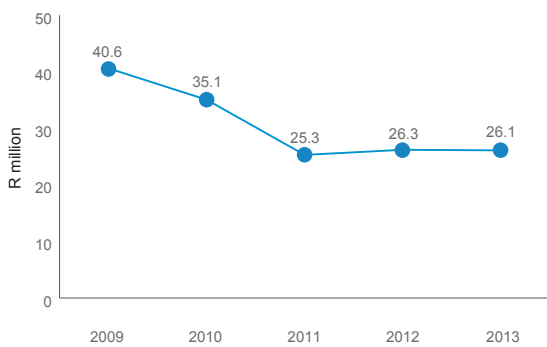
# OCCUPATIONAL HEALTH AND SAFETY



Graph: number of lost days as a result of IOD



Graph: number of lost days per 100 employees



Graph: IOD costs (Rm)

Over the past five years we have observed a significant reduction in the number of days lost as a result of incidents on duty (28%) and in days lost per 100 employees (39%).

This resulted in a 3.8% decrease in the total cost-to-company of incidents on duty.

Fall injuries are the leading cause of IOD at Telkom. Our challenge will be to drive behavioural change to reduce the incident rate further.

## OCCUPATIONAL HEALTH MEDICAL SURVEILLANCE PROGRAMME

The purpose of Telkom's Medical Surveillance programme is to identify medical conditions that could lead to an occupational disease. Risk based medical surveillance fit-for-duty medicals are conducted at the following intervals:

- Pre-placement;
- Periodic/transfer;
- Return to work after injury or prolonged illness; and
- Exiting employment at Telkom.

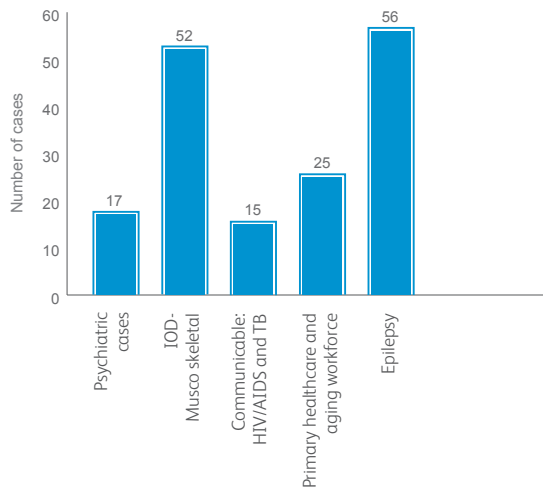
The following information is taken into consideration when determining the type of medical surveillance programme required:

- The type of work an employee is performing;
- Duration of the task;
- The materials being used; and
- The potential for exposure.

The specific test results and other medical information revealed through testing are confidential and stays between the employee and the occupational medicine practitioner.

## Clinical case management

A total of 165 cases were seen by our occupational medical practitioner between April 2012 and March 2013. The graph on the following page illustrates the most prevalent diagnoses of clinical case referrals in the 2013 financial year:



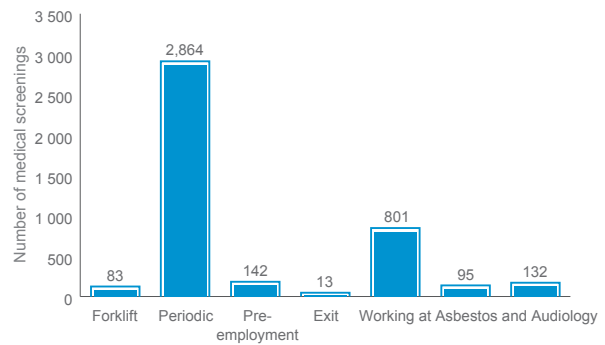
Graph: Clinical Case Management: 165 cases

Medical surveillance, or screening, is a statutory requirement. Medical screening takes place at timed intervals that are determined by risk based criteria to ensure that employees are medically fit to perform their inherent duties and are not subjected to health hazards. This demonstrates preventative action being taken to avert future incidents. The frequency of the medical surveillance is based on the applicable laws and regulations as well as determined by Telkom's occupational medical practitioner. Thus, not all employees will be screened in terms of medical surveillance during the course of any given year; this will also depend largely on an employee's risk profile.

The following different types of medical screening are performed on site by occupational health practitioners:

- Pre-employment;
- Working-at-height medicals (mast and towers);
- Periodic medicals, which include medical screening for occupational diseases (depending on the risk exposure, the frequency can vary from annually to every two years);
- Exit medicals;
- Transfer (departmental) medicals;
- Forklift medical screening;
- Audio screening (call centre environments) as a result of exposure to sound levels that exceed an eight-hour time weighted average of 85 dBA – initial baseline exam);
- Biological monitoring – Lead exposure; and
- Asbestos – AR:9.

A total of 4,130 medical examinations were performed in the different risk categories during the year.



Graph: types of medical screening for the period April 2012 to March 2013

The table below indicates the medical screening trends at Telkom:

Trends	Concerns
Obesity	Weighing above 110kg – no weight management programme enforced
Hypertension	Uncontrolled, defaulters and lack of follow-up to ensure the effective management of the condition
Psychological problems	Employees using anti-depressant without follow-up care from the treating doctors and Telkom OMP
Diabetes	Type II and insulin-dependent – lack of follow-up and monitoring of employees suffering from diabetes. Programme is important for all climbers and drivers
Ageing workforce with chronic medical problems	Above 50-year olds allowed to climb masts and towers
No enforcement of medical recommendations by OHP	Line managers seem to not be taking responsibility for ensuring that employees with medical condition adhere to recommendations

**EXPOSURE TO HAZARDOUS SUBSTANCE AND ELECTRO-MAGNETIC FREQUENCY (EMF) RADIATION**  
 Telkom has an extensive EMF radiation exposure prevention programme in place to protect employees and communities at risk of exposure. All radiation zones on Telkom premises are demarcated to warn employees.

A further mitigating action put in place is to switch off power before employees enter these danger zones.

# OCCUPATIONAL HEALTH AND SAFETY

Telkom also has a well-defined audit programme in place which audits radiation patterns to ensure third parties are not be affected by Telkom's EMF operations. Readings are taken annually and stored on a database for future reference. Where third parties have raised concerns, new tests are taken and the results reported back to the concerned party via Telkom's Legal Services. There were no reported cases of EMF radiation levels exceeding the prescribed limits as per the International Commission on Non-Ionising Radiation Protection (ICNIRP) specification.

## Occupational hygiene

### SURVEY PROCESS

Occupational hygiene surveys were conducted as part of Telkom's responsibility to provide a healthy and safe working environment.

Three types of surveys are conducted as part of our programme:

1. *Ad hoc* – These surveys are requested by Telkom employees or health and safety representatives. Telkom's service provider call centre is contacted directly to conduct surveys including: temperature, dust, illumination, water and diesel fumes surveys.
2. *Scheduled surveys* – Buildings are identified and a list is sent to Telkom's service provider. The service provider contracts the appointed vendors to conduct these scheduled surveys, which include: Indoor Air Quality (IAQ), water, and temperature surveys.
3. *Pre and Post-surveys* – These surveys are conducted as part of the service providers' statutory contract with Telkom. These are performed prior to the relocation of employees or construction of a building, and then again after the employees have been relocated.

The following types of surveys are conducted by Approved Inspection Authorities:

Type of survey	Description
<b>IAQ</b> <ul style="list-style-type: none"> <li>• Carbon dioxide</li> <li>• Carbon monoxide</li> <li>• Relative humidity</li> <li>• Air temperature</li> <li>• Volatile organic compounds</li> </ul>	<p>The main purpose of the survey is to:</p> <ul style="list-style-type: none"> <li>• Quantify employee exposures to specific occupational health hazards; and</li> <li>• Comprehensively assess the risks associated with all significant occupational health hazards to which employees are exposed as a result of their work.</li> </ul>
<b>Water</b> <ul style="list-style-type: none"> <li>• Water quality: pH, turbidity and total dissolved solids</li> <li>• Macro determinants: chloride</li> <li>• Micro determinants: iron</li> <li>• Bacteriological limits: ecoli</li> </ul>	<p>The main purpose of the survey is to:</p> <ul style="list-style-type: none"> <li>• Determine the quality of the drinking water supplied to Telkom employees;</li> <li>• Evaluate and check whether the distribution system performs correctly; and</li> <li>• Propose the necessary recommendations to ensure compliance to statutory requirements.</li> </ul> <p>Water samples are analysed by a SANAS accredited Micro Laboratory and according to SANS 241 –1 and 2:2011 (Edition 1).</p>
<b>Illumination</b> <ul style="list-style-type: none"> <li>• Lux levels</li> </ul>	<p>The main purpose of this survey is to:</p> <ul style="list-style-type: none"> <li>• Assess the lighting levels in accordance with the schedule as stipulated in the Environmental Regulations for Workplaces under the OHS Act, 85 of 1993.</li> </ul>
<b>Ergonomics</b>	<p>The goal of ergonomics is to:</p> <ul style="list-style-type: none"> <li>• Create an environment that is well-suited to a user's physical needs; and</li> <li>• Ensure compliance to the OHS Act, 85 of 1993.</li> </ul>
<b>Noise</b>	<p>The main purpose of this survey is to:</p> <ul style="list-style-type: none"> <li>• Assess whether noise levels emitted at a source exceeds exposure limits in accordance with the OHS Act, 85 of 1993, as well as recommended SANS Standards; and</li> <li>• Prevent hearing impairment by proactively identifying excessive exposure.</li> </ul>

Most of the parameters tested for by these surveys were within acceptable levels, apart from the turbidity levels for some of the water quality surveys that were conducted. However, elevated turbidity levels do not make water unsafe for human consumption.

Corrective action is being taken to resolve the material non-compliance issues identified through these surveys.

**THUSO HIV/AIDS AND WELLNESS WORKPLACE PROGRAMME**

Telkom's Thuso HIV/AIDS and Wellness Workplace programme is a comprehensive and holistic programme which provides assistance at no cost to permanent employees and immediate families as well as contractors. The programme initiated in 2004 is regarded as one of the flagship initiatives in the Employee Wellness and SHE domain as well as the Telkom employee value proposition. It encapsulates Telkom's wellness philosophy to care for and support its employees.

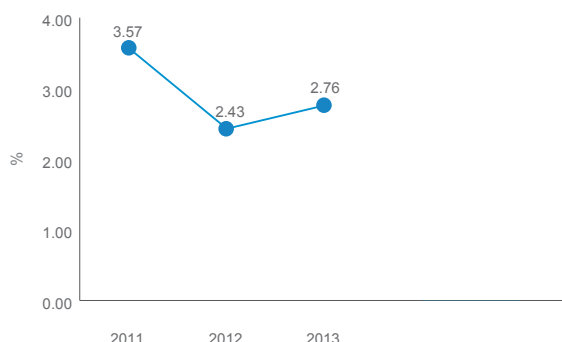
The Thuso value offering has been designed to measure lifestyle factors across inter-related health risk areas (diabetes, cholesterol, blood pressure and BMI as well as HIV, TB and PSA). These on-site health risk assessments are offered during on-site Wellness Days to all employees, their families and contract workers.

Through these interventions certain high cost, high risk conditions are identified and managed by providing employees access to care, counselling and treatment through the Thuso Employee Wellness and HIV/AIDS Workplace programme. In addition to these services, health data is collected from voluntary participants in the annual Telkom Lifestyle Survey and evaluation of the programme is done through regular monthly reporting on the outcomes of the programmes, as well as an Annual Absenteeism Analysis and a KAP Survey amongst the recipients of the services of the Thuso programme.

During the year under review 6,455 employees participated in the on-site wellness events (an increase of 2,503 employees from the previous year).

**HIV/AIDS AND TUBERCULOSIS WORKPLACE PROGRAMME**

Since its inception in 2004, the Telkom Thuso Programme has touched the lives of 37,173 individuals who submitted to voluntary HIV testing. During the year under review 5,862 employees (5,311 permanent employees and



Graph: employee HIV tested prevalence rate

The above graph excludes Trudon and Swiftnet

551 contractors) were tested with 162 employees (139 permanent employees and 23 contractors) testing HIV positive. This equates to a HIV Tested Prevalence of 2.76% for permanent and contractor employees combined and 2.61% for permanent employees and 4.17% for contractors.

The combined HIV Tested Prevalence rate is illustrated in the graph and although there has been a slight rise from 2.4% to 2.7% since last year the general trend is decreasing, with more employees being tested in this financial year compared to the two previous years.

**TUBERCULOSIS SCREENING**

All employees that undergo Wellness Screening also undergo tuberculosis (TB) risk screening. Individuals that are at risk of having TB are referred for TB diagnosis and treatment.

6,347 employees (5,733 permanent and 614 contractors) were screened of which 95.75% reported no symptoms of TB. 3.54% of individuals screened reported one or more symptoms and 0.20% reported receiving TB treatment.

These percentages have remained stable since 2009 with a minimum of 95% of Telkom employees reporting no TB symptoms.

**TREATMENT PROGRAMME**

The Thuso programme's comprehensive value offering also includes pathological laboratory testing, individual clinical case management via the Thuso 24/7 Call Centre, screening, treatment of opportunistic infections such as TB and H1N1, post-exposure prophylaxis, mother-to-child transmission, psychological counselling, and the provision of nutritional supplements and drugs to an address of choice, which is what makes it so successful. This service offering is extended to spouses, partners, and dependent children who are regarded as immediate family. These services are available, at no cost, to Telkom permanent and contract and temporary employees.

Highly Active Antiretroviral Therapy (HAART) treatment is offered to those individuals registered on the Thuso Programme with a CD4 count of below 350 cells/ml, which is in line with the governmental and non-governmental organisation (NGO) norms.

Treatment profile of individuals	Number
<b>Total number of individuals on Thuso programme</b>	<b>765</b>
<b>Number of individuals receiving treatment through Thuso</b>	<b>425</b>
Number of individuals on Pre-HAART*	165
Number of individuals on HAART	258
Number of individuals on PMTCT	2
Number of individuals on PEP	0
<b>Number of individuals that have stopped their anti-retrovirals</b>	<b>0</b>
<b>Number of individuals receiving treatment through other programmes</b>	<b>236</b>
<b>Number of individuals not yet on treatment</b>	<b>104</b>

\* HAART refers to highly active anti-retroviral treatment

# OCCUPATIONAL HEALTH AND SAFETY

The successful Thuso Post-Exposure Prophylaxis (PEP) programme provides 24-hour assistance via the call centre for people with any HIV risk exposure, such as rape or condom bursts. Individuals that become exposed have immediate access to the clinical call centre for advice and support and referrals for HIV testing, and starter packs for prophylaxis. We are proud to report that through this intervention we have had zero HIV transmissions since its inception.

We are also able to report that our extensive counselling provided to pregnant HIV-positive women on prevention of mother-to-child transmission has ensured that, since the programme's inception, no HIV positive babies have been born.

## EDUCATION

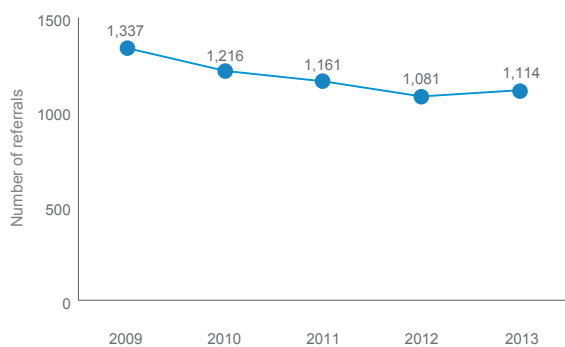
Condom distribution is an important component of any HIV/AIDS prevention strategy and, as such, forms part of our workplace prevention programme. For the year under review we distributed 2,157,502 condoms nationally, which is an increase of 1,903,215 from the previous cycle.

## EMPLOYEE WELLNESS PROGRAMME

Telkom hosts a series of Wellness Days across its operations on a regular basis. During the year under review, we also targeted specific functional units and regional sites with the objective of providing business-specific health profiles. The regional sites included remote or rural sites (less than 10 employees) that could not previously be reached due to distance and cost. These employees were afforded the opportunity to participate in the Thuso programme through the service of locally based medical practitioners.

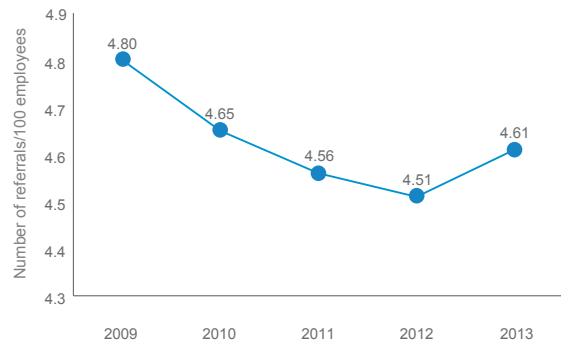
Employees are also able to participate in Telkom's annual Lifestyle Survey, which focuses on issues such as alcohol consumption, smoking, physical activity, stress and chronic diseases.

## EMPLOYEE ASSISTANCE PROGRAMME (EAP)



Graph: EAP referrals

The above graph excludes Trudon and Swiftnet



Graph: EAP/100 employees

The above graph excludes Trudon and Swiftnet

Telkom provides psychological care and support to its employees and their families to help them deal with personal, family and work related psycho-social problems, and to optimise psychological wellbeing. Research indicates a positive correlation between psycho-social wellness and productivity, and therefore demonstrates the strategic importance of the EAP as a management tool.

Numerous factors can influence the psycho-social well-being of an individual. In the past year, high levels of personal stress, marital and family difficulties, depression and finances were among the problems that were referred to the EAP for care and support. Employees experiencing trauma caused by hijacking, robberies, accidents and other crises were also referred to the EAP for counselling and therapy. These are the main causes for the rise in EAP referrals for this reporting cycle.

During the 2013 financial year, 983 individual and 131 group counselling requests were received. On average, 93 referrals were recorded each month. A total of 3,896 individual sessions were conducted at a cost of R2,115,440 for the period. As in the previous financial year, the majority of the referred cases were crises and trauma related (27%), while 21.5% were attributed to marital and family related challenges.

Due to the sensitivity of many cases (medical conditions, personal finances, unwillingness to indicate the kind of problems experienced) 30.6% of the referrals did not specify the reason for the request for counselling.

Psychological problems such as stress, anxiety and depression made up a further 12.7% of the referrals received by the EAP office. Poor performance, absenteeism and incapacity accounted for a further 5.6% of the referrals and the remaining 2.6% were for substance abuse and other psycho-social related issues.



Network Field Operations (36.8%), Customer Services (9.1%), Network Infrastructure Provisioning (7.5%), Network Core Operations (6.4%), Consumer Markets (4%) and Telkom Direct Shops (3.8%) were the predominant users of Telkom's EAP services.

The EAP is not only responsible for the psychological care and support of its employees, but also strives to equip them with the necessary competencies to counteract the stresses and strains of daily living. Financial and stress management workshops, as well as psychological resilience and work-life balance interventions, were conducted as preventative and enabling interventions during the past year.

# EMPOWERMENT

At Telkom, our commitment to Broad-Based Black Economic Empowerment (B-BBEE) goes beyond transforming the organisation’s culture and staff profile. Through our business dealings, our procurement and our engagement with stakeholders, we aim to promote a sustainable empowerment process that benefits South Africa and the ICT sector as a whole.

We are certified as a level 3 B-BBEE contributor by the National Empowerment Rating Agency. Recognition as a value-added supplier ensures that our clients and customers can recognise 137.5% of all procurement spent with us.

The categories listed below show how we scored against our transformation objectives over the 2013 financial year.

Employment equity, skills development and preferential procurement targets have been set at business unit level – Telkom South Africa, Telkom International, Data Centre Operations and the Corporate Centre. All targets are monitored monthly at business unit level and quarterly at group level via an internally-developed BEE system across all B-BBEE ownership scorecard elements.

## Telkom Group B-BBEE sustainability performance

ELEMENT	Weighting score for 2012		Score for 2013
Ownership	20	5.19	<b>4.64</b>
Management control	10	11	<b>11</b>
Employment equity	10	5.52	<b>5.81</b>
Skills development	17	10.64	<b>8.08</b>
Preferential procurement development	20	23.90	<b>24.46</b>
Enterprise development	11	11	<b>11</b>
Socio-economic development	12	12	<b>12</b>

The Telkom subsidiaries, Trudon and Swiftnet, achieved level 5 and level 6 contributor statuses, respectively. Telkom will continue to work with the management teams of both companies to support their efforts in improving their overall scores going forward.

### Ownership points

Ownership						
Achievable	Achieved					2013
	2008	2009	2010	2011	2012	
20	7.24	15.39	6.37	5.39	5.19	<b>4.64</b>

Our equity ownership contribution declined marginally from 5.19 points in 2012 to 4.64 points in 2013 as a result of share dealing by black beneficiaries holding Telkom shares, directly or indirectly.

### Management control points

Management control						
Achievable	Achieved					2013
	2008	2009	2010	2011	2012	
10	11	9.63	9.13	10.83	11	<b>11</b>

Telkom has maintained its score of 11 points on the management control element.

## Employment equity points

Employment equity						
Achievable	Achieved					2013
	2008	2009	2010	2011	2012	
15	7.86	9.41	9.97	10.17	5.52	5.81

Our employment equity performance for 2013 improved to 5.81 points, from 5.52 points in 2012 as a result of increased recruitment at middle management level as well as a marginal improvement in the female to male employee ratio at this level. We will continue to focus on these areas while particular attention will need to be placed on the disabled employee category as we continued to score poorly in this area.

## Skills development points

Skills development						
Achievable	Achieved					2013
	2008	2009	2010	2011	2012	
15	10.48	9.36	9.65	10.41	10.64	8.08

Our skills development score has deteriorated from 10.64 points in 2012 to 8.08 points in 2013.

## Enterprise developments points

Enterprise development						
Achievable	Achieved					2013*
	2008	2009	2010	2011	2012*	
15	0	5.3	15	15	11	11

\*ICT Sector Code

We maintained a maximum score of 11 points for enterprise development, spending a total of R119 million on enterprise development initiatives during the 2013 financial year. This equated to enterprise development spend of 7.97% of net profit after tax against a target of 5% net profit after tax (NPAT) in line with ICT Sector Code. For more details refer to Procurement and supply chain section on pages 91 to 95.

## Preferential procurement points

Preferential procurement						
Achievable	Achieved					2013*
	2008	2009	2010	2011	2012*	
20	18.19	19.2	19.67	19.79	23.90	24.46

\*ICT Sector Code

We were very pleased to record that our consistently high score on the preferential procurement element of the scorecard improved from 23.9 points to 24.46 points out of a possible 20 (excluding the bonus points). Telkom performed exceptionally well in this area during this reporting period. For more details refer to Procurement and supply chain section on pages 91 to 95.

# EMPOWERMENT

## Socio-economic development points

Socio-economic development						
Achievable	Achieved					
	2008	2009	2010	2011	2012	2013
5	3.6	5	5	5	12	12

We maintained our maximum score in the socio-economic development category. The Telkom Foundation spent a total of R42 million on CSI projects in 2013. This equated to socio-economic spend of 2.57% of net profit after tax against a target of 1.5%. For more details see the CSI and value to society section on pages 96 and 97.

Telkom's commitment to transformation is exemplified by the continued efforts to further our contribution to the country's socio-economic objectives by improving our contribution level. Telkom has an approved B-BBEE policy and implementation plan which guides our transformation journey. In the 2013 reporting year, Telkom aimed to achieve a level 3 contributor status, which was determined by continuous benchmarking against competitors and companies across various industries.

Numerous changes to the B-BBEE legislative environment surfaced during the current reporting period. The Information Communication and Technology (ICT) Sector Codes were gazetted in June 2012 and were made applicable with immediate effect. Telkom was measured against the ICT Sector Code and achieved a level 3 B-BBEE rating for the 2013 financial period. The ICT Sector Codes enforce higher targets for the ownership, employment equity, skills development and preferential procurement elements with which Telkom must comply.

Telkom's challenges remain the ownership, employment equity and skills development elements. Through various stakeholder engagements, research and benchmarking, we are continuously finding ideas to minimise some of our transformation challenges.

We continue to excel in our management control, preferential procurement, enterprise development and socio-economic development elements as we were able to achieve 76.98 points on the scorecard.

In October 2012, the Department of Trade and Industry launched the proposed amended Codes of Good Practice for public comment. Telkom, like many other companies, assessed its standings against the proposed changes.

### Going forward

We will continue to engage with internal and external stakeholders on issues relating to Telkom's transformation and underperformance in certain areas within the B-BBEE scorecard. We remain intent on maintaining or improving our high scores in all other categories.

The changing legislative environment poses significant challenges to compliance but also brings about opportunities for transformation. Our implementation plan will be reviewed and updated as needed to suit the current environment and to ensure that our targets and action plans for the 2014 financial period are achievable.

# PROCUREMENT AND SUPPLY CHAIN

During the year under review, Telkom Group including subsidiaries Trudon and Swifnet has spent a total of R21.3 billion on the procurement of capital items, goods and services. Telkom remained committed to upholding solid corporate governance in terms of fair, transparent, responsible and accountable tendering processes, which ensured that, where appropriate, tender requests were published weekly on our tender bulletin on the Telkom website. During the past year we launched a stand alone e-sourcing/auction platform, which resulted in more competitive bidding, improved efficiencies as well as a reduction in the use of paper as part of the administrative process.

With the exception of requests for quotations (RFQs) and emergency purchases, in the majority of cases the tender process is initiated at business unit level where the specification of goods or services required are formulated. The most suitable sourcing processes are determined by subject matter specialists from whom the appropriate pre-qualification criteria, high-level criteria and associated weightings are set by the Subject Matter Expert Evaluation Team (SMEET). Prior to publication, a recommendation to publish is channelled to the relevant Category Sourcing Team (CST) for their support before being approved by the Group Procurement Council (GPC). The evaluation process is fully aligned to and meets the requirements of the Preferential Procurement Policy Framework Act (PPPFA).

Upon receipt of the tender responses the SMEET compile a shortlist of potential suppliers based upon the evaluation of the pre-qualification criteria. A suitable recommendation to short-list and proceed with full paper evaluations is submitted to both the CST and the GPC for approval prior to proceeding with final evaluation. Following the selection of the successful bid or bidders, a recommendation to award is made to the CST, GPC and other designated authority for their support and approval in terms of the Telkom delegation of authority. The subject matter specialists debrief the unsuccessful bidders in order to address any concerns regarding their responses to the tender.

During the period under review there were approximately 8,000 trade vendors on the Telkom database. The number of active contracts was in the order of 600.

## Engaging with suppliers and building their capacity

To ensure continuity in delivery, pricing and quality throughout the supply chain, Telkom interacts with its supplier base to improve performance through collaboration and discussion of operational issues. Such collaboration is designed to better anticipate challenges and manage supply chain risks.

On a quarterly basis Telkom's procurement services department evaluates the performance of the top 40 to 50 suppliers (based on strategic importance and spend volumes) in terms of their delivery, quality and Black Economic Empowerment. A full assessment of late deliveries is performed and suppliers are engaged to resolve any operational issues. Penalties for non-delivery or late delivery are consistently imposed to ensure on-time delivery is achieved. Telkom has aligned its payment policies for procurement to enable quicker payments to Exempted

Micro Enterprise (EME)/Qualifying Small Enterprise (QSE) suppliers. During the period under review, payment was made within 10 days of receipt of invoice to 88% of active Black EME/QSE suppliers.

Where possible, Telkom seeks to diversify supplier risk by using at least two suppliers for critical network related products. Where diversified risk is not required, measures are put in place to encourage the entrance of new, preferably local, suppliers into the market. For this purpose, Telkom offers regular training for potential local suppliers. We also hold annual supplier engagement sessions aimed at resolving technical issues with mainly medium-spend suppliers. Telkom also trains and educates suppliers in SHE issues as well as supplier quality requirements associated with doing business with Telkom.

Among the topics addressed with our suppliers during the various feedback sessions and general engagement are:

- Timely delivery;
- E-auctions and their impact;
- Litigation issues;
- Guidance on ethical business practices;
- Correct and timely payments;
- Strategic partnerships and B-BBEE compliance;
- Guidance on procurement governance issues;
- Supplier development with specific focus on quality assurance through a programme called PCR (process controlled release); and
- Telkom's supplier code of conduct.

In line with the Group's broader developmental mandate Telkom continues to expand its implementation of BEE commitment plans to ensure that our suppliers are contracted on all seven pillars of B-BBEE aspects to achieve meaningful transformation in the industry.

In order to transform Telkom's procurement services into a world class operation, various memberships with international and local bodies are in place. These assist in ensuring that opportunities such as category management are brought to the fore and fully utilised.

## Preferential procurement: a tool for economic transformation

Preferential Procurement is one of the main elements on the B-BBEE scorecard driving transformation in organisations. This element has a weight of 20 points on the B-BBEE scorecard (ICT codes), excluding six available bonus points. Over the past decade, Telkom has demonstrated best practice in the area of Preferential Procurement, creating a new generation of pioneering black businesses in the country's ICT sector.

During the 2013 financial year, Telkom procured R4,602 million from black-owned companies, equating to 27.89%, R1,746 million from QSE/EME companies, R925 million from black female-owned companies and R14,463 million from B-BBEE compliant companies, this amounts to 87.66% of the Group's total measured procurement spend.

# PROCUREMENT AND SUPPLY CHAIN

Telkom is pleased to record that a consistently high score on the Preferential Procurement element of the scorecard of 18.46 points out of a possible 20 (excluding the bonus points) was achieved. Telkom performed exceptionally well during this reporting period, achieving a total Preferential Procurement score of 24.46 points, inclusive of bonus points. This is an achievement that few South African companies could match. During the 2013 financial year Telkom procured 82.97% of all goods and services locally compared to 82.53% in 2012.

Years	Local Procurement %	International Procurement %	Total %
2013	82.97	17.03	100.00
2012	82.53	17.47	100.00

## Enterprise development: core to social engineering

A key pillar of Telkom’s preferential procurement strategy is the creation of world-class black-owned companies. This requires strong partnerships and commitment to create sustainable enterprises by continuously building the capacity of its black suppliers through multiple Enterprise Development Initiatives. For Telkom, supplier development is part of our development mandate to encourage black production, stimulate the growth of small and medium enterprises, create jobs and provide critical ICT intensive skills for the economy. It is a transformative tool intended to stimulate economic and social development in a broad

context. We seek to shift procurement from established companies and bring new players into our supply chain. This is a long-term sustainable strategy that embraces the principles of economic growth and development. Furthermore, in line with the country’s macro economic objective to increase employment, Telkom encourages multinational suppliers to partner with local black suppliers. These partnerships will lead to job creation and an improvement in the country’s GDP.

Telkom maintained a maximum score of 11 points for Enterprise Development, spending a total of R119 million on Enterprise Development initiatives during the 2013 financial year. Telkom initiated various supplier development initiatives to ensure sustainability of Black Qualifying Small Enterprises (QSE) and Exempt Micro Enterprise (EME) through:

- Five days early payment after presentation of the correct invoice;
- Sponsoring of 20 leading Black QSE/EME suppliers to exhibit their products and services at the Smart Procurement, Enterprise Development Expo 2012;
- Regional Information Sessions “Empowering Business with Success Basics”;
- Launch of ICT incubation programme facilitated by The Bandwidth Barn;
- Free professional Supplier Quality Management support;
- Entrepreneurial and technical training;
- Financial and professional support to Delta Florist.



## CASE STUDY: SIBONGILE SECURITY SERVICES

Two trailblazers illustrate the benefits of this approach. In an inspiring story of personal transformation, Sibongile Mphilo, a black female entrepreneur has progressed from petrol attendant to security-mogul-in-the-making in one decade. Along the way, this Telkom supplier has also transformed the lives of the more than 1,000 people that she employs.

In 2002, Mphilo registered a company, Sibongile Security Services, using the money she received from tips to rent a small office in Polokwane. Her break came when she was awarded a six-month contract at the Sekhukhune Magistrate's office. Other contracts followed. By 2004, she was well-established in Polokwane and was awarded a large contract by the Department of Education. She then established an office in the North West and sourced work in the province.

As the company grew she opened an office in Pretoria in 2008, and was awarded a tender at the South Africa Social Security Agency. "As the year progressed, I decided to open offices in other provinces. I used the company profits to pay the rent of the new offices and to employ administrators to do marketing. Deciding to expand nationally was a huge risk financially as most of the profits went to operating costs and travelling to different provinces. This meant many nights sleeping in a car as I did not have the funds to pay for accommodation," she says.

Her success in a male-dominated industry was met with disbelief by competitors who accused her of being a front for major security

companies. "This motivated us to work even harder and learn as much as we could to prove we are capable of running a successful security business; one that is even better than the male-owned companies," she says.

The hard work paid off in 2011 when Sibongile Security Services was awarded a contract by Telkom. "Very soon we discovered that this would not be like any other contract we had. The Telkom team wanted to develop our company into a more professionally managed and well-equipped business, not just with infrastructure but also knowledge and experience," Mphilo says.

New challenges followed after she landed the Telkom contract. The contract required a huge capital outlay. Banks refused to provide loans for vehicles, uniforms and equipment such as control rooms and firearms. "Eventually, the Telkom team helped us and the banks were able to provide the loans. Today we have 50 cars and 150 firearms," she says. In the first year, Telkom assisted Sibongile Security Services to develop and implement a quality management system that is ISO 9001:2008 compliant. Sibongile Security Services has graduated from being an Exempt Micro Enterprise (EME – companies with turnover of less than R5 million) to Large Black supplier (LBS – company with a turnover of over R35 million) within a period of less than two years! She is ploughing back to the communities by using some of her proceeds from Telkom's contracts as part of her socio-economic development initiatives.



# PROCUREMENT AND SUPPLY CHAIN

## CASE STUDY: TELECOM SOUTHERN NETWORKING (PTY) LIMITED

A further success story is that of Telecom Southern Networking (Pty) Limited (TSN) under the leadership of Stan Sibeko, which provides a classic case study in social entrepreneurship, combining the principles of entrepreneurship with those of economic development.

TSN provides ICT services such as HDSL and Wi-Fi network installation to various clients including Telkom, Mustek, Central Johannesburg College, Mangosuthu University of Technology and the Customs service of the Democratic Republic of Congo (DRC). Since 1997, TSN has had a contract with Telkom to supply HDSL/HSDSL. But the TSN team is not motivated by profit alone. TSN invests its profits into Right Entry, an innovative Midrand community based electronics school which Telkom once sponsored in 2010.





## TELKOM SHOWCASES BLACK-OWNED SUPPLIERS AT ENTERPRISE DEVELOPMENT EXPO 2012

Telkom sponsored 20 of its leading black suppliers to exhibit their products and services at the Enterprise Development Expo 2012, held in Midrand in November. These suppliers are involved in areas such as installation and maintenance services, network technologies, IT services and security.

While the Enterprise Development Expo was an opportunity for these suppliers to gain valuable exposure to other large South African organisations by networking with their peers, it held multiple benefits for Telkom as well:

- Telkom was able to showcase its preferential procurement strategy and its leading black-owned suppliers;
- The expenditure on the Expo contributed towards the Enterprise Development element of Telkom's B-BBEE scorecard; and
- The Expo provided Telkom with an opportunity to market its Telkom Business offering to all the attending suppliers and procurement professionals.

Telkom has also taken out a one-year subscription for each supplier on the Supply Chain Network e-portal. This means that their contact information will be at the fingertips of many more South African companies over the coming year. Telkom's procurement team will utilise the e-portal to gain access to verified company profiles, which will assist in increasing the pool of Black QSE/EME and black female-owned companies in all sectors.

The feedback from the suppliers chosen for the Expo has been enthusiastic:

"We made use of every minute we spent on the exhibition floor to market ourselves. Our interaction with fellow exhibitors has re-ignited our passion and drive to cooperate with each other on projects and share expertise," said Lesedi Rakgokong, MD of Puisano Telecom, which supplies Telkom and others with specialised ICT services.

"Your initiative has certainly helped us in marketing our company and opening us up to new opportunities. Even as I write this letter, we are already processing an order from one of the other companies hosted by Telkom," said Buti Kgobisa, CEO of AFT Optiroad, a supplier of microducting technology to terrestrial telecommunications companies operators in the country.

Over the next few years, Telkom will be addressing a number of continuing challenges in the area of B-BBEE within the ICT Sector.

## COMPLIANCE

During the reporting period Telkom formed the Supplier Code of Conduct, which is to be applied when engaging with suppliers. The code will be implemented by the Procurement division once it has gained approval from Exco. All suppliers are required to adhere to the code through our annual supplier commitment plans. The Procurement division will monitor and compile progress reports on supplier Code of Conduct commitment. Any matters identified on non-conformance with the code will be referred to TARPS or the Ethics office. Telkom encourages external surveys to be conducted in order to test adherence to the Code.

The Procurement Services Policy serves as a standard for Telkom as and when goods and/or services are procured. This includes requirements for consultancy services and the sourcing of competitive bids in relation to possible joint ventures or partnerships. Subject to Telkom's Delegation of Authority, the policy applies to all Telkom employees and/or end-users that participate and/or are involved in the procurement of goods and/or services.

Bidding companies are obliged to comply with all applicable occupational health and safety and environmental management legislation and corresponding regulations in terms of all tenders. Bidders are required to complete the necessary statement of compliance relating to the relevant policy, procedure and legislation.

The quality of goods and/or services to be supplied and/or rendered by the bidders may be benchmarked against the standard as required by Telkom and the bidder will be graded accordingly. Telkom is committed to the promotion of the principles of B-BBEE when procuring goods and/or services. Bidders are evaluated in accordance with the applicable and relevant Telkom policies, for example the Preferential Procurement Policy.

Procurement Services supports local businesses in the supply chain through a deliberate and committed effort toward promoting the purchase of locally manufactured goods and services where available and practical. In cases where the supply of goods is deemed vital to production, dual supply strategies are adopted around local suppliers in order to ensure continuity and least cost. The spending against these suppliers fluctuates in accordance with their ability to deliver. Monthly spend reports provide an indication of the total spend between local and international suppliers.

# CSI AND VALUE TO SOCIETY

We are able to fulfil our commitment responsible corporate citizenship through the Telkom Foundation. The Foundation is responsible for the implementation of Telkom's CSI initiatives across the country. Telkom believes in going beyond the selling of products and services to communities by caring for their needs and investing in them as well. Our initiatives provide sustainable development solutions to community challenges, and in building communities for future generations.

The initiatives implemented by the Foundation are in line with government imperatives of Broad-Based Black Economic Empowerment which promotes social responsibility to previously disadvantaged communities. Through the Foundation, Telkom is able to create awareness around the importance of corporate social responsibility among employees, clients, suppliers and communities at large.

Telkom is committed to the development of sustainable programmes aimed at equipping communities with key skills, knowledge and resources. The main objectives are to address social inequalities and provide access to the previously disadvantaged. Within these objectives, the core focus areas are education, community relief programmes (health and poverty alleviation) and strategic development of community entrepreneurs.

## FOCUS AREAS

In considering the needs of communities and government priorities, the Telkom Foundation committed to making a contribution to sustainable development in the following focus areas: education, entrepreneurship, social development, and staff volunteerism.

### Socio-economic landscape

Department of Basic Education statistics revealed that the 2011 national percentages of grade 3 learners who did not achieve the minimum scores in literacy and numeracy were 53% and 66%, respectively. Only 30% and 34% of students achieved a pass rate of 40% and above for Maths and Science, respectively, in the 2011 National Senior Certificate examination. These results signal major challenges regarding the quality of teaching and learning in schools.

The unemployment rate was reported at more than 20% in 2011 with over 50% represented by 17 to 25 year olds, including graduates. The number of people living in need and in receipt of government grants in 2011 was 15 million out of a population of 52 million. The affected communities also required support through community based organisations.

### Initiatives

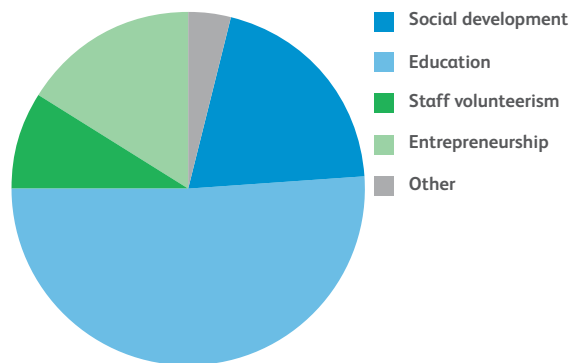
To contribute toward the improvement in the quality of teaching and learning, the Telkom Foundation partnered with the Department of Basic Education, various non-profit organisations and schools to implement learner and teacher development programmes. Learner interventions focused on providing extra tuition in maths, science, and literacy and on improving access to educational resources, with a strong focus on ICT. Teacher development focused on improving content knowledge, pedagogics, mentorship and ICT.

The Foundation also contributed to job creation initiatives for youth and women by providing entrepreneurial training to unemployed youth, aspiring entrepreneurs, women and unemployed graduates. This training and mentorship initiative was rolled out in Gauteng, Free State and the Northern Cape.

The Foundation contributed to social development and health through its Social Development and Staff Volunteerism programmes. The Foundation was able to partner and provide funding support to organisations working in the fields of home based care, orphans and vulnerable children, terminal illnesses, disability, income generation and welfare.

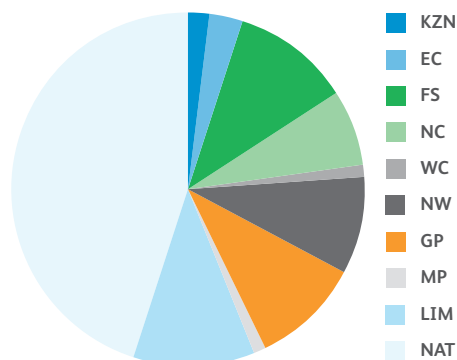
### Spend by focus area

R42 million was spent on projects during the 2013 financial year and the breakdown per focus area is shown below:



### Spend by province

The Telkom Foundation has a national footprint and the financial contribution in each province is shown below based on a total spend of R42 million:



### Project highlights

#### EDUCATION

**Educator Mentorship and Development Programme**  
The Educator Mentorship and Development Programme (EMDP) is a partnership between the Telkom Foundation and the Central University of Technology (CUT) to develop, empower and mentor educators in science, technology, english



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and mathematics (STEM). The EMDP consists of training and mentorship for 25 STEM educators in three primary schools in Mangaung in the Free State province. The EMDP utilises retired educators to provide critical support that enhances the quality of teaching and learning. The programme will enter its final year in 2013 and continues to stimulate the interest of learners in subjects and careers within the fields of ICT.

#### Schools Connectivity

The Telkom Foundation is in partnership with the Department of Basic Education to enhance the quality of teaching and learning in rural schools through the provision of computers and interactive boards. The Telkom Foundation has donated computers and Internet connectivity to more than 700 schools, with more schools being added to the list every year. In 2011, 45 schools were provided with full computer labs and in 2012, 21 schools were provided with full labs and more than 60 schools were given interactive white board packages. All the schools that have received full computer labs have also been provided with furniture for the ICT laboratories. In addition, as of 2011, each school that has received ICT equipment has also been offered an opportunity for training on computer literacy for two teachers.

#### Partnership with Mindset Network

To maximise the use of the ICT labs, Telkom Foundation works with its partners to provide content that is relevant and aligned to the curriculum. As part of the schools connectivity project, the Foundation partnered with Mindset Network, a non-profit organisation that specialises in digital content to install satellite dishes and digital equipment with content to 45 schools in five provinces. The content is purely on Maths and Science.

#### Multi-grades Mobile Units

The Telkom Foundation, through its partnership with the Department of Basic Education, implemented the ICT and Literacy Mobile Units project to assist 50 multi-grade schools in Limpopo, Eastern Cape, KwaZulu-Natal, Mpumalanga and North West provinces. This project provided multi-grade classrooms with a mobile trolley fitted with laptops, books, LCD TV, DVD and educational materials and content.

#### Rally to Read

To contribute to improving literacy, the Foundation partnered with Read Educational Trust and Bidvest in the Rally to Read programme which provides literacy resources and educator training to rural disadvantaged schools across South Africa. The main target for the project is Grade R and other Foundation grades. The Rally to Read programme has reached over 37,000 learners. The Foundation is the sole sponsor of the programme in the Limpopo province and supports 14 schools in the Vhembe district, reaching more than 10,000 learners.

#### National Teaching Awards

As part of its strategy around teacher development, the Foundation partnered with the Department of Basic Education and sponsored the 2012 National Teaching Awards. The National Teaching Awards promote excellence in teaching by recognising the hard work of teachers in various categories. The National Teaching Awards had 13 categories for 2012 including the following that were sponsored by the Foundation: Excellence in Grade R Teaching, Excellence in ICT Enhanced Teaching, Prof Kader Asmal Lifetime Achievement Award.

### Entrepreneurship Programme

#### Training and Mentorship

The Foundation partnered with the University of Pretoria to deliver a range of entrepreneurship training programmes to youth and women in particular. The programme has benefited 350 youth and women, unemployed graduates, entrepreneurs, and aspiring entrepreneurs in Gauteng, Free State and Northern Cape. The programme offers training and mentorship to ensure that beneficiaries establish and grow sustainable businesses that also provide employment.

### Social Development

The Foundation supports organisations that work with the disadvantaged and vulnerable communities in deep rural areas of our country through the Social Development programme. It has provided support of more than R5 million within the 2013 financial year to community-based organisations supporting needy communities in various focus areas including: poverty alleviation, chronic diseases, HIV/AIDS, orphaned and vulnerable children, and people living with disabilities.

### Staff Volunteerism

#### Adopt-A-Project

Adopt-A-Project is a voluntary programme for the senior leadership of Telkom to participate in community development and empowerment through the donation of funds from the Telkom Foundation and being patrons of deserving community development projects of their choice. Through this programme, the senior leadership also avail their time, skills and resources to their projects. During the 2013 financial year, the programme contributed approximately R3 million to more than 30 projects.

### Going forward

The Telkom Foundation will continue to work with CSI and supported projects. Visibility will be enhanced through continued pursuit of strategic partnerships that enhance the impact and outcomes of the Foundation's investments. The Foundation is repositioning itself to ensure that its projects are designed to deliver maximum impact and transform, in a meaningful way, the lives of the disadvantaged.

# ENVIRONMENTAL MANAGEMENT

## ENVIRONMENTAL POLICY STATEMENT

Telkom's Environmental Policy Statement (EPS) demonstrates Telkom's commitment and due regard towards ensuring a sustainable future for generations to follow. Telkom's geographical footprint is significant, albeit the nature of its impact is considered as negligible. Due to technological advancement and changing business trends, the Telkom EPS is due for review during the 2014 reporting cycle and will be endorsed by the newly appointed GCEO.

### ISO 14001 certification

Telkom's Environmental Management System (EMS) is currently ISO 14001 certified. The purpose of complying with this international standard is that it specifies requirements for an EMS which enables an organisation to develop and implement a policy which defines objectives and targets while at the same time ensuring compliance with legislated requirements. It also provides for the opportunity to clearly define and quantify significant environmental aspects and their potential impacts. From this, control measures are implemented, monitored and measured to constitute a continual improvement cycle. As the ISO 14001 standard is designed to ensure continual improvement, certification is awarded over a three-year cycle. In the 2014 financial year, Telkom will apply for recertification to ensure a sustainable commitment to ongoing environmental consideration towards the way we conduct ourselves throughout our business imperatives to continually support our reputation as a responsible corporate citizen.

In order to sustain the ISO standards, annual surveillance audits are conducted by the external verification authority each year during the three year accreditation period. Telkom's EMS achieved the ISO 14001 second surveillance audit requirements.

### Environmental training

Telkom's EMS incorporates training and awareness as an ongoing process in which both formal training and awareness campaigns are provided. Telkom supports the South Africa environmental calendar from which one campaign per quarter is communicated and employees are encouraged to participate.

### Compliance

There were no significant fines or sanctions for non-compliance with environmental laws and regulations during the reporting cycle.

Telkom did not encounter any environmental management related fines or sanctions for non-compliance, which demonstrates that the EMS methods, procedures and applicable protocols are meeting the desired conformance requirements.

### Biodiversity

Biodiversity management in Telkom is defined as those interventions which ensure that the impact of our infrastructure causes minimal impact relative to the protection of species and natural ecosystems of our country's environment. A holistic conservation approach is paramount to Telkom's EMS. Over a number of years Telkom has actively involved itself in various biodiversity initiatives, namely:

- The management of red billed buffalo weaver occupancy on mast infrastructure in the Mpumalanga area;
- The preservation of the sociable weaver nests on telephone routes in the Northern Cape;
- The prevention of blue crane collisions on telephone routes in the Free State;
- The successful relocation of Angolan free tailed bats from Telkom network facilities in Mpumalanga;
- The rescue and relocation of black eagle chicks from towers in the Northern Cape; and
- The relocation of a telephone route crossing a migratory bird wetland in Mpumalanga.

The Telkom environmental management team have over the past few years developed methods and controls to manage the encroachment of various species on Telkom infrastructure. Line managers are now in a position to manage such interventions independently.

During this financial year, Telkom successfully engaged in an environmental/social responsibility project in the Wakkerstroom town of Mpumalanga, internationally recognised as a haven for migratory birds. The project entailed working with two local NGOs the Wakkerstroom Natural Heritage Association and BirdLife South Africa. The objective of the project was to relocate a telephone route from a wetland which would significantly enhance the wetland biodiversity and aesthetic value of the surroundings. The removal and relocation of the route was undertaken successfully. The Telkom Foundation also contributed a significant amount to fund the refurbishment of a walkway that leads to a bird hide situated adjacent to the wetland. The project generated significant interest and was selected by Telkom to be screened on national TV as part of e-TV's 'Kaelo stories of hope' which illustrates South African businesses commitment to social upliftment and sustainability within the communities in which they operate.



## CLIMATE CHANGE AND ENERGY

In spite of the fact that the telecommunications sector is a relatively low-impact industry when it comes to energy usage and carbon emissions, there are significant opportunities to reduce costs and achieve carbon savings from energy efficiency, thereby ensuring a sustainable future. In addition, the telecoms sector has the unique potential to enable significant carbon savings across many sectors through communications technology offerings (such as creating opportunities for customers to dematerialise their businesses and reducing the need for travel by providing alternative communication methods).

The telecommunications sector is also an expanding sector, with energy demands that will continue to grow. Nevertheless, Telkom is working to balance its current energy requirements with the necessity of ensuring a sustainable future as it relates to climate change and energy security. Security of energy supply in South Africa is a major issue. Furthermore, we recognise the environmental, social and economic threat posed by climate change and the need for co-ordinated global action to reduce greenhouse gas emissions. As such, Telkom acknowledges the importance of their contribution to reducing South Africa's carbon emissions, in line with the draft National Energy Efficiency Strategy, in order to ensure a sustainable future.

### CARBON FOOTPRINT

As part of managing our contribution to addressing climate change, Telkom has measured and calculated its carbon footprint for the third year. The Greenhouse Gas Protocol (GHG Protocol) was used as the basis for calculating the carbon footprint. In order to improve the credibility of our

reporting, we obtained reasonable assurance in a statement of verification by independent assurance providers CA-Governance, using the ISO 14064-3 standards.

The boundary for the carbon footprint is Telkom South Africa; as well as the South African operations of the subsidiaries Swiftnet and Trudon.

The carbon footprint includes the following scopes as per the GHG Protocol:

- Scope 1: Direct greenhouse gas emissions (GHG) from sources owned or controlled by Telkom;
- Scope 2: Indirect GHG emissions from the generation of electricity consumed by Telkom; and
- Scope 3: Other indirect GHG emissions as a consequence of the activities of Telkom, but not from sources owned or controlled by Telkom.

The carbon footprint was calculated using emission factors provided by the United Kingdom's Department for Environment, Food and Rural Affairs (DEFRA). Our overall scope 1, 2 and 3 carbon footprint is 769,216 tCO<sub>2</sub>e. The table on the following page provides a breakdown of emissions per scope.

# ENVIRONMENTAL MANAGEMENT

	2012 Emissions (tCO <sub>2</sub> e)	2013 Emissions (tCO <sub>2</sub> e)
<b>Scope 1</b>		
Diesel consumed in generators <sup>1</sup>	5,979	<b>6,923</b>
Refrigerant gases <sup>2</sup>	44,964	<b>44,619</b>
Swiftnet delivery trucks	84	<b>42</b>
Forklifts – Stannic fleet <sup>3</sup>	54	<b>64</b>
<b>Scope 2</b>		
Electricity consumption (Telkom SA) <sup>4</sup>	662,543	<b>652,050</b>
Electricity consumption (Trudon)	3,092	<b>3,108</b>
Electricity consumption (Swiftnet)	292	<b>307</b>
<b>Scope 3</b>		
Air travel <sup>5</sup>	3,387	<b>3,198</b>
Car hire <sup>6</sup>	234	<b>199</b>
Business travel in employee owned cars <sup>7</sup>	8,011	<b>8,502</b>
Stannic fleet card <sup>8</sup>	3,387	<b>4,740</b>
Debis fleet <sup>9</sup>	32,766	<b>31,467</b>
TFMC fleet <sup>10</sup>	4,973	<b>4,964</b>
Layisha logistics	3,637	<b>3,372</b>
Trudon delivery trucks <sup>11</sup>	3,312	<b>5,661</b>
<b>Total Scope 1, 2 and 3 emissions (tCO<sub>2</sub>e)</b>	<b>776,715</b>	<b>769,216</b>

<sup>1</sup> Diesel used in generators is based on issued quantities for use in generators and forklifts.

<sup>2</sup> The refrigerant gas value provided is the total consumption (kg) from several different types of refrigerant gases, each of which have their own global warming potential (GWP).

<sup>3</sup> Forklifts – Stannic Fleet – Stannic fleet cards value provided is the total litres of petrol or diesel consumed in Telkom owned motor vehicles.

<sup>4</sup> Electricity consumption for the 2012/13 financial year is calculated using the Eskom 2012 generation emission factor of 0.99 tCO<sub>2</sub>e/MWh.

<sup>5</sup> 2012 Air travel has been restated due to a previous calculation error. The air travel value provided is the total passenger kilometres travelled, which is split between long-haul and short-haul flights and the specific flight class when calculating the associated carbon emissions.

<sup>6</sup> The car hire value provided is the total kilometres travelled in hire cars, which is split according to fuel type and engine size when calculating the associated carbon emissions.

<sup>7</sup> The Telkom employee business travel value provided is the total kilometres travelled in employee owned motor vehicles, which is split according to fuel type and engine size when calculating the associated carbon emissions.

<sup>8</sup> Stannic fleet cards value provided is the total litres of petrol or diesel consumed in Telkom employee owned motor vehicles for business travel.

<sup>9</sup> The Debis vehicle fleet value provided is the total kilometres travelled by Telkom employees in Debis fleet vehicles, which is split according to fuel type and engine size when calculating the associated carbon emissions.

<sup>10</sup> The TFMC fleet value provided is the total litres of fuel used in TFMC, Telkom's facility management provider's fleet motor vehicles, which is split according to fuel type when calculating the associated carbon emissions.

<sup>11</sup> Trudon delivery trucks has been restated due to a previous calculation error.

## Initiatives to reduce Greenhouse Gas emissions and reductions achieved

We are aware that as a growing sector, and as a solutions provider to other sectors, our energy demands will increase. Nevertheless, we recognise that we need to manage our energy usage and carbon emissions in order to ensure a sustainable future. Telkom has therefore put the following in place to minimise our carbon footprint and educate and create awareness among our stakeholders:

- We reported for the third year to the Carbon Disclosure project on our carbon management and emissions. This demonstrates our commitment to reducing emissions and provides investors and other stakeholders with insight into the meaning of climate change for our business.
- We signed the NBI's Energy Efficiency Leadership Network Pledge. As such we have publically pledged to plan for energy efficiency improvement supported by

an energy management system, develop company level targets to help deliver on the National Energy Efficiency Strategy, and clearly report on progress in reaching the targets. In addition, we have committed to carbon reduction skills development and capacity building.

- During 2012 we adopted a board-approved sustainability strategy that formalises and gives direction to our carbon management.
- Over the past five years Telkom has embarked on a national rollout of energy efficiency initiatives in Telkom facilities, known as Project Neon. This has included a phased rollout of energy efficient lighting interventions, using Eskom's Performance Contracting Funding Model.
- Telkom has begun implementing an initiative to phase in upgraded digital primary and secondary switching units which use less power.
- In order to increase awareness of climate change, newsletters are sent to Telkom employees, highlighting



initiatives that employees can take part in to reduce energy consumption. In addition, employees are encouraged to email suggestions for energy efficiency initiatives to TFMC (the facility management company used by Telkom).

- Telkom's subsistence and travel policy requires employees to consider video-conferencing or tele-conferencing as an alternative to travelling. The policy also encourages sharing car rental and shuttle services and using public transport where possible.
- Another travel related initiative is Project Falcon, which allows for smarter dispatching of vehicles and improved management of technician related travel, thereby reducing emissions.
- Telkom has replaced approximately 100 one-ton-vehicles with half-ton light delivery vehicles, thereby reducing travel related emissions.

## Going forward

Telkom will continue to consider climate impacts in our business decisions and improve energy efficiency, in order to ensure a sustainable future.

Some potential initiatives include:

- Telkom will replace an additional 850 one-ton-vehicles with half-ton light delivery vehicles, thereby reducing travel related emissions.
- A driver scoring programme is being planned for Gauteng and the North East regions to assist with monitoring driver behaviour, which we will roll out nationally. One of the added benefits of this programme will be more efficient driving styles, and therefore reduced travel related emissions.

## WASTE

Telkom recognises that the responsible disposal of waste is a key way in which we can minimise our impact on the environment. Due to the strain placed on South Africa's

landfill sites, and the impact of hazardous waste on the environment, Telkom encourages recycling and resource efficiency. We further recognise the important revenue generating potential of certain waste streams such as copper.

Waste is a key issue in the telecommunications sector for two reasons. Infrastructure components wear out and must be replaced. New technology is constantly developed, and as a consequence, products are constantly being upgraded and replaced.

Due to the dispersed nature of much of Telkom's infrastructure, the scope for waste management falls into two areas:

- The waste managed by TFMC, which includes the normal office waste streams and non-telecommunication waste. TFMC manages the collection, separation and disposal of all the non-telecommunications waste types as well as all recycling initiatives pertaining to such waste.
- Telkom managed revenue generating waste streams, which include copper cable, optic fibre, batteries, e-waste and other redundant telecommunication waste. These products are consolidated at Telkom around the country. It is from these centres that the revenue generating waste is picked up by appointed vendors for processing.

Formal policies and procedures detail Telkom's requirements for the handling of waste streams as well as the recycling of materials where this is possible. Telkom consistently aims to dispose of waste in an environmentally responsible manner by using accredited vendors who collect and dispose it. Disposal certificates are obtained from suppliers to ensure that waste is not dumped illegally and processed according to environmental governing legislation.

For the current reporting period, Telkom's recycled waste has consisted of the following streams (Trudon and Swiftnet do not contribute to these waste streams):

Waste stream (tonnes)	2009	2010	2011	2012	2013
Copper	1,301	2,210	1,387	1,279	1,231
Optic fibre	282	234	203	251	281
Batteries	349	344	348	293	477
E-waste	–	–	–	297	383



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# ENVIRONMENTAL MANAGEMENT

It is important to note that while these materials constitute the majority of Telkom's recyclable revenue generating waste stream by volume, their quantity is not necessarily influenced primarily by our resource efficiency initiatives. In the case of copper and optic fibre recycling volumes are driven primarily by the amount of damage inflicted upon our infrastructure during the theft of copper cable. Batteries are used at sites where direct current power is needed as an alternative source to alternating current power.

- **Batteries** are scrapped by technical staff in the regions and brought to the different Reverse Logistics yards for selling. Batteries are only scrapped when they are not further suitable for recharging or are damaged. Batteries are sold to specific buyers with a disposal certificate supplied to Telkom for every lot sold.
- **E-waste** is consolidated at our Boksburg yard and is sold via auctions.
- **Copper** – The majority of the recycled copper is recovered from the field after dead-line route recoveries. Copper is sold to Sindawonye and reworked into other products.
- **Optic fibre** is sold to Sindawonye through an existing contract. It is granulated and reworked into PVC, Kevlar, or optic fibre. These are then either reworked into other products or sold individually. Kevlar and optic fibre are used at the Thembani social upliftment project. This initiative is an outstanding example of what social commitment is and in so doing creating work opportunities as well as supporting the special needs of the Bedford community or families especially women and children using the redundant Telkom cable.

- **Other recycled waste** (steel, wood, tools, leather, furniture, etc.) is sold to Telkom staff or externally via tender or offer to purchase.

## WATER

Telkom recognises the potential limiting effect that water could have on economic expansion. It is of utmost importance that this resource be optimally utilised to the benefit of all current and future consumers and users.

Our aim as a responsible water consumer is to maximise the value we obtain from our water resources while seeking to avoid long-term net harm. We recognise that we act within a broader strategic water-resource framework. Hence Telkom strives to protect the quality of our water resources, use water wisely and aims eventually to develop alternative water resources.

During the reporting period, Telkom has facilitated an awareness programme and application of functional, efficient techniques to assist in the reduction of water consumption that will ultimately modify effective behavioural changes. These techniques will support Telkom's ongoing commitment towards the philosophy of environmental sustainability.

An understanding of the potential benefits associated with conservative water management, will ultimately enhance Telkom's commitment towards environmental sustainability of the organisation and within the South African context, while also committing itself to support and to work together with the Department of Water Affairs in managing South African water resources for an equitable and sustainable future.



# PRODUCT RESPONSIBILITY

The business sustainability of Telkom depends on our management of the aspects of our services and products that directly affect our customers including health and safety, information and labelling, marketing, and privacy. Customer satisfaction is a key concern for Telkom, and we aim to tailor our products and services to meet the customer needs while considering sustainable health and safety related matters.

## Product and service labelling

### CONSUMER PROTECTION ACT

In terms of the Consumer Protection Act, 68 of 2008 (“the Act”), consumers have the right to fair value, good quality and safety. Section 61 of the Act states that a producer, importer, distributor or retailer of any goods is liable for any harm caused by the supply of goods or product failure which result in the death or injury or illness or loss/physical damage to property and any economic loss arising from such injury, death or losses or physical damage to property. As a retailer of goods and products, it is imperative that Telkom ensures that it does not supply unsafe or defective goods and that there are adequate warnings to the consumer pertaining to any hazard arising from or associated with the use of the goods.

During the reporting year Telkom was not involved in any litigation or pending litigation relating to any harm envisaged under Section 61 which arose as a consequence of any product/goods supplied to a consumer. Telkom has not been found guilty of breaching any of the provisions relating to non-compliance with the provisions of Section 61, during the reporting period.

### END-USER AND SUBSCRIBER SERVICE CHARTER REGULATIONS

In November 2011, Telkom received notice from ICASA regarding Telkom’s non-compliance with regard to the End-User and Subscriber Service Charter Regulations as published in Government Gazette No. 32431 on 24 July 2009 (‘the Regulation’) and advised that the Authority is referring this matter to the Complaints and Compliance Committee for a formal hearing to be held in respect of the following:

- Regulation 4.9(a): “...maintain an average of 90% fault clearance rate for all faults reported within three (3) days”; and
- Regulation 4.9(b): must clear “the remaining ten percent (10%) of faults reported... within six (6) days of the reporting of the fault”.

In respect of the aforementioned Regulation, for the 2009/2010 reporting period, Telkom did not meet the mandatory percentages as prescribed in respect of the fault clearance rate. A licensee who is held to be non-compliant by the Complaints and Compliance Committee (CCC) may be liable to a fine.

## CCC outcome and recommendation

Key aspects of the CCC judgment are as follows:

- ICASA’s failure to determine a format for the reporting is a fatal flaw to its case against Telkom;
- ICASA had failed to prove non-compliance on the part of Telkom on the balance of probabilities;
- Non-compliance is not capable of being discerned clearly from the report submitted by Telkom. It is not possible, therefore, to consider levying a penalty that is consistent with the degree of non-compliance; and
- The Regulations as they stand are problematic and are not capable of implementation.

The CCC further made the following recommendations to ICASA:

- ICASA determines and make available a standard format to all its licensees. Licensees should be afforded the opportunity to study the format so that they can raise any issues that they may have;
- Since the Charter regulations as they stand are problematic and are not capable of implementation, ICASA should review them;
- ICASA should approach Telkom to stop its Court action with an undertaking that ICASA will review the Charter regulations; and
- If ICASA is considering bringing other licensees in front of the CCC on similar charges, it should consider suspending them until the Charter regulations are reviewed.

Thus, Telkom was not penalised for this contravention and ICASA is drafting the revised regulations for public comments.

## Customer privacy

South African legislation governing consumer protection and customer privacy has evolved rapidly in the past few years and Telkom is focused on aligning its business practices with the requirements. Telkom’s primary obligation to respect customer privacy emanates from the provisions of the Electronic Communications Act, 36 of 2005, and Code of Conduct, End-User and Subscriber Service Charter.

Requests for any confidential information relating to a customer’s personal details are handled by each of Telkom’s regional nodal points. These nodal points deal with any requests or subpoenas for customer information.

There have been no breaches of customer privacy or losses of customer data during the reporting period.



GRI

# PRODUCT RESPONSIBILITY

## Competition law compliance

Settlement discussions with the Competition Commission were initiated and successfully concluded in April 2013. This ruling related to the case between Telkom and the South African Value Added Networks Services Association (SAVA) and various other complainants pertaining to alleged anti-competitive behaviour between 1999 and 2002. Telkom and the Commission agreed to withdraw their respective appeals against the Tribunal's initial ruling in August 2012, resulting in the said ruling remaining unaltered. Accordingly, Telkom will pay the fine that was awarded by the Tribunal in the sum of R 449 million.

We have also subsequently negotiated to settle a second claim relating to a Multiple Complaints Referral by several complainants including Internet Solutions (Pty) Limited, the internet division of Multi-choice Subscriber Management Services (Pty) Limited, Verizon (Pty) Limited and the Internet Service Providers Association.

As part of this settlement, Telkom is required to pay a penalty of R200 million which has been fully provided for. The settlement also requires an undertaking by Telkom regarding the functional separation between the Group's retail and wholesale divisions.

We are committed to understanding the unique responsibility that we have as the national incumbent. We acknowledge that past actions of the Group have had a negative impact on our business and we take accountability for this. We have been and will continue to uphold responsible conduct and compliance in all our businesses.

[Read more in note 38 of the consolidated annual financial statements.](#)

## CUSTOMER SATISFACTION

Telkom conducts regular customer satisfaction surveys by means of targeted and random telephone interviews. These reach approximately 120,000 people per annum. By their very nature, random surveys may reach some customers whose numbers are not listed for such purposes, potentially giving rise to concerns about breaches in the security of customer data privacy.

Since 1997, all surveys have been conducted by research providers accredited by the SA Marketing Research Association (SAMRA) whose code of conduct commits all practitioners never to allow personal data collected in the process of market research "to be used for the purpose other than the market research". All market research survey work and the statistical results generated are audited on a random basis by third parties for purposes of data quality and data security. The information generated by market research surveys is used to inform Telkom's advertising tracking programmes, sponsorship and branding initiatives in addition to customer loyalty measurements.

Telkom has a national customer care management centre to deal with customer complaints that may have been received through Telkom's call centres. These complaints are then handled by escalation advisors. Any request for information from an outside party is governed by the Promotion of Access to Information Act, which gives effect

to the public's right of access to information from public and private bodies; taking into consideration appropriate provisions within the Act. Telkom keeps a record of the requests received each year and it reports annually to the Human Rights Commission with regards to these requests.

The primary aim of the customer loyalty management (CLM) research conducted by Telkom is to determine our customers' satisfaction with their designated main customer contact (for example, the account manager in the enterprise environment), as well as with products and services offered by Telkom.

Specific objectives are to:

- Measure the impact that overall quality of service and value for money have on loyalty and commitment towards Telkom;
- Determine the perceptions of service while interacting with Telkom at the different touchpoints: pricing, main customer contact (account manager, service delivery manager, account representative, business consultant, call centre agent, Telkom Direct Stores agent), technical support/technician, customised solutions, communication, ordering process, products and services, invoicing and billing/Telkom account, dispute resolution and Cybernest;
- Obtain an overall comparison of Telkom with other service providers;
- Establish the likelihood of switching from Telkom to another service provider; and
- Determine the overall experience with installations and repairs.

Fieldwork takes place on an annual basis and was conducted between August and December 2012 by means of telephonic interviews. Approximately 10,000 customers who had contact with Telkom, were interviewed.

Results are reported as either "Top 2 Box" scores or "Top 3 Box" scores. This means the percentage of customers that rated Telkom as "very good" and "excellent" or as "good", "very good" and "excellent" (respectively) out of a 5-point excellence scale (excellent; very good; good; poor; very poor).

Telkom clients included in the survey:

- **Enterprise markets, government sales and wholesale services:** All customers are given the opportunity to take part in the survey. Customer contact lists are provided by key role players within the different environments.
- **Medium and large business:** All Medium and Large Business customers who had contact with a Telkom sales representative within the month prior to fieldwork, form part of the universe with whom telephonic interviews are conducted.
- **Small business and residential:** A representative sample of Small Business and Residential customers who logged faults, had a billing enquiry or required a service activation is extracted on a weekly basis and telephonic interviews are conducted with these customers.

## Model explanation

The loyalty model shows how loyal customers are towards Telkom and how to improve on loyalty levels. A set of questions was asked of customers, each indicative of a different aspect within the loyalty model. Behaviours indicative of loyalty include customers saying that they would recommend, continue using or increase the volume of business they do with Telkom, as well as the likelihood of actively searching for an alternative communication provider. A lower score is desirable when asking customers whether they would actively search for an alternative provider. Based on answers to these four questions, customers are grouped into different loyalty segments:

Definition of loyalty segments:

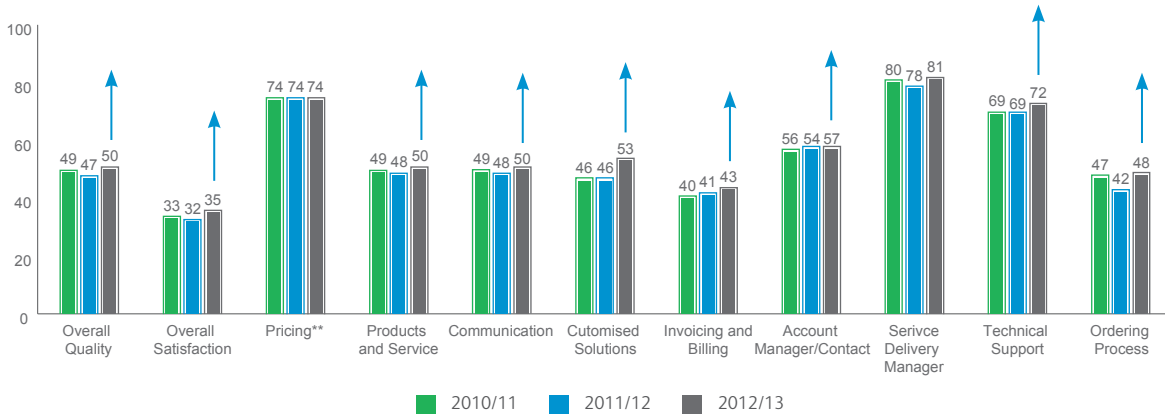
- **Passionate** customers are extremely positive in their responses and show no negative perceptions. They are most likely to express the desired loyalty behaviours.
- **Favourable** customers are mostly positive and show only modest negative perceptions towards Telkom. They are likely to display loyal behaviour in their interactions with Telkom, although not to the degree of those classified as Passionate.
- **Fence-sitter** customers currently have a neutral stance towards Telkom. Their perceptions of loyalty in the future will determine whether they move into the more favourable or vulnerable loyalty categories.
- **Vulnerable** customers do not hold a strong allegiance to Telkom and are likely to hold negative perceptions towards the Company.
- **Defector** customers have negative perceptions of Telkom and are less likely to remain loyal.
- **Unclassified** customers are those who cannot be classified into any of the above loyalty segments.

## Top line findings including customer satisfaction statistics

The graph on the following page reflects the combined results of all divisions, excluding Wholesale Services, Telkom Internet and 8•ta, and are based on 10,253 interviews.

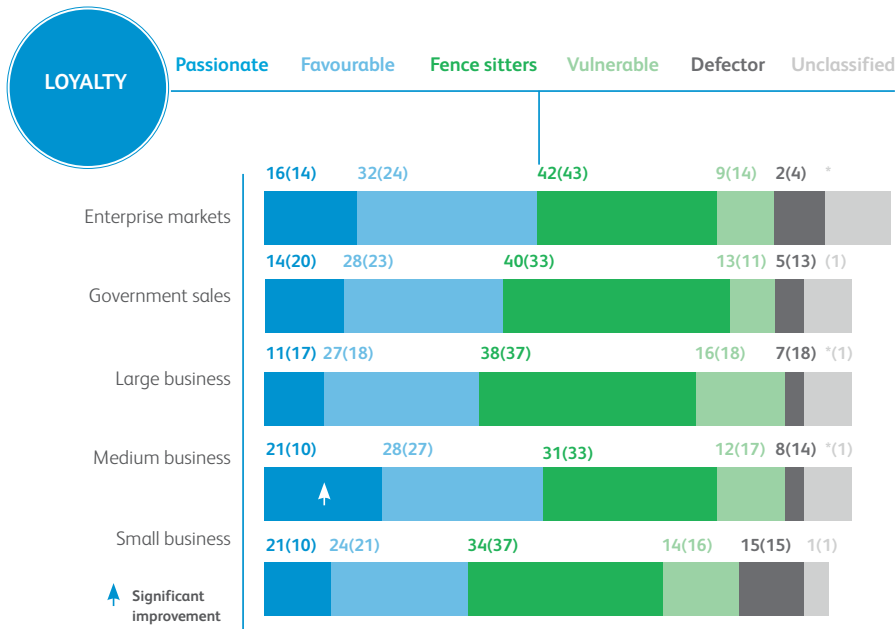
Most of the results show significant improvements, with pricing and the service delivery manager ratings remaining stable.

# PRODUCT RESPONSIBILITY

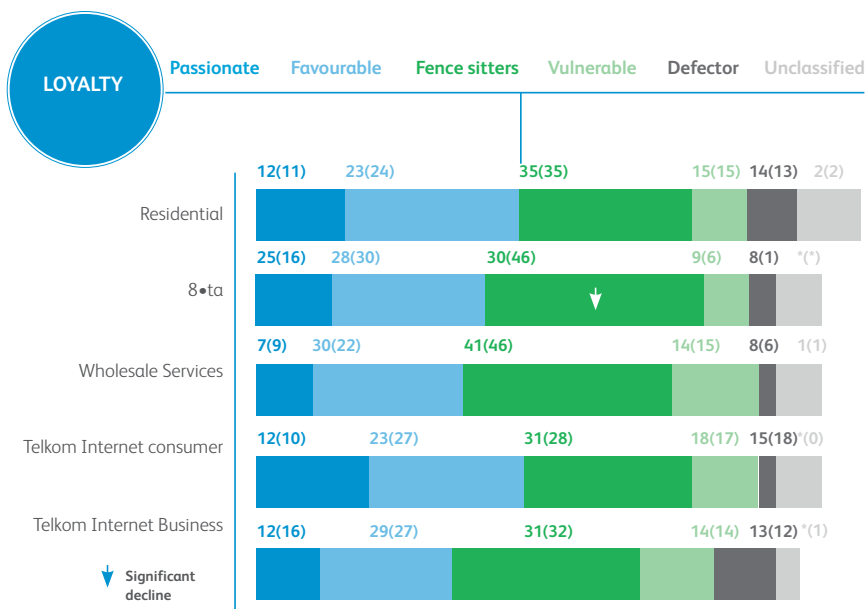


Graph: top line findings, customer satisfaction statistics

↑ Significant improvement \*\* Top 3 Box score



There was a slight increase in loyalty levels across most business segments. Across the board, more than a third of customers were classified as Fence Sitters. This implies that there are many neutral customers who can be swayed either way.



# GRI INDEX

Indicator name	Indicator description	Page number	Fully met/ partially met
<b>Profile disclosures</b>			
1.1	<p>Statement from the most senior decision-maker of the organisation (e.g. CEO, Chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.</p> <p>The statement should present the overall vision and strategy for the short term, medium term (e.g. three to five years), and long-term, particularly with regard to managing the key challenges associated with economic, environmental, and social performance.</p> <p>The statement should include:</p> <ul style="list-style-type: none"> <li>• Strategic priorities and key topics for the short and medium term with regard to sustainability, including respect for internationally agreed standards and how they relate to long-term organisational strategy and success;</li> <li>• Broader trends (e.g. macro-economic or political) affecting the organisation and influencing sustainability priorities;</li> <li>• Key events, achievements, and failures during the reporting period;</li> <li>• Views on performance with respect to targets;</li> <li>• Outlook on the organisation's main challenges and targets for the next year and goals for the coming three to five years; and</li> <li>• Other items pertaining to the organisation's strategic approach.</li> </ul>	10 – 12 18 – 21	Fully met
2.1	Name of the organisation.	1	Fully met
2.2	Primary brands, products, and/or services. The reporting organisation should indicate the nature of its role in providing these products and services, and the degree to which it utilises outsourcing.	6	Fully met
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	6, 30	Fully met
2.4	Location of organisation's headquarters.	Inside back cover	Fully met
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	6	Fully met
2.6	Nature of ownership and legal form.	The Group is domiciled in South Africa and listed on the JSE Limited.	Fully met
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	6	Fully met

# GRI INDEX

Indicator name	Indicator description	Page number	Fully met/ partially met
2.8	<p>Scale of the reporting organisation, including:</p> <ul style="list-style-type: none"> <li>• Number of employees;</li> <li>• Number of operations;</li> <li>• Net sales (for private sector organisations) or net revenues (for public sector organisations);</li> <li>• Total capitalisation broken down in terms of debt and equity (for private sector organisations); and</li> <li>• Quantity of products or services provided.</li> </ul> <p>In addition to the above, reporting organisations are encouraged to provide additional information, as appropriate, such as:</p> <ul style="list-style-type: none"> <li>• Total assets;</li> <li>• Beneficial ownership (including identity and percentage of ownership of largest shareholders); and</li> <li>• Breakdowns by country/region of the following:               <ul style="list-style-type: none"> <li>– Sales/revenues by countries/regions that make up 5 % or more of total revenues;</li> <li>– Costs by countries/regions that make up 5 % or more of total revenues; and</li> <li>– Employees.</li> </ul> </li> </ul>	74, 8, 5	Fully met
2.9	<p>Significant changes during the reporting period regarding size, structure, or ownership, including:</p> <ul style="list-style-type: none"> <li>• The location of, or changes, in operations, including facility openings, closings, and expansions; and</li> <li>• Changes in the share capital structure and other capital formation, maintenance and alteration operations (for private sector organisations).</li> </ul>	There have been no significant changes regarding size, structure or ownership during the reporting period.	Fully met
2.10	Awards received in the reporting period.	32	Fully met
3.1	Reporting period (e.g. fiscal/calendar year) for information provided.	1	Fully met
3.2	Date of most recent previous report (if any).	1	Fully met
3.3	Reporting cycle (annual, biennial, etc).	1	Fully met
3.4	Contact point for questions regarding the report or its contents.	Inside back cover	Fully met
3.5	<p>Process for defining report content, including:</p> <ul style="list-style-type: none"> <li>• Determining materiality;</li> <li>• Prioritising topics within the report; and</li> <li>• Identifying stakeholders the organisation expects to use the report.</li> </ul> <p>Include an explanation of how the organisation has applied the 'Guidance on Defining Report Content' and the associated principles.</p>	34, 64	Fully met
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	1	Fully met
3.7	State any specific limitations on the scope or boundary of the report. If boundary and scope do not address the full range of material economic, environmental, and social impacts of the organisation, state the strategy and projected timeline for providing complete coverage.	1	Fully met
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	1	Fully met

Indicator name	Indicator description	Page number	Fully met/ partially met
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Apart from a reclassification (see page 148) there have been no restatements of information provided in previous reports.	Fully met
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	1	Fully met
3.12	Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found: <ul style="list-style-type: none"> <li>• Strategy and Analysis 1.1 – 1.2;</li> <li>• Organisational Profile 2.1 – 2.10;</li> <li>• Report Parameters 3.1 – 3.13;</li> <li>• Governance, Commitments, and Engagement 4.1 – 4.17;</li> <li>• Disclosure of Management Approach, per category;</li> <li>• Core Performance Indicators;</li> <li>• Any GRI Additional Indicators that were included; and</li> <li>• Any GRI Sector Supplement Indicators included in the report.</li> </ul>	107 – 111	Fully met
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.  Describe the mandate and composition (including number of independent members and/or non-executive members) of such committees and indicate any direct responsibility for economic, social, and environmental performance.	46 – 58	Fully met
4.2	Indicate whether the Chair of the highest governance body is also an Executive Officer (and, if so, the function within the organisation's management and the reasons for this arrangement).	58	Fully met
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.  State how the organisation defines 'independent' and 'non-executive'. This element applies only for organisations that have unitary board structures. See the glossary for a definition of 'independent'.	46, 55 – 56	Fully met
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. Include reference to processes regarding: <ul style="list-style-type: none"> <li>• The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body;</li> <li>• Informing and consulting employees about the working relationships with formal representation bodies such as organisation level 'work councils', and representation of employees in the highest governance body; and</li> <li>• Identify topics related to economic, environmental, and social performance raised through these mechanisms during the reporting period.</li> </ul>	58	Fully met

# GRI INDEX

Indicator name	Indicator description	Page number	Fully met/ partially met
4.14	List of stakeholder groups engaged by the organisation. Examples of stakeholder groups are: <ul style="list-style-type: none"> <li>• Communities;</li> <li>• Civil society;</li> <li>• Customers;</li> <li>• Shareholders and providers of capital;</li> <li>• Suppliers; and</li> <li>• Employees, other workers, and their trade unions.</li> </ul>	66 – 72	Fully met
4.15	Basis for identification and selection of stakeholders with whom to engage. This includes the organisation’s process for defining its stakeholder groups, and for determining the groups with which to engage and not to engage.	64 – 65	Fully met
<b>Profile disclosures</b>			
<b>Environmental</b>			
EN3	Direct energy consumption by primary energy source.	100	Fully met
EN4	Indirect energy consumption by primary source.	100	Fully met
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	100	Partially met
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	98	Fully met
EN16	Total direct and indirect greenhouse gas emissions by weight.	100	Fully met
EN17	Other relevant indirect greenhouse gas emissions by weight.	100	Fully met
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	100	Partially met
EN22	Total weight of waste by type and disposal method.	101	Partially met
EN28	Monetary value of significant fines and sanctions for non-compliance with environmental laws and regulations.	98	Fully met
<b>Labour Practices and Decent Work</b>			
LA1	Total workforce by employment type, employment contract, and region.	Online	Fully met
LA2	Total number and rate of employee turnover by age group, gender, and region.	Online	Fully met
LA4	Percentage of employees covered by collective bargaining agreements.	79	Fully met
LA7	Rates of injury, occupational diseases, lost days and absenteeism and number of work related fatalities.	80 and online	Fully met
LA8	Programmes in place to assist workforce members, their families, or community members regarding serious diseases.	80 and online	Fully met
LA10	Average hours of training per year per employee in each employee category.	78	Fully met
LA11	Programmes for skills management and lifelong learning.	77	Fully met
LA12	Percentage of employees receiving regular performance and career development reviews.	77	Fully met
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	77	Fully met



Indicator name	Indicator description	Page number	Fully met/ partially met
<b>Product Responsibility</b>			
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	103 – 104	Fully met
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	104 – 106	Fully met
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	103	Fully met
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	104	Fully met
<b>Economic</b>			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	8	Fully met
EC6	Policy, practices, and proportion of spending locally based suppliers at significant locations of operations.	92	Partially met
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	96 – 97	Fully met

# GROUP ANNUAL FINANCIAL STATEMENTS

- FINANCIAL OVERVIEW
- DIRECTORS' RESPONSIBILITY STATEMENT
- PREPARER AND SUPERVISOR OF ANNUAL FINANCIAL STATEMENTS
- REMUNERATION COMMITTEE REPORT
- REMUNERATION REPORT
- SOCIAL AND ETHICS COMMITTEE REPORT
- AUDIT COMMITTEE REPORT
- CERTIFICATE FROM GROUP COMPANY SECRETARY
- DIRECTORS' REPORT
- INDEPENDENT AUDITOR'S REPORT
- CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
- CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- CONSOLIDATED STATEMENT OF CASH FLOWS
- NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS



# FINANCIAL OVERVIEW

## SALIENT FEATURES

- Generated free cash flow of R2.1 billion
- 5.2% growth in ADSL subscribers
- 22.6% decrease in mobile EBITDA losses
- 46.0% decrease in net debt
- Net debt to EBITDA remains 0.3x
- EBITDA margin decreased to 21.9% from 25.8%
- R12 billion impairment of the carrying value of the legacy network

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

The impairment charge is a non-cash item and it will not impact the significant cash flow (EBITDA), which the Group generates from its operations. It is akin to an accelerated depreciation charge, which has no impact on Telkom's strong cash position, low indebtedness and ability to fund its capital programme from its own resources. Basic earnings per share from continuing operations, however, has been adversely impacted by the once off non-cash impairment charge and is therefore 2,286 cents per share lower than the comparative period for the year ended 31 March 2013. Excluding the R12 billion impairment charge, basic earnings per share is 63.6 cents higher than the prior year.

The non-cash impairment charge is excluded from headline earnings per share from continuing operations, which is 237.7 cents per share (73.2%) lower than the prior year. The decline in headline earnings is largely as a result of the cost of VSPs and a provision for the Competition Tribunal fines and continued pressure on our fixed voice revenues.

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

### Results from operations

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

The Group recorded a profit after tax of R501 million excluding the R12 billion impairment charge (2012: R179 million) and an EBITDA of R7,109 million (2012: R8,546 million). The results for the year include a provision of R592 million for the settlement of the long-standing dispute with the Competition Commission and the net cost of R434 million for VSPs.

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

Operating expenses excluding depreciation increased by 2.7% as a consequence of a rise in employee expenses of 14.2%.

Employee expenses were impacted by a 6.5% average salary increase, and the VSP payments.

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

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

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

### Segment structure

During the year under review the Group's segment structure was changed to better reflect the chief operating decision makers' (Executive Committee) assessment of the Group's performance. Due to the Convergence Strategy announced in July 2012, the Executive Committee now manages the business on a combined basis, thereby combining the previously reported Telkom Fixed-Line and Telkom Mobile segments. This reflects the financial information reviewed by the Executive Committee when making decisions about performance and resource allocation and is consistent with the manner in which the Telkom network generates revenue, i.e. on a combined basis.

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

Due to the Group's convergence strategy, key performance indicators are measured and evaluated on an overall basis. This report, however, provides further details of the fixed-line business that provides fixed-line access and data communications services through Telkom South Africa, and

## FINANCIAL OVERVIEW

the mobile business that provides mobile voice services, data services and handset sales through Telkom Mobile. The contribution of the iWayAfrica, Trudon and Swiftnet subsidiaries are also shown separately.

### Operating revenue

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

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

The following table shows operating revenue broken down by major revenue streams and as a percentage of total revenue and the percentage change by major revenue stream for the years indicated.

### Group operating revenue

In ZAR millions	Year ended 31 March				
	2013	% of revenue	2012	% of revenue	%
Voice	16,818	51.8	17,668	53.4	(4.8)
Fixed-line usage	8,591	26.5	9,501	28.7	(9.6)
Fixed-line subscriptions	7,743	23.8	7,643	23.1	1.3
Mobile voice and subscriptions	484	1.5	524	1.6	(7.6)
Interconnection	1,597	4.9	1,855	5.6	(13.9)
Fixed-line domestic	562	1.7	633	1.9	(11.2)
Fixed-line international	959	3.0	1,120	3.4	(14.4)
Mobile interconnection	76	0.2	102	0.3	(25.5)
Data	10,801	33.2	10,237	31.0	5.5
Data connectivity	5,595	17.2	5,339	16.1	4.8
Leased line facilities	1,963	6.0	2,051	6.2	(4.3)
Internet access and related services	1,617	5.0	1,649	5.0	(1.9)
Managed data network services	1,005	3.1	899	2.7	11.8
Multi-media services	52	0.2	52	0.2	–
Mobile data	364	1.1	163	0.5	123.3
Cybernest	205	0.6	84	0.3	144.0
Customer premises equipment sales and rentals	1,466	4.5	1,401	4.2	4.6
Sales	327	1.0	430	1.3	(23.9)
Rentals	704	2.2	652	1.9	8.0
Mobile handset and equipment sales	435	1.3	319	1.0	36.4
Other	227	0.7	284	0.9	(20.1)
iWayAfrica	358	1.1	364	1.1	(1.6)
Trudon	1,140	3.5	1,166	3.5	(2.2)
Swiftnet	94	0.3	104	0.3	(9.6)
<b>Total</b>	<b>32,501</b>	<b>100.0</b>	<b>33,079</b>	<b>100.0</b>	<b>(1.7)</b>

## VOICE

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

The following table sets forth information related to our fixed-line voice usage revenue for the years indicated.

	2013 Rm	2012 Rm	%
Fixed-line voice usage revenue	8,591	9,501	(9.6)
Total traffic volumes (millions of minutes) <sup>1</sup>	18,425	19,372	(4.9)

### Notes:

<sup>1</sup> Traffic is calculated by dividing total traffic revenue by the weighted average tariff during the relevant period. Traffic includes dial up internet traffic. International outgoing mobile traffic is based on the traffic registered through the respective exchanges and reflected in interconnection invoices.

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

Telkom filed a 1.7% overall decrease in basic voice and data services, including the decrease in mobile termination rates, effective 1 August 2011 with ICASA and a 1.2% overall increase in basic voice and data services effective 1 August 2012.

On 1 August 2011 we decreased the price of local peak calls after the first unit by 3.2% to 42.0 cents per minute (VAT inclusive). The price of local off peak calls remained unchanged at 20.7 cents per minute. On 1 August 2012 the price of local peak and off peak calls remained unchanged.

The fixed-line long distance tariffs decreased 12.3% to 57.0 cents per minute on 1 August 2011 and remained unchanged on 1 August 2012.

The minimum charge to all international destinations decreased 12.3% on 1 August 2011, and tariffs to most international destinations such as Zimbabwe, the UK and USA were decreased. Although the minimum charge to all international destinations remained unchanged on 1 August 2012, tariffs to certain destinations were increased and others were decrease. Some popular destinations like the United Kingdom and United States of America remained unchanged.

Revenue from subscriptions consists of revenue from installation and reconnection fees, monthly rental charges, revenue from subscription based calling plans and value added voice services for post-paid and prepaid PSTN lines,

including ISDN channels and private pay phones. Revenue from subscription-based calling plans includes revenue from Telkom's subscription-based plans, Telkom Closer and Supreme Call, which are bundled products on post-paid PSTN lines that include discounted rates and free minutes for a fixed monthly subscription fee.

Fixed-line subscriptions revenue is principally a function of the number and mix of residential and business lines in service, the number of private pay phones in service and the corresponding charges. The following table sets forth information related to our fixed-line voice subscription revenue during the years indicated.

	2013	2012	%
Fixed-line subscription revenue (Rm)	7,743	7,643	1.3
Fixed access lines (thousands, except percentages) <sup>1</sup>	3,800	3,995	(4.9)
Postpaid PSTN <sup>2</sup>	2,427	2,499	(2.9)
ISDN channels	756	767	(1.4)
Prepaid PSTN	522	623	(16.2)
Private pay phones	95	106	(10.4)

### Notes:

<sup>1</sup> Fixed-line subscription access lines are comprised of PSTN lines, including ISDN lines and private pay phones, but excluding internal lines in service and public pay phones. Each analogue PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.

<sup>2</sup> Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fibre.

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

The post-paid residential and business line rental both increased by 5% and 6% on 1 August 2011 and 1 August 2012, respectively. In the 2013 financial year, revenue from subscription-based calling plans decreased primarily due to a decrease in traffic, partially offset by a 4.6% increase in customers subscribing to these packages.

The decrease in the number of post-paid lines in service in the 2013 financial year was primarily as a result of a decrease in residential prepaid and post-paid PSTN lines as well as a decrease in business PSTN lines, partially offset by an increase in ADSL lines. The decrease in business lines was mainly due to mobile substitution and the use of other technologies such as voice over IP. The decrease in prepaid PSTN lines in the 2013 financial year was primarily due to the migration of customers to calling plan packages. Private pay phones decreased as we continue to optimise our pay phone base.

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

# FINANCIAL OVERVIEW

## INTERCONNECTION

We generate revenue from interconnection services for traffic from calls made by other operators' customers that terminate on or transit through our network. Revenue from interconnection services includes payments from mobile domestic, fixed domestic and international operators regardless of where the traffic originates or terminates.

Interconnection revenue from domestic operators includes revenue for call termination from mobile domestic networks, as well as access to other services, such as emergency services and directory enquiry services.

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

Interconnection revenue from international mobile operators includes international outgoing calls from mobile domestic networks and amounts paid by foreign operators for the use of our network to terminate calls made by customers of such operators and payments from foreign operators for interconnection hubbing traffic through our network to other foreign networks.

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

## DATA

Data services comprise data transmission services, including leased lines and packet based services, managed data networking services and Internet access and related information technology services. In addition, data services include revenue from ADSL. Revenue from data services is mainly a function of the number of subscriptions, tariffs, bandwidth and distance.

The slow data growth is mainly as a result of pricing pressures, increased self-provisioning by mobile operators and lower Internet access revenue. ADSL subscribers increased 5.2% to 870,505 when compared to the previous year. Data, however, continues to be an area of growth.

Telkom is also heavily focused on increasing broadband and data related revenue to diversify its reliance away from fixed-line voice.

Data connectivity revenue comprises revenue from our services such as Diginet, DSL, IPLC and Megalines.

Revenue from data connectivity services increased due to an increase in ADSL revenue as a result of an increase in the number of subscribers and growth in Diginet revenue, partially offset by a decrease in IPLC revenue.

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

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

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

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

Mobile data revenue increased 123.3% due to an increase in the number of data subscribers and the data deals and promotional products launched during the year in line with our strategy to focus on data.

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

## CUSTOMER PREMISES EQUIPMENT SALES AND RENTALS

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

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

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

## OTHER

Other revenue includes revenue relating to co-location of other licensed operators on Telkom owned properties, the sale of materials and revenue related to the recovery of costs for work performed on behalf of other licensed operators. Other revenue decreased 20.1% to R227 million (2012: R284 million) due to lower revenue recognised from expired cards, partially offset by higher co-location revenue.

## Other income

In ZAR millions	Year ended 31 March		
	2013	2012	%
Telkom	320	526	(39.2)
iWayAfrica	44	10	340.0
Trudon	34	40	(15.0)
Swiftnet	4	3	33.3
<b>Total</b>	<b>402</b>	579	(30.6)

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

## Operating expenses

Operating expenditure contribution per segment

In ZAR millions	Year ended 31 March		
	2013	2012	%
Telkom	42,714	29,482	(44.9)
iWayAfrica	488	1,017	52.0
Trudon	640	644	0.6
Swiftnet	108	107	(0.9)
<b>Total</b>	<b>43,950</b>	31,250	(40.6)

Group operating expenses, excluding the R12 billion impairment charge increased by 2.2% to R31,950 million (2012: R31,250 million) in the year ended 31 March 2013, primarily due to the R434 million net provision, after curtailment gains for the voluntary severance and early retirement packages, R592 million provision for the fines handed down to Telkom by the Competition Tribunal, the average annual salary increases of 6.5% and accelerated depreciation of R667 million. This was partially offset by a decrease in payments to other operators due to the decrease in mobile termination rates and the R569 million impairment of iWayAfrica in the 2012 financial year.

# FINANCIAL OVERVIEW

## Telkom operating expenditure

In ZAR millions	Year ended 31 March		
	2013	2012	%
Employee expenses	9,493	8,294	(14.5)
Salaries and wages	7,285	6,754	(7.9)
Benefits	1,975	2,017	2.1
Workforce reduction expenses	753	29	(2,496.6)
Employee related expenses capitalised	(520)	(506)	2.8
Payments to other network operators	4,430	5,250	15.6
Mobile network operators	2,897	3,599	19.5
International network operators	904	1,045	13.5
Fixed-line network operators	368	320	(15.0)
Data commitments	261	286	8.7
Selling, general and administrative expenses	6,743	6,760	0.3
Materials and maintenance	3,104	2,671	(16.2)
Marketing	937	1,009	7.1
Bad debts	315	550	42.7
Other	2,387	2,530	5.7
Service fees	3,075	2,955	(4.1)
Property management	1,659	1,502	(10.5)
Consultants, security and other	1,416	1,453	2.5
Operating leases	880	756	(16.4)
Buildings	385	282	(36.5)
Equipment	35	29	(20.7)
Vehicles	460	445	(3.4)
Depreciation, amortisation, impairments and write-offs	18,093	5,467	(230.9)
Depreciation	5,044	4,535	(11.2)
Amortisation	873	657	(32.9)
Write-offs	12,176	275	(4,327.6)
<b>Total</b>	<b>42,714</b>	<b>29,482</b>	<b>(44.9)</b>



## EMPLOYEE EXPENSES

Employee expenses consist mainly of salaries and wages for employees, including bonuses and other incentives, benefits and workforce reduction expenses. Employee expenses increased by 14.5% in the year ended 31 March 2013, primarily due to the R434 million net cost relating to voluntary severance and early retirement packages, the average annual salary increase of 6.5% and a higher bonus provision. 1,411 bargaining unit and 178 management employees exited up to 31 May 2013 as part of the process.

## PAYMENTS TO OTHER NETWORK OPERATORS

Payments to other network operators include settlement payments paid to the three South African mobile communications network operators, Neotel for terminating calls on their networks and to international network operators for terminating outgoing international calls and traffic transiting through their networks. Payments to mobile operators decreased 19.5% due to the reduction in mobile termination rates from 73 cents to 56 cents with effect from 1 March 2012.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include materials and maintenance costs, marketing expenditures, debtors impairment, theft, losses and other expenses, including obsolete stock and cost of sales. Selling, general and administrative expenses decreased by 0.3% to R6,743 million (2012: R6,760 million).

Materials and maintenance expenses include subcontractor payments and consumables required to maintain our network.

Materials and maintenance increased 16.2% mainly due to expenditure on data processing equipment for the mobile business systems and on the integration of independent business systems as well growth in external customer infrastructure by Cybernest.

Marketing expenses decreased 7.1% due to lower marketing expenditure by Telkom Mobile as we refocus the business.

Bad debts decreased 42.7% due to an improvement to the mobile credit vetting systems. Debtor's impairment as a percentage of revenue improved from 1.8% in the 2012 financial year to 1.0% in the 2013 financial year.

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

## SERVICE FEES

Service fees include payments in respect of the management of our properties, to total facilities management company, a facilities and property management company, consultants and security. Consultants comprise fees paid to collection agents and to providers of other professional services and external auditors. Security refers to services to safeguard the network and contracts to ensure a safe work environment, such as guard services.

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

Our carbon footprint and electricity consumption is calculated on page 100.

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

## OPERATING LEASES

Operating leases include payments in respect of equipment, buildings and vehicles.

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

Vehicle leases increased as a result of inflation and fuel increases, partially offset by a 10.2% reduction in the number of vehicles from 7,606 to 6,833.

## DEPRECIATION, AMORTISATION, IMPAIRMENT AND WRITE-OFFS

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

Details of operating expenditure related to our mobile business that is included in Telkom's operating expenditure are provided below for additional information.

# FINANCIAL OVERVIEW

## Mobile operating expenses

In ZAR millions	Year ended 31 March		
	2013	2012	%
Employee expenses	329	195	(68.7)
Payments to other network operators	482	449	(7.3)
Selling, general and administrative expenses	1,787	2,428	26.4
Service fees	249	152	(63.8)
Operating leases	187	99	(88.9)
Depreciation, amortisation, impairments and write-offs	372	219	(69.9)
<b>Total</b>	<b>3,406</b>	3,542	3.8

## Investment income

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

## Finance charges and fair value movements

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

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

## Taxation

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

## Non-controlling interests

Non-controlling interests in the income of subsidiaries decreased to R123 million in the year ended 31 March 2013 (2012: R126 million) due to the lower net profit of Trudon.

## LIQUIDITY AND CAPITAL RESOURCES

### Group liquidity and capital resources

The following table shows information regarding our consolidated cash flows for the periods indicated.

	2013 Rm	Reclassified <sup>(1)</sup> 2012 Rm	%
Cash flows from operating activities	7,474	5,892	26.9
Cash flows from investing activities	(5,519)	(4,907)	12.5
Cash flows from financing activities	(731)	(1,586)	(53.9)
Net decrease in cash and cash equivalents	1,224	(601)	(303.7)
Effect of foreign exchange differences	(5)	(7)	(28.6)
Net cash and cash equivalents at the beginning of the year	1,165	1,773	(34.3)
Net cash and cash equivalents at the end of the year	2,384	1,165	104.6

<sup>(1)</sup> Repurchase agreements were reclassified from financing activities to investing activities.

#### Cash flows from operating activities

Our primary sources of liquidity are cash flows from operating activities and borrowings. We intend to fund our expenses, indebtedness and working capital requirements from cash generated from our operations and from capital raised in the markets. The year on year increase in cash flows from operating activities in the 2013 financial year is mainly due to higher non-cash items such as the provision for the Competition Tribunal fines, voluntary severance and early retirement packages and the post retirement medical aid provision, lower dividends paid in the 2013 financial year as well as lower taxation paid, partially offset by lower cash received from customers due to lower revenue.

#### Cash flows from investing activities

Cash flows from investing activities relate primarily to investments in our network. Cash flow invested in property, plant, equipment and intangible assets were 20.4% higher than the previous year, partially offset by a decrease in our investment in repurchase agreements.

#### Cash flows from financing activities

Cash flows from financing activities are primarily a function of borrowing activities. In the 2013 financial year, loans repaid exceeded loans raised by R701 million due to the repayment of the TL12 bond of R1,060 million.

#### Working capital

We had negative consolidated working capital of approximately R1.5 billion as of 31 March 2013, compared to consolidated working capital of approximately R497 million as of 31 March 2012.

The decrease in working capital in the 2013 financial year was primarily due to the syndicated loan of R2.0 billion reaching maturity in December 2013 and classified as a current liability. Telkom's Group cash flows from operations, together with the credit facilities will be sufficient to meet Telkom's present working capital requirements for the 12 months from the date of this integrated report.

We intend to fund current liabilities through a combination of operating cash flows and with borrowings available under existing credit facilities. We had R6.5 billion available under existing credit facilities as of 31 March 2013.

We had cash and net financial assets of R4.5 billion available at 31 March 2013 (2012: R3.2 billion).

# FINANCIAL OVERVIEW

## Debt maturity

The following table sets forth our consolidated indebtedness including finance leases as of 31 March 2013:

	Interest payment dates	Interest rate/coupon (%)	Outstanding as of 31 March 2013 (in millions ZAR)	Nominal amount of outstanding as of 31 March 2013 (in millions ZAR)	Maturing Year ended 31 March					
					2014 ZAR	2015 ZAR	2016 ZAR	2017 ZAR	2018 ZAR	After 2018 ZAR
<b>TELKOM</b>										
<b>Bonds</b>										
11.90% unsecured local bond due 29 April 2015 (TL15) <sup>1,3</sup>	29 Apr & 29 Oct	11,9	1,160	1,160	–	–	1,160	–	–	–
6% unsecured local bond due 24 February 2020 (TL20) <sup>1,4</sup>	22-Feb	6	1,570	2,500	–	–	–	–	–	2,500
Syndicated loan due 17 December 2013	Quarterly	7,11	1,998	2,000	2,000	–	–	–	–	–
	Commercial paper bills	6,3	496	500	500	–	–	–	–	–
EURO loans <sup>5</sup>	Quarterly	0.1% – 1.4%	90	90	–	–	–	–	–	90
USD loans	Sept and March	2,50% – 13,43% – 37,78%	571	607	207	206	181	13	–	–
Finance leases <sup>6</sup>	n/a		766	766	55	79	109	144	187	192
<b>Total Telkom</b>			<b>6,651</b>	<b>7,623</b>	<b>2,762</b>	<b>285</b>	<b>1,450</b>	<b>157</b>	<b>187</b>	<b>2,782</b>
<b>OTHER</b>										
<b>Trudon (Pty) Limited</b>										
Finance leases	n/a	5.0% – 10.0%	4	4	2	2	–	–	–	–
iWayAfrica Group	n/a	0	2	2	2	–	–	–	–	–
<b>Total other</b>			<b>6</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Grand total</b>			<b>6,657</b>	<b>7,629</b>	<b>2,766</b>	<b>287</b>	<b>1,450</b>	<b>157</b>	<b>187</b>	<b>2,782</b>

<sup>1</sup> Listed on the Bond Exchange of South Africa.

<sup>2</sup> The TL12 was issued on April 29, 2009 at a yield to maturity of 12.47% and listed on the Bond Exchange of South Africa.

<sup>3</sup> The TL15 was issued on April 29, 2009 at a yield to maturity of 11.91% and listed on the Bond Exchange of South Africa.

<sup>4</sup> The TL20 was issued on February 22, 2000 at a yield to maturity of 15.00%. The TL20 bond was listed on the Bond Exchange of South Africa with effect of April 1, 2005.

<sup>5</sup> R90 million of Telkom's indebtedness outstanding as of March 31, 2013 was guaranteed by the Government of the Republic of South Africa. EURO loans converted at the spot rate.

<sup>6</sup> Finance leases are mostly secured by land and buildings.

## Capital expenditures and investments

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

The following table shows the Telkom Group's investment in property, plant and equipment including intangible assets from continuing operations for the periods indicated:

	2013 Rm	2012 Rm	%
Baseline	2,057	1,858	(10.7)
Network evolution	1,232	733	(68.1)
Mobile	1,548	1,372	(12.8)
Sustainment	310	146	(112.3)
Effectiveness and efficiency	121	162	25.3
Support	342	329	(4.0)
Regulatory and other	26	61	57.4
iWayAfrica	5	8	37.5
Trudon	63	72	12.5
Swiftnet	34	42	19.0
<b>Total</b>	<b>5,738</b>	4,783	(20.0)

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

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

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

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

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

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

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

## DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of the annual financial statements of the Company and the Group. The directors are also responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and the Group's assets.

In presenting the accompanying financial statements, International Financial Reporting Standards have been followed and applicable accounting policies have been used, incorporating prudent judgements and estimates.

The external auditors are responsible for independently auditing and reporting on the annual financial statements.

In order for the directors to discharge their responsibilities, management continues to develop and maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. The internal controls include a risk-based system of internal auditing and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Group's policies and procedures.

The directors, primarily through the Audit Committee, which consists of independent non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal controls, auditing and financial reporting.

The directors are of the opinion, based on the information and explanations given by management and internal audit that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Telkom SA SOC Limited continues to adopt the going concern basis in preparing the annual financial statements.

Against this backdrop, the directors of the Group accept responsibility for the annual financial statements, which were approved by the board of directors on 13 June 2013 and are signed on their behalf by:



**Jabu A Mabuzza**

*Chairman of the  
Telkom board group*

Pretoria

13 June 2013



**Sipho N Maseko**

*Group chief executive officer*



**Jacques Schindehütte**

*Chief financial officer*

## PREPARER AND SUPERVISOR OF ANNUAL FINANCIAL STATEMENTS

These consolidated annual financial statements were prepared by Mr Robin Coode (group executive accounting) and supervised by Mr Deon Fredericks (deputy chief financial officer).

## REMUNERATION COMMITTEE REPORT

**Dear shareholder,**

This remuneration report is intended to provide an overview and understanding of the Group's remuneration principles and policies with specific emphasis on the non-executive directors, executive directors, Executive Committee and prescribed officers in the Group. The Group adopted the governance and disclosure requirements stipulated in the King Code of Governance Principles for South Africa 2009 (King III) and incorporated the required information in this report.

The Remuneration Committee remains mindful of the remuneration trends in the global environment and carefully considers all practices against the business and set remuneration levels within the context of overall company performance. The Remuneration Committee is mindful of the responsibility to protect and promote shareholders' interests in setting executive remuneration and is accountable for the structure and quantum of remuneration.



**Susan Botha**

*Chairman of the Remuneration Committee*

13 June 2013

# REMUNERATION REPORT

This report sets out the Group's remuneration policy for executive and non-executive directors and executive management and provides detail of their remuneration and share interests for the financial year ended 31 March 2013. The remuneration report is subject to changes prior to the AGM following consultation with some of our key shareholders. Any changes will be communicated to shareholders in the Notice of the AGM.

## Role of the Remuneration Committee and terms of reference

The Remuneration Committee (Remco) acts on behalf of the Board in setting remuneration policy and oversee executive remuneration for executive directors and senior executives, monitoring the execution of the remuneration policy and making recommendations to the Board on the total remuneration of the Chairman, group CEO, members of the Board and senior executives.

The committee shall:

- Determine the remuneration policy for all employees including the remuneration of executive directors and senior executives. The remuneration structure is aligned with strategy, agreed risk appetite which reward success fairly and avoid paying more than what is necessary. The objectives of the policy are:
  - To promote sustainable value creation through transparent alignment with agreed corporate strategy;
  - To ensure proper risk management processes are in place to ensure that remuneration are appropriately aligned with both short and long-term performances;
  - To ensure that all employees:
    - o Are remunerated competitively and fair relative to industry benchmarks;
    - o Are provided with appropriate incentives to encourage enhanced performance; and
    - o Are rewarded for their individual contributions to the success of the company.
  - To ensure that remuneration is affordable and reasonable in terms of sustainable value creation for shareholders.
- Determine the total individual remuneration package of each of the executive directors including, guaranteed package, benefits in kind, short term incentive payments and share options:
  - Annually review, through performance appraisals conducted by the GCEO, the performance of senior executives and review their guaranteed packages based on the extent to which senior executives have met their performance targets, goals and objectives;
  - Approve annual guaranteed package increases for all other management and bargaining unit employees
- Determine targets for any performance related incentive schemes implemented in the Group.

- Seek board and shareholder approval for any long-term incentive scheme and determine annual grants and share allocations to executive directors and senior executives.
- Review annually the terms and conditions upon which the executive directors are employed and remunerated.
- Ensure that contractual terms on termination and any payments made are fair to both the individual and the Group.
- Review succession plans of executive directors and senior executive.

Remco held four scheduled meetings and no special meetings during the financial year. A quorum for a meeting is 50% of the members.

## Members of Remco

The committee consists of non-executive directors. Executive management attends by invitation as provided for in the Group's MOI. Ms S Botha, an independent non-executive director, was appointed chairman of Remco as of 18 February 2013. For the 2013 financial year Remco comprised the following non-executive directors (three of which are independent):

S Botha (Independent chairman-appointed with effect from 18 February 2013)  
B du Plessis (Independent)  
K Kweyama (Independent – appointed with effect from 18 February 2013)  
JA Mabuza (Appointed with effect from 18 February 2013)  
J Molobela  
JN Hope (Resigned with effect from 24 October 2012)  
PL Zim (Retired with effect from 24 October 2012)

By invitation

NT Moholi (Resigned as group chief executive officer with effect from 31 March 2013)  
TE Msubo (Chief of Human Resources)  
JH Schindehütte (Chief of Finance)  
JC Smit (Group executive: total remuneration and performance management)

## Remuneration policy

The Telkom remuneration strategy is designed to attract, retain and motivate high-calibre talent in a challenging ICT environment.

The market environment that Telkom operates in is characterised by:

- Intensifying competition with mobile operators and new entrants to the market which continues to put pressure on the Group.
- As the market expands with operators in all spheres of our business, the challenge of retaining experienced executive leadership, as well as attracting new talent required for the new and growing areas of our business, such as data and FMC increases.

This requires a competitive and attractive remuneration offering, to ensure that Telkom continues to draw, motivate and retain the best talent to drive group strategy and deliver operational results.



The remuneration structure is designed to ensure that individual contribution is rewarded and aligned to strategic, operating and financial performance, for long-term sustainability as well as short-term business plan deliverables, for profitability, both of which are imperative to shareholder interest and value creation.

We follow a holistic balance approached across the following remuneration elements:

Elements	Type	Desired outcome
Guaranteed Package (GP)	Fixed	Influenced by the scope of the role and the knowledge, skills and experience required. Salary levels are positioned at market median.
Short-term Incentives (STI)	Variable	Delivers reward on achievement of annual performance targets. The level of achievement determines the level of payment against each weighted company performance measure.
Long-term Incentives (LTI)	Variable	Motivate long-term sustainable stretch performance; align the interests of management with those of shareholders.

Our general philosophy, which is aligned with market practice, is to reward all Telkom employees on total earnings of market median. To ensure we remunerate employees competitively we use regular market and industry benchmarks – peer group and ICT industry.

#### REMUNERATION OBJECTIVES

As we approach the rejuvenation of Telkom, the remuneration policy is designed to compete for talent in a competitive labour market in order for Telkom to successfully achieve the following objectives:

- Be an integral part of an overall human resources strategy, geared to support business strategies;
- Value creation;
- Establish a formal, transparent and fair reward strategy;
- Control and manage total cost of employment;
- Retain competent employees to enhance business performance;
- Motivate individual and team performance to drive shareholder value and employee engagement;
- Differentiate payment based on individual performance; and
- Maintain a balance between guaranteed remuneration, short-term incentives and long-term incentives.

#### REMUNERATION PRINCIPLES

Telkom recognises that in this competitive environment, we need to differentiate based on strategic roles and growing areas of the business to value employee contribution. Therefore, our remuneration and reward policies and practices must be based on the following principles:

- Designed to motivate and reinforce superior performance;

- Encourage the development of organisational, team and individual performance;
- Develop competencies required to meet future business needs;
- Based on the premise that employees should share in the success of the Group;
- Aim to get the appropriate remuneration mix to ensure Telkom's business plan objectives are met; and
- Be fair and non-discriminatory.

#### Guaranteed packages

Guaranteed packages (GP) are influenced by the scope of the role and the knowledge, skills and experience required of the position holder and reflects the market median determined through external market research that yields market data and appropriate salary ranges for specific positions.

Employees do not have a right to annual guaranteed package increases. Annual increases are subject to industry market conditions, employee performance, internal equity, strategic investments and the Group's overall financial position and the ability to pay. Guaranteed packages are reviewed against individual performance, and set against market median. GP is determined on a total-cost-to-company basis. GP consists of a basic pensionable salary, retirement provision and flexible benefits which includes a non-pensionable allowance and a travel allowance where applicable.

Employees can structure their guaranteed packages within the framework of the applicable policies, practices and regulatory requirements. Remuneration adjustments outside the annual remuneration review process may be considered under exceptional circumstances and will be subject to the agreed authorisation.

# REMUNERATION REPORT

All positions are evaluated to determine their relative value and contribution in terms of complexity and required outcomes. Positions are evaluated using the Group’s job evaluation system (decision tree) which correlates with the Paterson grading system, as follows:

Hierarchical level	Level of leadership	Telkom grade
Group chief executive officer	Exco/executive management team	M0
Managing directors/chief officers		
Senior managing executives		M1
Group/managing executive		M2
Executives	Executive leadership	M3
Senior manager/manager	Frontline leadership	M4/5
Operations manager/supervisor	Frontline leadership	M6
Support staff/technician/specialist	Operational	OP1/2/A

## GROUP CHIEF EXECUTIVE OFFICER

The group chief executive officer (GCEO) is rewarded on the delivery of the strategic and operational deliverables in line with shareholder expectations and business strategy. The remuneration strategy for the GCEO is designed to align remuneration with long-term shareholder growth and sustainable profitability. The reward should demonstrate the critical and pivotal role the GCEO plays in the achievement of company strategic objectives and operational goals. Guaranteed package is set at market median.

## EXECUTIVE COMMITTEE AND EXECUTIVE MANAGEMENT TEAM

Guaranteed packages are in line with similar roles in the applicable market according to organisational size, profitability and complexity. It is also influenced by the scope of the role and knowledge, skills and experience required of the position holder. Guaranteed packages are also reviewed against individual performance, and set against market median.

For full details on the Exco and the executive management team, refer to pages 60 to 63.

The average guaranteed package increase for the current year was 4.66%, the prior year was 3% and the average increase for the 2014 financial year is 3%.

## EXECUTIVE EMPLOYEES

The average guaranteed package increase for the current year was 6%, the prior year was 3% and the average increase for the 2014 financial year is 3%.

## MANAGEMENT EMPLOYEES

Guaranteed packages for management levels are reviewed annually as part of the Group’s overall remuneration review process and are assessed against individual’s performance. The average salary increase for the current year was 6% the prior year was 3% and the average increase for the 2014 financial year is 3%.

## BARGAINING UNIT EMPLOYEES

Telkom follows a balanced approach in granting annual salary increases for bargaining unit employees with due consideration of CPI, market movements and affordability. The current long-term agreement with organised labour expired on 31 March 2013. The Group is currently still in negotiations with organised labour. The negotiated annual salary increases for the current year was 6.5%, the prior year was 7%, and the average increase for the 2014 financial year is 6.8%.

## Short-term incentive (STI)

STI component is an incentive that delivers reward on achievement of annual performance targets. The level of achievement determines the level of payment against each weighted company performance measure. The STI comprises a cash payment which is payable after finalisation of audited results at the end of the relevant financial year.

The objectives of the STI plan are as follows:

- To support the achievement of the Group's annual performance targets including the priority focus areas and annual business plan targets;
- To encourage over achievement of group results;
- To drive a strong performance culture whereby recognising and rewarding exceptional performance of the Group, teams and of individuals;
- Adequately differentiate between exceptional and mediocre performance
- Reward team and individual contribution and performance: "what is good for shareholders, customers and employees";
- More emphasis is placed on divisional performance to support the overall business strategy and create a clear line of site especially for lower level employees; and
- Individual measures will ensure that employees have better line of sight and fully understand the impact of their performance on the award, which will have a positive impact on individual and team performance.

In line with the new remuneration policy approved by shareholders, overall company performance will be measured at group, business unit and divisional level as indicated below:

Unit	Group target	Business unit target	Divisional target	Total
<b>Business unit (30/70)</b>	30%	60%	10%	<b>100%</b>
<b>Corporate Centre (70/30)</b>	70%	20%	10%	<b>100%</b>

The performance of the Group and business units will be measured against the following indicators:

#### GROUP LEVEL

- Earnings before interest and taxation measured on Group level
- Profits after Tax (PAT)

#### BUSINESS UNIT LEVELS

- Revenue, OPEX and CAPEX
- Performance drivers - customer satisfaction (Net Promoter Score), Turnaround Strategy implementation and organisational transformation
- Divisional specific measures are measured on divisional level

The rules, targets and measurements are tabled annually on recommendation of Remco to the Board for approval,

subject to the actual audited company performance reflected in the plan under review.

### Short-term incentive plan awarded for the 2013 financial year

For the purpose of calculating the Company performance against the short term incentive plan, the cost relating to voluntary severance and early retirement packages of R434 million and the provision of R592 million for the fines handed down to Telkom by the Competition Tribunal were excluded.

The average overall achievements of performance targets for financial year 2013 are reflected below:

Business unit/Corporate Centre	Actual achievement
Wholesale and networks	92% – 97%
Data centre operations	85% – 92%
Telkom business	89% – 98%
Consumer services	78% – 94%
Mobile	84%
GCEO office	96% – 194%
Chief financial office	96% – 104%
Chief of Regulatory	92% – 99%
Chief of HR	95% – 97%
Bargaining unit	88%

The board of directors has decided to pay employees an incentive to recognise their efforts under challenging circumstances. To this effect an average incentive was approved of 50% for both management and bargaining unit employees and 45% for the executive committee and executive management team (2012: 42.75% for the bargaining unit employees and 30.54% for management, Exco and executive management employees).

### Long-term incentive awards

Currently no long-term incentive (LTI) share plan is in place. The initial shareholder concerns with the 2012 LTI submission as well as proposed changes to address and accommodate shareholders are highlighted on the following page.

# REMUNERATION REPORT

Issues raised	Revised position
Limited consultation	Proper engagement with influential/majority shareholders
Performance conditions not challenging enough: TSR – CPI + 2% Profit after tax + 5% EBITDA + 5%	Basket of measures: HEPS, BEPS and TSR TSR risk free rate plus risk margin of 6% per annum
70% retention focus vs only 30% performance conditions	No retention only performance conditions (100%)

The Group will submit a share incentive plan to the 2013 Annual General Meeting, scheduled for 27 September 2013, for shareholder approval.

The proposed share incentive plans is structured to optimise the Group's overall position, while providing benefits that will assist the Group attract, retain and incentivise executives and top talented employees. The plan is designed to support the principle of alignment between management and shareholder interests with the aim to ultimately ensure growth in shareholder value. The objectives are to motivate long-term sustainable performance, align the interests of top management with those of shareholders and retain business critical and top talented employees.

The plan will consist of the following share based incentive plans: the share appreciation right scheme and forfeitable share plan for senior management (M4 and higher) a forfeitable share plan for employees below senior management levels (employee shared owner plan(ESOP)) (M5 and lower).

## SHARE APPRECIATION RIGHT SCHEME (SARS)

Eligible employees will receive annual grants of share appreciation rights, which are rights to receive shares equal to the value of the difference between the exercise price and the grant price. Vesting of the rights is subject to specific performance conditions.

When the holder elects to exercise the vested right, the company settles the difference between the market price on grant date and the exercise price in equity.

## FORFEITABLE SHARE PLAN

Forfeitable share plan entails a free transfer of shares to an employee, under the condition of forfeiture in the case that:

- Termination of service before the vesting/release date; and
- The Group's pre-determined performance levels.

From grant date, the employee has shareholder rights in respect of the forfeitable shares to receive dividend rights and voting rights.

## PERFORMANCE CONDITIONS FOR VESTING

The following financial measures must be achieved for forfeitable share in order for awards to be vested:

## TOTAL SHAREHOLDER RETURN

- Total shareholder return targets a risk free rate plus a risk margin of 6% per annum to be achieved for the three year period for a member to qualify for full vesting.
- A minimum achievement (hurdle) of a risk free rate plus a risk premium of 2% needs to be achieved before any vesting occurs.
- A linear sliding scale to be applied for total shareholder return achieved between risk free plus 2% and risk free plus 6% performance levels to determine vesting.
- Free cash flow.
- EBITDA.
- Net Promoter Score (NPS).

The Board will annually determine performance conditions for each allocation.

## LIMITS TO THE PROPOSED INCENTIVE SHARE PLANS

The aggregate number of shares which may be allocated under the long-term incentive plan (LTIP) when added to the total number of conditional awards, which have been allocated previously under the LTIP and any shares allocated to employees under any other managerial scheme operated by the Group, shall not exceed 26,039,195 shares equating to approximately 10% of the current number of issued ordinary shares of the Group.

The maximum number of shares allocated to all unvested awards granted to any participant, in respect of the LTIP and any other managerial scheme operated by the Group, shall not exceed 5,207,839 shares, representing approximately 1% of the current issued ordinary share capital of the Group.

Remco may not grant conditional awards to an employee in any financial year if it would at the proposed date of grant because the face value of the grant which such employee has been granted in that financial year to exceed 120% of the employee's guaranteed package at the proposed date of grant. In order to enhance the Company's ability to attract external candidates, Remco has the discretion to increase such limit to 240% in the year of appointment of an employee.

## Shareholding/ownership guideline

The Board wants to encourage individual shareholding in the Company to align shareholder interest and reinforce long-term decision making. Top Management – Exco members, managing/group executives and executives (M3 and higher) are expected to purchase a number of shares with the following minimum shareholding:

Grade	LTI		Share to purchase over a 3 year period		
	Allocation % of GP	% of GP	Year 1	Year 2	Year 3
M0	100%	15%	5%	5%	5%
M1	80%	15%	5%	5%	5%
M2	60%	15%	5%	5%	5%
M3	40%	15%	5%	5%	5%

The shareholding requirements are the criteria to participate in the FSP scheme. No shares will vest until the minimum requirements have been met.

The total number of shares purchased after 3 years which is equal to 15% of GP should be retained for a minimum period of:

- 50% for 24 months
- 50% for 12 months

In addition, the above shareholding requirements by executives to demonstrate their commitment and alignment with shareholder interests, the company will make a loan facility available to executives to purchase additional shares. The loan will be at a rate of 0% interest and the executive should retain these shares until retirement. The maximum loan granted will be equal to 1x guaranteed package. Fringe benefit tax will apply to the loan amount.

### What can shareholders expect going forward?

- The Company's remuneration policy will be more performance driven.
- Strong alignment between interest of executive directors, Exco and senior executives with those of shareholders.
- Substantial emphasis on the link between pay and performance together with executive share ownership requirements.

### External appointments

Executive directors are not permitted to hold more than one external directorship of listed companies or offices without the prior approval of the Board. To avoid conflict of company interest or impair the executive directors' ability to render productive service to Telkom, the executive directors may not accept membership of a board of directors without prior written permission. In the case of a member of the executive committee permission should be obtained from the GCEO. Telkom may withdraw permission to serve on a board of directors at any stage. Executive directors may accept compensation flowing from directorship. However, such compensation should be declared when applying for permission. Board meetings may be attend in members' own time by taking vacation leave.

### Service agreements

NT Moholi announced on 5 November 2012 that she has notified the board of directors of her intention to step down before the end of her contract period and therefore requested early termination of employment contract. She resigned as GCEO and director effective 31 March 2013 – contracted termination date. As part of the separation agreement signed with the employee, the employee acknowledged that she remains bound by the restraint of trade agreement that she signed on the 8th of April 2009 and 14th of April 2011 respectively. The restraint period is for a 24 month period from the date of termination of the employment contract. In accordance with the restraint agreement and for the duration of the restraint period the Employee shall not , whether as proprietor, partner, director, shareholder, employee, member, consultant, contractor, financier, agent,

representative, assistant or otherwise and whether for reward or not, directly or indirectly, carry on or be interested or engaged in or concerned with, or employed by any company, close corporation, firm, undertaking or concern carried on in the territory, which engages in any way in, the competitive activity or provides services which are the same as or similar to the competitive activity of the Company.

Telkom entered into a full-time employment contract with SN Maseko effective from 1 April 2013, with a termination clause subject to three (3) calendar months' notice given on either side.

Executive directors	Year first		
	Year of employment	appointed to the Board	Year due for re-election
SN Maseko	2013	2013	2014
JH Schindehütte	2011	2011	2016

### Retention and restraint agreements

In order to ensure that Telkom attracts highly skilled and experienced ICT business leaders Telkom can sign retention and/or restraint of trade agreement for specific candidates in specific roles. The main objective is to protect Telkom's interest with reference to trade secrets and confidential information. Confidential information to include, *inter alia*, information relating to Telkom strategic objectives, information relating to business activities, technical, scientific commercial, financial and market information, business data and plans, designs, drawings, and technical requirements and specifications of Telkom. After termination of the employment contract and for the duration of the restraint period the employee shall not carry on or be interested or engaged in/or concerned with or employed by any company which engaged in any way in, the competitive activity or provides services which are the same as or similar to the competitive activity.

No retention agreements were signed with any of the executive committee members during the financial year.

### Sign-on bonus

Sign-on bonuses may be allocated on the discretion of the GCEO on recommendation of executive committee members, to prospective staff members who meet specific criteria. The intention of the sign-on bonus is to act as a recruitment incentive to assist in talent attraction and compensate for potential loss of benefits from previous employer. The full sign-on bonus amount will be recovered if the individual terminate his/her employment contract.

Telkom paid a sign-on bonus to A Vitai, MD Telkom Mobile, in November 2012. The bonus will be recovered should he resign from his position before 31 October 2015.

### Non-executive directors' remuneration key principles and policies

The board of directors, on the recommendation of Remco, determines the fees of the non-executive directors. These fees are set out on pages 132 and 133 and in note 39 in the consolidated annual financial statements.

# REMUNERATION REPORT

Fees for Telkom's non-executive directors are determined by the board of directors based on market practice, within the restrictions contained in Telkom's MOI. Telkom's non-executive directors receive no other pay or benefits other than directors' fees, with the exception of reimbursement of expenses incurred in connection with their directorships. The non-executive directors do not participate in the long-term incentive share plan or in the short-term incentive plan outlined herein and are not eligible for pension scheme membership.

The remuneration structure is considered to be fair and reasonable and in the best interest of the Group.

## Service agreements

PL Zim had a service agreement with Telkom effective from 16 February 2011, which had a one-year term, expiring 15 February 2012. On 8 February 2012, shareholders were advised that PL Zim has been reappointed as chairman with immediate effect. On 9 September 2012, PL Zim has informed the board of directors of his retirement as chairman and director with effect from 24 October 2012.

Telkom entered into a service agreement with JA Mabuza effective from 16 November 2012, which has a one-year term, expiring 15 October 2013.

Board of directors	Year first appointed to the Board
PL Zim (former chairman)	2011
JA Mabuza (chairman)	2012
S Botha	2012
B du Plessis	2004
N Dongwana	2012
Dr CA Fynn	2012
JN Hope	2009
RJ Huntley	2007
N Kapila	2011
I Kgaboesele	2011
K Kweyama	2012
PSC Luthuli	2005
L Maasdorp	2012
N Mnxasana	2012
NT Moholi	2011
J Molobela	2009
K Mzondeki	2012
F Petersen	2012
JH Schindehütte	2011
Dr S Sibisi	2012
LL von Zeuner	2012
Y Waja	2010

## NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive directors' fees effectively 1 April 2012 were as follows:

Non-executive directors' fees	R per annum	
	2013	2012
Chairman of the Board	1,110,000	1,110,000
Non-executive director of the Board	325,000	325,000
International board member	449,811	449,811
Audit Committee chairman	200,000	200,000
Audit Committee member	120,000	120,000
Risk Committee chairman	200,000	200,000
Risk Committee member	120,000	120,000
Remuneration Committee chairman	200,000	200,000
Remuneration Committee member	120,000	120,000
Nominations Committee chairman	120,000	80,000
Nominations Committee member	90,000	60,000
Investment and Transactions Committee chairman	120,000	80,000
Investment and Transactions Committee member	90,000	60,000
Social and Ethics Committee chairman	200,000	200,000
Social and Ethics Committee member	120,000	120,000

Board meetings – five scheduled per annum.

Special board meetings fee:

- Chairman – R20,000 per meeting
- Ordinary board member – R15,000 per meeting
- International board member – R15,000 per meeting

Board sub-committee meetings:

- Four scheduled committee meetings are held per annum by the Audit, Risk, Remuneration and Social and Ethics Committees.
- Three scheduled committee meetings held per annum by the Nominations and Investment and Transactions Committees.
- Special committee meeting fee is R15,000 per meeting.

Where any board member voluntarily attends a committee meeting that they are not a member of, there is no fees payable for their attendance.

All fees are paid proportionally to the period in which office is held.

## REMUNERATION AND BENEFITS AWARDED TO PRESCRIBED OFFICERS DURING 2013

### Executive directors' remuneration

Remuneration and benefits paid and short-term incentives approved in respect of the 2013 financial year are set out in the following table:

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2013	Total 2012
<b>Executive directors</b>					
NT Moholi	6,402,150	2,659,133	2,575,420 <sup>(1)</sup>	<b>11,636,703</b>	12,067,321
JH Schindehütte	4,976,250	2,237,760	1,193,339 <sup>(2)</sup>	<b>8,407,349</b>	8,384,458
<b>Total</b>	<b>11,378,400</b>	<b>4,896,893</b>	<b>3,768,759</b>	<b>20,044,052</b>	20,451,779

<sup>(1)</sup> Represents four months' salary in lieu of notice pay in accordance with initial fixed term employment contract and accrued leave on date of exit.

<sup>(2)</sup> Includes a settling-in allowance of R1,181,375.

### Executive committee and prescribed officers (excluding executive directors)

The aggregate remuneration and benefits paid, short-term incentives approved and for the 2013 financial year are set out in the following table:

Executive committee	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2013	Total 2012
A Vitai	1,833,333	689,700	5,948,333 <sup>(1)</sup>	<b>8,471,366</b>	-
BC Armstrong	3,537,432	1,222,536	958,061 <sup>(2)</sup>	<b>5,718,029</b>	10,472,579
DJ Fredericks	3,162,000	1,179,300	680,074 <sup>(3)</sup>	<b>5,021,374</b>	7,886,290
JM Mavuso	2,931,497	905,481	11,964	<b>3,848,942</b>	8,280,935
TE Msubo	2,996,632	1,079,866	11,964	<b>4,088,462</b>	4,558,954
MB Sallie	3,336,218	1,167,409	11,964	<b>4,515,591</b>	9,820,143
GJ Rasethaba	2,582,987	900,119	11,964	<b>3,495,070</b>	5,425,393
MJ Nzeku	660,621	-	13,000,000 <sup>(4)</sup>	<b>13,660,621</b>	3,848,278
P Marais					6,050,160
<b>Total</b>	<b>21,040,720</b>	<b>7,144,411</b>	<b>20,634,324</b>	<b>48,819,455</b>	56,342,732

<sup>(1)</sup> Includes a sign-on bonus of R5,500,000.

<sup>(2)</sup> Represents an acting allowance – acting MD DCO.

<sup>(3)</sup> Includes an acting allowance – acting MD Telkom International.

<sup>(4)</sup> Represents an early retirement settlement. The amount included severance pay, short-term incentive, accrued leave and contribution to legal costs incurred in the arbitration dispute between Telkom and employee.

# REMUNERATION REPORT

## Executive management team

31 March 2013

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2013	Total 2012
Executive management team	65,003,020	13,910,442	49,933,872	<b>128,847,333</b>	81,284,461
Number of employees				<b>33</b>	32

## Non-executive directors

The following table details emoluments paid to non-executive directors for services rendered:

Non-executive directors	Directors' fees	Committee and special meeting fees	Total 2013	Total 2012
PL Zim (chairman)	156,667	627,422	<b>784,089</b>	1,520,000
JA Mabuza (chairman)	145,000	422,290	<b>567,290</b>	–
S Botha	50,000	101,943	<b>151,943</b>	–
B du Plessis	455,000	325,000	<b>780,000</b>	820,000
NP Dongwana	185,000	192,005	<b>377,005</b>	62,401
Dr CA Fynn	60,000	101,943	<b>161,943</b>	–
JN Hope	330,000	183,705	<b>513,705</b>	760,000
RJ Huntley	305,000	183,705	<b>488,705</b>	970,000
PG Joubert				325,417
N Kapila <sup>(1)</sup>	285,000	449,811	<b>734,811</b>	704,811
I Kgaboesele	490,000	325,000	<b>815,000</b>	428,750
KT Kweyama	–	101,943	<b>101,943</b>	–
PSC Luthuli	330,000	183,705	<b>513,705</b>	955,000
LW Maasdorp	85,000	128,004	<b>213,004</b>	–
NP Mnxasana	245,000	183,705	<b>428,705</b>	47,401
J Molobela	470,000	325,000	<b>795,000</b>	775,000
KW Mzondeki	105,000	128,004	<b>233,004</b>	–
F Petersen	90,000	101,943	<b>191,943</b>	–
S Sibisi	60,000	183,705	<b>243,705</b>	52,401
LL von Zeuner	110,000	101,943	<b>211,943</b>	–
Y Waja	310,000	183,705	<b>493,705</b>	760,000
<b>Total</b>	<b>4,266,667</b>	<b>4,534,481</b>	<b>8,801,148</b>	<b>8,181,181</b>

<sup>(1)</sup> N Kapila is a foreign director with Indian nationality.



## DIRECTORS' SHAREHOLDING AS AT 31 MARCH 2013

Number of shares	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
<b>Executive</b>				
NT Moholi	37,004	–	–	–
<b>Non-executive</b>				
J Molobela	267	–	–	–
K Mzondeki	267	–	–	–
Dr CA Fynn	202	–	–	–
<b>Total</b>	<b>37,740</b>	<b>–</b>	<b>–</b>	<b>–</b>

## DIRECTORS' SHAREHOLDING AS AT 31 MARCH 2012

Number of shares	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
<b>Executive</b>				
NT Moholi	37,004	–	–	–
<b>Non-executive</b>				
J Molobela	267	–	–	–
NP Mnxasana	160	–	–	–
<b>Total</b>	<b>37,431</b>	<b>–</b>	<b>–</b>	<b>–</b>

## DIRECTORS' INTERESTS IN CONTRACTS

The directors of the Group annually and as required declare their interest in any transaction with the Group in terms of the Companies Act, 2008. In accordance with the Companies Act, 2008, Telkom SA SOC Limited maintains a register of directors' interests in contracts.

None of the directors declared an interest in any contract during the year under review.

# SOCIAL AND ETHICS COMMITTEE REPORT

## INTRODUCTION

The Social and Ethics Committee presents its report for the financial year ended 31 March 2013. The report is presented in accordance with the Company's memorandum of incorporation, the requirements of the Companies Act, 71 of 2008 ("the Companies Act") section 72(4) read together with regulation 43 of the Companies Act Regulations, 2011 ("Regulations"), and in respect of any other duties assigned to the committee by the Board.

## MEMBERSHIP

The membership of the committee comprised the following non-executive directors of which three are independent:

J Molobela (chairman)  
L Maasdorp  
K Kweyama  
F Petersen  
LL von Zeuner

## Resignations

J Huntley – 24 October 2012 – resigned  
JN Hope – 24 October 2012 – resigned  
NP Mnxasana – 24 October 2012 – not re-elected by shareholders  
Y Waja – 24 October 2012 – retired  
NP Dongwana – 2 November 2012 – resigned

In addition, the GCEO; the CFO, chief of Regulatory and Corporate Affairs and chief of Human Resources are also permanent invitees to meetings.

Qualification details of the current members of the Social and Ethics Committee are set out on page 61.

Details of meeting attendance can be found on page 55.

## DUTIES PERFORMED

During the financial year ended 31 March 2013, the committee convened three times to discharge both its statutory and board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee carried out the following duties:

- Reviewed the sustainability issues and plan for the Group;
- Assessed the effectiveness of the Group's B-BBEE plan as pertains to transformation of the organisation;
- Reviewed the charitable giving function which is implemented through the Foundation to

ensure alignment of the function with the overall company strategy;

- Reviewed the Group's human resources operations report as it pertains to labour practices and decent work;
- Discussed the 54 pieces of legislation falling under the ambit of the committee identified by management;
- The committee further discussed the impact and controls of non-compliance to each of the legislation;
- Obtained regular updates from management regarding compliance matters;
- Obtained regular updates from management regarding Telkom's compliance with the JSE SRI and the Group's plan to address gaps identified during the review;
- Reviewed the adequacy and effectiveness of the Business Code of Ethics and other policies relevant to the committee;
- The committee has received regular reports on matters relating to the management of the Group's ethics, which included updates on matters reported to the ethics helpline/mailbox;
- The committee received reports on matters relating to the prevention, detection and investigation of fraudulent activity or misconduct within Telkom, including corrupt activities;
- The committee has received reports on matters relating to consumer complaints and satisfied itself that the Group was not in breach of the Consumer Protection Act through these complaints; and
- The committee has received reports on matters relating to sponsorships awarded by Telkom.

The committee has received and dealt with matters reported through the 'whistle-blowing line'.

## CONCLUSION

The committee is satisfied that it has fulfilled its obligations in respect of the Social and Ethics Committee terms of reference and work plan as well as its mandate according to the Companies Act.



**J Molobela**

*Chairman of the Social and Ethics Committee*

13 June 2013

# AUDIT COMMITTEE REPORT

## INTRODUCTION

The Audit Committee presents its report for the financial year ended 31 March 2013. The report is presented in accordance with the Group's memorandum of incorporation, the requirements of the Companies Act, 71 of 2008 (the Companies Act), as well as the recommendations contained in the third King Report on Governance for South Africa (King III). Amongst others, the Audit Committee's operations are also guided by a formal charter that is in line with the JSE Listings Requirements.

## MEMBERSHIP

The membership of the committee comprised the following independent non-executive directors:

I Kgaboesele (chairman)  
B du Plessis  
K Mzondeki  
F Petersen  
LL von Zeuner

## RESIGNATIONS

PSC Luthuli – 24 October 2012 – retired

NP Mnxasana – 24 October 2012 – not re-elected by shareholders

NP Dongwana – 2 November 2012 – resigned

In addition, the chief executive officer; the chief financial officer, head of internal audit, head of risk management and the external auditors are also permanent invitees to meetings.

Qualification details of the current members of the Audit Committee are set out on pages 60 and 61.

Details of meeting attendance can be found on page 50.

## DUTIES PERFORMED

During the financial year ended 31 March 2013, the committee convened six times to discharge both its statutory and board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee carried out the following duties:

- Reviewed the appropriateness of the identified significant risks and the management and control thereof;
- Discussed the Group's major risk exposures and the steps management had undertaken to mitigate them;
- Reviewed the Group's statement on internal control systems prior to endorsement by the Board;
- Satisfied itself that the internal audit coverage plans made provision for effectively addressing the risk areas of the business;
- Considered the results of work performed by, and the conclusions of, the internal audit function, in relation to:
  - Corporate governance;
  - Risk management;
  - Financial systems, internal control and reporting; and
  - Internal financial controls;

- Assessed and evaluated the independence and effectiveness of the internal auditor functions, in accordance with its mandate;
- Assessed the effectiveness of the combined assurance forum;
- Reviewed the performance and expertise of the chief financial officer;
- Responsible for the appointment of independent external auditors, retention, compensation, resignation or dismissal of the external auditors, as well as their terms of engagement and oversight of the work of the external auditors who report directly to the committee;
- Considered any material problems, reservations and observations, or any potentially contentious accounting treatments or judgements, or significant unusual transactions, or going concern issues arising from the external audit;
- Reviewed and recommended for adoption by the Board the interim and annual financial information that is publicly disclosed, including the integrated annual report;
- Reviewed the adequacy of management's corrective action taken in response to significant internal and external audit findings;
- Obtained regular updates from management regarding compliance matters;
- Obtained regular updates on the status of material open litigation and other proceedings and the related reserves;
- Reviewed the adequacy and effectiveness of the control framework and governance structures implemented within the IT environment; and
- The committee has received reports on matters relating to ethical conduct and the prevention, detection and investigation of fraudulent activity or misconduct within Telkom Group companies, received and dealt with concerns and complaints through "whistle-blowing" mechanisms that were reported to the committee by the head of risk management.

The committee is satisfied that it has fulfilled its obligations in respect of the Audit Committee charter.

## CONCLUSION

Based on the results of the formal documented review of the Group's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by Telkom audit services during the 2013 financial year and considering information and explanations given by management and discussions with the external auditor on the results of the audit, the Audit Committee has considered all significant control matters and associated action plans. Having regard to the aforementioned, nothing has come to the attention of the Audit Committee that leads it to conclude that the Group's system of internal controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

# AUDIT COMMITTEE REPORT

The Audit Committee is satisfied that Ernst & Young Inc. is independent and was appointed in terms of the requirements of section 90(2) of the Companies Act, No. 71 of 2008 and nominated the re-appointment of Ernst & Young Inc. as registered auditors for the 2014 financial year.

The Audit Committee recommended the consolidated annual financial statements and the integrated report for the year ended 31 March 2013 for approval by the board of directors on 13 June 2013.



**I Kgaboesele**

*Chairman of the Audit Committee*

13 June 2013

## CERTIFICATE FROM GROUP COMPANY SECRETARY

I hereby certify in accordance with section 88(2)(e) of the Companies Act, No. 71 of 2008, the Group has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

I further hereby certify that Telkom SA SOC Limited and its directors have, during the 12 months ended 31 March 2013, complied with all Listings Requirements and every disclosure requirement for continued listing on the JSE Limited imposed by the JSE Limited during that period.



**X Makasi**

*Group company secretary*

13 June 2013

# DIRECTORS' REPORT

## To the members of Telkom SA SOC Limited

The directors have pleasure in submitting the annual financial statements of the Company and the Group for the year ended 31 March 2013.

## NATURE OF BUSINESS

Telkom is a leading integrated communications service provider in South Africa and on the African continent.

## FINANCIAL RESULTS

Loss from continuing operations for the year ended 31 March 2013 was R11,499 million (2012: R179 million profit) representing basic earnings per share from continuing operations of 2,276.2 cents loss per share (2012: 10.4 cents profit per share). Full details of the financial position and results of the Group are set out in the accompanying Company and Group annual financial statements.

## DIVIDENDS

The ordinary dividend has been considered with reference to Telkom's current and expected future challenges, performance, debt and cash flow levels. Telkom's strategic objectives of network transformation and the building of its mobile business will see dividends being considered on an annual basis based on the performance of the Group. Telkom has decided not to declare a dividend in respect of the financial year ended 31 March 2013. While our current financial position should allow us to fund network transformation and build our data driven mobile offering, the Board has decided that it is prudent to allow for more internally generated funding for the capital expenditures planned over the next three years. This will better position Telkom to weather uncertainties as we advance our value building strategy.

## SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS

Particulars of the material subsidiaries of the Group are set out in note 16 of the accompanying Group annual financial statements.

The attributable interest of the Group in the after-tax earnings from continuing operations of its subsidiaries for the year ended 31 March 2013 were:

	2013 Rm	2012 Rm
<b>Aggregate amount of profit/(loss) after taxation</b>	<b>558</b>	(70)

## SHARE CAPITAL

Details of the authorised, issued and unissued share capital of the Company as at 31 March 2013, are contained in note 24 of the accompanying Group annual financial statements.

## SHARE REPURCHASE

The Company did not repurchase any shares during the year under review.

## BORROWING POWERS

In terms of the Company's memorandum of incorporation, Telkom has unlimited borrowing powers subject to the restrictive financial covenants of the TL20 bond and syndicated loans.

## CAPITAL EXPENDITURE AND COMMITMENTS

Details of the Company and Group's capital commitments on property, plant and equipment as well as intangible assets are set out in note 37 of the accompanying Group annual financial statements.

Details of the Company and Group's capital expenditure on property, plant and equipment as well as intangibles are set out in notes 13 and 14 of the accompanying Group annual financial statements.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As mentioned in note 38 to the consolidated financial statements in the report on the SAVA matter, the Competition Tribunal found Telkom to be in contravention of section 8(b) and section 8(d)(i) of the Competition Act and imposed an administrative penalty of R449 million on Telkom. Telkom appealed the matter and the Competition Commission filed a cross-appeal but, pursuant to settlement discussions between the parties, the respective appeals were subsequently withdrawn. Accordingly, the Competition Tribunal's award stands unaltered.

As a result of the Competition Tribunal's finding of a contravention of the Competition Act by Telkom, Telkom's external auditors, Ernst & Young Inc., reported a reportable irregularity (RI) to the Independent Regulatory Board for Auditors (IRBA). In response to a request from Ernst & Young Inc. for further information regarding the RI, Telkom confirmed that the RI is no longer taking place and that there are no losses to be recovered pursuant to the RI. The auditors have reported this in their findings to IRBA and it is expected that the RI will be finalised on this basis.

As mentioned in note 38 to the consolidated financial statements in the report on the Multiple Complaints Referral matter, the CC signed a settlement agreement on 13 June 2013, in an attempt to settle the MIV referral. In terms of this settlement agreement, Telkom has admitted that its conduct during the complaint period amounted to a contravention of sections 8(c) (margin squeeze) and 8(d)(iii) (bundling and tying) of the Competition Act. Telkom furthermore committed to certain price reductions over the next three years, behavioural remedies which include a form of functional separation between its wholesale and retail business and has agreed to pay an administrative

penalty of R200 million, payable in three equal instalments. This settlement agreement is subject to confirmation by the CT and Telkom is awaiting a date on which the CT will hear the matter.

As a result of the admissions by Telkom in the abovementioned settlement agreement, Telkom's external auditors, Ernst & Young Inc., reported an RI to the IRBA.

## EVENTS SUBSEQUENT TO REPORTING DATE

Events subsequent to the reporting date are set out in note 43 of the accompanying Group annual financial statements.

## DIRECTORATE

The following changes occurred in the composition of the board of directors from 1 April 2012 to the date of this report:

### Appointments

JA Mabuza (chairman)	14 November 2012
K Mzondeki	14 November 2012
L Maasdorp	16 November 2012
S Botha	10 December 2012
Dr CA Fynn	10 December 2012
K Kweyama	10 December 2012
F Petersen	10 December 2012
LL von Zeuner	10 December 2012
SN Maseko	1 April 2013

### Resignations

PL Zim	24 October 2012
Dr SP Sibisi	24 October 2012
RJ Huntley	24 October 2012
NP Mnxasana	24 October 2012
PSC Luthuli	24 October 2012
JN Hope	24 October 2012
Y Waja	24 October 2012
NP Dongwana	2 November 2012
NT Moholi	31 March 2013

The board of directors at the date of this report is as follows:

JA Mabuza	(chairman)
SN Maseko	(group chief executive officer)
JH Schindehütte	(chief financial officer)
S Botha	
B du Plessis	
Dr CA Fynn	
N Kapila	
I Kgaboesele	
K Kweyama	
L Maasdorp	
J Molobela	
K Mzondeki	
F Petersen	
LL von Zeuner	

Details of each director may be found on pages 60 and 61 of this integrated report.

## DIRECTORS' INTERESTS

At 31 March 2013, none of Telkom's directors other than NT Moholi, J Molobela, K Mzondeki and Dr CA Fynn held any direct and indirect, beneficial and non-beneficial interests in the share capital of the Company. NT Moholi, J Molobela, K Mzondeki and Dr CA Fynn directly held 37,004, 276, 276 and 202 ordinary shares in Telkom, respectively.

Details of the company secretary's business address and the Group's registered office are set out on the inside back cover of this integrated report.

# INDEPENDENT AUDITOR'S REPORT



**Ernst & Young Inc.**  
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Private Bag X14  
Northlands 2116  
Johannesburg, South Africa  
Tel: 00 27 (0)11 772-3000  
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Docex 123 Randburg  
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Co. Reg. No. 2005/002308/21

## INDEPENDENT AUDITOR'S REPORT

### TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TELKOM SA SOC LIMITED

#### Report on the Financial Statements

We have audited the accompanying Group and Company financial statements of Telkom SA SOC Limited set out on pages 144 to 239, which comprise the Group and Company statements of financial position as at 31 March 2013, and the Group and Company statements of comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these Group and Company financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these Group and Company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Group and Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Group and Company financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group and Company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Level two, AAA B-BBEE rating. As a recognised value adding enterprise, our clients are able to claim B-BBEE recognition of 156.25%

Chief Executive: Ajen Sita  
A full list of Directors is available from the website.





### **Opinion**

In our opinion, the Group and Company financial statements present fairly, in all material respects, the financial position of Telkom SA SOC Limited as at 31 March 2013, and of the Group and Company financial performance and the Group and Company cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### **Report on other legal and regulatory requirements**

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified certain unlawful acts or omissions committed by persons responsible for the management of Telkom SA SOC Limited which constitute reportable irregularities in terms of the Auditing Profession Act, and have reported such matters to the Independent Regulatory Board for Auditors. The matters pertaining to the reportable irregularities have been described in the directors' report under the heading "Report on other legal and regulatory requirements".

### **Other reports required by the Companies Act**

As part of our audit of the financial statements for the year ended 31 March 2013, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

*Ernst & Young Inc.*

Ernst & Young Inc.

Director – Andrew Mashifane  
Registered Auditor  
Chartered Accountant (SA)  
13 June 2013

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2013

	Notes	Group		Company	
		2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>Continuing operations</b>					
<b>Total revenue</b>	4.1	<b>33,119</b>	33,668	<b>31,909</b>	32,262
<b>Operating revenue</b>	4.2	<b>32,501</b>	33,079	<b>30,972</b>	31,510
Other income	5	<b>402</b>	579	<b>395</b>	437
<b>Operating expenses</b>		<b>43,950</b>	31,250	<b>42,835</b>	30,979
Employee expenses	6.1	<b>9,861</b>	8,636	<b>9,490</b>	8,291
Payments to other operators	6.2	<b>4,678</b>	5,484	<b>4,479</b>	5,288
Selling, general and administrative expenses	6.3	<b>7,216</b>	7,193	<b>6,825</b>	8,224
Service fees	6.4	<b>3,103</b>	2,974	<b>3,068</b>	2,952
Operating leases	6.5	<b>936</b>	825	<b>880</b>	757
Depreciation, amortisation, impairment, write-offs and losses	6.6	<b>18,156</b>	6,138	<b>18,093</b>	5,467
<b>Results from operating activities</b>		<b>(11,047)</b>	2,408	<b>(11,468)</b>	968
<b>Investment income</b>	7	<b>301</b>	238	<b>581</b>	367
<b>Finance charges and fair value movements</b>	8	<b>263</b>	1,872	<b>542</b>	745
Interest		<b>660</b>	765	<b>654</b>	763
Foreign exchange (gains)/losses and fair value movements		<b>(397)</b>	1,107	<b>(112)</b>	(18)
<b>(Loss)/profit before taxation</b>		<b>(11,009)</b>	774	<b>(11,429)</b>	590
Taxation	9	<b>490</b>	595	<b>326</b>	766
<b>(Loss)/profit from continuing operations</b>		<b>(11,499)</b>	179	<b>(11,755)</b>	(176)
<b>Loss from discontinued operations</b>	10	<b>–</b>	269	<b>–</b>	–
<b>Loss for the year</b>		<b>(11,499)</b>	(90)	<b>(11,755)</b>	(176)
<b>Other comprehensive income</b>					
<b>Items that may be reclassified subsequently to profit or loss</b>					
Exchange differences on translating foreign operations		<b>(3)</b>	(30)	<b>–</b>	–
Available-for-sale investment		<b>–</b>	(5)	<b>–</b>	–
<b>Items that may not be reclassified subsequently to profit or loss</b>					
Defined benefit plan actuarial (losses)/gains		<b>(284)</b>	65	<b>(284)</b>	64
Defined benefit plan asset limitations		<b>(38)</b>	–	<b>(38)</b>	–
Income tax relating to components of other comprehensive income	11	<b>90</b>	(18)	<b>90</b>	(18)
<b>Other comprehensive (loss)/income for the year, net of taxation</b>		<b>(235)</b>	12	<b>(232)</b>	46
<b>Total comprehensive loss for the year</b>		<b>(11,734)</b>	(78)	<b>(11,987)</b>	(130)
<b>(Loss)/profit attributable to:</b>					
Owners of Telkom		<b>(11,622)</b>	(216)	<b>(11,755)</b>	(176)
Non-controlling interests		<b>123</b>	126	<b>–</b>	–
<b>Loss for the year</b>		<b>(11,499)</b>	(90)	<b>(11,755)</b>	(176)
<b>Total comprehensive (loss)/income attributable to:</b>					
Owners of Telkom		<b>(11,857)</b>	(204)	<b>(11,987)</b>	(130)
Non-controlling interests		<b>123</b>	126	<b>–</b>	–
<b>Total comprehensive loss for the year</b>		<b>(11,734)</b>	(78)	<b>(11,987)</b>	(130)
<b>Total operations</b>					
<b>Basic and diluted loss per share (cents)</b>	12	<b>(2,276.2)</b>	(42.3)		
<b>Continuing operations</b>					
<b>Basic and diluted (loss)/earnings per share (cents)</b>	12	<b>(2,276.2)</b>	10.4		
<b>Dividend per share (cents)</b>	36	<b>–</b>	145	<b>–</b>	145

# STATEMENTS OF FINANCIAL POSITION

at 31 March 2013

	Notes	Group		Company	
		2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>29,989</b>	42,362	<b>28,301</b>	40,906
Property, plant and equipment	13	24,524	36,155	24,359	35,979
Intangible assets	14	2,581	3,555	2,425	3,418
Investments in subsidiaries	16.1	–	–	237	202
Other investments	16.2	2,492	2,260	928	968
Deferred expenses	17	50	47	50	47
Other financial assets	22	83	48	83	48
Finance lease receivables	18	219	244	219	244
Deferred taxation	19	40	53	–	–
<b>Current assets</b>		<b>11,638</b>	10,206	<b>10,598</b>	9,238
Inventories	20	1,166	993	1,026	879
Income tax receivable	35	16	26	–	–
Current portion of finance lease receivables	18	131	128	131	128
Trade and other receivables	21	5,804	5,696	5,059	4,951
Other financial assets	22	2,134	2,195	2,124	2,185
Cash and cash equivalents	23	2,387	1,168	2,258	1,095
<b>Total assets</b>		<b>41,627</b>	52,568	<b>38,899</b>	50,144
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the parent</b>		<b>17,850</b>	29,707	<b>15,120</b>	27,107
Share capital	24	5,208	5,208	5,208	5,208
Treasury shares	25	(771)	(771)	(775)	(775)
Non-distributable reserves	26	2,164	1,887	–	–
Retained earnings		11,249	23,383	10,687	22,674
Non-controlling interests	27	379	434	–	–
<b>Total equity</b>		<b>18,229</b>	30,141	<b>15,120</b>	27,107
<b>Non-current liabilities</b>		<b>10,268</b>	12,718	<b>10,218</b>	12,672
Interest-bearing debt	28	3,899	5,897	3,895	5,891
Other financial liabilities	22	12	26	12	26
Employee related provisions	29	5,150	4,880	5,131	4,860
Non-employee related provisions	29	238	36	228	34
Deferred revenue	17	952	1,132	952	1,132
Deferred taxation	19	17	747	–	729
<b>Current liabilities</b>		<b>13,130</b>	9,709	<b>13,561</b>	10,365
Trade and other payables	31	4,661	4,291	5,167	5,005
Shareholders for dividend	36	22	23	22	23
Current portion of interest-bearing debt	28	2,758	1,289	2,756	1,287
Current portion of employee related provisions	29	2,605	1,652	2,577	1,631
Current portion of non-employee related provisions	29	786	240	786	231
Current portion of deferred revenue	17	1,740	1,995	1,699	1,968
Income tax payable	35	501	87	494	85
Current portion of other financial liabilities	22	54	129	57	133
Credit facilities utilised	23	3	3	3	2
<b>Total liabilities</b>		<b>23,398</b>	22,427	<b>23,779</b>	23,037
<b>Total equity and liabilities</b>		<b>41,627</b>	52,568	<b>38,899</b>	50,144

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2013

Group	Attributable to equity holders of Telkom							
	Share capital Rm	Treasury shares Rm	Non-distributable reserves Rm	Retained earnings Rm	Discontinued operations Rm	Total Rm	Non-controlling interests Rm	Total equity Rm
<b>Balance at 1 April 2011</b>	5,208	(771)	1,764	24,467	(1,033)	29,635	387	30,022
<b>Total comprehensive (loss)/income</b>			(57)	(169)	22	(204)	126	(78)
(Loss)/profit for the year				(216)		(216)	126	(90)
Other comprehensive income			(57)	47	22	12	–	12
Exchange differences on translating foreign operations (refer to note 26)			(52)	–	22	(30)	–	(30)
Available for sale investment (refer to note 26)			(5)	–	–	(5)	–	(5)
Net defined benefit plan gain			–	47	–	47	–	47
<b>Transactions with owners recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>				(735)		(735)	–	(735)
Dividends paid				(735)		(735)	–	(735)
Reserves held for sale realised on disposal of Multi-Links Telecommunications Limited (net of tax of R332 million)					1,011	1,011	–	1,011
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 26)			205	(205)	–	–	–	–
Realised gain of the Cell Captive (refer to note 26)			(25)	25	–	–	–	–
<b>Contributions by and distributions to non-controlling interest</b>							(79)	(79)
Dividends declared (refer to note 27)	–	–	–	–	–	–	(79)	(79)
<b>Balance at 31 March 2012</b>	5,208	(771)	1,887	23,383	–	29,707	434	30,141
<b>Balance at 1 April 2012</b>	<b>5,208</b>	<b>(771)</b>	<b>1,887</b>	<b>23,383</b>	<b>–</b>	<b>29,707</b>	<b>434</b>	<b>30,141</b>
<b>Total comprehensive (loss)/income</b>			(3)	(11,854)	–	(11,857)	123	(11,734)
Loss for the year			–	(11,622)	–	(11,622)	123	(11,499)
Other comprehensive loss			(3)	(232)	–	(235)	–	(235)
Exchange differences on translating foreign operations (refer to note 26)			(3)	–	–	(3)	–	(3)
Net defined benefit plan loss			–	(232)	–	(232)	–	(232)
<b>Transactions with owners recorded directly in equity</b>								
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 26)			320	(320)	–	–	–	–
Realised gain of the Cell Captive (refer to note 26)			(40)	40	–	–	–	–
<b>Contributions by and distributions to non-controlling interest</b>							(176)	(176)
Dividends paid*			–	–	–	–	(176)	(176)
Acquisition of non-controlling interests			–	–	–	–	(2)	(2)
<b>Balance at 31 March 2013</b>	<b>5,208</b>	<b>(771)</b>	<b>2,164</b>	<b>11,249</b>	<b>–</b>	<b>17,850</b>	<b>379</b>	<b>18,229</b>

\* Dividend paid to non-controlling interests of the Trudon Group.

Company	Attributable to equity holders of Telkom			
	Share capital Rm	Treasury shares Rm	Retained earnings Rm	Total Rm
<b>Balance at 1 April 2011</b>	5,208	(775)	23,559	27,992
<b>Total comprehensive loss</b>			(130)	(130)
Loss for the year			(176)	(176)
Other comprehensive income			46	46
Net defined benefit plan gain			46	46
<b>Transactions with owners recorded directly in equity</b>				
<b>Contributions by and distributions to owners</b>			(755)	(755)
Dividends paid			(755)	(755)
<b>Balance at 31 March 2012</b>	5,208	(775)	22,674	27,107
<b>Balance at 1 April 2012</b>	<b>5,208</b>	<b>(775)</b>	<b>22,674</b>	<b>27,107</b>
<b>Total comprehensive loss</b>			<b>(11,987)</b>	<b>(11,987)</b>
Loss for the year			(11,755)	(11,755)
<b>Other comprehensive loss</b>			<b>(232)</b>	<b>(232)</b>
Net defined benefit plan loss			(232)	(232)
<b>Balance at 31 March 2013</b>	<b>5,208</b>	<b>(775)</b>	<b>10,687</b>	<b>15,120</b>

# STATEMENTS OF CASH FLOWS

for the year ended 31 March 2013

	Notes	Group		Company	
		2013 Rm	Reclassified 2012 Rm	2013 Rm	Reclassified 2012 Rm
<b>Cash flows from operating activities</b>		<b>7,474</b>	5,892	<b>7,412</b>	5,924
Cash receipts from customers		<b>31,693</b>	32,634	<b>30,244</b>	31,203
Cash paid to suppliers and employees		<b>(23,209)</b>	(24,911)	<b>(22,411)</b>	(23,688)
Cash generated from operations	32	<b>8,484</b>	7,723	<b>7,833</b>	7,515
Interest received		<b>520</b>	484	<b>430</b>	445
Dividend received	33	<b>–</b>	–	<b>325</b>	146
Finance charges paid	34	<b>(666)</b>	(564)	<b>(625)</b>	(674)
Taxation paid	35	<b>(687)</b>	(939)	<b>(550)</b>	(753)
Cash generated from operations before dividend paid		<b>7,651</b>	6,704	<b>7,413</b>	6,679
Dividend paid	36	<b>(177)</b>	(812)	<b>(1)</b>	(755)
<b>Cash flows from investing activities</b>		<b>(5,519)</b>	(4,907)	<b>(5,519)</b>	(5,056)
Proceeds on disposal of property, plant and equipment and intangible assets		<b>39</b>	105	<b>39</b>	103
Proceeds on disposal of investment		<b>31</b>	–	<b>–</b>	–
Additions to property, plant and equipment and intangible assets		<b>(5,627)</b>	(4,675)	<b>(5,557)</b>	(4,514)
Decrease/(increase) in repurchase agreements*		<b>29</b>	(337)	<b>30</b>	(337)
Loans repaid by joint venture		<b>9</b>	–	<b>–</b>	–
Loans advanced to subsidiaries		<b>–</b>	–	<b>(31)</b>	(308)
<b>Cash flows from financing activities</b>		<b>(731)</b>	(1,586)	<b>(729)</b>	(1,467)
Loans raised		<b>2,042</b>	1,092	<b>2,042</b>	1,092
Loans repaid		<b>(2,743)</b>	(2,345)	<b>(2,743)</b>	(2,343)
Finance lease capital repaid		<b>(189)</b>	(177)	<b>(187)</b>	(175)
Settlement/(purchases) of derivatives		<b>159</b>	(156)	<b>159</b>	(41)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,224</b>	(601)	<b>1,164</b>	(599)
Net cash and cash equivalents at beginning of year		<b>1,165</b>	1,773	<b>1,093</b>	1,699
Effect of foreign exchange rate differences on cash and cash equivalents		<b>(5)</b>	(7)	<b>(2)</b>	(7)
<b>Net cash and cash equivalents at end of year**</b>	23	<b>2,384</b>	1,165	<b>2,255</b>	1,093



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

\*\* For cash flow activities on discontinued operations refer to note 10.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 1. CORPORATE INFORMATION

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

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

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

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

### Adoption of amendments to standards, new standards and new interpretations

#### IFRS 10 Consolidated Financial Statements

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### *IFRS 11 Joint Arrangements*

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

#### *IFRS 12 Disclosure of Interests in Other Entities*

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

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

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

#### *IFRS 13 Fair Value Measurement*

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

#### *IAS 1 (amendment) Presentation of Financial Statements*

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

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

#### *IAS 27 (amendment) Separate Financial Statements*

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



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### IAS 28 (amendment) Investments in Associates and Joint Ventures

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

#### Circular 3/2012 Headline Earnings

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

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

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

### Change in accounting policy

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

#### IFRS 10 Consolidated Financial Statements

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

#### IFRS 11 Joint Arrangements

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Change in accounting policy (continued)

#### *IAS 27 (amendment) Separate Financial Statements*

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

#### Significant accounting judgements, estimates and assumptions

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

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

#### *Property, plant and equipment and intangible assets*

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

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

#### *Asset retirement obligations*

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

#### *Impairments of property, plant and equipment and intangible assets*

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

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

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

#### *Impairment of receivables*

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant accounting judgements, estimates and assumptions (continued)

#### *Customer relationship periods*

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

#### *Deferred taxation asset*

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

#### *Taxation*

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

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

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

#### *Deferred taxation rate*

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

#### *Employee benefits*

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

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

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

#### *Leases*

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant accounting judgements, estimates and assumptions (continued)

#### *Provisions*

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

#### *Contingent liabilities*

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

#### *Segment information*

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

### Summary of significant accounting policies

#### *Classification of associates*

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

#### *Basis of consolidation*

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

#### *Subsidiaries*

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

#### *Transactions with non-controlling interests*

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

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

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

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

#### *Joint arrangements*

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

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### *Joint arrangements* (continued)

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

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

#### *Associates*

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

#### *Structured entities*

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

#### *Business combinations*

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

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

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

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

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

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

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

#### *Investments in subsidiaries, associates and joint ventures*

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

#### *Goodwill*

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### *Revenue recognition*

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

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

#### *Dealer incentives*

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

#### *Retail voice*

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

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

#### *Pre-paid*

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

#### *Pay phones*

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

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

#### *Post-paid*

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

#### *Interconnection*

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

#### *Customer premises equipment*

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

#### *Data*

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

#### *Directory services*

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

#### *Sundry revenue*

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### *Deferred revenue and expenses*

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

#### *Post-paid contract and pre-paid products*

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

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

#### *Roaming agreements*

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

#### *Equipment sales*

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

#### *Customer loyalty programmes*

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

#### *Connection incentives*

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

#### *Interest on debtors' accounts*

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

#### *Marketing*

Marketing costs are recognised as an expense when incurred.

#### *Incentives*

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

#### **Taxation**

##### *Current taxation*

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



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### Taxation (continued)

##### Deferred taxation

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

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

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

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

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

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

##### Secondary taxation on companies/Dividends tax

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

##### Property, plant and equipment

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

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

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

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

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

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

The estimated useful lives applied are provided in note 6.

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

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### *Intangible assets*

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

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

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

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

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

The expected useful lives applied are provided in note 6.

#### *Asset retirement obligations*

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

#### *Non-current assets held for sale*

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

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

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

#### *Impairment of property, plant and equipment and intangible assets*

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

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

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

#### *Repairs and maintenance*

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

#### *Borrowing costs*

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

#### *Inventories*

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

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

#### *Financial instruments*

##### *Recognition and initial measurement*

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

##### *Subsequent measurement*

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

##### *Fair value measurement*

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

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

##### *Financial assets at fair value through profit or loss*

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

##### *Held-to-maturity financial assets*

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### *Financial instruments* (continued)

##### *Loans and receivables*

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

##### *Financial liabilities at fair value through profit or loss*

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

A financial liability is classified as held for trading:

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

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

##### *Other financial liabilities*

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

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

##### *Financial guarantee contracts*

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

##### *Cash and cash equivalents*

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

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

##### *Repurchase agreements*

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

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

All associated finance charges are expensed in profit or loss.

##### *Capital and money market transactions*

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

##### *Derecognition*

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

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

##### *Impairment of financial assets*

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### *Financial instruments* (continued)

##### *Impairment of financial assets* (continued)

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

##### *Remeasurement of embedded derivatives*

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

##### *Financial instruments: Disclosures*

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

##### *Foreign currencies*

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

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

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

##### *Treasury shares*

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

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

##### *Leases*

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

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

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

##### *Lessee*

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

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Summary of significant accounting policies (continued)

#### *Lessor*

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

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

#### **Employee benefits**

##### *Post-employment benefits*

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

##### *Defined contribution plans*

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

##### *Defined benefit plans*

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

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

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

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

##### *Leave benefits*

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

##### *Short-term employee benefits*

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

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

#### **Provisions**

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

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

### 3. SEGMENT INFORMATION

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

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

### 4. REVENUE

#### Revenue recognition

The Group provides fixed-line, mobile and data communication services and communication related products. The Group provides such services to business, residential, pay phone and mobile customers. Revenue represents the fair value of fixed or determinable consideration that has been received or is receivable.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>4.1 Total revenue</b>	<b>33,119</b>	33,668	<b>31,909</b>	32,262
Operating revenue	<b>32,501</b>	33,079	<b>30,972</b>	31,510
Other income (excluding profit on disposal of property, plant and equipment, intangible assets, investments and profit on disposal of subsidiary, refer to note 5)	<b>317</b>	351	<b>356</b>	385
Investment income (refer to note 7)	<b>301</b>	238	<b>581</b>	367
<b>4.2 Operating revenue</b>	<b>32,501</b>	33,079	<b>30,972</b>	31,510
Voice*	<b>16,818</b>	17,668	<b>16,818</b>	17,668
Interconnection*	<b>1,597</b>	1,855	<b>1,597</b>	1,855
Data*	<b>10,801</b>	10,237	<b>10,813</b>	10,258
Customer premises equipment*	<b>1,466</b>	1,401	<b>1,466</b>	1,401
Sundry revenue	<b>1,819</b>	1,918	<b>278</b>	328

Operating revenue decreased mainly due to a reduction in retail voice revenue due to lower usage and retail rates. Interconnection revenue also decreased due to lower rates and volumes. These were partly offset by an increase in mobile revenue due to growth.

\* The categories of revenue were changed retrospectively to enhance the Group's revenue disclosure. In the prior year subscriptions, Telkom mobile, connections and other usage as well as traffic revenue streams were disclosed. This was reclassified to voice, data, interconnection and customer premises equipment.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>5. OTHER INCOME</b>	<b>402</b>	579	<b>395</b>	437
Other income (included in Total revenue, refer to note 4)	<b>317</b>	351	<b>356</b>	385
Interest received from trade receivables	<b>199</b>	245	<b>213</b>	215
Interest received from subsidiaries	<b>–</b>	–	<b>–</b>	7
Sundry income	<b>118</b>	106	<b>143</b>	163
Profit on disposal of property, plant and equipment and intangible assets	<b>39</b>	53	<b>39</b>	52
Profit on disposal of investments	<b>16</b>	8	<b>–</b>	–
Profit on disposal of joint venture	<b>30</b>	–	<b>–</b>	–
Profit on disposal of subsidiary	<b>–</b>	167	<b>–</b>	–

In the prior year Multi-Links Telecommunications Ltd was sold for USD300. The profit on disposal of subsidiary is due to the carrying amount of total liabilities exceeding total assets.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>6. OPERATING EXPENSES</b>				
Operating expenses comprise:				
<b>6.1 Employee expenses</b>	<b>9,861</b>	8,636	<b>9,490</b>	8,291
Salaries and wages	7,536	6,987	7,283	6,751
Medical aid contributions	19	18	–	–
Retirement contributions	624	575	606	558
Post-retirement pension and retirement fund (refer to note 30)	(95)	(88)	(95)	(88)
Current service cost	5	5	5	5
Interest cost	794	737	794	737
Expected return on plan assets	(894)	(830)	(894)	(830)
Post-retirement medical aid (refer to notes 29 and 30)	491	468	490	466
Current service cost	110	107	110	106
Interest cost	622	569	621	568
Expected return on plan asset	(241)	(208)	(241)	(208)
Telephone rebates (refer to notes 29 and 30)	53	56	53	56
Current service cost	7	7	7	7
Interest cost	44	47	44	47
Past service cost	2	2	2	2
Other benefits*	1,754	1,127	1,674	1,055
Employee expenses capitalised	(521)	(507)	(521)	(507)
The increase in salaries and wages is mainly due to an average salary increase of 6.5%.				
Other benefits increased mainly due to the provision for the voluntary severance and voluntary early retirement packages (VSP/VERP) offset by a curtailment gain of R276 million (2012: curtailment loss of R2 million) on the post-retirement medical aid and a curtailment loss of R6 million (2012: RNil million) on the telephone rebates. Refer to note 29.				
* Other benefits include skills development, annual leave, performance incentive, service bonuses, curtailment and voluntary employee severance/ voluntary early retirement packages costs.				
<b>6.2 Payments to other operators</b>	<b>4,678</b>	5,484	<b>4,479</b>	5,288
Payments to other network operators consist of expenses in respect of interconnection with other network operators and decreased due to the reduction in the mobile termination rates.				



	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>6. OPERATING EXPENSES (continued)</b>				
<b>6.3 Selling, general and administrative expenses</b>	<b>7,216</b>	7,193	<b>6,825</b>	8,224
Selling and administrative expenses*	2,384	1,588	2,111	2,713
Maintenance	3,112	2,684	3,102	2,672
Marketing	956	1,059	934	1,025
Mobile direct costs and dealer incentives	312	1,019	312	1,019
Fixed-line dealer incentives	51	153	51	153
Impairment of receivables*	401	690	315	642
Selling and administrative expenses increased due to the provision for the Competition Commission fines.				
Maintenance costs increased due to the expenditure on the integration of independent business systems.				
Mobile direct costs and fixed-line dealer incentives decreased due to lower sale acquisition costs incurred as a direct result of the refocus of the company strategy.				
Included in mobile direct costs is amortisation of R137 million (2012: R43 million) relating to the connection incentive bonus (refer to note 14).				
* Included in impairment of receivables is bad debts recovered of R181 million for the Group and Company. In the 2012 financial year for selling and administrative expenses is an amount of R93 million for bad debts recovered for Group and Company.				
<b>6.4 Service fees</b>	<b>3,103</b>	2,974	<b>3,068</b>	2,952
Facilities and property management	1,660	1,505	1,659	1,503
Consultancy services	409	506	388	497
Security and other	972	895	969	892
Auditors' remuneration	62	68	52	60
<b>6.5 Operating leases*</b>	<b>936</b>	825	<b>880</b>	757
Land and buildings	422	331	385	282
Transmission and data lines	18	19	–	–
Equipment	36	30	35	29
Vehicles	460	445	460	446
* Operating lease commitments are disclosed in note 37.				
<b>6.6 Depreciation, amortisation, impairment and write-offs</b>	<b>18,156</b>	6,138	<b>18,093</b>	5,467
Depreciation of property, plant and equipment	5,072	4,608	5,045	4,556
Amortisation of intangible assets	906	707	871	657
Impairment of property, plant and equipment and intangible assets	12,000	569	12,000	–
Write-offs of property, plant and equipment and intangible assets	178	254	177	254

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 6. OPERATING EXPENSES (continued)

### 6.6 Depreciation, amortisation, impairment and write-off (continued)

#### Property, plant and equipment

The estimated useful lives assigned to groups of property, plant and equipment are:

	Years	Years	Years	Years
Freehold buildings	15 to 40	15 to 40	15 to 40	15 to 40
Leasehold buildings	4 to 6	1 to 9	6	1 to 7
Network equipment				
Cables	20 to 40	20 to 40	20 to 40	20 to 40
Switching equipment	5 to 18	5 to 18	5 to 18	5 to 18
Transmission equipment	5 to 18	5 to 18	5 to 18	5 to 18
Other	2 to 20	2 to 20	2 to 20	2 to 20
Support equipment	5 to 13	5 to 13	5 to 13	5 to 13
Furniture and office equipment	1 to 15	1 to 15	11 to 15	11 to 15
Data processing equipment and software	1 to 10	1 to 10	5 to 10	5 to 10
Other	1 to 20	1 to 20	2 to 20	2 to 20

The expected useful lives assigned to intangible assets are:

	Years	Years	Years	Years
Licences	3 to 11	3 to 11		
Software	2 to 10	2 to 10	5 to 10	5 to 10
Connection incentive bonus*	0	2	0	2
Trademarks, copyrights and other	4 to 13	4 to 13	4 to 13	4 to 13

\* For the Connection incentive bonus, refer to the Connection incentive in the Summary of significant accounting policies under Revenue recognition.

As a result of rolling out of the next generation network transformation programme, the Group re-assessed the useful lives of certain legacy equipment. The re-assessment of useful lives had the effect of increasing the depreciation expense for the year ended 31 March 2013 by R667 million (2012: R605 million).

Depreciation for each year of the remaining useful lives of the individually re-assessed equipment could be significantly lower as a result of the impairment loss recognised on the legacy assets – refer to note 14.

The impairment loss relates to property, plant and equipment of R11,025 million and relates to intangible assets of R975 million of the Telkom Cash-Generating Unit. This is based on Value in Use. Refer to key valuation assumptions detailed in note 14.

	Group		Company	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
<b>7. INVESTMENT INCOME</b>	<b>301</b>	238	<b>581</b>	367
Interest income	282	229	256	197
Dividend income from investments	17	7	–	–
Dividend income from subsidiaries	–	–	325	170
Equity income from associate	2	2	–	–
Interest income relates to interest earned from financial assets not measured at fair value through profit or loss.				
Dividends from investments are recognised on the date that the Group is entitled to the dividend. Interest is recognised on a time proportionate basis taking into account the principal amount outstanding and the effective interest rate.				
<b>8. FINANCE CHARGES AND FAIR VALUE MOVEMENTS</b>	<b>263</b>	1,872	<b>542</b>	745
Finance charges on interest-bearing debt*	660	765	654	763
Local debt	736	859	734	857
Foreign debt	4	–	–	–
Less: Finance charges capitalised	(80)	(94)	(80)	(94)
Foreign exchange losses and fair value movement	(397)	1,107	(112)	(18)
Foreign exchange losses	157	1,320	151	19
Fair value adjustments on derivative instruments	(554)	(213)	(263)	(37)
Capitalisation rate for borrowing costs (%)	10.0	10.8	10.0	10.8

Included in finance charges is an amount of R654 million (2012: R763 million) which relates to interest expense on financial liabilities not measured at fair value through profit or loss.

Fair value adjustments on derivative instruments were due to currency fluctuations and lower interest rates impacting on forward exchange contracts, cross-currency swaps and interest rate swap agreements, as well as the growth in the assets held by the Cell Captive.

\* For interest-bearing debt movement, refer to note 28.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>9. TAXATION</b>	<b>490</b>	595	<b>326</b>	766
South African normal company taxation	<b>1,105</b>	1,026	<b>959</b>	882
Current taxation	<b>1,079</b>	1,055	<b>933</b>	903
Under/(over)provision for prior year	<b>26</b>	(29)	<b>26</b>	(21)
Deferred taxation (refer to note 19)	<b>(621)</b>	(494)	<b>(633)</b>	(163)
Capital allowances	<b>(309)</b>	(516)	<b>(316)</b>	(179)
Provision other allowances	<b>(318)</b>	(520)	<b>(324)</b>	14
Underprovision prior year	<b>6</b>	2	<b>7</b>	2
Tax loss	<b>–</b>	526	<b>–</b>	–
Temporary difference – Secondary Taxation on Companies tax credits reversed	<b>–</b>	14	<b>–</b>	–
Secondary Taxation on Companies (STC)	<b>–</b>	70	<b>–</b>	47
Foreign taxation	<b>6</b>	(7)	<b>–</b>	–
The decrease in the current year deferred taxation is as a result of the shorter taxation write off periods on property, plant and equipment that was previously utilised and the add back of employee related provisions. Previously STC was provided for at a rate of 10% on the amount by which dividends declared by Telkom exceeded dividends received. Withholding taxation on dividends is effective for dividends declared on 1 April 2012 at a rate of 15%. All unutilised STC credits as at 31 March 2012 were utilised in full with the declaration of the dividend on 8 July 2011.				
<b>Reconciliation of taxation rate:</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Effective rate	<b>(4.4)</b>	76.7	<b>(2.8)</b>	129.8
South African normal rate of taxation	<b>28.0</b>	28.0	<b>28.0</b>	28.0
Adjusted for:	<b>(32.4)</b>	48.7	<b>(30.8)</b>	101.8
Exempt income	<b>1.0</b>	(23.8)	<b>1.1</b>	(16.9)
Disallowable expenditure*	<b>(4.1)</b>	68.5	<b>(3.7)</b>	114.6
Foreign taxation	<b>(0.1)</b>	(0.9)	<b>–</b>	–
Deferred tax asset limitation	<b>(28.9)</b>	–	<b>(27.9)</b>	–
Other adjustments	<b>–</b>	(2.3)	<b>–</b>	(3.0)
Underprovision for prior years	<b>(0.3)</b>	(3.6)	<b>(0.3)</b>	(3.2)
Secondary Taxation on Companies tax credits reversed	<b>–</b>	1.8	<b>–</b>	2.4
Secondary Taxation on Companies tax charge	<b>–</b>	9.0	<b>–</b>	7.9

The significant decrease in the effective taxation rate related to 2013 is mainly due to lower amounts of disallowable expenditure that occurred in 2013. The majority of non-deductible expenditure added back in 2013 related to the Competition Commission fines. Included in disallowable expenditure in 2012 are the impairment of iWayAfrica, the realisation of foreign exchange differences due to the disposal of Multi-Links Telecommunications Ltd and certain non-deductible expenses.

Refer to note 19 with regard to the deferred tax asset limitation.

\* Included in the 4.1% in the 2013 financial year is the effect of 0.3% relating to the ring fencing of foreign entity losses.

	2013 Rm	2012 Rm
<b>10. DISCONTINUED OPERATION</b>		
<b>Multi-Links Telecommunications Ltd (Multi-Links)</b>		
On 26 November 2010, Telkom announced that the Board had mandated management to review options for the exit of the CDMA business of Multi-Links in Nigeria.		
On 10 June 2011, the Telkom Board decided to stop funding Multi-Links after the deal to sell the CDMA business of Multi-Links to Visafone Communications fell through as a result of certain conditions precedent to the transaction not being met.		
On 26 June 2011, the Telkom Board made a decision to sell the entire issued share capital of Multi-Links to Hip Oils Topco Ltd. The sale was conditional on, <i>inter alia</i> , regulatory approvals. The entire business was classified as held for sale at this date.		
Multi-Links' assets and liabilities were remeasured to the lower of carrying amount and fair value less costs to sell at the date of held for sale classification, 26 June 2011, and the effective date of disposal 3 October 2011.		
<b>Analysis of the results of the discontinued operations:</b>		
Revenue*	–	158
Expenses*	–	(427)
Loss before taxation of the discontinued operations	–	(269)
Taxation	–	–
Loss after taxation of the discontinued operations	–	(269)
<i>* Revenue comprises operating revenue, other income and investment income. Expenses comprises operating expenses, finance charges and impairment of RNil million (2012: R198 million).</i>		
For the 2012 financial year, the carrying amount and fair value less costs to sell were both negative, thus limited to nil.		
<b>The net cash flows attributable to the operating, investing and financing activities of discontinued operations:</b>		
Operating cash flows	–	(75)
Investing cash flows	–	(21)
Financing cash flows	–	143
Total cash inflow*	–	47

\* Cash flows included for 2012 are up to 3 October 2011.

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	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>11. TAXATION EFFECTS OF OTHER COMPREHENSIVE INCOME</b>				
<b>Tax effects relating to each component of other comprehensive income</b>				
Exchange differences on translating foreign operations	(3)	(30)	–	–
<b>Net foreign currency translation differences for foreign operations</b>	<b>(3)</b>	<b>(30)</b>	<b>–</b>	<b>–</b>
Available-for-sale investment	–	(5)	–	–
<b>Net available-for-sale investment</b>	<b>–</b>	<b>(5)</b>	<b>–</b>	<b>–</b>
Defined benefit plan actuarial (losses)/gains	(284)	65	(284)	64
Tax effect of defined benefit plan actuarial (losses)/gains	79	(18)	79	(18)
<b>Net defined benefit plan actuarial (losses)/gains</b>	<b>(205)</b>	<b>47</b>	<b>(205)</b>	<b>46</b>
Defined benefit plan asset limitations	(38)	–	(38)	–
Tax effect of defined benefit plan asset limitations	11	–	11	–
<b>Net defined benefit plan asset limitations</b>	<b>(27)</b>	<b>–</b>	<b>(27)</b>	<b>–</b>
<b>Other comprehensive (loss)/income for the year before taxation</b>	<b>(325)</b>	<b>30</b>	<b>(322)</b>	<b>64</b>
<b>Tax effect of other comprehensive income for the year</b>	<b>90</b>	<b>(18)</b>	<b>90</b>	<b>(18)</b>
<b>Other comprehensive (loss)/income for the year, net of taxation</b>	<b>(235)</b>	<b>12</b>	<b>(232)</b>	<b>46</b>

	Group	
	2013	Restated 2012
<b>12. EARNINGS PER SHARE</b>		
<b>Total operations</b>		
<b>Basic and diluted loss per share (cents)</b>	(2,276.2)	(42.3)
The calculation of earnings per share is based on a loss attributable to equity holders of Telkom of R11,622 million (2012: R216 million) and 510,593,816 (2012: 510,593,816) weighted average number of ordinary shares in issue.		
<b>Headline earnings and diluted headline earnings per share (cents)*</b>	87.0	310.8
The calculation of headline earnings per share is based on headline earnings of R444 million (2012: R1,587 million) and 510,593,816 (2012: 510,593,816) weighted average number of ordinary shares in issue.		
<b>Continuing operations</b>		
<b>Basic and diluted (loss)/earnings per share (cents)</b>	(2,276.2)	10.4
The calculation of earnings per share is based on a loss attributable to equity holders of Telkom of R11,622 million (2012: profit of R53 million) and 510,593,816 (2012: 510,593,816) weighted average number of ordinary shares in issue.		
<b>Headline earnings and diluted headline earnings per share (cents)*</b>	87.0	324.7
The calculation of headline earnings per share is based on headline earnings of R444 million (2012: R1,658 million) and 510,593,816 (2012: 510,593,816) weighted average number of ordinary shares in issue.		
<b>Discontinued operations</b>		
<b>Basic and diluted loss per share (cents)</b>	–	(52.7)
The calculation of earnings per share is based on loss attributable to equity holders of Telkom of RNil million (2012: R269 million) and 510,593,816 (2012: 510,593,816) weighted average number of ordinary shares in issue.		
<b>Headline loss and diluted headline loss per share (cents)*</b>	–	(13.9)
The calculation of headline earnings per share is based on headline loss of RNil million (2012: R71 million) and 510,593,816 (2012: 510,593,816) weighted average number of ordinary shares in issue.		
<b>Reconciliation of weighted average number of ordinary shares:</b>	<b>Number of shares</b>	Number of shares
Ordinary shares in issue (refer to note 24)	520,783,900	520,783,900
Weighted average number of treasury shares (refer to note 25)	(10,190,084)	(10,190,084)
Weighted average number of shares outstanding	510,593,816	510,593,816
	<b>Rm Gross</b>	<b>Rm Net *</b>
<b>Total operations</b>		
<b>2013</b>		
<b>Reconciliation between earnings and headline earnings:</b>		
Loss for the year		(11,499)
Non-controlling interests		(123)
Loss attributable to owners of Telkom		(11,622)
Profit on disposal of property, plant and equipment and intangible assets	(39)	(32)
Profit on disposal of joint venture	(30)	(30)
Write-offs of property, plant and equipment and intangible assets	178	128
Impairment loss on property, plant and equipment and intangible assets**	12,000	12,000
Headline earnings		444

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

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## 12. EARNINGS PER SHARE (continued)

Total operations (continued)	Rm Gross	Rm Net*
2012		
<b>Reconciliation between earnings and headline earnings:</b>		
Loss for the year		(90)
Non-controlling interests		(126)
Loss attributable to owners of Telkom		(216)
Profit on disposal of property, plant and equipment and intangible assets	(53)	(43)
Profit on disposal of subsidiary	(167)	(167)
Foreign exchange differences realised on disposal of subsidiary	1,292	1,063
Impairment loss on property, plant and equipment and intangible assets	767	767
Write-offs of property, plant and equipment and intangible assets	254	183
Headline earnings		1,587
<b>Continuing operations</b>		
2013		
<b>Reconciliation between earnings and headline earnings:</b>		
Loss from continuing operations		(11,499)
Non-controlling interests		(123)
Loss attributable to owners of Telkom		(11,622)
Profit on disposal of property, plant and equipment and intangible assets	(39)	(32)
Profit on disposal of joint venture	(30)	(30)
Write-offs of property, plant and equipment and intangible assets	178	128
Impairment loss on property, plant and equipment and intangible assets**	12,000	12,000
Headline earnings		444
2012		
<b>Reconciliation between earnings and headline earnings:</b>		
Profit from continuing operations		179
Non-controlling interests		(126)
Profit attributable to owners of Telkom		53
Profit on disposal of property, plant and equipment and intangible assets	(53)	(43)
Profit on disposal of subsidiary	(167)	(167)
Foreign exchange differences realised on disposal of subsidiary	1,292	1,063
Impairment loss on property, plant and equipment and intangible assets	569	569
Write-offs of property, plant and equipment and intangible assets	254	183
Headline earnings		1,658
<b>Discontinued operations</b>		
2012		
<b>Reconciliation between earnings and headline earnings:</b>		
Loss from discontinued operations		(269)
Non-controlling interests		–
Loss attributable to owners of Telkom		(269)
Impairment loss on property, plant and equipment and intangible assets	198	198
Headline loss		(71)

\* Net of tax and non-controlling interest.

\*\* The impairment resulted in deferred tax consequences that were not recognised in the Statement of financial position. Refer to note 19.



### 13. INTRODUCTION TO THE PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS NOTES

#### Summary of property, plant and equipment and intangible assets carrying values

Group	Carrying value at beginning of year	Additions	Transfers	Foreign currency translation	Disposals	Depreciation/Amortisation	Write-offs	Carrying value before impairment	Impairment	Carrying value at end of year
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<b>2013</b>										
Property, plant and equipment	36,155	4,777	(107)	(5)	(22)	(5,072)	(177)	35,549	(11,025)	24,524
Intangible assets	3,555	961	86	–	(1)	(1,044)	(1)	3,556	(975)	2,581
	<b>39,710</b>	<b>5,738</b>	<b>(21)</b>	<b>(5)</b>	<b>(23)</b>	<b>(6,116)</b>	<b>(178)</b>	<b>39,105</b>	<b>(12,000)</b>	<b>27,105</b>
<b>2012</b>										
Property, plant and equipment	37,304	4,022	(17)	7	(130)	(4,613)	(146)	36,427	(272)	36,155
Intangible assets	3,965	813	17	96	–	(744)	(89)	4,058	(503)	3,555
	<b>41,269</b>	<b>4,835</b>	<b>–</b>	<b>103</b>	<b>(130)</b>	<b>(5,357)</b>	<b>(235)</b>	<b>40,485</b>	<b>(775)</b>	<b>39,710</b>
Company	Carrying value at beginning of year	Additions	Transfers	Foreign currency translation	Disposals	Depreciation/Amortisation	Write-offs	Carrying value before impairment	Impairment	Carrying value at end of year
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<b>2013</b>										
Property, plant and equipment	35,979	4,734	(85)	–	(22)	(5,045)	(177)	35,384	(11,025)	24,359
Intangible assets	3,418	905	85	–	–	(1,008)	–	3,400	(975)	2,425
	<b>39,397</b>	<b>5,639</b>	<b>–</b>	<b>–</b>	<b>(22)</b>	<b>(6,053)</b>	<b>(177)</b>	<b>38,784</b>	<b>(12,000)</b>	<b>26,784</b>
<b>2012</b>										
Property, plant and equipment	36,861	3,967	(17)	–	(130)	(4,556)	(146)	35,979	–	35,979
Intangible assets	3,445	745	17	–	–	(700)	(89)	3,418	–	3,418
	<b>40,306</b>	<b>4,712</b>	<b>–</b>	<b>–</b>	<b>(130)</b>	<b>(5,256)</b>	<b>(235)</b>	<b>39,397</b>	<b>–</b>	<b>39,397</b>

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## 13. PROPERTY, PLANT AND EQUIPMENT

Group	2013					2012				
	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm
Freehold land and buildings	6,404	(2,905)	3,499	(1,101)	2,398	5,898	(2,637)	3,261	(34)	3,227
Leasehold buildings	558	(445)	113	–	113	553	(424)	129	(2)	127
Network equipment	64,740	(37,071)	27,669	(9,158)	18,511	63,507	(34,508)	28,999	(175)	28,824
Support equipment	3,856	(2,768)	1,088	(356)	732	3,751	(2,628)	1,123	–	1,123
Furniture and office equipment	325	(264)	61	(19)	42	328	(251)	77	(4)	73
Data processing equipment and software	5,271	(4,105)	1,166	(346)	820	5,440	(4,026)	1,414	(12)	1,402
Under construction	1,823	(11)	1,812	–	1,812	1,236	–	1,236	(41)	1,195
Other	561	(420)	141	(45)	96	755	(567)	188	(4)	184
	<b>83,538</b>	<b>(47,989)</b>	<b>35,549</b>	<b>(11,025)</b>	<b>24,524</b>	<b>81,468</b>	<b>(45,041)</b>	<b>36,427</b>	<b>(272)</b>	<b>36,155</b>

Company	2013					2012				
	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm
Freehold land and buildings	6,404	(2,905)	3,499	(1,101)	2,398	5,898	(2,671)	3,227	–	3,227
Leasehold buildings	436	(323)	113	–	113	432	(306)	126	–	126
Network equipment	64,255	(36,770)	27,485	(9,158)	18,327	62,974	(34,344)	28,630	–	28,630
Support equipment	3,856	(2,768)	1,088	(356)	732	3,750	(2,628)	1,122	–	1,122
Furniture and office equipment	296	(242)	54	(18)	36	300	(230)	70	–	70
Data processing equipment and software	5,075	(4,010)	1,065	(346)	719	5,255	(3,952)	1,303	–	1,303
Under construction	1,939	–	1,939	–	1,939	1,316	–	1,316	–	1,316
Other	551	(410)	141	(46)	95	746	(561)	185	–	185
	<b>82,812</b>	<b>(47,428)</b>	<b>35,384</b>	<b>(11,025)</b>	<b>24,359</b>	<b>80,671</b>	<b>(44,692)</b>	<b>35,979</b>	<b>–</b>	<b>35,979</b>

The impairment loss of R12 billion was allocated to the asset categories of the cash-generating unit on a *pro rata* basis in line with the requirements of IAS 36. R11,025 million of the impairment was processed to property, plant and equipment and R975 million to intangible assets. The allocation basis will be reviewed and if necessary adjusted in future reporting periods.

Fully depreciated assets with a cost of R2,205 million (2012: R2,509 million) were derecognised in the 2013 financial year. This has reduced both the cost price and accumulated depreciation of property, plant and equipment.

The Company Capital expenditure under property, plant and equipment relates to expansions of R2,255 million and maintenance of R2,477 million (2012 expansions: R1,682 million and maintenance: R2,283 million).

Property, plant and equipment with a carrying value of R89 million (2012: R104 million) has been pledged as security. Details of the loans are disclosed in note 28.

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying amounts of property, plant and equipment can be reconciled as follows:

Group	Carrying value at beginning of year	Additions*	Transfers**	Foreign currency translation	Disposals	Depreciation***	Write-offs	Carrying value before impairment	Impairment***	Carrying value at end of year
	Rm			Rm				Rm		Rm
<b>2013</b>										
Freehold land and buildings	3,227	374	159	-	(1)	(252)	(8)	3,499	(1,101)	2,398
Leasehold buildings	127	4	-	-	-	(18)	-	113	-	113
Network equipment	28,824	2,458	636	(4)	(21)	(4,069)	(155)	27,669	(9,158)	18,511
Support equipment	1,123	137	68	-	-	(236)	(4)	1,088	(356)	732
Furniture and office equipment	73	1	2	-	-	(15)	-	61	(19)	42
Data processing equipment and software	1,402	156	34	-	-	(418)	(8)	1,166	(346)	820
Under construction	1,195	1,627	(1,004)	(1)	-	-	(5)	1,812	-	1,812
Other	184	20	(2)	-	-	(64)	3	141	(45)	96
	<b>36,155</b>	<b>4,777</b>	<b>(107)</b>	<b>(5)</b>	<b>(22)</b>	<b>(5,072)</b>	<b>(177)</b>	<b>35,549</b>	<b>(11,025)</b>	<b>24,524</b>
<b>2012</b>										
Freehold land and buildings	3,181	197	124	-	(3)	(235)	(3)	3,261	(34)	3,227
Leasehold buildings	133	-	-	-	-	(4)	-	129	(2)	127
Network equipment	28,992	2,578	1,182	6	(127)	(3,554)	(78)	28,999	(175)	28,824
Support equipment	1,267	108	31	-	-	(293)	10	1,123	-	1,123
Furniture and office equipment	91	2	1	-	-	(17)	-	77	(4)	73
Data processing equipment and software	1,695	171	35	-	-	(442)	(45)	1,414	(12)	1,402
Under construction	1,751	932	(1,418)	1	-	-	(30)	1,236	(41)	1,195
Other	194	34	28	-	-	(68)	-	188	(4)	184
	<b>37,304</b>	<b>4,022</b>	<b>(17)</b>	<b>7</b>	<b>(130)</b>	<b>(4,613)</b>	<b>(146)</b>	<b>36,427</b>	<b>(272)</b>	<b>36,155</b>

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## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying amounts of property, plant and equipment can be reconciled as follows:

Company	Carrying value at beginning of year	Additions*	Transfers**	Disposals	Depreciation***	Write-offs	Carrying value before impairment	Impairment	Carrying value at end of year
	Rm						Rm		Rm
<b>2013</b>									
Freehold land and buildings	3,227	374	159	(1)	(252)	(8)	3,499	(1,101)	2,398
Leasehold buildings	126	5	-	-	(18)	-	113	-	113
Network equipment	28,630	2,428	655	(21)	(4,052)	(155)	27,485	(9,158)	18,327
Support equipment	1,122	138	68	-	(236)	(4)	1,088	(356)	732
Furniture and office equipment	70	-	-	-	(16)	-	54	(18)	36
Data processing equipment and software	1,303	143	33	-	(406)	(8)	1,065	(346)	719
Under construction	1,316	1,626	(998)	-	-	(5)	1,939	-	1,939
Other	185	20	(2)	-	(65)	3	141	(46)	95
	<b>35,979</b>	<b>4,734</b>	<b>(85)</b>	<b>(22)</b>	<b>(5,045)</b>	<b>(177)</b>	<b>35,384</b>	<b>(11,025)</b>	<b>24,359</b>
<b>2012</b>									
Freehold land and buildings	3,147	197	124	(3)	(235)	(3)	3,227	-	3,227
Leasehold buildings	130	-	-	(1)	(3)	-	126	-	126
Network equipment	28,637	2,534	1,179	(126)	(3,516)	(78)	28,630	-	28,630
Support equipment	1,267	107	31	-	(293)	10	1,122	-	1,122
Furniture and office equipment	80	1	2	-	(13)	-	70	-	70
Data processing equipment and software	1,580	164	34	-	(430)	(45)	1,303	-	1,303
Under construction	1,830	931	(1,415)	-	-	(30)	1,316	-	1,316
Other	190	33	28	-	(66)	-	185	-	185
	<b>36,861</b>	<b>3,967</b>	<b>(17)</b>	<b>(130)</b>	<b>(4,556)</b>	<b>(146)</b>	<b>35,979</b>	<b>-</b>	<b>35,979</b>

The Group does not have temporarily idle property, plant and equipment.

Full details of land and buildings are available for inspection at the registered office of the Company.

Capital expenditure of 37% relates to the expansion of existing networks and services. Expansion of the Mobile network also contributed to the growth of PPE with a contribution of 26%. 18% of Capital expenditure contributed to the new next generation network programme. The balance of 19% Capital expenditure is mainly attributable to investment in Submarine cable systems, Network Evolution initiatives, Sustainment programmes, IT and OSS systems and Property upgrade and growth projects. An extensive build programme that provides capacity for growth in services, with focus on next generation network and Mobile technologies is expected to continue over the next few years.

The Group impairment of property, plant and equipment included impairment of the iWayAfrica Group of RNil million (2012: R75 million).

An amount of R8.5 million (2012: R40 million) under property, plant and equipment disposals relates to the sale of Customer Premises Equipment in terms of a lease.

The impairment charge of R11,025 million relates to the Telkom Cash Generating Unit. Refer to key valuation assumptions detailed in note 14. Impairment of property, plant and equipment was mainly as a result of outdated legacy technologies.

\* Included in the 2012 property, plant and equipment additions was an amount of R51 million that related to donation in kind received of two base station controllers which were installed and capitalised.

\*\* The Group and Company has a process of determining whether an asset which incorporates both a tangible and an intangible element, should be recognised as tangible or intangible assets, based on management's judgement and on facts available and the significance of each element to the total value of the asset. Assets with a carrying value to the net amount of R85 million (2012: R17 million) and R107 million (2012: R17 million) for Company and Group, respectively, were reclassified from property, plant and equipment to intangible assets in the current year. Group assets with a carrying value of R21 million (2012: RNil million) were reclassified from property, plant and equipment to inventory.

\*\*\* Included in the Group depreciation and impairment charge is RNil million (2012: R5 million) and RNil million (2012: R196 million), respectively. This related to the Multi-Links discontinued operations (refer to note 16.1 for valuation key assumptions). Multi-Links was disposed of during the 2012 financial year.

## 14. INTANGIBLE ASSETS

Group	2013					2012				
	Cost Rm	Accumulated amortisation Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm	Cost Rm	Accumulated amortisation Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm
Goodwill	588	(517)	71	–	71	588	(75)	513	(442)	71
Trademarks, copyrights and other Licences	621	(444)	177	(31)	146	533	(334)	199	(51)	148
Software	–	–	–	–	–	16	(16)	–	–	–
Connection incentive bonus*	8,915	(6,042)	2,873	(944)	1,929	8,321	(5,319)	3,002	(10)	2,992
Under construction	180	(180)	–	–	–	180	(43)	137	–	137
	435	–	435	–	435	207	–	207	–	207
	<b>10,739</b>	<b>(7,183)</b>	<b>3,556</b>	<b>(975)</b>	<b>2,581</b>	<b>9,845</b>	<b>(5,787)</b>	<b>4,058</b>	<b>(503)</b>	<b>3,555</b>
Company	2013					2012				
	Cost Rm	Accumulated amortisation Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm	Cost Rm	Accumulated amortisation Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm
Trademarks, copyrights and other	211	(117)	94	(31)	63	176	(93)	83	–	83
Software	8,893	(6,022)	2,871	(944)	1,927	8,344	(5,353)	2,991	–	2,991
Connection incentive bonus*	180	(180)	–	–	–	180	(43)	137	–	137
Under construction	435	–	435	–	435	207	–	207	–	207
	<b>9,719</b>	<b>(6,319)</b>	<b>3,400</b>	<b>(975)</b>	<b>2,425</b>	<b>8,907</b>	<b>(5,489)</b>	<b>3,418</b>	<b>–</b>	<b>3,418</b>

\* The Connection Incentive Bonus amortisation is not included in the amortisation category of the statement of profit or loss and other comprehensive income but is included under the selling, general and administration expenses category.

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## 14. INTANGIBLE ASSETS (continued)

The carrying amounts of intangible assets can be reconciled as follows:

Group	Carrying value at beginning of year	Additions*	Transfers**	Foreign currency trans-lation	Disposals	Depre-ciation***	Write-offs	Carrying value before impair-ment	Impair-ment***	Carrying value at end of year
	Rm			Rm				Rm		Rm
<b>2013</b>										
Goodwill	71	-	-	-	-	-	-	71	-	71
Trademarks, copyrights and other	148	71	18	-	(1)	(58)	(1)	177	(31)	146
Software	2,992	471	259	-	-	(849)	-	2,873	(944)	1,929
Connection incentive bonus	137	-	-	-	-	(137)	-	-	-	-
Under construction	207	419	(191)	-	-	-	-	435	-	435
	<b>3,555</b>	<b>961</b>	<b>86</b>	<b>-</b>	<b>(1)</b>	<b>(1,044)</b>	<b>(1)</b>	<b>3,556</b>	<b>(975)</b>	<b>2,581</b>
<b>2012</b>										
Goodwill	449	-	-	64	-	-	-	513	(442)	71
Trademarks, copyrights and other	167	68	(1)	32	-	(67)	-	199	(51)	148
Software	3,132	394	199	-	-	(634)	(89)	3,002	(10)	2,992
Connection incentive bonus	-	180	-	-	-	(43)	-	137	-	137
Under construction	217	171	(181)	-	-	-	-	207	-	207
	<b>3,965</b>	<b>813</b>	<b>17</b>	<b>96</b>	<b>-</b>	<b>(744)</b>	<b>(89)</b>	<b>4,058</b>	<b>(503)</b>	<b>3,555</b>

## 14. INTANGIBLE ASSETS (continued)

Company	Carrying value at beginning of year Rm	Additions* Rm	Transfers** Rm	Disposals Rm	Depreciation*** Rm	Write-offs Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value at end of year Rm
<b>2013</b>									
Trademarks, copyrights and other	83	17	18	-	-	(24)	94	(31)	63
Software	2,991	468	259	-	-	(847)	2,871	(944)	1,927
Connection Incentive Bonus	137	-	-	-	-	(137)	-	-	-
Under construction	207	420	(192)	-	-	-	435	-	435
	<b>3,418</b>	<b>905</b>	<b>85</b>	<b>-</b>	<b>-</b>	<b>(1,008)</b>	<b>3,400</b>	<b>(975)</b>	<b>2,425</b>
<b>2012</b>									
Trademarks, copyrights and other	101	1	-	-	-	(19)	83	-	83
Software	3,127	394	197	-	(89)	(638)	2,991	-	2,991
Connection Incentive Bonus	-	180	-	-	-	(43)	137	-	137
Under construction	217	170	(180)	-	-	-	207	-	207
	<b>3,445</b>	<b>745</b>	<b>17</b>	<b>-</b>	<b>(89)</b>	<b>(700)</b>	<b>3,418</b>	<b>-</b>	<b>3,418</b>

There are no intangible assets whose titles are restricted, or that have been pledged as security for liabilities at 31 March 2013.

The Goodwill in Group mainly relates to Trudon.

Intangible assets that are material to the Group consist of Software, Copyrights and Trademarks whose average remaining amortisation period is 4.6 years (2012: 4.3 years).

The Connection Incentive Bonus is a bonus paid to customers on the connection of the initial subscriber contract in respect of a specific tariff plan, in accordance with the provision of the Incentive Notice Letter.

No intangible asset apart from goodwill has been assessed as having an indefinite useful life.

Approximately R263 million (2012: R438 million) and R207 million (2012: R370 million) of additions relate to externally acquired intangible assets for Group and Company, respectively, while R698 million (2012: R375 million) relates to internal developments for Group and Company.

Included in the impairment charge in Group is RNil million (2012: R442 million) on goodwill and RNil million (2012: R52 million) on other intangible assets relating to the iWayAfrica Group and R975 million (2012: RNil million) relating to the impairment of Telkom Cash-Generating Units.

### Impairment testing of Cash-Generating Units (Group and Company)

During 2013, the Group decided to significantly reduce the size of its legacy network. In line with other fixed-line incumbents globally, the Group has, for more than a decade, faced technological changes, competition from mobile operators and an evolving regulatory landscape which have contributed to lower investment returns from the legacy network assets. While the assets form a significant part of the asset base, they are not relevant in the efficiency focused service offering of the Group, with an emphasis on Internet Protocol compliant assets.

In addition, Telkom shares have also been trading significantly lower than the net asset value (NAV) of a Telkom share which at 31 March 2013 was R58 per share. In accordance with IAS 36, when the carrying value of an entity's net assets is more than its market capitalisation, it is an indication that the carrying value of the assets may be impaired.

These impairment indicators prompted the Group to test the network and related assets for impairment by comparing the recoverable amount to the carrying value. As such, an impairment charge of R12 billion has been processed after the requisite approval by the board of directors.

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## 14. INTANGIBLE ASSETS (continued)

### Impairment testing of Cash-Generating Units (Group and Company) (continued)

In determining the recoverable amount of the Telkom cash generating unit, the Company considers several sources of estimation uncertainty and makes certain assumptions/judgements about the future. The disclosure presented below provides information about these sources of estimation uncertainty and assumptions as well as the impact thereof on the CGU's carrying amounts.

#### Valuation key assumptions

The recoverable amount of a CGU is determined based on value in use. These calculations use post-tax cash flow projections based on financial budgets approved by the Board covering a five-year period extrapolated to 10 years in order to more appropriately reflect the implications of terminal growth.

The determined value in use of each CGUs is most sensitive to the discount rate. The key assumptions used for value in use calculations are as follows:

#### • iWayAfrica Group

Assumptions	iWayAfrica 2012
Gross margin	27 to 30%
Growth rate	2%
Discount rate	13.87%

#### Gross margin

The budgeted gross margin is based on past experience and management's future expectations of business performance.

#### Growth rates

The growth rates are determined based on forward-looking growth rates of the entities, and they reflect management's assessment of the long-term growth prospects of the sector in which the CGU operates.

#### Discount rates

The discount rates used are post-tax and reflect specific risks relating to the relevant CGU.

#### Impairment test

##### iWayAfrica Group

Goodwill for the iWayAfrica Group was tested for impairment at 31 March 2012 which resulted in an impairment charge of R442 million in the 2012 financial year.

With regard to the assessment of value in use of iWayAfrica, management believes that no reasonably possible changes in the assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

#### Telkom

##### Changes in key assumptions

#### • Telkom

Assumptions	Telkom 2013
Discount rate – Terminal	13.6%

#### Discount rates

Management determined these rates based on past experience as well as external sources of information such as risk free return based on government bond R186 and the beta.

The discount rates reflect the specific risks related to the future cash flows of the CGU.

	Telkom Rm
<b>Recoverable amount</b>	22,741
Shortfall of recoverable amount over carrying amount	(12,000)
Discount rate used in recoverable amount calculation	13.6%
Discount rate to reduce recoverable amount to carrying amount	10.1%

#### Sensitivity analysis

A one percentage point change in the discount rate would have the following effects on the balances:

	1% Decrease	1% Increase
	12.6%	14.6%
	Rm	Rm
Effect on property, plant and equipment	(8,671)	(13,056)
Effect on intangible assets	(754)	(1,135)
Effect on aggregate assets	(9,425)	(14,191)



## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing debt and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group's operations. The Group has finance lease receivables, trade and other receivables and cash and cash receivables and short-term deposits that arise directly from its operations. The Group also enters into derivative transactions as hedging instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks, supported by a financial Risk Committee that advises on financial risks and the appropriate financial risk governance framework. The financial Risk Committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision.

### Risk management

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

The Group holds or issues financial instruments to finance its operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments for example trade receivables and payables arise directly from the Group's operations.

The Group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The Group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, cross-currency swaps and forward exchange contracts. The Group does not speculate in derivative instruments.

The table below sets out the Group's classification of financial assets and liabilities:

2013	Notes	At fair value through profit or loss held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
<b>Assets</b>		<b>2,727</b>	<b>–</b>	<b>1,980</b>	<b>8,004</b>	<b>12,711</b>	<b>12,711</b>
Other investments*	16.2	2,490	–	–	–	2,490	2,490
Trade and other receivables**	21	–	–	–	5,267	5,267	5,267
Other financial assets	22	237	–	1,980	–	2,217	2,217
Forward exchange contracts		132	–	–	–	132	132
Cross-currency swaps		105	–	–	–	105	105
Repurchase agreements		–	–	1,980	–	1,980	1,980
Finance lease receivables	18	–	–	–	350	350	350
Cash and cash equivalents	23	–	–	–	2,387	2,387	2,387
<b>Liabilities</b>		<b>(66)</b>	<b>(11,343)</b>	<b>–</b>	<b>–</b>	<b>(11,409)</b>	<b>(12,413)</b>
Interest-bearing debt	28	–	(6,657)	–	–	(6,657)	(7,661)
Trade and other payables	31	–	(4,661)	–	–	(4,661)	(4,661)
Shareholders for dividend	36	–	(22)	–	–	(22)	(22)
Other financial liabilities	22	(66)	–	–	–	(66)	(66)
Interest rate swaps		(51)	–	–	–	(51)	(51)
Forward exchange contracts		(15)	–	–	–	(15)	(15)
Credit facilities utilised	23	–	(3)	–	–	(3)	(3)

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## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### Risk management (continued)

The table below sets out the Group's classification of financial assets and liabilities:

2012	Notes	At fair value through profit or loss held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
<b>Assets</b>		2,482	–	2,009	6,890	11,381	11,381
Other investments*	16.2	2,248	–	–	–	2,248	2,248
Trade and other receivables**	21	–	–	–	5,350	5,350	5,350
Other financial assets	22	234	–	2,009	–	2,243	2,243
Forward exchange contracts		193	–	–	–	193	193
Cross-currency swaps		41	–	–	–	41	41
Repurchase agreements		–	–	2,009	–	2,009	2,009
Finance lease receivables	18	–	–	–	372	372	372
Cash and cash equivalents	23	–	–	–	1,168	1,168	1,168
<b>Liabilities</b>		(155)	(11,503)	–	–	(11,658)	(12,592)
Interest-bearing debt	28	–	(7,186)	–	–	(7,186)	(8,120)
Trade and other payables	31	–	(4,291)	–	–	(4,291)	(4,291)
Shareholders for dividend	36	–	(23)	–	–	(23)	(23)
Other financial liabilities	22	(155)	–	–	–	(155)	(155)
Interest rate swaps		(50)	–	–	–	(50)	(50)
Forward exchange contracts		(105)	–	–	–	(105)	(105)
Credit facilities utilised	23	–	(3)	–	–	(3)	(3)

The table below sets out the Company's classification of financial assets and liabilities:

2013	Notes	At fair value through profit or loss held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
<b>Assets</b>		237	–	1,970	7,156	9,363	9,363
Trade and other receivables**	21	–	–	–	4,548	4,548	4,548
Other financial assets	22	237	–	1,970	–	2,207	2,207
Forward exchange contracts		132	–	–	–	132	132
Cross-currency swaps		105	–	–	–	105	105
Repurchase agreements		–	–	1,970	–	1,970	1,970
Finance lease receivables	18	–	–	–	350	350	350
Cash and cash equivalents	23	–	–	–	2,258	2,258	2,258
<b>Liabilities</b>		(69)	(11,843)	–	–	(11,912)	(12,916)
Interest-bearing debt	28	–	(6,651)	–	–	(6,651)	(7,655)
Trade and other payables	31	–	(5,167)	–	–	(5,167)	(5,167)
Shareholders for dividend	36	–	(22)	–	–	(22)	(22)
Other financial liabilities	22	(69)	–	–	–	(69)	(69)
Interest rate swaps		(54)	–	–	–	(54)	(54)
Forward exchange contracts		(15)	–	–	–	(15)	(15)
Credit facilities utilised	23	–	(3)	–	–	(3)	(3)

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### Risk management (continued)

The table below sets out the Company's classification of financial assets and liabilities:

2012	Notes	At fair value through profit or loss held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
<b>Assets</b>							
		234	–	1,999	6,088	8,321	8,321
Trade and other receivables**	21	–	–	–	4,621	4,621	4,621
Other financial assets	22	234	–	1,999	–	2,233	2,233
Forward exchange contracts		193	–	–	–	193	193
Cross-currency swaps		41	–	–	–	41	41
Repurchase agreements		–	–	1,999	–	1,999	1,999
Finance lease receivables	18	–	–	–	372	372	372
Cash and cash equivalents	23	–	–	–	1,095	1,095	1,095
<b>Liabilities</b>							
		(159)	(12,208)	–	–	(12,367)	(13,301)
Interest-bearing debt	28	–	(7,178)	–	–	(7,178)	(8,112)
Trade and other payables	31	–	(5,005)	–	–	(5,005)	(5,005)
Shareholders for dividend	36	–	(23)	–	–	(23)	(23)
Other financial liabilities	22	(159)	–	–	–	(159)	(159)
Interest rate swaps		(54)	–	–	–	(54)	(54)
Forward exchange contracts		(105)	–	–	–	(105)	(105)
Credit facilities utilised	23	–	(2)	–	–	(2)	(2)

\* Other investments are disclosed net of any investments in associates and joint ventures of R2 million (2012: R12 million).

\*\* Trade and other receivables are disclosed net of pre-payments of R511 million (2012: R330 million) for the Company and R537 million (2012: R346 million) for the Group.

The fair value of financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and short-term deposits, trade and other receivables, trade and other payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.1 Fair value of financial instruments

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

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debt which is at amortised cost.

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Listed investments, Cell Captive's absolute portfolios and some borrowings are traded in active markets. For all other financial instruments the Group determines fair values using other valuation techniques as outlined below. The value is not necessarily indicative of the amounts that the Group could realise in the normal course of business.

Type of financial instrument	Fair value at 31 March 2013	Valuation technique	Significant inputs
Receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	R7,788 million	Undiscounted future estimated cash flows due to short-term maturities of these instruments	Probability of default
Derivatives	R171 million	Discounted cash flows	Yield curves Market interest rate Market foreign exchange rate
Borrowings	R7,661 million	Discounted cash flows	Market interest rate

#### Fair value hierarchy

The following table presents the Group's assets and liabilities that are measured at fair value at reporting date. The different levels have been defined as follows:

\*Level 1: Quoted prices in active markets for identical assets or liabilities.

\*Level 2: Inputs other than quoted prices, that are observable for the asset or liability.

Level 3: Inputs for the asset or liability that are not based on observable market data.

Group	Total	Level 1	Level 2	Level 3
2013	Rm	Rm	Rm	Rm
<b>Assets measured at fair value</b>				
Cross-currency swaps	105	–	105	–
Forward exchange contracts	132	–	132	–
Investment in Cell Captive	2,490	589	1,901	–
Transfer to level 1*	–	1,901	(1,901)	–
<b>Liabilities measured at fair value</b>				
Interest rate swaps	(51)	–	(51)	–
Forward exchange contracts	(15)	–	(15)	–
<b>Liabilities measured at amortised cost</b>				
Interest-bearing debt	(7,661)	(3,882)	(3,779)	–
2012				
<b>Assets measured at fair value</b>				
Cross-currency swaps	41	–	41	–
Forward exchange contracts	193	–	193	–
Investment in Cell Captive	2,248	518	1,730	–
<b>Liabilities measured at fair value</b>				
Interest rate swaps	(50)	–	(50)	–
Forward exchange contracts	(105)	–	(105)	–
<b>Liabilities measured at amortised cost</b>				
Interest-bearing debt	(8,120)	(4,545)	(3,575)	–

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.1 Fair value of financial instruments (continued)

#### Fair value hierarchy (continued)

Company	Total	Level 1	Level 2	Level 3
2013	Rm	Rm	Rm	Rm
<b>Assets measured at fair value</b>				
Cross-currency swaps	105	–	105	–
Forward exchange contracts	132	–	132	–
<b>Liabilities measured at fair value</b>				
Interest rate swaps	(54)	–	(54)	–
Forward exchange contracts	(15)	–	(15)	–
<b>Liabilities measured at amortised cost</b>				
Interest-bearing debt	(7,655)	(3,882)	(3,773)	–
2012				
<b>Assets measured at fair value</b>				
Cross-currency swaps	41	–	41	–
Forward exchange contracts	193	–	193	–
<b>Liabilities measured at fair value</b>				
Interest rate swaps	(54)	–	(54)	–
Forward exchange contracts	(105)	–	(105)	–
<b>Liabilities measured at amortised cost</b>				
Interest-bearing debt	(8,112)	(4,545)	(3,567)	–

\* During the year ended 31 March 2013, the investment in Cell Captive's Coronation Absolute Portfolio with a market value of R1,901 million was transferred from fair value level 2 to fair value level 1. The reason for transfer is that the price for each of the assets held in the absolute portfolio is obtained from the recognised market sources.

### 15.2 Credit risk management

Credit risk or the risk of financial loss is the risk that a counterparty will not meet its contractual obligations as they fall due. The Group is exposed to credit risk from its operating activities and from financing activities, including deposits with banks and financial institutions. The Group is not exposed to significant concentrations of credit risk as credit limits are set on an individual basis and reviewed regularly.

The Group's exposure to credit risk is represented by the carrying amount of the financial asset, with a maximum exposure equal to the carrying amount of the asset.

The Group is not exposed to significant concentrations of credit risk. Credit limits are set on an individual basis. The maximum exposure to the Group from counterparties in respect of derivative contracts is a net favourable position of R237 million (2012: R234 million). No collateral is required when entering into derivative contracts. Credit limits are reviewed on an annual basis or when information becomes available in the market. The Group limits the exposure to any counterparty and exposures are monitored daily. The Group expects that all counterparties will meet their obligations.

With respect to credit risk arising from other financial assets of the Group, which comprises loans and receivables, held-to-maturity investments and financial assets held at fair value through profit or loss and available-for-sale assets (other than equity accounted investments), the Group's exposure to credit risk arises from a potential default by counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management reduces the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counterparty failure, limits are set based on the individual ratings of counterparties by well-known ratings agencies. Trade receivables comprise a large widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than pre-paid customers, on application for new services on an ongoing basis where appropriate.

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## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.2 Credit risk management (continued)

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets as well as expected future cash flows – refer to note 21.

Given the deterioration of credit markets, stricter objectives, policies and processes were applied for managing and measuring the risk than in the previous period.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's board of directors annually or when the need arises. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Company policy is in line with the Group policy.

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:

	Group – Carrying amount		Company – Carrying amount	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
Trade receivables (refer to note 21)				
Telkom SA	4,166	4,344	3,853	3,966
Business and residential	1,573	1,587	1,609	1,622
Global, corporate and wholesale	1,968	2,026	2,013	2,070
Government	393	629	402	643
Other customers	232	102	237	104
Impairment of Company trade receivables (refer to note 21)	–	–	(408)	(473)
International	140	99	–	–
South Africa	779	784	–	–
Impairment of Group trade receivables (refer to note 21)	(548)	(583)	–	–
Sub-total for trade receivables	4,537	4,644	3,853	3,966
Other receivables*	730	706	695	655
Derivatives	237	234	237	234
Investments and loans receivable**	2,490	2,248	–	–
Finance lease receivables	350	372	350	372
Cash	2,384	1,168	2,255	1,093
	10,728	9,372	7,390	6,320
* Other receivables for Group are disclosed net of pre-payments of R537 million (2012: R346 million) and Company of R511 million (2012: R330 million).				
**Investments are disclosed net of equity investments of R2 million (2012: R12 million).				
The ageing of trade receivables at the reporting date was:				
Not past due/current	3,551	3,749	2,982	3,221
Past due but not impaired				
21 to 60 days	535	590	510	548
61 to 90 days	88	153	72	131
91 to 120 days	93	146	77	97
120+ days	818	589	620	442
	5,085	5,227	4,261	4,439

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.2 Credit risk management (continued)

	Group – Carrying amount		Company – Carrying amount	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
The ageing in the allowance for the impairment of trade receivables at reporting date was:				
Current defaulted trade	44	61	51	59
21 to 60 days	24	55	24	55
61 to 90 days	33	36	33	37
91 to 120 days	12	42	12	35
120+ days	435	389	288	287
	<b>548</b>	583	<b>408</b>	473

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 21.

Included in the allowance for doubtful debts, for Company are individually impaired receivables with a balance of R214 million (2012: R211 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

### 15.3 Liquidity risk management

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

Liquidity risk is managed by the Group's treasury department in accordance with policies and guidelines formulated by the Group's Executive Committee. In terms of its borrowing requirements the Group ensures that sufficient facilities exist to meet its immediate obligations. In terms of its long-term liquidity risk, the Group maintains a reasonable balance between the period over which assets generate funds and the period over which the respective assets are funded. Short-term liquidity gaps may be funded through repurchase agreements and/or commercial paper bills.

There were no material changes in the exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2013 financial year.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.3 Liquidity risk management (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted contractual cash flow at the reporting date:

Group	Notes	Carrying amount	Contractual cash flows	0 – 12 months	1 – 2 years	2 – 5 years	> 5 years
2013		Rm	Rm	Rm	Rm	Rm	Rm
<b>Non-derivative financial liabilities</b>							
Interest-bearing debt (excluding finance leases)	28	5,887	6,859	2,707	206	1,354	2,592
Credit facilities utilised	23	3	3	3	–	–	–
Trade and other payables	31	4,661	4,935	4,935	–	–	–
Finance lease liabilities	28	770	1,154	157	172	620	205
Shareholders for dividend	36	22	22	22	–	–	–
<b>Derivative financial liabilities</b>							
Interest rate swaps	22	51	54	43	8	3	–
Forward exchange contracts	22	15	15	15	–	–	–
		11,409	13,042	7,882	386	1,977	2,797
2012							
<b>Non-derivative financial liabilities</b>							
Interest-bearing debt (excluding finance leases)	28	6,335	7,392	1,208	2,141	1,464	2,579
Credit facilities utilised	23	3	3	3	–	–	–
Trade and other payables	31	4,291	4,707	4,707	–	–	–
Finance lease liabilities	28	851	1,344	190	158	564	432
Shareholders for dividend	36	23	23	23	–	–	–
<b>Derivative financial liabilities</b>							
Interest rate swaps	22	50	50	29	25	(4)	–
Forward exchange contracts	22	105	105	100	5	–	–
		11,658	13,624	6,260	2,329	2,024	3,011



## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.3 Liquidity risk management (continued)

The table below summarises the maturity profile of the Company's financial liabilities based on undiscounted contractual cash flow at the reporting date:

Company	Notes	Carrying amount	Contractual cash flows	0 – 12 months	1 – 2 years	2 – 5 years	> 5 years
2013		Rm	Rm	Rm	Rm	Rm	Rm
<b>Non-derivative financial liabilities</b>							
Interest-bearing debt (excluding finance leases)	28	5,885	6,857	2,707	206	1,354	2,590
Credit facilities utilised	23	3	3	3	–	–	–
Trade and other payables	31	5,167	5,441	5,441	–	–	–
Finance lease liabilities	28	766	1,150	155	170	620	205
Shareholders for dividend	36	22	22	22	–	–	–
<b>Derivative financial liabilities</b>							
Interest rate swaps	22	54	57	43	8	6	–
Forward exchange contracts	22	15	15	15	–	–	–
		11,912	13,545	8,386	384	1,980	2,795
2012							
<b>Non-derivative financial liabilities</b>							
Interest-bearing debt (excluding finance leases)	28	6,332	7,390	1,208	2,141	1,463	2,578
Credit facilities utilised	23	2	2	2	–	–	–
Trade and other payables	31	5,005	5,422	5,422	–	–	–
Finance lease liabilities	28	845	1,337	187	155	564	431
Shareholders for dividend	36	23	23	23	–	–	–
<b>Derivative financial liabilities</b>							
Interest rate swaps	22	54	54	33	25	(4)	–
Forward exchange contracts	22	105	105	100	5	–	–
		12,366	14,333	6,975	2,326	2,023	3,009

### 15.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposure. Market prices comprise three types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

Changes in the market prices have an impact on the values of the underlying derivatives and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant.

#### Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt.

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the Group makes use of interest rate swaps. Fixed rate debt represents approximately 83.3% (2012: 88%) of the total debt. The debt profile of mainly fixed rate debt has been maintained to limit the Group's exposure to interest rate increases.

The guideline is to target a fixed/floating debt ratio of 65% fixed, but adjusted to market conditions. In a scenario of low interest rates, a higher ratio may be established.

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for the year ended 31 March 2013

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.4 Market risk (continued)

#### Interest rate risk management (continued)

The table below summarises the interest rate swaps outstanding as at the reporting date:

	Group		Company	
	Average maturity	Notional amount Rm	Average maturity	Notional amount Rm
<b>2013</b>				
Interest rate swaps outstanding				
Pay fixed and receive floating	0 to 4 years	1,750	0 to 4 years	1,750
<b>2012</b>				
Interest rate swaps outstanding				
Pay fixed	1 to 5 years	1,750	1 to 5 years	1,750

#### Pay fixed and receive floating

The floating rate is based on the three-month JIBAR, and is settled in arrears. The interest rate swaps are used to manage interest rate risk on debt instruments.

#### Foreign currency exchange rate risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in exchange rates. The Group manages its foreign currency exchange rate risk by economically hedging all identifiable exposures via various financial instruments suitable to the Group's risk exposure.

The Group enters into forward exchange contracts and cross-currency swaps to hedge foreign currency exposure on the Group's operations and liabilities.

There were no changes in the objectives, policies and processes for managing and measuring the risk from the previous period.

The following table details the forward exchange contracts and cross-currency swaps outstanding at the reporting date:

Purchased	Group		Company	
	Foreign contract value Mil	Forward value Rm	Foreign contract value Mil	Forward value Rm
<b>2013</b>				
Currency:				
USD	280	2,504	280	2,504
Euro	25	298	25	298
Other	5	73	5	73
		2,875		2,875
Cross-currency swaps				
USD	46	322	46	322
<b>2012</b>				
Currency:				
USD	275	2,185	269	2,179
Euro	40	434	40	434
Other	5	57	5	57
		2,676		2,670
Cross-currency swaps				
USD	67	466	67	466

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.4 Market risk (continued)

The following table details the forward exchange contracts and cross-currency swaps outstanding at the reporting date:

Sell	Group		Company	
	Foreign contract value Mil	Forward value Rm	Foreign contract value Mil	Forward value Rm
<b>2013</b>				
Currency:				
USD	21	186	21	186
Euro	12	142	12	142
Other	3	37	3	37
		365		365
<b>2012</b>				
Currency:				
USD	161	1,441	161	1,441
Euro	3	33	3	33
Other	1	16	1	16
		1,490		1,490

The Group has various monetary assets and liabilities in currencies other than the Group's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group according to the different foreign currencies:

	Group			Company		
	Euro Rm	United States Dollar Rm	Other Rm	Euro Rm	United States Dollar Rm	Other Rm
<b>2013</b>						
<b>Net foreign currency monetary assets/(liabilities)</b>						
<b>Functional currency of company operation</b>						
South African Rand	(110)	(410)	(14)	(110)	(410)	(14)
<b>2012</b>						
<b>Net foreign currency monetary assets/(liabilities)</b>						
<b>Functional currency of company operation</b>						
South African Rand	294	514	(1)	294	514	(1)

#### Sensitivity analysis

##### Interest rate and foreign currency risk

An interest rate sensitivity analysis is based on an increase or decrease of 1% (100 basis points) in market interest rates and the prevailing information as at the reporting date.

The analysis assumes that all other variables remain constant. The analysis and changes in interest rates is performed on the same basis as was used in prior years.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's and Company's profit for the year ended 31 March 2013 would increase/decrease by R34 million (2012: increase by R42 million and decrease by R42 million).

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.4 Market risk (continued)

#### Sensitivity analysis (continued)

#### Interest rate and foreign currency risk (continued)

The following table illustrates the sensitivity to a 100 basis points change in the interest rates on profit before tax:

Classes of financial instruments per statement of financial position	Group movement		Company movement	
	+ 1% Profit Rm	- 1% Profit Rm	+ 1% Profit Rm	- 1% Profit Rm
<b>2013</b>				
<b>Assets</b>				
Other financial assets	11	(11)	11	(11)
Cross-currency swaps	2	(2)	2	(2)
Forward exchange contract	9	(9)	9	(9)
<b>Liabilities</b>				
Other financial liabilities	23	(23)	23	(23)
Interest rate swaps	23	(23)	23	(23)
	34	(34)	34	(34)
<hr/>				
Classes of financial instruments per statement of financial position	Group movement		Company movement	
	+ 1% Profit Rm	- 1% Profit Rm	+ 1% Profit Rm	- 1% Profit Rm
<b>2012</b>				
<b>Assets</b>				
Other financial assets	6	(6)	6	(6)
Cross-currency swaps	2	(2)	2	(2)
Forward exchange contract	4	(4)	4	(4)
<b>Liabilities</b>				
Other financial liabilities	36	(36)	36	(36)
Interest rate swaps	36	(36)	36	(36)
	42	(42)	42	(42)

#### Foreign exchange currency risk

If exchange rates had been 10% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2013 would decrease/increase by R233 million (2012: increase/decrease by R149 million) and Company by R233 million (2012: increase/decreases by R106 million).

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.4 Market risk (continued)

#### Sensitivity analysis (continued)

#### Foreign exchange currency risk (continued)

The following table illustrates the sensitivity to a reasonably possible change in the exchange rates before tax, with all other variables held constant:

Classes of financial instruments per statement of financial position	Group		Company	
	+ 10% movement (Depreciation)	- 10% movement (Appreciation)	+ 10% movement (Depreciation)	- 10% movement (Appreciation)
	Rm	Rm	Rm	Rm
<b>2013</b>				
<b>Assets</b>				
Other financial assets	302	(302)	302	(302)
Forward exchange contract	258	(258)	258	(258)
Cross-currency swaps	44	(44)	44	(44)
Cash and cash equivalents	1	(1)	1	(1)
<b>Liabilities</b>	(70)	70	(70)	70
Interest-bearing debt	(70)	70	(70)	70
	233	(233)	233	(233)
<b>2012</b>				
<b>Assets</b>				
Trade and other receivables	64	(64)	-	-
Other financial assets	173	(173)	173	(173)
Forward exchange contract	125	(125)	125	(125)
Cross-currency swaps	48	(48)	48	(48)
Cash and cash equivalents	1	(1)	1	(1)
<b>Liabilities</b>	(89)	89	(67)	67
Interest-bearing debt	(67)	67	(67)	67
Trade and other payables	(22)	22	-	-
	149	(149)	107	(107)

### 15.5 Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. Changes in the fair value of equity securities held by the Group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market. The Group is not exposed to commodity price risk. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's board of directors reviews and approves all equity investment decisions.

At the reporting date, the total amount for local equity investments was R3,285 million (2012: R2,716 million). A 5% increase in the local and foreign equity portfolios at the reporting date would have increased profit or loss by R110 million (2012: R95 million) before tax. An equal and opposite change would have decreased profit or loss.

There will be no other impact on equity as the equity securities are classified as at fair value through profit or loss. The analysis assumes that all other variables remain constant and is performed on the same basis as the prior year.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 15.6 Capital management

The Group's policy is to manage the capital structure to ensure that it maximises shareholders' return, growth and ability to meet its obligations. Capital comprises equity and net debt which it monitors using, *inter alia*, a net debt to EBITDA ratio. The Group's guidance is to keep the ratio below 1.4 times.

Net debt is defined as interest-bearing debts, credit facilities utilised and other financial liabilities, less cash and cash equivalents and other financial assets. EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation.

The Group's dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The Group may revise its dividend policy from time to time. The determination to pay dividends, and the amount of dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, net debt levels and growth opportunities.

The net debt to EBITDA ratio at reporting date was as follows:

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
Non-current portion of interest-bearing debt	3,899	5,897	3,895	5,891
Current portion of interest-bearing debt	2,758	1,289	2,756	1,287
Credit facilities utilised	3	3	3	2
Non-current portion of other financial liabilities	12	26	12	26
Current portion of other financial liabilities	54	129	57	133
Less: Cash and cash equivalents	(2,387)	(1,168)	(2,258)	(1,095)
Other financial assets	(2,217)	(2,243)	(2,207)	(2,233)
Net debt	2,122	3,933	2,258	4,011
EBITDA	7,109	8,546	6,625	6,435
Net debt to EBITDA ratio	0.30	0.46	0.34	0.62

	Company	
	2013	2012
	Rm	Rm
<b>16. INVESTMENTS</b>		
<b>16.1 Investments in subsidiaries</b>	<b>237</b>	<b>202</b>
<i>Trudon (formerly known as TDS Directory Operations) Proprietary Limited</i>		
64.9 % shareholding at cost	167	167
<i>Swiftnet Proprietary Limited</i>	25	25
100 % shareholding at cost	25	25
<i>Rossal No 65 Proprietary Limited</i>		
100 % shareholding at cost (R100)	-	-
<i>Acajou Investments Proprietary Limited</i>		
100 % shareholding at cost (R100)	-	-
<i>Intekom Proprietary Limited</i>		
100 % shareholding at cost	10	10
<i>Q-Trunk Proprietary Limited*</i>		
100 % shareholding at cost	10	10
Loan	-	-
Impairment	(10)	(10)
<i>iWayAfrica*</i>	35	-
100 % shareholding at cost	150	150
Loan	305	270
Impairment of loan	(270)	(270)
Impairment of investment	(150)	(150)
<i>Telkom International Proprietary Limited*</i>		
100 % shareholding at cost (R100)	-	-
Loan	2,481	2,481
Impairment of loan	(2,481)	(2,481)
<b>Available-for-sale</b>		
<b>Unlisted investment</b>		
<i>Rascom*</i>		
0.69 % interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast, at cost	-	-
Cost	1	1
Impairment	(1)	(1)

The aggregate directors' valuation of the above investments is R3,606 million (2012: R3,682 million) based on net asset value.

#### Investments and loans key assumptions\*

Loans and investments are tested for impairment losses whenever there are impairment indicators, by comparing the recoverable amounts of the cash-generating units (CGU) with the carrying amounts of the investments and loans.

For continuing operations the recoverable amount of a CGU is determined based on value in use calculations. Value in use is based on the discounted cash flow method.

The key assumptions used for value-in-use calculations are as follows:

Gross margin %	27 to 30
Growth rate %	2,0
Discount rate %	13.87

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 16. INVESTMENTS (continued)

### 16.1 Investments in subsidiaries (continued)

#### Investments and loans key assumptions (continued)

##### Gross margin

The budgeted gross margin is based on past experience and management's future expectations of business performance.

##### Growth rates

The growth rates are determined based on the forward-looking Consumer Price Index, and reflect management's assessment of the long-term growth prospects of the sector in which the CGU operates.

##### Discount rates

The discount rates used are post-tax and reflect specific risks relating to the relevant cash-generating units.

##### Sensitivity to changes in assumptions

Management believes that no reasonably possible changes in the assumptions would cause the carrying amount of the continuing cash-generating unit to exceed their recoverable amount in the short term.

#### Disposal of Multi-Links

	2013 Rm	2012 Rm
<b>Multi-Links Telecommunications Limited</b>	–	–
25% shareholding at cost	–	1,339
100% 550,000 10% non-cumulative preference shares at par NGN1.00 and a premium of NGN 99,999.00	–	2,674
Equity capital contribution	–	999
Multi-Links guarantee	–	10
Loan/equity contribution	–	3,135
Impairment of investment, loan and guarantee	–	(8,157)

Multi-Links had issued 550,000 10% non-cumulative preference shares at NGN1.00 each at a Premium of NGN99,999.00. Telkom SA had acquired all the shares for NGN55 billion (USD365,448,505).

The 75% shareholding in Multi-Links Telecommunications Limited was an indirect investment through Telkom International Proprietary Limited, while 25% was held directly by Telkom.

In September 2009, Telkom amended the terms and conditions of the USD loans advanced to Multi-Links, so that a portion of the loan balance becomes interest free with no repayment terms. Multi-Links repaid a portion of the loans outstanding (USD361,793,945). The remaining outstanding amount was then split between debt and equity components – in terms of IAS 39.

On 31 March 2011, Telkom and Visafone Communications Limited (Visafone) entered into a legally binding agreement regarding the sale of Multi-Links' CDMA business to Visafone for an enterprise value of USD52 million through a number of transaction steps.

On 3 October 2011 Multi-Links was sold to Helios Towers Nigeria Limited.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>16.2 Other investments</b>	<b>2,492</b>	2,260	<b>928</b>	968
<b>At fair value through profit and loss and cost</b>	<b>2,490</b>	2,248	<b>928</b>	959
Linked insurance policies – Coronation Cell Captive Cost	2,490	2,248	–	–
	–	–	928	959
<b>Investment in associate</b>	<b>2</b>	10	–	9
Equity investment in Number Portability Company	2	10	–	9
<b>Investment in joint venture</b>	<b>–</b>	2	–	–
Equity investment in Satellite Data Networks Mauritius (Pty) Ltd	–	2	–	–



## 16. INVESTMENTS (continued)

### 16.2 Other investments (continued)

#### Linked insurance policies – Coronation

The fair value through profit or loss investment is used to fund the post-retirement medical aid liability. These investments are made through a Cell Captive in which Telkom holds 100% of the preference shares, and represent the fair value of the underlying investments of the Cell Captive.

Telkom bears all the risks and rewards of the investment, as the returns/losses on the preference shares are dependant on the performance of the underlying investments made by the Cell Captive. On this basis, Telkom as the preference shareholder receives any residual gains or losses made by the Cell Captive. The ordinary shareholders of the Cell Captive do not bear any of the risks and rewards. The Cell Captive has been consolidated in full.

#### Investment in associate

The Number Portability Company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. The NPC was previously classified as a joint venture jointly controlled by Vodacom, MTN and Cell C. The investment has been reclassified to an associate in line with the requirements of the revised IAS 28 Investments in Associates and Joint Ventures and IFRS 11 Joint Arrangements.

#### Investment in joint venture

Satellite Data Networks Mauritius (Pty) Ltd was a joint venture within the iWayAfrica Group. The joint venture was disposed of during the financial year.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>17. DEFERRED EXPENSES AND DEFERRED REVENUE</b>				
Deferred expense	50	47	50	47
Non-current deferred expenses	50	47	50	47
Telkom Pension Fund asset	50	47	50	47
Deferred revenue	2,692	3,127	2,651	3,100
Non-current deferred revenue	952	1,132	952	1,132
Current portion of deferred revenue	1,740	1,995	1,699	1,968

Included in deferred revenue is profit on the sale and leaseback of certain Telkom buildings of R64 million (2012: R75 million) and short-term portion of R11 million (2012: R11 million). A profit of R11 million per annum is recognised in income on a straight-line basis, over the period of the lease ending 2019.

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## 18. FINANCE LEASE RECEIVABLES

The Group provides voice and non-voice services through the use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to those arrangements which were assessed to be finance leases in terms of IAS 17.

Group	Total Rm	< 1 year Rm	1 to 5 years Rm	> 5 years Rm
<b>2013</b>				
<b>Minimum lease payments receivable</b>				
Lease payments receivable	409	161	248	–
Unearned finance income	(59)	(30)	(29)	–
Present value of minimum lease income	350	131	219	–
Lease receivables	350	131	219	–
<b>2012</b>				
<b>Minimum lease payments receivable</b>				
Lease payments receivable	442	163	279	–
Unearned finance income	(70)	(35)	(35)	–
Present value of minimum lease income	372	128	244	–
Lease receivables	372	128	244	–
<b>Company</b>				
<b>2013</b>				
<b>Minimum lease payments receivable</b>				
Lease payments receivable	409	161	248	–
Unearned finance income	(59)	(30)	(29)	–
Present value of minimum lease income	350	131	219	–
Lease receivables	350	131	219	–
<b>2012</b>				
<b>Minimum lease payments receivable</b>				
Lease payments receivable	442	163	279	–
Unearned finance income	(70)	(35)	(35)	–
Present value of minimum lease income	372	128	244	–
Lease receivables	372	128	244	–

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>19. DEFERRED TAXATION</b>				
	<b>23</b>	(694)	<b>-</b>	(729)
Opening balance	<b>(694)</b>	(838)	<b>(729)</b>	(873)
Profit and loss movements	<b>621</b>	494	<b>633</b>	162
Capital allowances	<b>309</b>	516	<b>316</b>	141
Provisions and other allowances	<b>318</b>	520	<b>324</b>	37
Underprovision prior year	<b>(6)</b>	(2)	<b>(7)</b>	(2)
Tax losses	<b>-</b>	(526)	<b>-</b>	-
Secondary taxation on companies (STC) credit utilised	<b>-</b>	(14)	<b>-</b>	(14)
Other adjustment	<b>6</b>	-	<b>6</b>	-
Deferred taxation realised on foreign operations	<b>-</b>	(332)	<b>-</b>	-
Other comprehensive income tax impact (refer to note 11)	<b>90</b>	(18)	<b>90</b>	(18)
The balance comprises:	<b>23</b>	(694)	<b>-</b>	(729)
Capital allowances	<b>(3,034)</b>	(3,343)	<b>(3,014)</b>	(3,330)
Provisions and other allowances	<b>2,803</b>	2,642	<b>2,767</b>	2,601
OCI	<b>247</b>	-	<b>247</b>	-
Tax losses	<b>7</b>	7	<b>-</b>	-
Deferred taxation balance is made up as follows:	<b>23</b>	(694)	<b>-</b>	(729)
Deferred taxation assets	<b>40</b>	53	<b>-</b>	-
Deferred taxation liabilities	<b>(17)</b>	(747)	<b>-</b>	(729)
Unutilised STC credits	<b>-</b>	-	<b>-</b>	-

Previously STC was provided for at a rate of 10% on the amount by which dividends declared exceeded dividends received in the specified dividend cycle. The deferred taxation asset was raised in 2011 and was utilised in 2012. The asset was released as a taxation expense when dividends were declared.

The deferred taxation liability decreased mainly due to the shorter taxation write-off periods on property, plant and equipment that was previously utilised and add back of employee related provisions.

Deferred taxation realised on foreign operations relates to the foreign exchange losses on the disposal of Multi-Links Telecommunications Ltd.

Deferred tax assets are recognised for deductible temporary differences to the extent of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of R3,200 million (2012: RNil million) in respect of temporary differences amounting to R11,300 million that can be carried forward against future taxable income.

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for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>20. INVENTORIES</b>	<b>1,166</b>	993	<b>1,026</b>	879
Gross inventories	<b>1,473</b>	1,259	<b>1,330</b>	1,144
Write-down of inventories to net realisable value	<b>(307)</b>	(266)	<b>(304)</b>	(265)
Inventories consist of the following categories:	<b>1,166</b>	993	<b>1,027</b>	879
Installation material, maintenance material and network equipment	<b>739</b>	685	<b>739</b>	713
Merchandise	<b>427</b>	308	<b>288</b>	166
Write-down of inventories to net realisable value	<b>307</b>	266	<b>304</b>	265
Opening balance	<b>266</b>	271	<b>265</b>	271
Charged to selling, general and administrative expenses	<b>133</b>	209	<b>131</b>	208
Inventories written-off	<b>(92)</b>	(214)	<b>(92)</b>	(214)

Increase in gross inventory is mainly due to the increase in stock holding for Installation and Maintenance, Merchandise, Minor material, CPE work in progress and Non-Warehouse stock provision. This is offset by a decrease in repair stock holding and Merchandise stock provision.

The write-down of inventory is mainly due to the provision for technology obsolescence and slow-moving stock.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>21. TRADE AND OTHER RECEIVABLES</b>	<b>5,804</b>	5,696	<b>5,059</b>	4,951
Trade receivables	<b>4,537</b>	4,644	<b>3,853</b>	3,966
Gross trade receivables	<b>5,085</b>	5,227	<b>4,261</b>	4,439
Impairment of receivables	<b>(548)</b>	(583)	<b>(408)</b>	(473)
Prepayments and other receivables	<b>1,267</b>	1,052	<b>1,206</b>	985
Impairment of allowance account for receivables	<b>548</b>	583	<b>408</b>	473
Opening balance	<b>583</b>	496	<b>473</b>	355
Charged to selling, general and administrative expenses	<b>582</b>	690	<b>496</b>	642
Transfer to disposal group held for sale	<b>-</b>	(16)	<b>-</b>	-
Receivables written-off	<b>(617)</b>	(587)	<b>(561)</b>	(524)

The repayment terms of trade receivables vary between 21 days and 30 days from date of invoice. Interest charged varies between prime + 1% and 18%, depending on the contract.

Refer to note 15.2 for detailed credit risk analysis.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>22. OTHER FINANCIAL ASSETS AND LIABILITIES</b>				
<b>Other financial assets consist of:</b>	<b>83</b>	<b>48</b>	<b>83</b>	<b>48</b>
<b>Total other financial assets</b>	<b>2,217</b>	<b>2,243</b>	<b>2,207</b>	<b>2,233</b>
– Repurchase agreements	<b>1,980</b>	2,009	<b>1,970</b>	1,999
– Derivative instrument	<b>237</b>	234	<b>237</b>	234
Forward exchange contract	<b>132</b>	193	<b>132</b>	193
Cross currency swaps	<b>105</b>	41	<b>105</b>	41
<b>Less: Current portion of other financial assets</b>	<b>2,134</b>	<b>2,195</b>	<b>2,124</b>	<b>2,185</b>
– Repurchase agreements	<b>1,980</b>	2,009	<b>1,970</b>	1,999
– Derivative instrument	<b>154</b>	186	<b>154</b>	186
Forward exchange contract	<b>132</b>	186	<b>132</b>	186
Cross currency swaps	<b>22</b>	–	<b>22</b>	–
<b>Repurchase agreements:</b>				
The Group manages a portfolio of repurchase agreements, with a view to generating additional investment income on the favourable interest rates and security provided on these instruments. They are short term, usually seven days and are held to maturity.				
<b>Financial instruments:</b>				
Financial assets consists of forward exchange contracts of R132 million (2012: R193 million) and cross currency swaps of R105 million (2012: R41 million).				
<b>Derivative instruments:</b>				
Derivative assets at fair value consists of forward exchange contracts of R132 million (2012: R193 million) and cross currency swaps of R105 million (2012: R41 million).				
Other financial liabilities consist of:				
At fair value through profit or loss	<b>(12)</b>	(26)	<b>(12)</b>	(26)
<b>Total other financial liabilities</b>	<b>(66)</b>	<b>(155)</b>	<b>(69)</b>	<b>(159)</b>
– Derivative instrument	<b>(66)</b>	(155)	<b>(69)</b>	(159)
Forward exchange contract	<b>(15)</b>	(105)	<b>(15)</b>	(105)
Interest rate swap	<b>(51)</b>	(50)	<b>(54)</b>	(54)
<b>Less: Current portion of other financial liabilities</b>	<b>(54)</b>	<b>(129)</b>	<b>(57)</b>	<b>(133)</b>
– Derivative instrument	<b>(54)</b>	(129)	<b>(57)</b>	(133)
Forward exchange contract	<b>(15)</b>	(100)	<b>(15)</b>	(100)
Interest rate swap	<b>(39)</b>	(29)	<b>(42)</b>	(33)

Financial liabilities consists of interest rate swaps of R51 million (2012: R50 million) for the Group and R54 million (2012: R54 million) for the Company and forward exchange contracts of R15 million (2012: R105 million) for the Group and the Company.

#### Hedging activities and derivatives

The Group uses forward exchange contracts, interest rate swaps and cross currency swaps to economically hedge some of its transaction exposures. However hedge accounting is not applied.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>23. NET CASH AND CASH EQUIVALENTS</b>				
Cash shown as current assets	2,387	1,168	2,258	1,095
Cash and bank balances	234	713	137	666
Short-term deposits	2,153	455	2,121	429
Credit facilities utilised	(3)	(3)	(3)	(2)
Net cash and cash equivalents	2,384	1,165	2,255	1,093
Undrawn borrowing facilities	6,450	6,500	6,450	6,500

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2013, R4,000 million (2012: R4,000 million) of these undrawn facilities were committed.

#### Short-term deposits

Short-term deposits are made mostly for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

#### Borrowing powers

To borrow money, Telkom's directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants as well as specific restrictive clauses in the current funding arrangements.

Net cash and cash equivalents increased due to higher cash generated from operations.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>24. SHARE CAPITAL</b>				
Authorised and issued share capital is made up as follows:				
Authorised				
1,000,000,000 ordinary shares of R10 each	10,000	10,000	10,000	10,000
Issued and fully paid				
520,783,900 (2012: 520,783,900) ordinary shares of R10 each	5,208	5,208	5,208	5,208
The following table illustrates the movement within the number of shares issued:				
	Number of shares	Number of shares	Number of shares	Number of shares
Shares in issue at beginning of year	520,783,900	520,783,900	520,783,900	520,783,900
Shares in issue at end of year	520,783,900	520,783,900	520,783,900	520,783,900

The unissued shares are under the control of the directors until the next Annual General Meeting. The directors have been given the authority by the shareholders to buy back Telkom's own shares up to a limit of 20% of the current issued share capital.

#### Capital management

Refer to note 15.6 for detailed capital management disclosure.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>25. TREASURY SHARES</b>	<b>(771)</b>	(771)	(775)	(775)
<p>The reserve represents amounts paid by Telkom to Rossal No 65 Proprietary Limited and Acajou Investments Proprietary Limited, subsidiaries for the acquisition of Telkom's shares to be utilised in terms of the Telkom Conditional Share Plan. The Telkom Conditional Share Plan was closed in June 2010. The future use of the remaining shares is subject to management review.</p> <p>At 31 March 2013, 2,046,528 (2012: 2,046,528) and 8,143,556 (2012: 8,143,556) ordinary shares in Telkom, with a fair value of R31 million (2012: R49 million) and R122 million (2012: R195 million) are held as treasury shares by its subsidiaries Rossal No 65 Proprietary Limited and Acajou Investments Proprietary Limited, respectively (refer to note 12).</p> <p>Although the treasury shares are held by a separate subsidiary, the value is shown as a separate reserve at Company level.</p>				
<b>26. NON-DISTRIBUTABLE RESERVES</b>	<b>2,164</b>	1,887		
Opening balance	<b>1,887</b>	1,764		
Movement during year	<b>277</b>	123		
Foreign currency translation reserve (net of tax of RNil million; 2012: RNil million)	<b>(3)</b>	(52)		
Available-for-sale investment	<b>–</b>	(5)		
Gains of the Cell Captive reserve	<b>(40)</b>	(25)		
Revaluation of the Cell Captive reserve	<b>320</b>	205		
The balance comprises:	<b>2,164</b>	1,887		
Foreign currency translation reserve	<b>(126)</b>	(123)		
Cell Captive reserve	<b>2,290</b>	2,010		
<p>The Group has a consolidated Cell Captive, used as an investment to fund Telkom's post-retirement medical aid liability. The earnings from the Cell Captive are recognised in profit or loss and then transferred to non-distributable reserves. The available-for-sale investment is a re-insurance premium of the Cell Captive recognised directly in equity.</p>				
<b>27. NON-CONTROLLING INTEREST</b>	<b>379</b>	434		
Balance at beginning of year	<b>434</b>	387		
Share of earnings	<b>123</b>	126		
Acquisition of non-controlling interest	<b>(2)</b>	–		
Dividend declared	<b>(176)</b>	(79)		

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>28. INTEREST-BEARING DEBT</b>				
<b>Non-current interest-bearing debt</b>	<b>3,899</b>	5,897	<b>3,895</b>	5,891
Total interest-bearing debt (refer to note 15)	<b>6,657</b>	7,186	<b>6,651</b>	7,178
Gross interest-bearing debt	<b>6,855</b>	7,392	<b>6,853</b>	7,389
Discount on debt instruments issued	<b>(968)</b>	(1,057)	<b>(968)</b>	(1,057)
Finance leases	<b>770</b>	851	<b>766</b>	846
<b>Less: Current portion of interest-bearing debt</b>	<b>(2,758)</b>	(1,289)	<b>(2,756)</b>	(1,287)
Local debt	<b>(2,494)</b>	(1,060)	<b>(2,494)</b>	(1,060)
Call borrowings	<b>(1,998)</b>	(1,060)	<b>(1,998)</b>	(1,060)
Commercial paper bills	<b>(496)</b>	–	<b>(496)</b>	–
Foreign debt	<b>(207)</b>	(148)	<b>(207)</b>	(148)
Finance leases	<b>(57)</b>	(81)	<b>(55)</b>	(79)
Total interest-bearing debt is made up as follows:	<b>6,657</b>	7,186	<b>6,651</b>	7,179
<b>(a) Local debt</b>	<b>5,224</b>	5,709	<b>5,224</b>	5,709
<b>Locally registered Telkom debt instruments</b>	<b>5,224</b>	5,709	<b>5,224</b>	5,709
<i>Name, maturity, rate p.a., nominal value</i>				
TL12, 2012, 12.45%, RNil million (2012: R1,060 million)	–	1,060	–	1,060
TL15, 2015, 11.9%, R1,160 million (2012: R1,160 million)	<b>1,160</b>	1,159	<b>1,160</b>	1,159
TL20, 2020, 6%, R2,500 million (2012: R2,500 million)	<b>1,570</b>	1,495	<b>1,570</b>	1,495
Other local loans, 2013, 6.3%, R500 million (2012: RNil)	<b>496</b>	–	<b>496</b>	–
Syndicated loans, 2013, 7.11%, R2,000 million (2012: R2,000 million)	<b>1,998</b>	1,995	<b>1,998</b>	1,995
Total Group interest-bearing debt is made up of R6,657 million debt at amortised cost (2012: R7,186 million debt at amortised cost). Finance costs accrued on debt are included in trade and other payables (refer to note 31).				



	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>28. INTEREST-BEARING DEBT (continued)</b>				
<b>(b) Foreign debt</b>	<b>663</b>	626	<b>661</b>	624
<i>Maturity, rate p.a., nominal value</i>				
Euro: 2011 – 2025, 0.1% – 0.14% (2012: 0.1% – 0.14%), €7.6 million (2012: €8 million)	<b>90</b>	85	<b>90</b>	85
USD: 2011 – 2016, 2.449% USD66 million (2012: USD76 million)	<b>571</b>	539	<b>571</b>	539
The local Telkom bonds are unsecured, but a Side letter to the Subscription Agreement (as amended) of the TL20 bond contains a number of restrictive covenants, which, if not met, could result in the early redemption of the loan. The local bonds limit Telkom's ability to create encumbrances on revenue or assets, and secure any indebtedness without securing the outstanding bonds equally and ratably with such indebtedness. The syndicated loan and the ECA (USD) loan agreements contains restrictive covenants as well as restrictions on encumbrances, disposals, Group guarantees and loans.				
<b>Other debt</b>				
<b>Kalahari Holdings</b>				
IwayAfrica Group has a loan with its non-controlling shareholder, Kalahari Holdings. This loan bears interest at 0% with no repayment terms	<b>2</b>	2	<b>–</b>	–
<b>(c) Finance leases</b>	<b>770</b>	851	<b>766</b>	846
The finance leases are secured by buildings with a carrying value of R89 million (2012: R104 million) and office equipment with a book value of RNil million (2012: RNil million) (refer to note 13). These amounts are repayable within periods ranging from 1 to 7 years. Interest rates are approximately 13.43%.				
<b>Included in non-current and current debt is:</b>				
Debt guaranteed by the South African Government	<b>90</b>	85	<b>90</b>	84

The Company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act, 85 of 1991. The borrowing powers of the Company are set out as per note 23.

#### Repayments/refinancing of current portion of interest-bearing debt

The TL12 bond of R1,060 million was repaid on maturity during the reporting period.

The repayment of the current portion of interest-bearing debt of R2,707 million (nominal) as at 31 March 2013 is expected to be repaid from available cash, operational cash flow and/or the issue of new debt instruments.

Management believes that sufficient funding facilities will be available at the date of repayment.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>29. PROVISIONS</b>				
<b>Non-current employee-related</b>	<b>5,150</b>	<b>4,880</b>	<b>5,131</b>	<b>4,860</b>
<i>Annual leave</i>	<b>510</b>	521	<b>501</b>	512
Balance at beginning of year	<b>521</b>	489	<b>512</b>	479
Charged to employee expenses	<b>1</b>	73	<b>–</b>	74
Leave paid/utilised	<b>(12)</b>	(41)	<b>(11)</b>	(41)
<i>Post-retirement medical aid (refer to note 30)</i>	<b>5,328</b>	4,909	<b>5,305</b>	4,886
Balance at beginning of year	<b>4,909</b>	4,681	<b>4,886</b>	4,658
Interest cost	<b>622</b>	569	<b>621</b>	568
Current service cost	<b>110</b>	107	<b>110</b>	106
Expected return on plan asset	<b>(241)</b>	(208)	<b>(241)</b>	(208)
Actuarial loss/(gain)	<b>360</b>	(89)	<b>360</b>	(88)
Curtailment (gain)/loss	<b>(276)</b>	2	<b>(276)</b>	2
Settlement loss	<b>(3)</b>	–	<b>(3)</b>	–
Transfer from sinking fund to annuity policy	<b>(71)</b>	(47)	<b>(71)</b>	(47)
Termination settlement	<b>–</b>	(2)	<b>–</b>	(2)
Contributions paid	<b>(82)</b>	(104)	<b>(81)</b>	(103)
<i>Telephone rebates (refer to note 30)</i>	<b>420</b>	516	<b>420</b>	516
Balance at beginning of year	<b>516</b>	551	<b>516</b>	551
Interest cost	<b>44</b>	47	<b>44</b>	47
Current service cost	<b>6</b>	7	<b>6</b>	7
Past service cost	<b>2</b>	2	<b>2</b>	2
Curtailment loss	<b>6</b>	–	<b>6</b>	–
Actuarial gain	<b>(129)</b>	(66)	<b>(129)</b>	(66)
Benefits paid	<b>(25)</b>	(25)	<b>(25)</b>	(25)
<i>Bonus</i>	<b>787</b>	586	<b>772</b>	577
Balance at beginning of year	<b>586</b>	922	<b>577</b>	913
Charged to employee expenses	<b>775</b>	559	<b>769</b>	559
Payments made	<b>(574)</b>	(895)	<b>(574)</b>	(895)
<i>Voluntary Severance Packages (refer to note 6.1)</i>	<b>710</b>	–	<b>710</b>	–
<b>Less: Current portion of employee related provisions</b>	<b>(2,605)</b>	(1,652)	<b>(2,577)</b>	(1,631)
Annual leave	<b>(510)</b>	(521)	<b>(501)</b>	(511)
Post-retirement medical aid	<b>(563)</b>	(492)	<b>(559)</b>	(490)
Telephone rebates	<b>(35)</b>	(53)	<b>(35)</b>	(53)
Bonus	<b>(787)</b>	(586)	<b>(772)</b>	(577)
Voluntary Severance Packages	<b>(710)</b>	–	<b>(710)</b>	–
<b>Non-current non-employee related</b>	<b>238</b>	36	<b>228</b>	34
<i>Other</i>	<b>1,024</b>	276	<b>1,014</b>	265
<b>Less: Current portion of other provisions</b>	<b>(786)</b>	(240)	<b>(786)</b>	(231)
<i>Other</i>	<b>(786)</b>	(240)	<b>(786)</b>	(231)

## 29. PROVISIONS (continued)

### *Annual leave*

In terms of the Telkom's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 days (2012: 22 days) which must be taken within an 18-month (2012: 19-month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

### *Bonus*

The bonus scheme consists of performance bonuses which are dependent on the achievement of certain financial and non-financial targets. The bonus is payable annually to all qualifying employees after the Company's results have been made public.

### *Other*

Non-employee related provisions increased due to the fines imposed by the Competition Commission.

Other provisions contain provisions for certain legal matters that have been disclosed in the contingencies note (refer to note 38).

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## 30. EMPLOYEE BENEFITS

The Group provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership to one of the funds is compulsory. In addition, certain retired employees receive medical aid benefits and a telephone rebate. The liabilities for all of the benefits are actuarially determined in accordance with accounting requirements each year. In addition, statutory funding valuations for the retirement and pension funds are performed at intervals not exceeding three years.

At 31 March 2013 the Group employed 22,192 (2012: 22,045) employees and the Company employed 21,209 (2012: 20,939) employees.

Actuarial valuations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented.

### **The Telkom Pension Fund**

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act, 85 of 1991.

The latest actuarial valuation performed at 31 March 2013 indicates that the pension fund is in a surplus position of R100 million. The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19 Employee Benefits. The Telkom Pension Fund is closed to new members.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 30. EMPLOYEE BENEFITS (continued)

### The Telkom Pension Fund (continued)

The funded status of the Telkom Pension Fund is disclosed below.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>The Telkom Pension Fund</b>				
<b>The net periodic pension costs includes the following components:</b>				
Interest cost on projected benefit obligations	22	20	22	20
Service cost on projected benefit obligations	5	5	5	5
Expected returns on plan assets	(35)	(30)	(35)	(30)
Net periodic pension gain recognised in profit and loss	(8)	(5)	(8)	(5)
<b>The net periodic other comprehensive income includes the following components:</b>				
Actuarial (gain)/loss	(33)	6	(33)	6
Asset limitation in terms of IAS 19.58(b)	38	1	38	1
Net periodic pension expense recognised in other comprehensive income	5	7	5	7
Cumulative actuarial loss	(18)	(51)	(18)	(51)
Pension fund contributions	(2)	(2)	(2)	(2)
<b>The status of the pension plan obligation is as follows:</b>				
At beginning of year	242	224	242	224
Interest cost	22	20	22	20
Current service cost	5	5	5	5
Employee contributions	2	2	2	2
Benefits paid	(13)	(7)	(13)	(7)
Curtailment gain	(4)	–	(4)	–
Actuarial loss/(gain)	8	(2)	8	(2)
Benefit obligation at end of year	262	242	262	242
<b>Plan assets at fair value:</b>				
At beginning of year	301	284	301	284
Expected return on plan assets	35	30	35	30
Benefits paid	(13)	(7)	(13)	(7)
Contributions	2	2	2	2
Curtailment loss	(4)	–	(4)	–
Actuarial gain/(loss)	41	(8)	41	(8)
Plan assets at end of year	362	301	362	301
Present value of funded obligation	262	242	262	242
Fair value of plan assets	(362)	(301)	(362)	(301)
Fund surplus	(100)	(59)	(100)	(59)
Asset limitation in terms of IAS 19.58(b)	50	12	50	12
Recognised net asset (refer to note 17)	(50)	(47)	(50)	(47)
Expected return on plan assets	35	30	35	30
Actuarial gain/(loss) on plan assets	41	(8)	41	(8)
Actual return on plan assets	76	22	76	22

	Group		Company	
	2013	2012	2013	2012
<b>30. EMPLOYEE BENEFITS (continued)</b>				
<b>The Telkom Pension Fund (continued)</b>				
<b>Principal actuarial assumptions were as follows:</b>				
Discount rate (%)	7.6	8.9	7.6	8.9
Yield on government bonds (%)	7.6	8.9	7.6	8.9
Long-term return on equities (%)	11.6	12.9	11.6	12.9
Long-term return on cash (%)	6.9	8.4	6.9	8.4
Expected return on plan assets (%)	10.8	11.7	10.8	11.7
Salary inflation rate (%)	7.1	7.4	7.1	7.4
Pension increase allowance (%)	5.6	3.8	5.6	3.8
The overall long-term expected rate of return on assets is 10.8%. This is based on the portfolio as a whole and not the sum of the returns of individual asset categories. The expected return takes into account the asset allocation of the Telkom Pension Fund and expected long-term return of these assets, of which South African Equities and Bonds are the largest contributors. The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Funding level per statutory actuarial valuation (%)	100	100	100	100
The number of employees registered under the Telkom Pension Fund	95	100	95	100
<b>The fund portfolio consists of the following:</b>				
Equities (%)	59	51	59	51
Bonds (%)	9	14	9	14
Cash (%)	7	10	7	10
Foreign investments (%)	25	25	25	25
The total expected contributions payable to the pension fund for the year ending 31 March 2014 are R1.8 million.				

#### The Telkom Retirement Fund

The Telkom Retirement Fund was established on 1 July 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer the government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments will belong to the Telkom Retirement Fund but will not be able to retire from the Telkom Retirement Fund at retirement age. These members would be required to purchase their pensions from an insurance company.

The Telkom Retirement Fund is a defined contribution fund with regards to in-service members. On retirement, an employee is transferred from the defined contribution plan to a defined benefit plan. Telkom, as a guarantor, is contingently liable for any deficit in the Telkom Retirement Fund. Moreover, all of the assets in the fund, including any potential excess belong to the participants of the scheme. Telkom is unable to benefit from the excess in the form of future reduced contributions.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund.

The Telkom Retirement Fund is governed by the Pension Funds Act, 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced. If therefore the present value of the funded obligation was to exceed the fair value of plan assets, Telkom would be required to fund the statutory deficit.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>30. EMPLOYEE BENEFITS (continued)</b>				
<b>The Telkom Retirement Fund (continued)</b>				
The funded status of the Telkom Retirement Fund is disclosed below:				
<b>The net periodic retirement costs include the following components:</b>				
Interest cost on projected benefit obligations	772	717	772	717
Expected return on plan assets	(859)	(800)	(859)	(800)
Net periodic pension expense recognised in profit and loss	(87)	(83)	(87)	(83)
<b>The net periodic other comprehensive income includes the following components:</b>				
Actuarial loss	(87)	(83)	(87)	(83)
Net periodic pension expense recognised in other comprehensive income	(87)	(83)	(87)	(83)
Cumulative actuarial loss	(1,997)	(1,910)	(1,997)	(1,910)
Retirement fund contributions	606	558	606	558
<b>Benefit obligation:</b>				
At beginning of year	9,015	8,654	9,015	8,654
Interest cost	772	717	772	717
Benefits paid	(740)	(647)	(740)	(647)
Liability for new pensioners	195	26	195	26
Curtailment loss	–	17	–	17
Actuarial loss	1,462	248	1,462	248
Benefit obligation at end of year	10,704	9,015	10,704	9,015
<b>Plan assets at fair value:</b>				
At beginning of year	9,015	8,654	9,015	8,654
Expected return on plan assets	859	800	859	800
Benefits paid	(740)	(647)	(740)	(647)
Asset backing new pensioners' liabilities	195	26	195	26
Curtailment gain	–	17	–	17
Actuarial gain	1,375	165	1,375	165
Plan assets at end of year	10,704	9,015	10,704	9,015
Present value of funded obligation	10,704	9,015	10,704	9,015
Fair value of plan assets	(10,704)	(9,015)	(10,704)	(9,015)
Unrecognised net asset	–	–	–	–
Expected return on plan assets	859	800	859	800
Actuarial gain on plan assets	1,375	165	1,375	165
Actual return on plan assets	2,234	965	2,234	965
<b>Included in the fair value of plan assets is:</b>				
Office buildings occupied by Telkom	831	791	831	791
Telkom shares	27	34	27	34

The Telkom Retirement Fund invests its funds in South Africa and internationally. Twelve fund managers invest in South Africa and five of these managers specialise in trades with bonds on behalf of the Retirement Fund.

	Group		Company	
	2013	2012	2013	2012
<b>30. EMPLOYEE BENEFITS (continued)</b>				
<b>The Telkom Retirement Fund (continued)</b>				
<b>Principal actuarial assumptions were as follows:</b>				
Discount rate (%)	7.6	8.9	7.6	8.9
Yield on government bonds (%)	7.6	8.9	7.6	8.9
Long-term return on equities (%)	11.6	12.9	11.6	12.9
Long-term return on cash (%)	6.9	8.4	6.9	8.4
Expected return on plan assets (%)	9.3	9.9	9.3	9.9
Pension increase allowance (%)	5.6	5.0	5.6	5.0
The overall long-term expected rate of return on assets is 9.3%. This is based on the portfolio as a whole and not the sum of the returns of individual asset categories. The expected return takes into account the asset allocation of the Retirement Fund and expected long-term return on these assets, of which South African equities, foreign investments and SA fixed interest bonds are the largest contributors.				
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
<b>Funding level per statutory actuarial valuation (%)</b>	<b>100</b>	100	<b>100</b>	100
The number of pensioners registered under the Telkom Retirement Fund	<b>13,136</b>	13,379	<b>13,136</b>	13,379
The number of in-service employees registered under the Telkom Retirement Fund	<b>21,257</b>	20,864	<b>21,257</b>	20,864
The fund portfolio consists of the following:				
Equities (%)	<b>37</b>	29	<b>37</b>	29
Bonds (%)	<b>63</b>	68	<b>63</b>	68
Cash (%)	<b>–</b>	3	<b>–</b>	3

The expected contributions payable to the Retirement Fund for the year ending 31 March 2014 are R51 million.

#### Medical benefits

Telkom makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in note 6.1. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in note 29. Telkom has terminated future post-retirement medical benefits in respect of employees joining after 1 July 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ('Pre-94'); those who retired after 1994 ('Post-94'); and the in-service members. The Post-94 and the in-service members' liability is subject to a Rand cap, which increases as per Board's approval.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent actuarial valuation of the benefit was performed as at 31 March 2013.

Telkom has allocated certain investments to fund this liability as set out in note 16.2. The annuity policy of the Cell Captive investment is the medical plan asset.

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for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>30. EMPLOYEE BENEFITS (continued)</b>				
<b>Medical benefits (continued)</b>				
<b>Medical aid</b>				
<b>Benefit obligation:</b>				
At beginning of year	7,142	6,775	7,119	6,752
Interest cost	622	569	621	568
Current service cost	110	107	110	106
Actuarial loss/(gain)	510	(17)	510	(16)
Curtailement (gain)/loss	(276)	2	(276)	2
Termination settlement	(3)	(2)	(3)	(2)
Benefits paid from plan assets	(202)	(188)	(202)	(188)
Contributions paid by Telkom	(82)	(104)	(81)	(103)
Benefit obligation at end of year	7,821	7,142	7,798	7,119
<b>Plan assets at fair value:</b>				
At beginning of year	2,233	2,094	2,233	2,094
Expected return on plan assets	241	208	241	208
Benefits paid from plan assets	(202)	(188)	(202)	(188)
Transfer from sinking fund to annuity policy	71	47	71	47
Actuarial gain	150	72	150	72
Plan assets at end of year	2,493	2,233	2,493	2,233
Present value of funded obligation	7,821	7,142	7,798	7,119
Fair value of plan assets	(2,493)	(2,233)	(2,493)	(2,233)
Liability as disclosed in the statement of financial position (refer to note 29)	5,328	4,909	5,305	4,886
<b>The net periodic other comprehensive income includes the following components:</b>				
Actuarial (loss)/gain	(360)	89	(360)	88
Net periodic pension expense and income recognised in other comprehensive income	(360)	89	(360)	88
Cumulative actuarial loss	(2,670)	(2,310)	(2,670)	(2,310)
<b>Plan assets at fair value:</b>				
Expected return on plan assets	241	208	241	208
Actuarial gain on plan assets	150	72	150	72
Actual return on plan assets	391	280	391	280
<b>Principal actuarial assumptions were as follows:</b>				
Discount rate (%)	7.6	8.9	7.6	8.9
Expected return on plan assets (%)	10.4	11.3	10.4	11.3
The expected return on plan assets assumption rate has been derived by considering the actual asset allocation and the expected long term real return of each asset class using the actuarial asset liability model.				
Salary inflation rate (%)	7.1	7.4	7.1	7.4
Medical inflation rate (%)	7.6	7.9	7.6	7.9

The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.



	Group		Company	
	2013	2012	2013	2012
<b>30. EMPLOYEE BENEFITS (continued)</b>				
<b>Medical benefits (continued)</b>				
Contractual retirement age	65	65	65	65
Average retirement age	60	60	60	60
Number of members	9,492	10,857	9,492	10,857
Number of pensioners	8,761	8,414	8,761	8,414

#### Group and Company

The valuation results are sensitive to changes in the underlying assumptions. The following table provides an indication of the impact of changing some of the valuation assumptions above:

The Trudon (Pty) Ltd benefit obligation of R20 million has been excluded from the sensitivity analysis below.

2013	Current assumption Rm	Decrease Rm	Increase Rm
<b>Medical cost inflation rate</b>	7.6%	-1%	+1%
Benefit obligation	7,798	(1,108)	1,406
Percentage change		(14.2%)	18.0%
Service cost and interest cost 2013/2014	731	(110)	143
Percentage change		(15.0%)	19.6%
<b>Discount rate</b>	8.9%	-1%	+1%
Benefit obligation	7,798	1,456	(1,126)
Percentage change		18.7%	(14.4%)
Service cost and interest cost 2013/2014	731	55	(46)
Percentage change		7.5%	(6.3%)
<b>Post-retirement mortality rate</b>	PA(90) Ultimate-1	-10%	+10%
Benefit obligation	7,798	44	(43)
Percentage change		0.6%	(0.6%)
Service cost and interest cost 2013/2014	731	6	(5)
Percentage change		0.8%	(0.7%)
2012	Current assumption Rm	Decrease Rm	Increase Rm
<b>Medical cost inflation rate</b>	7.9%	-1%	+1%
Benefit obligation	7,119	(982)	1,234
Percentage change		(13.8%)	17.3%
Service cost and interest cost 2012/2013	674	(111)	141
Percentage change		(16.5%)	20.9%
<b>Discount rate</b>	8.9%	-1%	+1%
Benefit obligation	7,119	1,251	(979)
Percentage change		17.6%	(13.8%)
Service cost and interest cost 2012/2013	674	60	(49)
Percentage change		8.9%	(7.3%)
<b>Post-retirement mortality rate</b>	PA(90) Ultimate-1	-10%	+10%
Benefit obligation	7,119	40	(39)
Percentage change		0.6%	(0.5%)
Service cost and interest cost 2012/2013	674	6	(5)
Percentage change		0.9%	(0.7%)

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	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>30. EMPLOYEE BENEFITS (continued)</b>				
<b>Medical benefits (continued)</b>				
<b>The fund portfolio consists of the following:</b>				
Equities (%)	53	48	53	48
Bonds (%)	9	17	9	17
Cash and money market investments (%)	10	12	10	12
Foreign investments (%)	28	23	28	23
<b>Telephone rebates</b>				
Telkom provides telephone rebates to its pensioners who joined prior to 1 August 2009. The most recent actuarial valuation was performed as at 31 March 2013. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan. The status of the telephone rebate liability is disclosed below:				
<b>Benefit obligation</b>	521	558	521	558
Unrecognised past service cost	(5)	(7)	(5)	(7)
Current service cost	6	7	6	7
Interest cost	44	47	44	47
Actuarial gain	(129)	(66)	(129)	(66)
Past service cost	2	2	2	2
Curtailment loss	6	–	6	–
Benefits paid	(25)	(25)	(25)	(25)
Liability as disclosed in the statement of financial position (refer to note 29)	420	516	420	516
<b>The net periodic other comprehensive income includes the following components:</b>				
Actuarial gain	129	66	129	66
Net periodic pension income recognised in other comprehensive income	129	66	129	66
Cumulative actuarial gain/(loss)	32	(97)	32	(97)
<b>Principal actuarial assumptions were as follows:</b>				
Discount rate (%)	7.6	8.9	7.6	8.9
Rebate inflation rate (%)	–	3.4	–	3.4
Contractual retirement age	65	65	65	65
Average retirement age	60	60	60	60
The assumed rates of mortality are determined by reference to the standard published mortality table PA(90) ultimate standard tables, as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year to value the pensioners.				
Number of members	14,447	15,294	14,447	15,294
Number of pensioners	10,090	10,863	10,090	10,863

### 30. EMPLOYEE BENEFITS (continued)

The amounts for the current and previous four years are as follows:

Group	2009 Rm	2010 Rm	2011 Rm	2012 Rm	2013 Rm
<b>Telkom Pension Fund</b>					
Defined benefit obligation	(199)	(219)	(224)	(242)	(262)
Plan assets	247	294	284	301	362
Surplus	48	75	60	59	100
Asset limitation	–	(25)	(10)	(12)	(50)
Recognised net asset	48	50	50	47	50
Experience adjustment on assets	(67)	20	(8)	(8)	41
Experience adjustment on liabilities	1	5	(10)	9	(2)
<b>Telkom Retirement Fund</b>					
Defined benefit obligation	(6,704)	(7,207)	(8,654)	(9,015)	(10,703)
Plan assets	6,675	7,776	8,654	9,015	10,703
Unrecognised net (liability)/asset	(29)	569	–	–	–
Experience adjustment on assets	(1,735)	856	41	165	1,375
Experience adjustment on liabilities	(645)	109	(199)	(285)	(48)
<b>Medical benefits</b>					
Defined benefit obligation	(5,410)	(6,371)	(6,775)	(7,142)	(7,821)
Plan assets	1,618	2,062	2,094	2,233	2,493
Liability recognised	(3,792)	(4,309)	(4,681)	(4,909)	(5,328)
Experience adjustment on assets	(393)	(433)	(32)	72	150
Experience adjustment on liabilities	246	266	11	18	303
<b>Telephone rebates</b>					
Defined benefit obligation liability	(471)	(527)	(551)	(516)	(420)
Experience adjustment on liabilities	2	(15)	(13)	12	4
<b>Company</b>					
	2009 Rm	2010 Rm	2011 Rm	2012 Rm	2013 Rm
<b>Telkom Pension Fund</b>					
Defined benefit obligation	(199)	(219)	(224)	(242)	(262)
Plan assets	247	294	284	301	362
Surplus	48	75	60	59	100
Asset limitation	–	(25)	(10)	(12)	(50)
Recognised net asset	48	50	50	47	50
Experience adjustment on assets	(67)	20	(8)	(8)	41
Experience adjustment on liabilities	1	5	(10)	9	(2)
<b>Telkom Retirement Fund</b>					
Defined benefit obligation	(6,704)	(7,207)	(8,654)	(9,015)	(10,704)
Plan assets	6,675	7,776	8,654	9,015	10,704
Unrecognised net (liability)/asset	(29)	569	–	–	–
Experience adjustment on assets	(1,735)	856	41	165	1,375
Experience adjustment on liabilities	(645)	109	(199)	(285)	(48)
<b>Medical benefits</b>					
Defined benefit obligation	(5,389)	(6,350)	(6,752)	(7,119)	(7,798)
Plan assets	1,618	2,062	2,094	2,233	2,493
Liability recognised	(3,771)	(4,288)	(4,658)	(4,886)	(5,305)
Experience adjustment on assets	(393)	298	(32)	72	150
Experience adjustment on liabilities	246	266	11	18	303
<b>Telephone rebates</b>					
Defined benefit obligation liability	(471)	(527)	(551)	(516)	(420)
Experience adjustment on liabilities	2	(15)	(13)	12	4

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>31. TRADE AND OTHER PAYABLES</b>	<b>4,661</b>	4,291	<b>5,167</b>	5,005
Trade payables	2,807	2,839	2,750	2,747
Finance cost accrued	86	140	86	140
Accruals and other payables	1,768	1,312	2,331	2,118

The increase in vendors' balances is due to the falling of the Rand against major currencies in the financial year.

Accruals and other payables mainly represent amounts payable for goods received, net of Value Added Tax obligations and licence fees.

Telkom's standard payment terms of trade payables is at the end of the following month following the date of the invoice. This averages to 45 days. Telkom does not allow for interest on late payments, and none has been paid in the 2012 and 2013 financial years.

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>32. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO CASH GENERATED FROM OPERATIONS</b>				
Cash generated from operations	8,484	7,723	7,833	7,515
Loss for the year	(11,499)	(90)	(11,755)	(176)
Finance charges and fair value movements	263	1,872	542	745
Taxation	490	595	326	766
Investment income	(301)	(238)	(581)	(367)
Interest received from trade receivables and subsidiaries	(199)	(245)	(212)	(220)
Non-cash items	20,361	6,954	20,268	7,868
Depreciation, amortisation, impairment and write-offs	18,293	6,138	18,230	5,264
Debtor's impairment	573	690	496	642
Cost of equipment disposed when recognising finance leases	8	40	8	40
Foreign exchange gain	-	-	-	(2)
Increase in provisions	1,969	50	1,962	102
Profit on disposal of property, plant and equipment and intangible assets	(58)	(42)	(28)	(41)
Cell captive transfer	-	-	40	-
Interest received from subsidiaries	-	-	-	7
Loss on disposal of property, plant and equipment and intangible assets	-	-	-	203
Profit on disposal of subsidiary	-	(167)	-	-
Donation of property, plant and equipment	-	(51)	-	-
Deferred revenue	(424)	296	(440)	296
Impairment of investments and loans	-	-	-	1,357
Increase in working capital	(631)	(1,125)	(755)	(1,101)
Inventories	(173)	128	(147)	127
Accounts receivable	(515)	(816)	(428)	(902)
Accounts payable	57	(437)	(180)	(326)

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>33. DIVIDEND RECEIVED</b>	<b>–</b>	<b>–</b>	<b>325</b>	<b>146</b>
Dividend received from subsidiaries	–	–	325	146
<b>34. FINANCE CHARGES PAID</b>	<b>(666)</b>	<b>(564)</b>	<b>(625)</b>	<b>(674)</b>
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	(263)	(1,872)	(542)	(745)
Non-cash items	(403)	1,308	(83)	71
Movements in interest accruals	(54)	4	(54)	(4)
Net discount amortised	118	71	118	70
Borrowing costs capitalised	(80)	(94)	(80)	–
Capitalised finance leases	108	116	108	–
Capitalised foreign exchange	–	35	–	–
Fair value adjustment	(572)	(192)	(312)	(74)
Cash effects of foreign exchange rates	2	–	2	7
Foreign exchange differences realised on disposal of subsidiary	–	1,292	–	–
Unrealised foreign exchange loss	75	76	135	72
<b>35. TAXATION PAID</b>	<b>(687)</b>	<b>(939)</b>	<b>(550)</b>	<b>(753)</b>
Tax (payable)/receivable at beginning of year	(61)	89	(85)	91
Current taxation	(1,111)	(1,019)	(959)	(882)
Secondary taxation on companies	–	(70)	–	(47)
Tax payable at end of year	485	61	494	85
<b>36. DIVIDEND PAID</b>	<b>(177)</b>	<b>(812)</b>	<b>(1)</b>	<b>(754)</b>
Dividend payable at beginning of year	(23)	(21)	(23)	(21)
Declared during the year – dividend on ordinary shares:	–	(735)	–	(756)
Final dividend for 2011: 145 cents	–	(735)	–	(756)
Dividends paid to non-controlling interests	(176)	(79)	–	–
Dividend payable at end of year	22	23	22	23

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	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>37. COMMITMENTS</b>				
Capital commitments authorised	7,542	7,480	7,501	7,400
Telkom	7,293	6,768	7,294	6,768
Other	249	712	207	632
International	–	2	–	–
South Africa	249	710	207	632
Commitments against authorised capital expenditure	2,855	827	2,854	821
Telkom	2,829	789	2,829	789
Other	26	38	25	32
International	–	–	–	–
South Africa	26	38	25	32
Authorised capital expenditure not yet contracted	4,687	6,653	4,646	6,579
Telkom	4,464	5,979	4,464	5,979
Other	223	674	182	600
International	–	2	–	–
South Africa	223	672	182	600

Capital commitments are largely attributable to purchases of property, plant and equipment and software (included in intangible assets).

Management expects these commitments to be financed from internally generated cash and borrowings.

	Total Rm	<1 year Rm	1 to 5 years Rm	>5 years Rm
<b>Group</b>				
<b>Operating lease commitments and receivables</b>				
<b>2013</b>				
Land and buildings	1,321	340	772	209
Rental receivable on buildings	(522)	(226)	(288)	(8)
Customer premises equipment receivables	(40)	(22)	(18)	–
<b>Total</b>	<b>759</b>	<b>92</b>	<b>466</b>	<b>201</b>
<b>2012</b>				
Land and buildings	675	197	378	100
Vehicles	311	311	–	–
Equipment	6	6	–	–
Rental receivable on buildings	(403)	(154)	(249)	–
Customer premises equipment receivables	(42)	(30)	(12)	–
<b>Total</b>	<b>547</b>	<b>330</b>	<b>117</b>	<b>100</b>

	Total Rm	<1 year Rm	1 to 5 years Rm	>5 years Rm
<b>37. COMMITMENTS (continued)</b>				
<b>Company</b>				
<b>Operating lease commitments and receivables</b>				
<b>2013</b>				
Land and buildings	1,164	309	670	185
Rental receivable on buildings	(522)	(226)	(288)	(8)
Customer premises equipment receivables	(40)	(22)	(18)	–
<b>Total</b>	<b>602</b>	<b>61</b>	<b>364</b>	<b>177</b>
<b>2012</b>				
Land and buildings	504	167	284	53
Vehicles	311	311	–	–
Equipment	6	6	–	–
Rental receivable on buildings	(403)	(154)	(249)	–
Customer premises equipment receivables	(42)	(30)	(12)	–
<b>Total</b>	<b>376</b>	<b>300</b>	<b>23</b>	<b>53</b>
<b>Operating leases</b>				
The Group leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment related premises are ten years with other leases signed for five and three years. The majority of the leases contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.				
The minimum lease payments under these agreements are subject to annual escalations, which range from 6% to 15%.				
Penalties in terms of the lease agreements are only payable should Telkom vacate a premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note. Onerous leases for buildings, of which the Company has no further use, no possibility of sub-lease and no option to cancel are provided for in full and included in other provisions.				
Telkom is in negotiations with various suppliers to renew the commitments.				
	Total Rm	<1 year Rm	1 to 5 years Rm	>5 years Rm
<b>Group finance lease commitments</b>				
<b>2013</b>				
<b>Building</b>				
Minimum lease payments	1,153	157	792	204
Finance charges	(383)	(100)	(271)	(12)
<b>Finance lease obligation</b>	<b>770</b>	<b>57</b>	<b>521</b>	<b>192</b>
<b>2012</b>				
<b>Building</b>				
Minimum lease payments	1,297	143	722	432
Finance charges	(490)	(106)	(332)	(52)
<b>Finance lease obligation</b>	<b>807</b>	<b>37</b>	<b>390</b>	<b>380</b>
<b>Vehicles</b>				
Minimum lease payments	47	47	–	–
Finance charges	(3)	(3)	–	–
<b>Finance lease obligation</b>	<b>44</b>	<b>44</b>	<b>–</b>	<b>–</b>

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	Total Rm	<1 year Rm	1 to 5 years Rm	>5 years Rm
<b>37. COMMITMENTS (continued)</b>				
<b>Company finance lease commitments</b>				
<b>2013</b>				
<b>Building</b>				
Minimum lease payments	1,149	155	790	204
Finance charges	(383)	(100)	(271)	(12)
Finance lease obligation	766	55	519	192
<b>2012</b>				
<b>Building</b>				
Minimum lease payments	1,290	141	718	431
Finance charges	(489)	(106)	(331)	(52)
Finance lease obligation	801	35	387	379
<b>Vehicles</b>				
Minimum lease payments	47	47	–	–
Finance charges	(3)	(3)	–	–
Finance lease obligation	44	44	–	–

#### Finance leases

Finance leases on vehicles relates to the lease of Swap bodies. The lease term for the Swap bodies is April 2008 to March 2013 and Telkom is in negotiations with various suppliers to renew the commitments in this regard.

A major portion of the finance leases relates to the sale and lease-back of the Group's office buildings. The lease term negotiated for the buildings is for a period of 25 years ending 2019. The minimum lease payments are subject to an annual escalation of 10% p.a. Telkom has the right to sub-let part of the buildings. In case of breach of contract, the lessor is entitled to cancel the lease agreement and claim damages.

Telkom has the option to renew the lease and the first option to purchase the buildings. Telkom expects to pay R1,15 billion on these buildings over the next six years. Refer to note 18 for lease payments.

Telkom has a commitment to migrate customers to new cable systems with regard to long-term capacity leases on cables when the existing cables are decommissioned before the lease period expires. Refer to note 18 for lease payments.

There are no major restrictions imposed by lease arrangements.



## 38. CONTINGENCIES

### Contingent liabilities

#### *Competition matters*

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

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

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

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

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

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

#### *Internet Solutions*

This matter deals with the self-referred parts of the Internet Solutions (IS) complaint filed at the CC in December 2007 alleging certain anti-competitive practices by Telkom, such as excessive pricing, margin squeeze, bundling and price discrimination. Certain parts of this complaint were referred to the CT by the CC and these are dealt with in the Multiple Complaints Referral below. The non-referred parts of the IS complaint were self-referred by IS. IS alleged contraventions of the following sections of the Competition Act by Telkom: section 8(a) – excessive pricing, section 8(d) – exclusionary conduct and section 9 – price discrimination. IS requested an administrative penalty in respect of each of its two complaints, namely price discrimination in respect of Resell DSL and a complaint in respect of Telkom's VPN Supreme product (this complaint also involves a complaint of alleged excessive pricing and price discrimination as regards the VPN Supreme product).

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

#### *Competition Commission Multiple Complaints Referral*

The CC served a notice of motion on Telkom on 26 October 2009, in which it referred complaints against Telkom by MWeb and IS as well as the Internet Service Providers' Association ("ISPA"), MWeb, IS and Verizon respectively, to the CT. The CC alleged certain anti-competitive practices by Telkom.

Pursuant to discussions between the parties, the CC signed a settlement agreement with Telkom on 13 June 2013, in an attempt to settle the MIV referral. In terms of this settlement agreement, Telkom has admitted that its conduct during the complaint period amounted to a contravention of sections 8(c) (margin squeeze) and 8(d)(iii) (bundling and tying) of the Competition Act. Telkom furthermore committed to certain price reductions over the next three years, behavioural remedies which include a form of functional separation between its wholesale and retail business and has agreed to pay an administrative penalty of R200 million, payable in three equal instalments. This settlement agreement is subject to confirmation by the CT and Telkom is awaiting a date on which the CT will hear the matter.

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## 38. CONTINGENCIES (continued)

### Contingent liabilities (continued)

#### *Competition Commission Multiple Complaints Referral (continued)*

As part of the discovery process to prepare for trial, Telkom and the CC each filed applications to compel the discovery of certain further documentation from each other and the applications were heard by the CT on 25 January 2013. Telkom's application to compel further and better discovery was dismissed by the CT in a ruling handed down in February 2013. Telkom appealed this ruling, and the appeal has yet to be finalised. In further preparation for the hearing of the main matter, the CC has filed its factual and expert witness statements. Telkom has not filed its witness statements due to the issues around the discovery process not being finalised. The hearing of the matter, which was previously set down for June 2013, has been postponed by agreement between the parties but a new date has not yet been set. Notwithstanding the above, the parties are exploring settlement discussions.

#### *Phutuma Networks (Pty) Ltd (Phutuma)*

Phutuma filed a complaint at the CC early in 2010, wherein Phutuma alleged that Telkom has contravened section 8(c) of the Competition Act by abusing its dominant position in engaging in anti-competitive conduct in the telegraphic and telex maritime services market. The CC in June 2010 decided not to refer the complaint to the CT. However, Phutuma self-referred its complaint to the CT in July 2010, alleging that Telkom engaged in an exclusionary act by appointing Network Telex in 2007 without any formal procurement process. Telkom filed certain preliminary points, which were upheld by the CT in March 2011. Phutuma's self-referral was dismissed with costs. Phutuma appealed this decision to the Competition Appeal Court (CAC) which was dismissed with costs on 20 November 2012 and accordingly this matter is disposed of.

### *Matters before ICASA*

#### *Phutuma Networks (Pty) Ltd (Phutuma)*

Phutuma filed a complaint against Telkom at the Complaints and Compliance Committee (CCC) of ICASA in February 2010. In July 2010, the CCC expressed the view that they lacked jurisdiction to rule on certain of the complaints, which relied on legislation over which the CCC does not have jurisdiction. The CCC requested Phutuma to amend its complaint to address these issues. Phutuma consequently filed an amended complaint sheet, but at a hearing in March 2011, the CCC ruled that the second complaint sheet suffered from the same defects as the original complaint. Phutuma then provided the CCC with a fresh complaint. In terms of the complaint as currently constituted, Phutuma's complaint currently consists of six (6) complaints, namely:

**First Complaint:** Telkom breached condition 4 of its Individual Electronic Communication Network Services (IECNS) licence relating to universal service obligations in that the service which Telkom is giving does not conform to the "ITU Standards".

**Second Complaint:** Telkom breached condition 4.2.2 of its Individual Electronic Communications Services IECS licence and condition 3.2.2 of its (IECNS) licence in that there is no stipulation in Telkom's arrangement with Network Telex to ensure that the exercise by Network Telex of Telkom's function under its licence do not contravene any of the conditions of its licence.

**Third Complaint:** Telkom has contravened section 16(6) of the Electronic Communications Act (ECA) in that it has allegedly ceded or transferred part of both its IECS and IECNS licence to Network Telex without the prior written approval of ICASA.

**Fourth Complaint:** Telkom breached section 67 of the ECA read with section 2 thereof in that Telkom substantially lessened or prevented competition by giving undue preference to Network Telex and by causing undue discrimination against the complainant and did not promote open, fair and non-discriminatory access to electronic communications services by simply appointing Network Telex and appointing a non-BEE, being Network Telex.

**Fifth Complaint:** Telkom breached condition 4.4 of its IECS licence and condition 3.4 of its IECNS licence and/or contravened section 15(1) and section 80(1) of the Postal Services Act in that Telkom allegedly entrusted the delivery of telegrams to Network Telex.

**Sixth Complaint:** Telkom breached condition 4.2.3 of its IECS licence and condition 3.2.3 of its IECNS licence in that it failed to act against Network Telex despite the latter's known contravention of the Postal Services Act.

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

#### *End-User and Service Charter Regulations*

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

### 38. CONTINGENCIES (continued)

#### Contingent liabilities (continued)

##### *Neotel (Pty) Ltd (Neotel)*

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

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

#### Supplier dispute

##### *Radio Surveillance Security Services (Pty) Ltd (RSSS)*

During September 2011 RSSS served two summons on Telkom for the sum of R215,661,866 (including VAT) and R9,913,782 (including VAT), respectively. In the summons for R215,661,866 RSSS alleged that Telkom was indebted to it for the rendering and upgrading of 440 alarm systems previously purchased by Telkom, to be M3010 compliant and for which services Telkom was indebted to it.

Telkom neither concluded any written contract with RSSS for the provision of these alleged services nor did Telkom place any orders or accepted any quotations in respect of these services. In the summons for R9,913,782 RSSS claimed that Telkom was liable for rentals, monitoring and maintenance of alarm systems which were rented and/or purchased from RSSS. Both actions are defended. During November 2011 RSSS withdrew both actions against Telkom in terms of a settlement agreement. Telkom was of the view that the dispute was settled on the basis that RSSS withdraw its summons and each party pays its own legal costs. RSSS reissued summons in both matters in December 2011. The smaller claim was settled. The larger claim is being defended. An exception was filed by Telkom and is set down for hearing in August 2013.

#### High Court

##### *Phutuma Networks (Pty) Ltd (Phutuma)*

In August 2009 Phutuma served a summons on Telkom, claiming for damages arising from a tender published by Telkom in November 2007 for the outsourcing of the telex and Gentex services and for the provision of a solution to support the maritime industry requirements. The tender was cancelled in June 2009, without any award being made, due to the expiration of the validity period of the tender. According to Phutuma, Telkom had awarded the tender to a third party outside a fair, transparent, competitive and cost effective procurement process, hence it has claimed damages of R3,730,433,545.00, alternatively R5,513,876,290.00, and further alternatively R1,771,683,580.00 plus interest at 15.5% per annum to date of payment from April 2008, alternatively from 30 April 2009 being the date of notice in terms of Act 40 of 2002, further alternatively from date of service of this summons plus legal costs. At the hearing in October 2011, Phutuma brought an application to compel Telkom to make better discovery of documents and also applied for a postponement of the trial. The court dismissed Phutuma's application for better discovery but granted a postponement of the trial with costs in favour of Telkom. The trial was re-enrolled for hearing from 20 May 2013. On 21 May 2013, Phutuma's second set of attorneys withdrew as attorneys of record without divulging the reasons for same. Phutuma on 22 May 2013, with a new counsel again applied for a postponement of the trial which was refused by the court. Since Phutuma could not establish the facts in support of its case to the satisfaction of the court, the court granted absolution from the instance plus costs. Phutuma has filed a notice of appeal against the judgement.

##### *Bihati Solutions (Pty) Ltd (Bihati) and Merid Trading (Pty) Ltd (Merid)*

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

##### *ZTE Mzansi South Africa (Pty) Ltd (ZTE)*

During 2011, Telkom awarded the MSAN tender to Huawei Technologies Africa and Alcatel-Lucent. In March 2012, ZTE successfully obtained an interdict restraining Telkom from implementing the tender and concluding any agreements with the successful bidders. The High Court granted the interim interdict in favour of ZTE. Telkom filed an application for leave to appeal to the Supreme Court of Appeal, which was granted in May 2012. On 4 March 2013, the Supreme Court of Appeal upheld Telkom's appeal with costs which included the costs of two counsel in the lower court.

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## 38. CONTINGENCIES (continued)

### High Court (continued)

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

Multi-Links, a previously wholly-owned subsidiary of Telkom in Nigeria, concluded a Super Dealer agreement with African Pre-paid Services (APS), in December 2008 in terms of which APS was appointed for an initial period of 10 years to sell, market and procure customers for Multi-Links range of products and services in Nigeria (the agreement). On 29 May 2009, APS ceded and assigned all of its rights and obligations in terms of the agreement to APSN. On 26 November 2010 APSN cancelled the agreement on the basis of an alleged repudiation by Multi-Links of the agreement. On 13 June 2011 APSN launched arbitration proceedings in South Africa (as per contract) against Multi-Links claiming damages (9 claims) in the total sum of USD481,199,101. Multi-Links is defending the matter and has filed a counterclaim in the amount of USD123 million. Telkom sold its shareholding in Multi-Links to HIP Oils Topco Ltd (HIP Oils) on 3 October 2011. In terms of an indemnity contained in the Sale and Purchase agreement between Telkom and HIP Oils concluded in August 2011, Telkom is liable for all amounts in excess of USD10 million in respect of the claim between APSN and Multi-Links. In October 2012, APSN reduced its claim to USD457 million.

The arbitration which was set down for hearing in November 2012, was adjourned to enable Multi-Links to file a special plea in relation to certain information regarding irregularities which came to the notice of Multi-Links in October 2012. The matter has been re-enrolled for hearing from February 2014 to April 2014. MLT has applied to the High Court in terms of section 3(2) of the Arbitration Act to stay the arbitration hearing pending the outcome of the damages action against Blue Label Telecoms and others. The application is opposed.

### OTHER

#### *HIP Oils Topco Ltd (HIP Oils)*

With the sale of Telkom's shares in Multi-Links to HIP Oils, Telkom provided a taxation indemnity and a "creditors" indemnity to HIP Oils and Multi-Links where such liability or obligation was incurred prior to 3 October 2011 and to the extent that such liability exceed the amounts set out in Schedule 4 (creditors' list) to the Sale and Purchase Agreement.

Telkom has undertaken to indemnify any actual or contingent liabilities, obligations or other indebtedness of any nature owed or owing to trade, financial and other creditors of Multi-Links where such liability, obligation or other indebtedness was incurred and not disclosed to HIP Oils prior to the completion date.

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

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

### Contingent assets

#### *High Court*

##### *Former Senior Executive of Telkom*

Telkom has issued a summons against a former senior executive of Telkom in April 2013, claiming an amount of US\$6 million, for damages suffered as a result of certain irregularities. The summons is based on two claims, namely:

- (a) a claim for US\$1 million which Telkom was compelled to pay to a third party as a consequence of the defendant, acting outside of his authority, by signing a financial guarantee binding Telkom jointly and severally for the obligations of Multi-Links (a previous subsidiary of Telkom); and
- (b) a claim for US\$5 million arising from the defendant's conduct whilst at Multi-Links, in authorising a telecommunications operator to earmark and make a payment of US\$5 million to a third party, instead of Telkom. The payment was due to Telkom in terms of a traffic termination agreement. The matter is being defended.

##### *Blue Label Telecoms Limited and Five Others*

On 17 May 2013, Telkom (and Multi-Links Telecommunications, Nigeria) issued a summons against Blue Label Telecoms Limited and certain subsidiaries of Blue Label and individuals, including a former senior executive of Telkom, claiming an amount of US\$528,071,116.00 being damages suffered by Telkom arising out of a Super Dealer Agreement (SDA) concluded between African Pre-paid Services (Pty) Ltd (a subsidiary of Blue Label) and Multi-Links. The damages claim is based, *inter alia*, on a breach of a duty of care and misrepresentations made by Blue Label at the time that the SDA was concluded with Multi-Links. The claim against the former senior executive of Telkom is based on a breach of his fiduciary duty owed to Telkom and Multi-Links. Multi-Links is also claiming several millions US Dollars for damages suffered. In addition, as part of the relief sought by Multi-Links, the court has been requested to declare that the SDA dated 1 December 2008 between Multi-Links and APS and the purported cession thereof to African Pre-paid Services Nigeria, to be void *ab initio*. To find jurisdiction, against APSN, MLT and Telkom had obtained a High Court order. APSN has applied to the High Court to set aside the jurisdiction order.

### 38. CONTINGENCIES (continued)

#### Contingent assets (continued)

##### *High Court (continued)*

##### *Multi-Links (MLT)*

Telkom is claiming an amount of US\$20.5 million from MLT in respect of amounts due by MLT to Telkom with regards to the provision of resources, legal costs and an interest free loan.

#### Tax matters

During the period commencing May 2007 to October 2011, Telkom provided a loan totalling US\$531 million to Multi-Links. In October 2011, Telkom and Telkom International disposed of their shares in Multi-Links and sold their rights in respect of the Multi-Links Loan to an unconnected third party for a consideration of US\$100. The amount was received by Telkom during its year of assessment ended 31 March 2012.

In determining the taxable income for the Annual Financial Statements ended 31 March 2012, Telkom included a foreign exchange (FX) gain to the value of R247 million on the realisation of the loan. Telkom subsequently obtained external tax advice, including two Senior Counsel opinions, which support the contention that instead of a FX gain of R247 million a FX loss of R3.9 billion should be realised. The 2012 tax return has been submitted on the basis of the Senior Counsel opinions obtained. Since the tax treatment of the R3.9 billion loss is based on a unique set of circumstances and a complex legislative environment the financial statement adjustments will only be recognised once the Telkom interpretation has been accepted by SARS or in the case of a dispute has been positively resolved in the Tax Court.

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

### 39. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS

#### Group and Company

Number of shares	Notes	Beneficial		Non-beneficial	
		Direct	Indirect	Direct	Indirect
<b>Directors' shareholding</b>					
<b>2013</b>					
<i>Executive</i>					
NT Moholi	1	37,004	–	–	–
<b>Total</b>		<b>37,004</b>	<b>–</b>	<b>–</b>	<b>–</b>
<i>Non-executive</i>					
J Molobela		267	–	–	–
K Mzondeki	2	267	–	–	–
Dr CA Fynn	3	202	–	–	–
		<b>736</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>2012</b>					
<i>Executive</i>					
NT Moholi		37,004	–	–	–
<b>Total</b>		<b>37,004</b>	<b>–</b>	<b>–</b>	<b>–</b>
<i>Non-executive</i>					
J Molobela		267	–	–	–
NP Mnxasana	4	160	–	–	–
		<b>427</b>	<b>–</b>	<b>–</b>	<b>–</b>

1. Resigned as Telkom Group CEO on 31 March 2013.
2. Appointed as Telkom independent non-executive director on 14 November 2012.
3. Appointed as Telkom independent non-executive director on 10 December 2012.
4. Resigned as Telkom independent non-executive director on 24 October 2012.

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	2013 Rm	2012 Rm			
<b>39. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS (continued)</b>					
Directors' emoluments	29	28			
<i>Executive</i>					
For services as directors	20	20			
<i>Non-executive</i>					
For other services	9	8			
	Performance bonus	Fringe and other benefits*			
<b>Group and Company</b>	Fees	Remuneration	Performance bonus	Fringe and other benefits*	Total
	R	R	R	R	R
<b>2013</b>					
Emoluments per director:					
<i>Non-executive</i>	4,266,667	4,534,481	–	–	8,801,148
NP Dongwana	185,000	192,005	–	–	377,005
B du Plessis	455,000	325,000	–	–	780,000
JN Hope	330,000	183,705	–	–	513,705
RJ Huntley	305,000	183,705	–	–	488,705
N Kapila	285,000	449,811	–	–	734,811
PSC Luthuli	330,000	183,705	–	–	513,705
I Kgaboesele	490,000	325,000	–	–	815,000
NP Mnxasana	245,000	183,705	–	–	428,705
J Molobela	470,000	325,000	–	–	795,000
SP Sibisi	60,000	183,705	–	–	243,705
Y Waja	310,000	183,705	–	–	493,705
PL Zim	156,667	627,422	–	–	784,089
JA Mabuza	145,000	422,290	–	–	567,290
KW Mzondeki	105,000	128,004	–	–	233,004
LW Maasdorp	85,000	128,004	–	–	213,004
S Botha	50,000	101,943	–	–	151,943
Dr CA Fynn	60,000	101,943	–	–	161,943
KT Kweyama	–	101,943	–	–	101,943
F Petersen	90,000	101,943	–	–	191,943
LL von Zeuner	110,000	101,943	–	–	211,943
<i>Executive</i>	–	11,378,400	4,896,893	3,768,759	20,044,052
NT Moholi (CEO)	–	6,402,150	2,659,133	2,575,420	11,636,703
JH Schindehütte (CFO)	–	4,976,250	2,237,760	1,193,339	8,407,349
Total emoluments – paid by Telkom	4,266,667	15,912,881	4,896,893	3,768,759	28,845,200

### 39. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS (continued)

Group and Company	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits* R	Total R
2012					
Emoluments per director:					
<i>Non-executive</i>	4,001,181	4,180,000	–	–	8,181,181
NP Dongwana	37,401	25,000	–	–	62,401
B du Plessis	325,000	495,000	–	–	820,000
JN Hope	325,000	435,000	–	–	760,000
RJ Huntley	325,000	645,000	–	–	970,000
PG Joubert	135,417	190,000	–	–	325,417
N Kapila	449,811	255,000	–	–	704,811
PSC Luthuli	325,000	630,000	–	–	955,000
I Kgaboesele**	243,750	185,000	–	–	428,750
NP Mnxasana	37,401	10,000	–	–	47,401
J Molobela	325,000	450,000	–	–	775,000
SP Sibisi	37,401	15,000	–	–	52,401
Y Waja	325,000	435,000	–	–	760,000
PL Zim	1,110,000	410,000	–	–	1,520,000
<i>Executive</i>	–	7,461,720	3,129,613	9,860,446	20,451,779
NT Moholi (CEO)	–	5,121,720	2,253,013	4,692,588	12,067,321
JH Schindehütte (CFO)	–	2,340,000	876,600	5,167,858	8,384,458
Total emoluments – paid by Telkom	4,001,181	11,641,720	3,129,613	9,860,446	28,632,960

\* Included in fringe and other benefits is a pension contribution for NT Moholi of R665,824 (2012: R665,824), a restraint of trade of RNil million (2012: R3,404,300), a leave gratuity of R429,406 (2012: RNil million) and a notice pay of R2,134,050 (2012: RNil million), JH Schindehütte, a pension contribution of R488,992 (2012: R304,200), a sign-on bonus of RNil million (2012: R4,500,000) and a settling-in allowance of R1,181,375 (2012: RNil million).

\*\* Paid to Sphere Holdings (Pty) Limited.

#### Emoluments per prescribed officer:

Group and Company	Notes	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension- TRF13%*** R
<b>2013</b>						
Emoluments per prescribed officer:						
A Vitai	1	1,833,333	689,700	5,948,333	8,471,366	–
BC Armstrong		3,537,432	1,222,536	958,061	5,718,029	321,906
DJ Fredericks	2	3,162,000	1,179,300	680,074	5,021,374	338,874
JM Mavuso		2,931,497	905,481	11,964	3,848,942	228,657
TE Msubo		2,996,632	1,079,866	11,964	4,088,462	233,737
MB Sallie		3,336,218	1,167,409	11,964	4,515,591	281,910
GJ Rasethaba		2,582,987	900,119	11,964	3,495,070	194,757
MJ Nzeku	3	660,621	–	13,000,000	13,660,621	57,540
Total emoluments – paid by Telkom		21,040,720	7,144,411	20,634,324	48,819,455	1,657,381

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 39. DIRECTORS' INTEREST AND PRESCRIBED OFFICERS (continued)

Group and Company	Note	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension – TRF13%*** R
2012						
Emoluments per prescribed officer:						
BC Armstrong		2,781,000	1,017,179	6,674,400	10,472,579	253,070
DJ Fredericks		2,825,421	627,525	4,433,344	7,886,290	293,844
JM Mavuso		2,261,957	580,458	5,438,520	8,280,935	176,432
TE Msubo		2,853,935	693,232	1,011,787	4,558,954	222,607
MB Sallie		2,622,812	892,759	6,304,572	9,820,143	221,627
GJ Rasethaba		2,436,780	551,833	2,436,780	5,425,393	183,733
MJ Nzeku		3,848,278	–	–	3,848,278	335,185
P Marais	4	1,638,884	–	4,411,276	6,050,160	170,444
Total emoluments – paid by Telkom		21,269,067	4,362,986	30,710,679	56,342,732	1,856,942

The Group has identified EXCO members as prescribed officers because they exercise general executive control over the business.

\* Remuneration has been apportioned based on the period served as prescribed officers. Comparative information has been provided for members identified as prescribed officers.

\*\* Fringe and other benefits include motor car insurance, retention agreements, sign on bonuses, flexible allowance, acting allowances, leave gratuity and voluntary severance packages/voluntary early retirement packages benefits.

\*\*\* The pension contribution is a Company contribution.

1. Appointed to EXCO 13 November 2012.
2. DJ Fredericks was appointed as acting Chief Financial Officer from August 2010 to July 2011. Thereafter he was appointed as Deputy Chief Financial Officer.
3. Retired 31 May 2012.
4. Retired 31 December 2011.



	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>40. RELATED PARTIES</b>				
Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows:				
With shareholders –				
Government of South Africa				
Related party balances:				
Trade receivables	446	371	446	371
Trade payables				
Department of Communications	–	(71)	–	(71)
Related party transactions				
Revenue	(3,017)	(3,064)	(3,017)	(3,063)
Individually significant revenue*	(1,237)	(1,105)	(1,237)	(1,105)
City of Cape Town	(66)	(84)	(66)	(84)
Department of Correctional Services	(93)	(73)	(93)	(73)
Department of Health: Gauteng	(50)	(63)	(50)	(63)
Department of Justice	(118)	(104)	(118)	(104)
South African National Defence Force	(72)	(59)	(72)	(59)
South African Police Services	(601)	(522)	(601)	(522)
South African Revenue Services	(42)	(41)	(42)	(41)
S.I.T.A. (Pty) Ltd	(195)	(159)	(195)	(159)
Collectively significant revenue	(1,780)	(1,959)	(1,780)	(1,958)
* The nature of the individually and collectively significant revenue consists mostly of data revenue.				
At 31 March 2013, the government of South Africa held 39.8% (2012: 39.8%) of Telkom's shares, and has the ability to exercise significant influence, and the Public Investment Corporation held 11.7% (2012: 10.5%) of Telkom's shares.				
<b>With subsidiaries:</b>				
<b>Trudon Proprietary Limited</b>				
<i>Related party balances</i>				
Trade receivables			6	5
Trade payables			(304)	(468)
<i>Related party transactions</i>				
Revenue			(76)	(74)
Expenses			14	14
Dividend received			(325)	(146)
<b>Swiftnet Proprietary Limited</b>				
<i>Related party balances</i>				
Trade receivables			1	1
Trade payables			(1)	(6)
<i>Related party transactions</i>				
Revenue			(8)	(15)
Expenses			29	24
Interest paid			–	1
<b>Rossal No 65 Proprietary Limited</b>				
<i>Related party balances</i>				
Accruals and other payables			(285)	(285)

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Company	
	2013	2012
	Rm	Rm
<b>40. RELATED PARTIES (continued)</b>		
<b>With subsidiaries (continued)</b>		
<b>Rossal No 65 Proprietary Limited (continued)</b>		
<i>Related party transactions</i>		
Dividend paid	–	3
Dividend received	–	(7)
<b>Acajou Investments Proprietary Limited</b>		
<i>Related party balances</i>		
Accruals and other payables	(163)	(164)
<i>Related party transactions</i>		
Dividend paid	–	17
Dividend received	–	(17)
<b>Intekom Proprietary Limited</b>		
<i>Related party balances</i>		
Accruals and other payables	(69)	(58)
<i>Related party transactions</i>		
Expenses	16	14
<b>Q-Trunk Proprietary Limited</b>		
<i>Related party balances</i>		
Loan to subsidiary	4	9
Impairment of loan	(4)	(9)
The loan is unsecured, interest free and has no fixed repayment terms. The loan has been subordinated in favour of other creditors.		
<i>Related party transactions</i>		
Expenses	5	5
<b>Special purpose entity – Cell Captive</b>		
<i>Related party balances</i>		
Investment – sinking fund (refer to note 16.2)	928	959
<b>Africa Online Limited (Africa Online)</b>		
<i>Related party balances</i>		
Loan to subsidiary	297	264
Impairment of loan	(262)	(264)
Trade receivables	32	26
Impairment of trade and other receivables	(32)	–
Trade payables	(1)	–
<i>Related party transactions</i>		
Revenue	(2)	(3)
Expenses	5	4
Investment income until September 2011	–	(5)
The loan is unsecured, interest free and has no fixed repayment terms.		
<b>Multi-Links Telecommunications Limited (Multi-Links)</b>		
<i>Related party balances</i>		
Impairment of loan, guarantee, trade receivables and trade payables	–	(319)
<b>Telkom International Proprietary Limited</b>		
<i>Related party transactions</i>		
Loan to subsidiary	2,481	2,481
Impairment of loan	(2,481)	(2,481)
The loan was unsecured, interest free and repayment terms had been negotiated.		

	Company	
	2013	2012
	Rm	Rm
<b>40. RELATED PARTIES (continued)</b>		
<b>With subsidiaries (continued)</b>		
<b>iWayAfrica Proprietary Limited (Formerly MWeb Africa Proprietary Limited)</b>		
<i>Related party balances</i>		
Loan to subsidiary	98	98
Impairment of loan	(98)	(98)
Other receivables	49	39
Impairment of trade and other receivables	(49)	(27)
The loan is unsecured, interest free and has no fixed repayment terms.		
<i>Related party transactions</i>		
Revenue	(5)	(7)
Expenses	3	–
Investments income	–	(2)
<b>Telkom Foundation</b>		
<i>Related party balances</i>		
Sundry provision	(9)	(10)
<i>Related party transactions</i>		
Expenses	52	36
<b>Telkom Management Services Proprietary Limited</b>		
<i>Related party balances</i>		
Loan to subsidiary	45	45
Impairment of loan	(45)	(45)
The loan is unsecured, interest free and has no fixed repayment terms.		

The sales to and purchases from related parties of telecommunication services are made at normal market prices. Except as indicated above, outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2013, the company has not made any impairment of amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group		Company	
	2013 Rm	2012 Rm	2013 Rm	2012 Rm
<b>40. RELATED PARTIES (continued)</b>				
<b>With entities under common control:</b>				
<b>Major public entities</b>				
<i>Related party balances</i>				
Trade receivables	48	11	48	11
Trade payables	–	(1)	–	(1)
<i>Related party transactions</i>				
Revenue	(301)	(383)	(301)	(381)
Expenses	237	223	237	212
Individually significant expenses	223	207	223	207
<i>South African Post Office</i>	96	95	96	95
<i>Eskom</i>	127	107	127	107
<i>South African Broadcasting Corporation</i>	–	5	–	5
Collectively significant expenses	14	16	14	5
Rent received	(43)	(26)	(43)	(26)
Individually significant rent received:				
South African Post Office	(39)	(22)	(39)	(22)
Collectively significant rent received	(4)	(4)	(4)	(4)
Rent paid	26	21	26	21
Individually significant rent paid:				
South African Post Office	17	13	17	13
Collectively significant rent paid	9	8	9	8
<b>Key management personnel compensation:</b> <i>(Including directors' and prescribed officers' emoluments)</i>				
Related party transactions				
Short-term employee benefits	189	191	165	148
Post-employment benefits	10	8	9	8
Termination benefits	24	6	24	6
Transactions with non-executive directors are disclosed in note 39.				
<b>Terms and conditions of transactions with related parties</b>				
Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.				

#### 41. GROUP INTEREST IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

##### Subsidiaries including consolidated structured entities

Set out below is a list of the significant subsidiaries of the Group at 31 March 2013. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interest held equals to the voting rights held by the Group.

Country of incorporation: RSA – Republic of South Africa; MAU – Mauritius

	Country of incorporation	Issued share capital 2013	Interest in issued ordinary share capital 2013 %	Ownership interest held by non-controlling interest 2013 %	Issued share capital 2012	Interest in issued ordinary share capital 2012 %	Ownership interest held by non-controlling interest 2012 %
Trudon (Pty) Ltd	RSA	R100,000	64.9	35.1	R100,000	64.9	35.1
Rossal No 65 (Pty) Ltd	RSA	R100	100	–	R100	100	–
Acajou Investments (Pty) Ltd	RSA	R100	100	–	R100	100	–
Telkom Management Services (Pty) Ltd	RSA	R100	100	–	R100	100	–
Intekom (Pty) Ltd	RSA	R10,001,000	100	–	R10,001,000	100	–
Q-Trunk (Pty) Ltd	RSA	R10,001,000	100	–	R10,001,000	100	–
Telkom International (Pty) Ltd	RSA	R100	100	–	R100	100	–
Swiftnet (Pty) Ltd	RSA	R5,000,000	100	–	R5,000,000	100	–
iWayAfrica Group	RSA	–	–	–	–	–	–
Number Portability Company	RSA	R100	20	–	R100	20	–
Satellite Data Networks Mauritius (Pty) Ltd	MAU	–	–	–	USD2,016	40	–

The total non-controlling interest for the period is R375 million (2012: R429 million), which all relates to Trudon.

Cash and short-term deposits of R72 million (2012: R17 million) are held in African subsidiaries and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from those countries, other than through normal dividends.

The Group's interest in Satellite Data Networks Mauritius (Pty) Ltd (SDN) is not regarded as individually material. The equity method is used to account for the financial information of the joint venture. The joint venture was sold during the past financial year.

The Group's interest in the Number Portability Company is not regarded as individually material. The equity method is used to account for the financial information of the associate.

##### Interest in operating profits from subsidiaries, joint ventures and associates\*

2013	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/(loss) Rm
Trudon (Pty) Ltd	1,141	485	473	350
Rossal No 65 (Pty) Ltd	–	–	–	–
Acajou Investments (Pty) Ltd	–	–	–	–
Telkom Management Services (Pty) Ltd	–	–	–	–
Intekom (Pty) Ltd	–	11	11	11
Q-Trunk (Pty) Ltd	–	3	3	3
Telkom International (Pty) Ltd	–	–	–	–
Swiftnet (Pty) Ltd	89	31	14	11
iWayAfrica Group	350	(83)	(84)	(108)
Number Portability Company	–	–	–	2
Satellite Data Networks Mauritius (Pty) Ltd**	–	–	–	–
Cell Captive	–	10	10	320
Telkom Foundation	–	–	–	–

\* Amounts shown are after eliminations and reflects the results which contribute to the Group results.

\*\* Satellite Data Networks Mauritius (Pty) Ltd was disposed of during the year.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 41. GROUP INTEREST IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

### Interest in operating profits from subsidiaries, joint ventures and associates\* (continued)

2012	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/(loss) Rm
Trudon (Pty) Ltd	1,166	538	502	358
Rossal No 65 (Pty) Ltd	–	–	–	(2)
Acajou Investments (Pty) Ltd	–	–	–	(2)
Telkom Management Services (Pty) Ltd	–	–	–	–
Intekom (Pty) Ltd	–	10	10	10
Q-Trunk (Pty) Ltd	–	4	4	4
Telkom International (Pty) Ltd	–	125	125	146
Swiftnet (Pty) Ltd	95	27	8	6
iWayAfrica Group	353	(34)	(651)	(678)
Number Portability Company	–	–	–	1
Satellite Data Networks Mauritius (Pty) Ltd	–	–	–	2
Cell Captive	–	6	6	204
Telkom Foundation	–	10	10	10

None of the Group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations.

There are no significant restrictions on the ability of the joint venture or the associate to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

\* Amounts shown are after eliminations and reflects the results which contribute to the Group results.

## 42. SIGNIFICANT EVENTS

### Resignation of Chairman of the Telkom Board

On 9 September 2012, Mr Lazarus Zim informed the Telkom Board of his retirement as chairman and director with effect from 24 October 2012.

### Resignation of Telkom Group Chief Executive Officer

Telkom announced on 5 November 2012 that the Group Chief Executive Officer, Ms Nombulelo Moholi notified the Board of her intention to step down as Group Chief Executive Officer. Ms Nombulelo Moholi stepped down as GCEO on 31 March 2013.

### Resignation of Independent non-executive directors

On 1 October 2012, Ms Jacky Huntley and Ms Julia Hope informed the Telkom Board of their retirement as directors with effect from 24 October 2012. Mrs NP Dongwana informed the Telkom Board of her resignation as director effective 2 November 2012.

### Resignation of company secretary

Ms Mmathotho Lephadi resigned as company secretary of Telkom with effect from 31 October 2012. Ms Andisa Ditle was appointed acting company secretary with effect from 1 November 2012.

### Results of the Telkom Annual General Meeting regarding directors' appointments

The ordinary resolution to appoint Dr Sibusiso Sibisi and Ms NP Mnxasana as directors and to re-elect Mr PSC Luthuli and Mr Y Waja as directors was not passed by the requisite majority of shareholders. The ordinary resolution for the election of Mr PSC Luthuli as member and chairperson of the Audit Committee and Ms NP Mnxasana as member of the Audit Committee were withdrawn, given their non-appointment as directors. Mr PSC Luthuli, Mr Y Waja, Ms NP Mnxasana and Dr Sibusiso Sibisi resigned as independent non-executive directors with effect from 24 October 2012.

### Appointment of independent non-executive directors

Telkom announced on 14 November 2012 that Mr Jabulane Albert Mabuza and Ms Kholeka Mzondeki, on 16 November 2012 that Mr Leslie Maasdorp, and on 10 December 2012 that Ms Susan Botha, Dr Clive Adrian Fynn, Ms Khanyisile Kweyama, Ms Fagmeedah Petersen and Mr Louis Leon von Zeuner, were appointed as independent non-executive directors with immediate effect. Ms Mzondeki was also appointed as a member of the Audit Committee of the Company on 10 December 2012 and Ms Fagmeedah Petersen and Mr Louis Leon von Zeuner were also appointed as members of the Audit Committee of the Company on 18 February 2013.

### Appointment of Chairman of the Telkom Board

On 16 November 2012 Telkom announced the appointment of Mr JA Mabuza as chairman of the Telkom Board with immediate effect.

### Appointment of company secretary

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

### Voluntary severance and early retirement packages on offer

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

### Appointments of CEO and COO

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

## 43. SUBSEQUENT EVENTS

### Other matters

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

## 44. SHAREHOLDER ANALYSIS

	Number of shareholders	Percentage	Holdings	Percentage
<b>Range of shareholders</b>				
1 – 100 shares	56,208	69.59	1,928,584	0.37
101 – 1,000 shares	22,189	27.47	5,898,754	1.13
1,001 – 10,000 shares	1,764	2.18	4,669,394	0.90
10,001 – 50,000 shares	227	0.28	5,606,293	1.08
50,001 – 100,000 shares	112	0.14	8,267,691	1.59
100,001 – 1,000,000 shares	218	0.27	65,945,711	12.66
1,000,001 and more shares	55	0.07	428,467,471	82.27
	80,773	100.00	520,783,898	100.00
<b>Type of shareholder</b>				
Banks	105	0.13	87,446,483	16.79
Close corporations	43	0.05	85,009	0.02
Endowment funds	145	0.18	1,776,162	0.34
Individuals	78,418	97.08	14,026,754	2.69
Insurance companies	35	0.04	15,128,425	2.91
Investment companies	28	0.03	9,512,900	1.83
Medical aid schemes	10	0.01	750,769	0.14
Mutual funds	151	0.19	73,305,281	14.08
Nominees and trusts	1,499	1.86	1,474,230	0.28
Other corporations (including the Government of the Republic of South Africa)	62	0.08	207,130,134	39.77
Own holdings	2	0.00	10,190,084	1.96
Retirement funds	212	0.26	98,491,783	18.91
Private companies	58	0.07	1,428,631	0.27
Public companies	5	0.02	37,253	0.01
	80,773	100.00	520,783,898	100.00



	Number of shareholders	Percentage	Holdings	Percentage
<b>44. SHAREHOLDER ANALYSIS (continued)</b>				
<b>Geographical holdings by owner</b>				
South Africa	80,589	99.77	417,265,971	80.12
United States	60	0.07	77,740,832	14.93
United Kingdom	48	0.06	21,100,313	4.05
Europe	46	0.06	2,481,102	0.48
Other	30	0.04	2,195,680	0.42
	80,773	100.00	520,783,898	100.00
<b>Beneficial shareholders of more than 2%</b>				
The Government of the Republic of South Africa			207,038,058	39.76
Government Employees Pension Fund			60,720,799	11.66
Allan Gray			25,204,956	4.84
Investment Solutions			13,949,975	2.68
			306,913,788	58.94
<b>Non-public and public shareholders</b>				
<b>Non-public shareholders</b>			217,301,115	41.73
The Government of the Republic of South Africa			207,038,058	39.76
Government buffer account			9,461	0.00
Telkom Treasury Stock			10,190,084	1.96
Executive and Non-executive directors*			37,900	0.01
Subsidiaries' directors*			25,612	0.00
<b>Public shareholders</b>			303,482,783	58.27
Institutional and retail investors			303,482,783	58.27
			520,783,898	100.00

\* Director holdings consists of direct and indirect holdings.

The information above is based on registered shareholders, except where only beneficial shareholders' information was available.

# DEFINITIONS

## 3G

The generic term, 3G, is used to denote the next generation of mobile systems designed to support high-speed data transmission (144 Kbps and higher) and Internet Protocol (IP) based services in fixed, portable and mobile environments. As envisaged by the ITU, the 3G system will integrate different service coverage zones and be a global platform and the necessary infrastructure for the distribution of converged service, whether mobile or fixed, voice or data, telecommunications, content or computing.

## ACCESS NETWORK

The Access Network is the portion of the communications network that connects the subscriber (consumer/business) to the service provider's local exchange, commonly termed the local loop, last mile or first mile.

## ADSL (ASYMMETRICAL DIGITAL SUBSCRIBER LINE)

ADSL is a broadband access standard which uses existing copper lines to offer high-speed digital connections over the local loop. ADSL transmits data asymmetrically, meaning that the bandwidth usage is much higher in one direction than the other. ADSL provides greater bandwidth from the exchange to the customer (ie. downloading) than from the customer to the exchange (ie. sending).

## ADSL2+

ADSL2+ double the bandwidth used for downstream data transmission, effectively doubling the maximum downstream data rates, while also offering the ADSL2 standard's improvements.

## ARPU

Average monthly revenue per customer, or ARPU, is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period.

## ATM (ASYNCHRONOUS TRANSFER MODE)

ATM is a high-speed Wide Area Network (WAN), connection oriented, packet-switching data communications protocol that allows voice, data and video to be delivered across existing local and Wide Area Networks. ATM divides data into cells and can handle data traffic in bursts. It is asynchronous, in that the stream of cells from one particular user is not necessarily continuous.

## BANDWIDTH

Bandwidth is a measure of the quantity of signals that can travel over a transmission medium such as copper or a glass fibre strand. It is the space available to carry a signal. The greater the bandwidth, the greater the information carrying capacity. Bandwidth is measured in bits per second.

## BEPS

Basic earnings per share.

## BNG TECHNOLOGY

The Broadband Network Gateway (BNG) is a multi-service edge router. The BNG multi-service edge router replace the Broadband Remote Access Services (BRAS) in the network architecture and significantly enhances the features to support consumer-residential services, Carrier Ethernet and IP VPN business services, as the aggregation router in mobile backhaul applications, or as a mobile gateway for wireless networks.

## BROADBAND

Broadband is a method of measuring the capacity of different types of transmission. Digital bandwidth is measured in the rate of bits transmitted per second (bps). For example, an individual ISDN channel has a bandwidth of 64 Kbps, meaning that it transmits 64,000 bits (digital signals) every second.

## CAGR

Compound Annual Growth Rate.

## CARRIER PRE-SELECTION

Carrier pre-selection is usually initiated by the telecoms regulator. It enables individuals to choose which telecom will carry their traffic (mainly long distance) by a signalling contract rather than having to dial extra digits.

## CDMA (CODE DIVISION MULTIPLE ACCESS)

CDMA is one of many technologies for digital transmission of radio signals between, for example, mobile telephones and radio base stations. In CDMA, which is a spread-spectrum modulation technology, each call is assigned a unique "pseudorandom" sequence of frequency shifts that serve as a code to distinguish it. The mobile phone is then instructed to decipher only a particular code to pluck, as it were, the right conversation off the air.

## CIRCUIT

A circuit is a connection or line between two points. This connection can be made through various media, including copper, coaxial cable, fibre or microwave. A telephone exchange is a circuit switch.

## DECT (DIGITAL ENHANCED CORDLESS TELECOMMUNICATIONS)

DECT is the standard for cordless telephones. DECT phones communicate using the PSTN (Public Switched Telephone Network) through a small base station in the home or office and have a working radius of between 50 and 300 metres.

## DSLAM

The Digital Subscriber Line Access Multiplexer (DSLAM) is a network device that receives signals from multiple customer Digital Subscriber Line (DSL) connections, and puts these signals on a high-speed backbone line using multiplexing techniques.

## DWDM TECHNOLOGY

Dense Wavelength Division Multiplexing (DWDM) is a fibre optic transmission techniques that makes it possible to transmit data simultaneously, for different sources, using a separate light wavelength for each source across a single fibre. This technology increases the capacity of the fibre infrastructure without the operator having to deploy additional fibres.

## EBITDA

EBITDA represents profit for the year before taxation, finance charges, investment income and depreciation, amortisation, impairment and write-offs.

## EDGE (ENHANCED DATA FOR GSM EVOLUTION)

EDGE is a technology designed to enhance GSM and TDMA systems with respect to data rates and is widely considered to be the GSM evolution beyond GPRS. It enhances the data capabilities of GSM and TDMA systems by altering the RF modulation scheme to allow greater data rates per time slot. Because it uses a different modulation technique across the air-interface, EDGE requires different mobile terminals/handsets than those designed for the GSM air-interface.

## EFFECTIVE TAX RATE

The effective tax rate is the tax charge in the statement of profit or loss divided by pre-tax profit.

## ETHERNET

Ethernet is a protocol that defines how data is transmitted to and received from LANs. It is the most prevalent LAN protocol, with speeds of up to 10 Mbps.

## EVDO (EVOLUTION-DATA OPTIMISED OR EVOLUTIONDATA ONLY)

EVDO is a telecommunications standard for the wireless transmission of data through radio signals, typically for broadband internet access. It uses multiplexing techniques including code division multiple access (CDMA) as well as time division multiple access (TDMA) to maximise both individual users' throughput and the overall system throughput.

## FDPS

Fibre optic Distribution Points (FDPs) is the fibre endpoint in the Access Network closest to the customer from which Telkom will build out the last mile to the customer premise.

## FIBRE OPTICS

Fibre optics is where messages or signals are sent via light rather than electrical signals down a very thin strand of glass. Light transmission enables much higher data rates than conventional wire, coaxial cable and many forms of radio. Signals travel at the speed of light and do not generate nor are subject to interference.

## FIBRE RINGS

Fibre rings have come to be used in many fibre networks as it provides more network resiliency: if there is a failure along a route and a ring is broken, the direction of the traffic can be reversed and the traffic will still reach its final destination.

## FIXED ACCESS LINES

Fixed access lines comprise public switched telecommunications network lines, or PSTN lines, including integrated services digital network channels, or ISDN channels, and public and private pay phones, but excluding internal lines in service.

## FIXED ACCESS LINES PER EMPLOYEE

To calculate the number of access lines per employee the total number of access lines is divided by the number of employees at the end of the period.

# DEFINITIONS

## FIXED-LINE PENETRATION

Fixed-line penetration or teledensity is based on the total number of telephone lines in service at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid-year in the periods indicated as published by Statistics South Africa, a South African Government department.

## FIXED-LINE TRAFFIC

Fixed-line traffic, other than international outgoing mobile traffic, international interconnection traffic and international Voice over Internet Protocol traffic, is calculated by dividing traffic operating revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the traffic registered through the respective exchanges and reflected in international interconnection invoices. International Voice over Internet Protocol traffic is based on the traffic reflected in invoices.

## FMC

Fixed Mobile Convergence (FMC) is an environment/infrastructure that enable the transparent use of voice and data applications across fixed and mobile access points.

## FRAME RELAY

Frame relay is a widely implemented telecommunications service designed for cost-efficient data transmission for data traffic between local area networks and between end-points in a wide area network. The network effectively provides a permanent circuit, which means that the customer sees a continuous, dedicated connection, but does not pay for a full-time leased line.

## FTR

Fixed termination rates

## FTTX

Fibre to the X (FTTx) refers to all possible fibre optic topologies, from a service provider to its customers, based on the location of the fibre's termination point. These include fibre-to-the-curb (FTTC); fibre-to-the-home (FTTH); fibre-to-the-building (FTTB); fibre-to-the-premise (FTTP); *et al.*

## GPRS (GENERAL PACKET RADIO SERVICE)

GPRS is a packet rather than a circuit-based technology. GPRS allows for faster data transmission speed to both GSM and TDMA (IS-136) networks. GPRS is a packet-switched technology that overlays the circuit-switched GSM network. The service can be introduced to cellular networks by infrastructure.

## GSM (GLOBAL SYSTEM FOR MOBILE)

GSM is a second generation digital mobile cellular technology using a combination of frequency division multiple access (FDMA) and time division multiple access (TDMA). GSM operates in several frequency bands: 400 MHz, 900 MHz and 1800 MHz. On the TDMA side, there are eight timeslots or channels carrying calls, which operate on the same frequency. Unlike other cellular systems, GSM provides a high degree of security by using subscriber identity module (SIM) cards and GSM encryption.

## HEPS

Headline earnings per share.

## HSDPA

High Speed Downlink Packet Access.

## IAS

International Accounting Standards.

## IFRS

International Financial Reporting Standards.

## INTERCONNECTION

Interconnection refers to the joining of two or more networks. Networks need to interconnect to enable traffic to be transmitted to and from destinations. The amounts paid and received by the operators vary according to distance, time, the direction of traffic, and the type of networks involved.

## INTEREST COVER

Interest cover is calculated by dividing EBIT by the net interest charge in the statement of profit or loss. It is a measure of income gearing.

## ISDN (INTEGRATED SERVICES DIGITAL NETWORK)

ISDN is a data communications standard used to transmit digital signals over ordinary copper telephone cables. This is one technology for overcoming the "last mile" of copper cables from the local exchange to the subscriber's premises, which has proved a bottleneck for internet access, for example. ISDN allows to carry voice and data simultaneously, in each of at least two channels capable of carrying 64 Kbps. It provides up to 128 Kbps and a total capacity of 144 Kbps exist.

## ITU (INTERNATIONAL TELECOMMUNICATIONS UNION)

ITU is the global technical standard-setting body for telecommunications services.

## LAN (LOCAL AREA NETWORK)

A LAN is a group of devices that communicate with each other within a limited geographic area, such as an office.

## LEASED LINE

A leased line is a telecommunications transmission circuit that is reserved by a communications provider for the private use of a customer.

## LIBOR

London Interbank Offer Rate.

## LOCAL LOOP

The local loop is the final connection between the exchange and the home or office. It is also known as the last mile.

## LTE (LONG-TERM EVOLUTION)

Long-term evolution, marketed as 4G LTE, is a standard for wireless communication of high-speed data for mobile phones and data terminals.

## MICROWAVE

Microwave is radio transmission using very short wavelengths.

## MMS (MULTIMEDIA MESSAGING SERVICES)

MMS, a service developed jointly together with 3GPP, allows users to combine sounds with images and text when sending messages, much like the text-only SMS.

## MCO

Mobile cellular operators

## MOBILE CHURN

Churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period.

## MSAN

The multi-Service Access Node provides the boundary between customer interface and the transport network. It makes it possible to offer the customer traditional voice, high-speed DSL and new emerging IP-based services all delivered from the same hardware.

## MTR

Mobile termination rates

## NET DEBT

Net debt is all interest-bearing debt finance (long-term and short-term) less cash and marketable securities.

## NET DEBT TO TOTAL EQUITY

Net debt to total equity is a measure of book leverage (gearing): net debt in the statement of financial position divided by total equity (the sum of shareholders' funds plus minority interests).

## NGN (NEXT GENERATION NETWORK)

A Next Generation Network is a packet-based network able to provide services including telecommunication services and able to make use of multiple broadband, QoS-enabled transport technologies. It offers unrestricted access by users to different service providers.

## NOC

The Network Operations Centre (NOC) is the place from which network support staff monitors and maintains the telecommunications network.

# DEFINITIONS

## OPERATING FREE CASH FLOW

Operating free cash flow is defined as cash flow from operating activities, after interest and taxation, before dividends paid, less cash flow from investing activities.

## OLO

Other licensed operator.

## PACKET SWITCHING

Packet switching is designed specifically for data traffic, as it cuts the information up into small packets, which are each sent across the network separately and are then re-assembled at the final destination. This allows more users to share a given amount of bandwidth. X.25, ATM and frame relay are all packet switching techniques.

## POP (POINT OF PRESENCE)

A POP is a service provider's location for connecting to users. Generally, POPs refer to the location where people can dial into the provider's computer. Most providers have several POPs to allow low cost local access via telephone lines.

## PSTN (PUBLIC SWITCHED TELEPHONE NETWORK)

The PSTN is a collection of interconnected voice telephone networks, either for a given country or the whole world. It is the sum of the parts. It was originally entirely analogue, but is now increasingly digital (indeed in many developed countries digitisation has reached 100%); these networks can be either state-owned or commercially owned. PSTN is distinct from closed private networks (although these may interconnect to the PSTN) and from public data networks (PDN).

## REVENUE PER FIXED ACCESS LINE

Revenue per fixed access line is calculated by dividing total fixed-line revenue during the period, excluding data and directories and other revenue, by the average number of fixed access lines during the period.

## ROA (RETURN ON ASSETS)

Return on assets is calculated by dividing operating profit by assets affecting operating profit.

## SDH (SYNCHRONOUS DIGITAL HIERARCHY)

SDH is used in most modern systems, where multimedia can be transmitted at high speeds. The networks are shaped in a ring, so that if there is a problem, the traffic can be redirected in the other direction and the caller will not detect the interruption.

## SMS (SHORT MESSAGE SERVICE)

SMS refers to short, usually text-based messages sent by or to a wireless subscriber. They are not delivered to the recipient instantly and have some degree of transmission time delay. SMS messages are usually limited to total character lengths of 140 to 160 characters.

## SWITCH

A switch is a computer that acts as a conduit and director of traffic. It is a means of sharing resources as a network.

## TOTAL INTEREST-BEARING DEBT

Total interest-bearing debt is defined as short and long-term interest-bearing debt, including credit facilities, finance leases and other financial liabilities.

## TRANSMISSION NETWORK

The transmission network is the portion of the communications network, consisting of digital communication equipment, intended to function as the transport infrastructure for all telecommunication services.

## UC

Unified Communications (UC) is the integration of enterprise communications activities which enables situational awareness across people and information within those activities; it also makes it possible to deliver these services seamlessly across multiple applications and platforms.

## VOIP (VOICE OVER INTERNET PROTOCOL)

Voice over Internet Protocol is a protocol enabling voice calls to be made over the internet. Rather than a dedicated circuit being set up between the caller and receiver, as with ordinary phone calls, the voice conversation is digitised and transmitted over Internet Protocol using packet-switched data networks.

## WAN (WIDE AREA NETWORK)

A WAN comprises LANs in different geographic locations that are connected, often over the public network.

## WAP (WIRELESS APPLICATION PROTOCOL)

WAP is an application environment designed to bridge the gap between the mobile and Internet worlds. It is a set of communication protocols for wireless devices designed to provide vendor-neutral and technology-neutral access to the Internet and advanced telecommunications services.

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