Integrated Report

for the year ended
31 March 2017

Tomorrow starts today

Telkom

How to access our information:

Available online

Our online integrated report for the year ended 31 March 2017 in pdf format and interactive html format

The following icons assist in navigation:

Refers readers to other sections within the integrated report

Refers readers to online information

This icon indicates where non-financial information was externally assured

Acronyms

5G	fifth generation
ADSL	asymmetrical digital subscriber line
AGM	annual general meeting
ASA	additional share awards
B-BBEE	broad-based black economic empowerment
BCOE	Business Code of Ethics
BSS	business support system
BYM	Bright Young Minds
capex	capital expenditure
CDP	Carbon Disclosure Project
CEO	chief executive officer
CFO	chief financial officer
CPI	Consumer Price Index
CSI	corporate social investment
CSR	corporate social responsibility
DoA	delegation of authority
DTI	Department of Trade and Industry
DWDM	dense wavelength division multiplexing
EBITDA	earnings before interest, taxation,depreciation and amortisation
EE	employment equity
ERM	enterprise risk management
ESD	enterprise and supplier development
ESOP	Employee Share Ownership Plan
exco	executive committee
FCF	free cash flow
FLDP	Female Leadership Development Programme
FSP	forfeitable share plan
FTTB	fibre to the business
FTTC	fibre to the cabinet
FTTH	fibre to the home
GCEO	group chief executive officer
GCFO	group chief financial officer
GDP	gross domestic product
HEPS	headline earnings per share
HVAC	heating, ventilation and air conditioning
ICASA	Independent Communications Authority of South Africa
ICT	information and communications technology
IFRS	International Financial Reporting Standards
IFT	independent field technician
IoT	Internet of Things
IIRC	International Integrated Reporting Council
ISO	International Standards Organisation
IT	information technology
ITU	International Telecommunications Union
JSE	Johannesburg Securities Exchange
KPI	key performance indicator
LED	light emitting diode
LTE	long-term evolution
LTI	long-term incentive
MOI	memorandum of incorporation
nomco	nominations committee
NPS	net promoter score
OHS	occupational health & safety
OSS	operations support system
PAT	profit after tax
PV	photo voltaic
remco	remuneration committee
ROA	return on assets
SME	small and medium-sized enterprises
STI	short-term incentive
SVOS	smart virtual office solutions
TAS	Telkom Audit Services
TSR	total shareholder return
VERP	voluntary early retirement package
VSP	voluntary severance package
WOAN	wholesale open-access network
WTC	WeThinkCode

The information contained in this document is also available on Telkom's investor relations website www.telkom.co.za/ir

Telkom South Africa SOC Ltd
(Registration number: 1991/005476/30)
JSE share code: TKG
ISIN: ZAE000044897

Group company secretary
Ephy Motlhamme

Transfer secretaries
Computershare Investor Services (Pty) Ltd
PO Box 61051, Marshalltown, 2107

Sponsor
The Standard Bank of South Africa Limited
Standard Bank Centre
30 Baker Street, Rosebank, 2196

Board of directors
JA Mabuza (chairman),
SN Maseko (group chief executive officer),
DJ Fredericks (group chief financial officer),
SL Botha, GW Dempster, N Kapila,
I Kgaboesele, K Kweyama, KW Mzondeki,
F Petersen-Lurie, RG Tomlinson,
LL von Zeuner, Dr H Touré

Give us feedback

We welcome feedback on our reporting for the financial year ended 31 March 2017. Please send any suggestions for our integrated report 2018 to investor relations at telkomir@telkom.co.za

www.telkom.co.za

Contents

01

An overview of our business

Integrated performance snapshot

All commentary, messaging and indicators in this report exclude voluntary early retirement packages (VERPs) and voluntary severance packages (VSPs) of R66 million and the related tax impact of R13 million. The comparative numbers exclude VERPs and VSPs of R2 193 million and the related tax impact of R517 million.

Financial capital

		FY2017	FY2016
REVENUE	↑ 9.8%	40 970 R'MILLION	37 325 R'MILLION
DATA REVENUE	↑ 5.8%	12 147 R'MILLION	11 477 R'MILLION
MOBILE SERVICE REVENUE	↑ 38.4%	3 498 R'MILLION	2 528 R'MILLION
DIVIDEND PER SHARE	↑ 56.3%	422 CENTS PER SHARE	270 CENTS PER SHARE
HEADLINE EARNINGS PER SHARE (HEPS)	↑ 12.4%	731.4 CENTS PER SHARE	650.9 CENTS PER SHARE
CAPITAL EXPENDITURE	↑ 43.3%	8 654 R'MILLION	6 040 R'MILLION

Human capital

		FY2017	FY2016
LOST TIME INJURY FREQUENCY RATE	↓ 1.4%	1.37	1.39
GROUP EMPLOYEES	↓ 7.3%	18 847	20 341
GROUP FEMALE EMPLOYEES	↑ 8.8%	5 896	5 418

Productive capital

		FY2017	FY2016
MOBILE SITES INTEGRATED	↑ 12.1%	2 986	2 663
ACTIVE MOBILE SUBSCRIBERS	↑ 47.7%	4.0 MILLION	2.7 MILLION
FIBRE TO THE PREMISES	↑ 44.2%	2.2 MILLION	1.5 MILLION

Social and relationship capital*

		FY2017	FY2016
SKILLS DEVELOPMENT SPEND	↓ 41.8%	222.7 R'MILLION	382.5 R'MILLION
INVESTMENT IN TELKOM FOUNDATION	↑ 10.6%	52 R'MILLION	47 R'MILLION
INVESTMENT IN FUTUREMAKERS	↓ 17.2%	106 R'MILLION	128 R'MILLION

* This excludes BCX and Trudon

Natural capital

		FY2017	FY2016
WATER CONSUMPTION**		1 496 905.91 Kℓ	
TOTAL CARBON FOOTPRINT	↓ 8.6%	680 409.66 tCO_2e	744 848.12 tCO_2e
ELECTRICITY CONSUMPTION	↓ 8.9%	619 255 117.06 kWh	679 522 384.07 kWh

** Comparative not provided due to change in methodology

Our report's basis of preparation

Our 2017 integrated report aims to provide our stakeholders with insight on how we create value through our strategy, governance and performance and provide a view of our prospects.

To keep our report concise, we focus on material themes that substantively affect our ability to create value for our stakeholders.

Considerations in preparing this report

We use the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework as well as the United Nations Global Reporting Initiative G4 Sustainability Reporting Guidelines in compiling this report. This report shows the connection between our strategy, material themes, governance, performance and prospects. We apply the lens of the six capitals to ensure we provide a balanced view of our value creation. We renamed manufactured capital to productive capital.

In response to our stakeholders' feedback, we introduced a strategy section in the report (page 60), articulating our new operating model which is effective from 1 April 2017.

This report is primarily prepared for our providers of financial capital and other stakeholders at large. It also serves as Telkom's communication on progress to the United Nations Global Compact in terms of human rights, labour, the environment, and our anti-corruption efforts.

Reporting scope and boundary

This report covers the period 1 April 2016 to 31 March 2017. It addresses our divisions, Openserve and Telkom Consumer, and our subsidiaries, BCX and Trudon, unless otherwise stated. Effective from 1 April 2017, we formed a wholly owned subsidiary, Gyro, that is responsible for managing our masts and towers, as well as property development and property management services on behalf of the group. This new subsidiary is included in our group operating structure on page 13.

For the purpose of assurance of non-financial indicators, Trudon has been excluded on the basis of immateriality. The external assurance focused on the South African operations of Telkom company and BCX. It must be noted that BCX is made up of numerous small companies that we are gradually incorporating on our journey towards full disclosure. Refer to page 96 for full disclosure of the findings by an independent assurer.

Material matters determination process

We define our material matters as the factors that will substantively affect our ability to create value for our stakeholders over time. Refer to page 53 for our material themes and how we respond to them. Our process to determine material themes is on page 40.

Combined assurance

We adopted a combined assurance approach, which coordinates Telkom Audit Services (TAS), other independent assurers and risk management activities across the group. Refer to page 102 for details of our combined assurance approach. Our integrated report was reviewed and approved by the executive committee (exco), audit committee and the board.

Ernst & Young Inc (EY) and Nkonki Inc are joint external auditors who provided assurance over our consolidated annual financial statements and expressed an unqualified opinion (refer to page 10 of the consolidated annual financial statements) available online.

IBIS ESG Assurance provided assurance over certain non-financial indicators relating to the sustainability elements of the report (refer to the assurance statement) available online. Assured indicators are indicated with this icon throughout the report.

Telkom South Africa SOC Ltd represents Telkom group, which comprises Telkom company (including the divisions Openserve, Telkom Consumer and Enterprise which was subsequently integrated with BCX in November 2016) and its subsidiaries, BCX, Trudon and Gyro. Refer to page 13 for our operating structure.

In the report we refer to Telkom group as Telkom. In the context of our new operating model the term business units represent our divisions and subsidiaries.

Reporting suite

Our reporting suite, where they can be found online, our reporting frameworks, and a summary of the assurance of the reports, are outlined in the table below.

Report	Framework	Assurance provider
Integrated report	> IIRC <IR> Framework > King Report on Corporate Governance for South Africa 2009 (King III) > Companies Act of South Africa, 71 of 2008, as amended (Companies Act)	> Management oversight > Audit committee > Board
Consolidated annual financial statements*	> International Financial Reporting Standards (IFRS) > Companies Act	> Management oversight > Audit committee > Board > EY and Nkonki
Human capital supplementary report	> Not applicable	> Management oversight
Assurance statement	> AA1000AS Standard	> IBIS ESG Assurance
King III checklist	> King III	> Management oversight > Audit committee > Board
Annual results presentation	> Not applicable	> Management oversight > Audit committee > Board

** Included in the consolidated annual financial statements are the following reports: audit report, audit committee report, directors' statement and directors' report.*

Forward looking statements

Certain statements in this document may constitute forward looking statements. Such statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the group to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements. The group undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. These were not reviewed or reported on by the group's auditors.

The Telkom board acknowledges its responsibility for ensuring the integrity of this integrated report. The board confirms that it collectively reviewed the report's contents and leveraged off the assurance obtained from our various internal and external assurance providers, including assessments on risk and internal controls.

The board is of the view that Telkom's integrated report addresses key material matters to its stakeholders' decision-making. The board approved the report on 3 July 2017.

JA Mabuza (chairman)
SL Botha
GW Dempster
KW Mzondeki
N Kapila
I Kgaboesele
K Kweyama
Dr H Touré
F Petersen-Lurie
RG Tomlinson
LL von Zeuner
SN Maseko (group chief executive officer (GCEO))
DJ Fredericks (group chief financial officer (GCFO))

Who is Telkom

Telkom is a leading information and communications technology (ICT) services provider in South Africa, offering fixed-line, mobile, data and information technology (IT) services.

Through BCX, our IT company, the group has operations across the globe. Effective from 1 April 2017, Telkom formed a wholly owned subsidiary, Gyro, which is responsible for managing our masts and towers, property development and property management services on behalf of the group.

Our purpose

This is tied to the national vision of seamlessly connecting our customers to a better life.

Our vision

To lead in the converged ICT market through deep and credible relationships and a distinctive customer experience by:
> leading the provision of converged solutions
> providing a quality network with unmatched reach
> offering end-to-end digital solutions in the business community
> creating innovative and pervasive broadband consumer services
> being the wholesale provider of choice
> being the best place to work for committed and accountable people

Our values

Telkom's values form the foundation of our Business Code of Ethics (BCOE). Telkom has five core values:

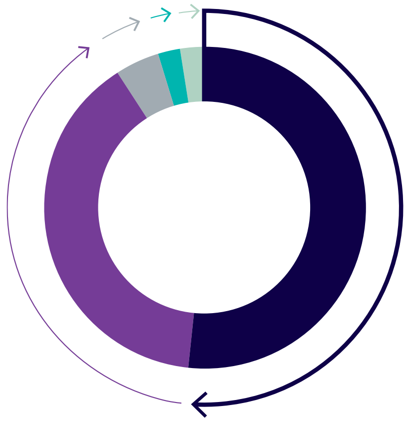
C Continuous improvement	Listen, act, learn and innovate. We seek continuous improvement and do things quickly, effectively and innovatively. We learn from our mistakes to enhance our performance and become more responsive to customer needs.
H Honesty	Be real, open and truthful. We keep our promises and commitments. We always tell the truth and are open and transparent in all our dealings with each other, our customers, our stakeholders and the broader community.
A Accountability	"If it is to be, it is up to me". We take full ownership of our actions and deliverables. We do not blame others and always give our best. We are passionate and walk the extra mile for customers.
R Respect	Ensure dignity to all. Protect the environment. We treat people with courtesy, politeness and kindness, and actively listen to others. We value diversity and always seek to understand others.
T Teamwork	Together we win. We are team players with a common goal and shared vision. We deliver business results through cooperation and share our knowledge and resources to the benefit of the business and stakeholders.

One of Telkom's keys to future success is to build a high-performance, values-driven culture. The culture of an organisation is one of the principal sources of its competitive advantage and brand differentiation. Telkom is committed to conduct its business in an ethical manner based on its core values and acceptable principles.

Shareholding as at 31 March 2017

Telkom is a Johannesburg Stock Exchange (JSE) listed company with the share code TKG.

Equity shareholding



51.8%	Institutional shareholders
39.3%	Government of South Africa
3.4%	Non-institutional shareholders
3.3%	Treasury shares
2.2%	Miscellaneous*

Small shareholders-mostly retail clients.

Debt holding information

Telkom credit ratings

	Moody's	Standard & Poor's
Issuer rating Long-term global scale	Baa3	BBB-
Long-term national scale	Aa1.za	-
Outlook	Negative*	Negative*
Date	13/6/2017	10/4/2017

** Following the downgrade of the South African sovereign rating, Standard & Poor's and Moody's affirmed our credit rating at BBB- and Baa3, respectively, and changed our outlook to negative from stable.*

South African listed debt

Bonds	
Listed bonds	TL20
Commercial paper	TLC01
	TLC02

Group operating structure

The table below sets out our operating structure. Further information on each business unit and subsidiary is provided on the pages that follow, refer to page 62 for further information on our operating model.

62

Group		
Divisions	**100% owned subsidiaries**	**64.9% owned subsidiary**
openserve	BCX	trudon
Telkom Consumer	Gyro	

Who is Telkom – continued

Openserve is South Africa's leading wholesale infrastructure connectivity provider with the largest network footprint across South Africa.

We are contracted to provide network infrastructure services which include fulfilment, provisioning, maintenance and assurance services to wholesale clients and their customers.

Openserve represents an open-access network and strives to deliver high-quality connectivity solutions and services. As a connectivity provider, Openserve plans, engineers, operates and maintains Telkom's core and access network. The wholesale infrastructure connectivity division was functionally separated from Telkom, was launched under our new brand Openserve in October 2015.

Differentiating factors

Network

The unmatched scale and quality of Openserve's next-generation network creates a unique wholesale market differentiator.

> the largest high-speed fixed-broadband connectivity across South Africa
> largest fibre footprint across national, metro and access with more than 149 000 km of fibre installed
> optimised national transmission network capacity to enable infrastructure connectivity growth across enterprise carrier, consumer segments and global markets
> deepest network, connectivity services and communication skills capacity
> extensive experience in design and deployment of network

Open-access network

A network allowing for wholesale access to electronic communications network and electronic communications network services to licence holders on terms that are reasonable, effective, transparent and non-discriminatory.

Products and services

Openserve offers a diverse range of products and services across the connectivity value chain. It is the only large scale provider that delivers large-scale integrated copper and fibre-based offerings over a high-speed backhaul network.

Broadband solutions
Provision of reliable fixed-line internet access

Enterprise solutions
Business-specific connectivity products and services

Optical and carrier solutions
Long-distance data distribution network (backhaul)

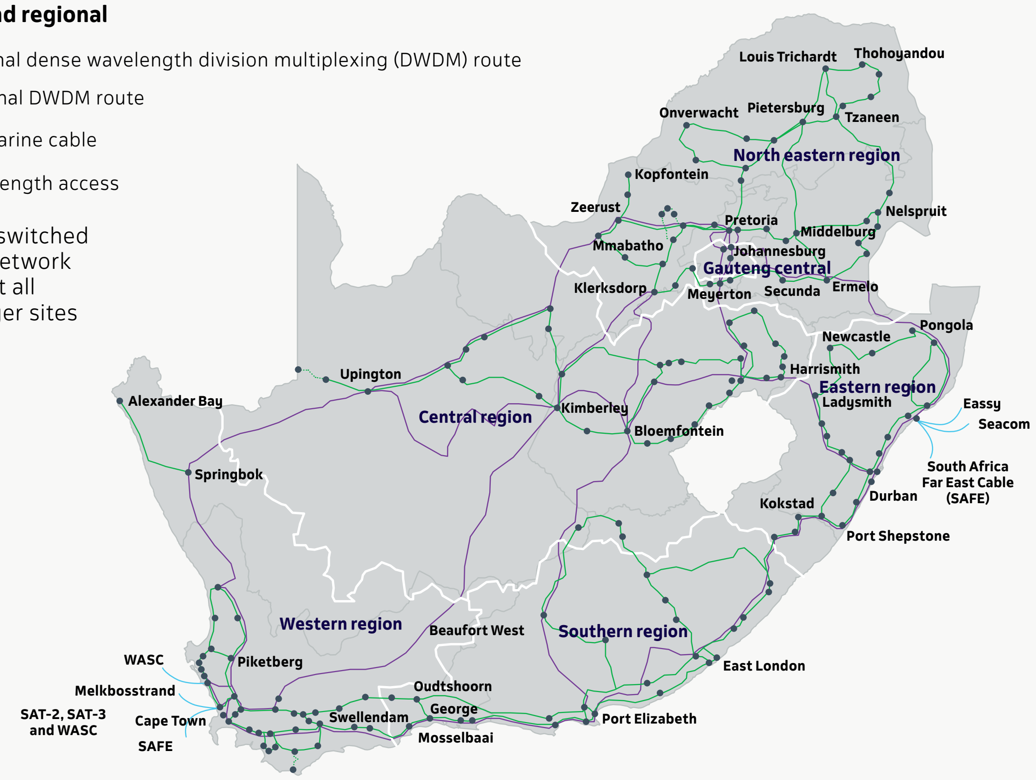
Infrastructure sharing
Passive telecommunications infrastructure sharing, such as towers

The national transmission network is a transport network used to enable national and international narrow and broadband connectivity between major regional centres.

National and regional

National dense wavelength division multiplexing (DWDM) route
Regional DWDM route
Submarine cable
Wavelength access

Automatic switched transport network deployed at all national layer sites



Our fibre network spans across national and local transport (core), and aggregation and access footprints, enabling us to provide high speed connectivity across South Africa.

Core fibre-optic network

Fibre-optic cable
Base stations
Enterprises
Homes

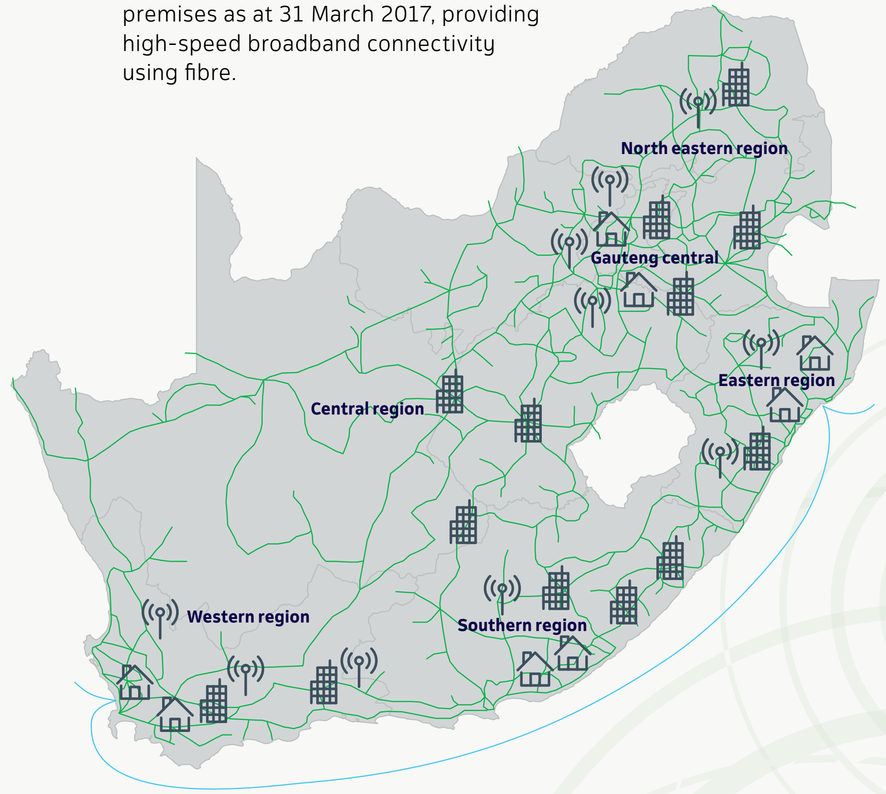
Openserve has passed over 2.2 million premises as at 31 March 2017, providing high-speed broadband connectivity using fibre.

Fibre to the home (FTTH)
219 825 passed with a connectivity rate of 18%

Fibre to the business (FTTB) 52 755 end points terminating

Fibre to the cabinet (FTTC) 2 million homes passed

Fibre to the base stations 5 928 base stations



Who is Telkom – continued

Telkom *Consumer*

Telkom's Consumer unit is South Africa's largest fixed-broadband provider, internet service provider and, together with its mobile network, a converged communications provider.

Telkom Consumer consists of mobile, fixed-line home and office, and small and medium-sized enterprises (SMEs) offerings.

We service 4 million mobile subscribers, 1.1 million fixed-line residences and 243 000 fixed-line SMEs.

Differentiating factors

> ability to provide services over an array of technologies – fixed and mobile
> mobile broadband at high speeds
> uncapped plans
> innovative products
> value proposition beyond pricing
> simple pricing, data-led products in mobile

Products and services

> voice, data and content
> broadband
> SMME solutions such as voice failover, integrated data services and converged services
> mobile solutions and devices
> application and content management solutions
> fibre
> voice over internet protocol
> cloud-based private branch exchange
> fixed-line look-alike

Who is Telkom – continued

BCX

BCX is a premier end-to-end digital partner, providing advanced ICT solutions to companies.

Together with Telkom, BCX has extensive experience working with JSE-listed enterprises, public sector organisations, state-owned entities and SMEs globally.

BCX provides innovative ICT business solutions, operates ICT systems, and manages products, services and solutions in many locations, as shown in the map.

Differentiating factors

> biggest data centre footprint in Africa
> largest network infrastructure
> unparalleled geographical reach
> custom application development
> unrivalled ICT solutions
> industry-specific expertise
> leader in service excellence
> strategic vendor relationships
> real-time, personalised service delivery

Products and services

BCX has a diversified ICT product portfolio that includes access to national fixed and mobile networks, data centres (and related services) and IT services. It has a portfolio housed under a single brand that is used to provide a wide range of services to the enterprise market.

Solutions
> cloud computing
> unified communications and collaboration
> security
> Internet of Things (IoT)
> big data analytics
> mobility

IT products
> enterprise solutions
> applications solutions
> IT managed services
> infrastructure solutions
> cloud solutions
> unified communications and collaboration

Telecommunication products and services
> business mobility
> global services
> broadband, internet service and value-added services

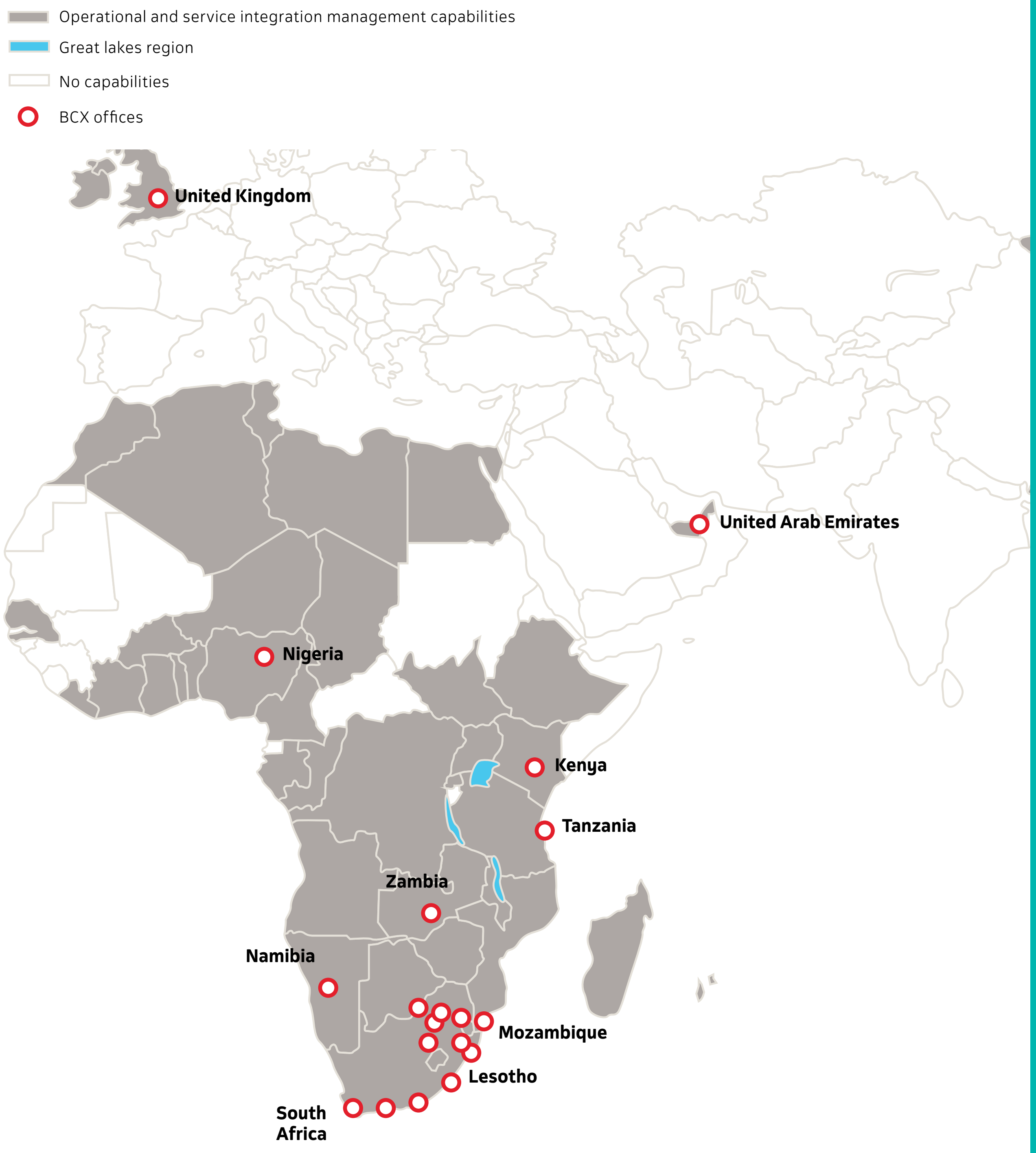
Telkom acquired 100 percent of the issued capital of BCX group in August 2015.

Following the acquisition of BCX, Telkom's data centre operations were sold to BCX and the Enterprise business was sold and integrated with BCX.

BCX is the only converged business in the market to offer end-to-end solutions to corporate customers.

BCX points of presence of operations

(Operational and service integration management)



Who is Telkom – continued

Gyro

Gyro is responsible for managing the group's properties and tower needs, optimising the portfolio's and providing a turnkey property and tower management solution.

Services

Masts and towers

> optimise and improve current usage, manage and maintain current portfolio, and build new towers according to market demand

Property development

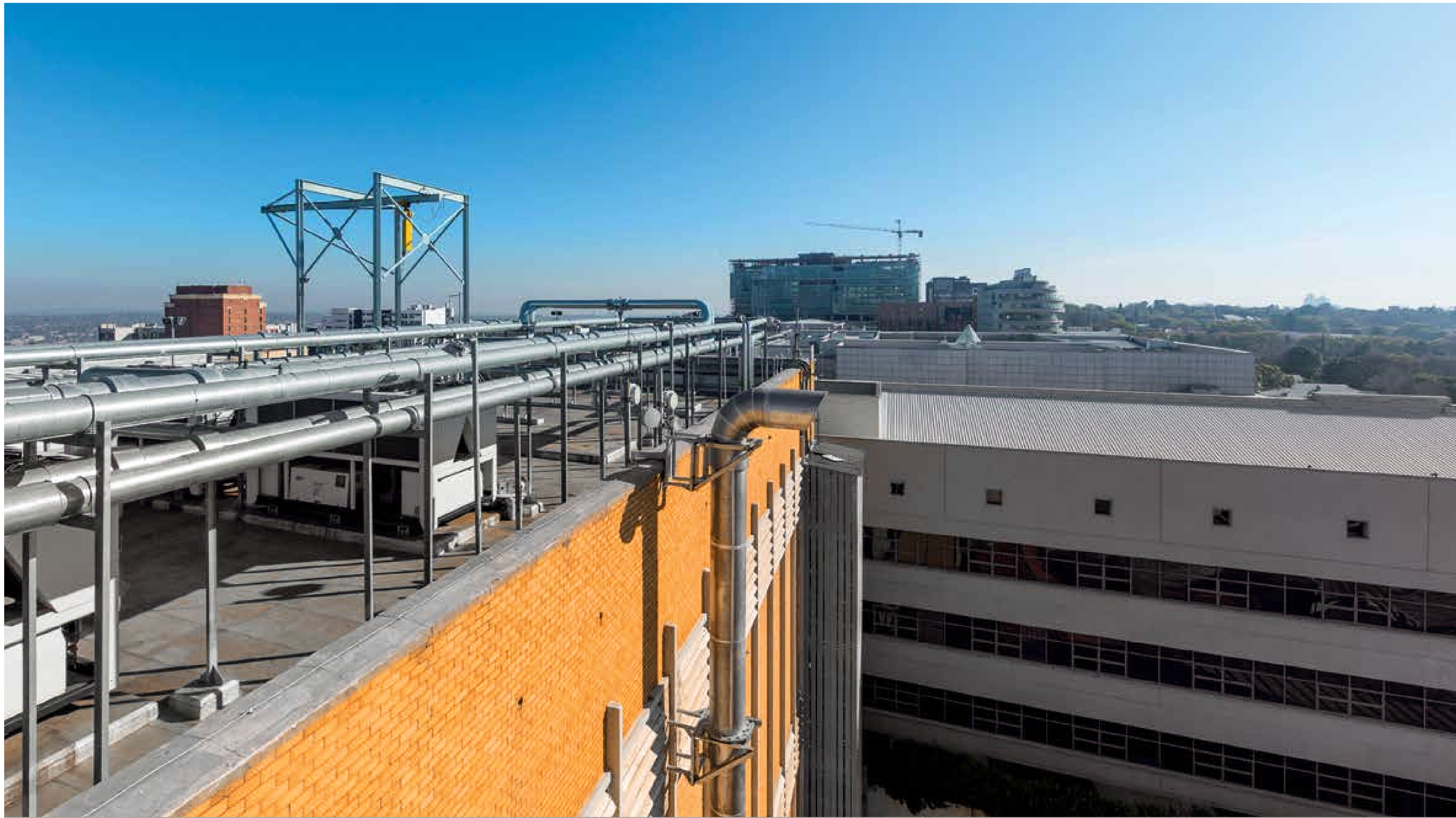
> maximise the value of the property portfolio through an end-to-end property solutions

Property management services

> continuously improve existing Telkom corporate real estate services
> provide integrated turnkey property and tower services to Telkom and third party clientele
> improved cost efficiency and reduced carbon footprint of energy supply in Telkom-owned properties

The formation of Gyro will:

> extract value from the property and tower portfolio by utilising the existing portfolio in a more efficient manner for current business operations
> excess capacity will be commercialised for best use in order to create a sustainable investment
> built a valuable internal corporate real estate services and will be commercialising this offering



Who is Telkom – continued

Trudon is a local advertising and marketing organisation that provides and services and digital solutions to local businesses.

Trudon, the publishers of the *Yellow Pages*, delivers the best commercial search in South Africa and affordable, effective advertising and marketing options to the SME and corporate market.

Products and services

Traditional media

> print media
> telephone number enquiries

Digital marketing

> online search
> WiFi advertising
> social media
> e-commerce
> digital market places
> presence management

Differentiating factors

> long-established relationships with SMEs
> largest SME customer base
> partnerships with global over the top players to provide exclusive solutions to the South African market
> wide range of both digital and print offerings at a variety of price points

Trudon operates in Johannesburg, and has six other branches in South Africa. It has over 65 years of communication experience. Trudon has four subsidiaries, Leads Machine (100 percent), Kompare (55 percent), Connecto (100 percent) and TDS Namibia (75 percent).

Leads Machine

Leads Machine is a social media company primarily focused on providing SME customers with a full digital offering. Leads Machine's mission is to help businesses grow online by enabling better digital experiences.

Connecto

Connecto is responsible for the development of an online social media directory and acts as the innovation hub for Trudon's digital products, including Yapp – the online chat-based marketplace for SMEs.

TDS Namibia

TDS Namibia is a joint venture with Namibian Telecoms to produce the *Yellow and White Pages* directory listings for Namibia. These have been supplemented with some of the new digital offerings such as online *Yellow Pages*.

Kompare

Kompare is an online comparison marketplace (website, mobile site and application) where consumers can search, compare and buy a wide range of business and consumer products from hundreds of online South African retailers.

02

Value creation

How our leadership supports value creation | Chairman's report

As an over 130-year-old business, remaining relevant in a sector brimming with competition and innovation is a testament to our commitment to facilitating real conversations.

I am honoured to address our valued stakeholders through our 2017 integrated report.

During the past financial year, our focus was to transition the business to enable growth. This placed us on a steady path of growth with continued attention on customer service, cost efficiencies and providing value to our stakeholders.

Our performance was achieved by focusing on our evolution as a business, developing new channels, and remaining customer-centric in all our activities. As an over 130-year old business, remaining relevant in a sector brimming with competition and innovation is a testament to our commitment to facilitating real conversations. We achieved this by providing connectivity, infrastructure and network elements, converged ICT solutions, and electronic advertising and media.

Refer to the group chief executive officer's report on page 56 for more information on our operational performance. 56

How our leadership supports value creation | Chairman's report – continued

Operating environment

The difficult local and international environment added pressure to our operations and tested the mettle of our strategy. The international political climate is perpetuated by a sense of apathy and general distrust. Events such as the US elections and Brexit are examples of the polarisation in various parts of society. Such political events compound consumer views of anti-elitism and pro-nationalism.

Economic growth was severely hampered with an annual gross domestic product (GDP) growth of 0.3 percent in 2016 (2015: 1.3 percent), adding strain to the level of employment and growth aspired to in South Africa's National Development Plan. This negatively impacted Telkom, affecting customer spend which led to intensified sales and marketing efforts to retain and grow our reach as the preferred service provider.

As we move towards the 2018 financial year we are facing a deteriorating economy following South Africa's sovereign rating downgrades and the country has moved into a technical recession. The economic output of South Africa is shrinking rather than growing. In a country like ours, where unemployment levels are close to 28 percent and one out of every two young people will not find a job, a decline in economic activity deepens the socio-economic crisis we are facing. More than 17 million South Africans rely on social welfare grants to survive.

A recession has the potential to impact every South African, and presents significant risk to our businesses.

Our economy needs to grow for the government to be able to meet the needs of the people who find themselves at the very fringes of the economy. Telkom needs to balance these challenges with investment for future growth in our key areas such as fibre, mobile and new business ventures. The negative economic environment presents us with an opportunity to walk through this journey with our corporate customers by providing them with solutions which will make them more efficient. We have to keep improving and aim to be better than our competitors.

Our greatest differentiator will be the experience we offer our customers. The combination of innovative products, competitive pricing and unbeatable customer experience will set us apart in these trying times. We have to step up in every part of our business.

Transformation

We continue to further ingrain transformation into our activities and contribute positively to the socio-economic development of our country.

Late in the financial year, the ICT sector council together with the Department of Trade and Industry (DTI) introduced the amended broad-based black economic empowerment (B-BBEE) codes for implementation by the ICT sector. The amended codes have stringent requirements and higher targets compared to the old codes and the draft ICT codes. Had B-BBEE transformation not remained one of our key material issues from our turnaround phase to the new journey of independence, we could have dropped to a Level 8. We have recently completed the process verification and we are a Level 6 contributor. This Level 6 is discounted due to the changed requirement in reporting for skills development spend. Were it not for this new requirement, the scores on the scorecard would have yielded us a Level 5. We will focus on the reporting requirement for this element of the scorecard, and we are confident that the programmes that we continue to invest in and focus on with all the other pillars, will improve our level significantly in next financial year.

We are already transforming our group exco with the appointment of two black women, chief human resources officer, Melody Lekota, and chief risk and compliance officer, Tsholofelo Molefe.

We are making significant investments in the development of the skills of the future, and addressing the digital gap by supporting ICT-related learnership programmes and programmes like WeThinkCode. The FutureMakers programmes continues to support and develop black entrepreneurs in the ICT sector and the Telkom Foundation is invested in socio-economic programmes.

The ICT sector is undergoing major changes which will impact the current market structure and competition dynamics.

Regulatory challenges

This is due to the introduction of the integrated ICT policy, which advocates an open-access dispensation in respect of future allocation and holding of spectrum, and the use of electronic communication facilities. In the short term, the industry awaits the resolution of the impasse between the regulator and the policy department on spectrum regulation. The industry further awaits the migration of broadcasters from the spectrum bands which have since been harmonised for international mobile telecommunications.

Telkom continues to evaluate the changing policy and regulatory landscape to ensure that it remains competitive; is able to mitigate any adversity; and take advantage of emerging opportunities.

Evolving stakeholder engagement

Sustainable business requires buy-in from various stakeholders, and Telkom engages with key stakeholders on an ongoing basis. Feedback is crucial to sustainable value creation and the concerns and needs of stakeholders influence our strategies.

Customers are becoming increasingly price sensitive. Considerations such as these reinforce our integrated thinking to consider stakeholder needs and concerns in all areas of our operations, and to respond to these through our innovative products and services. Our new operating model will look for internal and external stakeholder needs. It considers the government and its policies, shareholders and other providers of financial capital, and partners, among others. The model enables the execution of our strategy.

Government remains a key stakeholder, as both a regulator and provider of our licence to operate, and we are proud that our relationship remains strong. A point of pride is our access to productive dialogue to address policies and decisions that may hinder the inclusive economic growth we seek.

How our leadership supports value creation | Chairman's report – continued

Focused on the future

Digital is the future, and leveraging the expertise of our vibrant and committed employees will enable us to grow in a decisive manner.

Board focus areas for FY2017

The board is aware that the group needs to be positively positioned to meet any future challenges and commitments, be fit for purpose and responsive to customers' needs.

The board's focus was driving the Telkom strategy and ensuring that the appropriate business model and resources are in place to meet current and future business requirements. Refer to page 34 for matters discussed at board level.

34

The Telkom of the future requires the correct mix of skills and expertise, and we are constantly training and upskilling our employees to face operational challenges and meet our strategic objectives.

By actively competing in the communications sector, we are developing the backbone of information industries and a modern economy, and giving the people of South Africa a conduit for making their voices heard. The first-place rating by a recent Tariffic survey proves that products such as the popular data-driven FreeMe meet people's needs.

We know where we want to be in the future, and our strategy will focus on converged ICT solutions to help us develop data-led value propositions for the market and our 4 million active mobile subscribers and 1 million fixed broadband subscribers. The contribution by our mobile offering is becoming more significant after being a loss-maker in the past, and actively competes with larger, longer-established competitors. We will support its organic growth to ensure that it becomes a competitive corporate player while improving its scale to a more appropriate size.

As we review our capital structure for the future, we will continue to invest in the network. This will ensure that the competitive approach to business, developed through our evolution will be backed by the infrastructure needed to deliver value.

The BCX business was acquired in August 2015 and integrated into the group. Matters around governance, leadership, systems and controls are being addressed to better position the entity for strong business-to-business sales and to add value to Telkom going forward. Although the teething problems were largely resolved, the business will continuously seek to leverage opportunities to obtain positive results and further growth.

Corporate governance in Telkom remains forward looking and ethical, with a core focus on respect and compliance. The clear delineation between our board and management responsibilities supports our value-creation process and accountability. Succession planning remains clear, with an identified pipeline of effective and skilled employees to steer our path forward. In addition, we consider development and diversity to ensure balance, as reflected in our gender diversity policy.

Governance

During the year there were two changes to our board. On 19 October 2016, we welcomed Dr Hamadoun Touré, former secretary-general of the International Telecommunication Union (ITU). ITU is the specialised agency of the United Nations (UN) dedicated to ICT. Dr Touré, a satellite communications expert, will provide additional depth to our team, strengthening our expertise and skills as a board to take Telkom forward. Nunu Ntshingila (Njeke) resigned effective 3 November 2016. We thank her for her commitment and invaluable contribution during her tenure and wish her well in her future endeavours.On 10 May 2017, Thembisa Skweyiya (Dingaan) resigned as a non-executive director from Telkom. We extend our gratitude for her vital contribution during her time on the board and wish her well for the future.

Board focus areas for FY2018

Our focus in the 2018 financial year will be on ensuring that customers receive the best "Telkom experience" and to create value for our stakeholders.

We will focus on the following areas:

> improving customer experience

> capex investment and monitoring returns

> continuing to improve Telkom's performance in the Mobile business and up-scaling it

> continuously seeking new opportunities through technology, partnering and customer-centric service to remain competitive

> weathering and appropriately adapting to disruptive business models and products

> running the group effectively using the new operating model

> implementing the King Code of Corporate Governance for South Africa, 2016 (King IV)

Appreciation

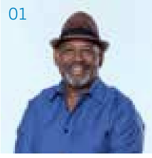
My sincere thanks goes to our management team and board, who provided consistent and effective guidance during these turbulent economic times. Our board effectively considered our path, enablers and challenges to provide direction to a management team who effectively executed our strategic objectives.

This success is attributed to our processes and vision, and our employees, who are the true enablers of our performance.
Thus, my appreciation extends to them for powering our success. To our shareholders and our loyal customers, thank you for trusting us to deliver effective communication solutions and to innovate for the betterment of our society, especially in a highly competitive sector. We look forward to moving into the future, together.

Jabu Mabuza
Chairman

How our leadership supports value creation | The board of directors and management team

Non-executive directors

01 
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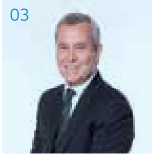
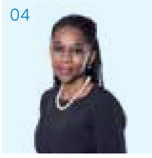
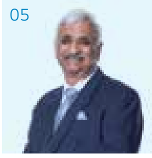
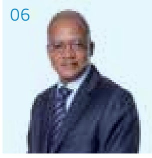
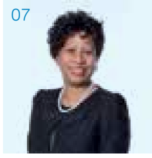
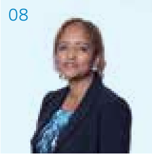
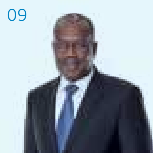
03 
04 
05 
06 
07 
08 
09 
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01 **Jabu Mabuza** (59)

Independent board chairman
Chairman nominations committee

Effective Leadership Programme
Executive Development Programme

02 **Santie Botha** (52)

Independent non-executive director
Chairman remuneration committee
Nominations committee member

BEcon (Hons)

03 **Graham Dempster** (61)

Independent non-executive director
Investment and transactions committee member
Risk committee member

BCom, CA(SA), CTA, AMP

04 **Thembisa Skweyiya (Dingaan)** (44)

Independent non-executive director
Audit committee member
Remuneration committee member

BProc, LLB, LLM, HDip Tax
Resigned on 10 May 2017

05 **Navin Kapila** (62)

Independent non-executive director
Investment and transactions committee member
Social and ethics committee member

BA (Eng) (Econ) (Law)

06 **Itumeleng Kgaboesele** (45)

Independent non-executive director
Chairman audit committee
Risk committee member

BCom, CA(SA), PGDip Accounting

07 **Khanyisile Kweyama** (53)

Independent non-executive director
Chairman social and ethics committee
Nominations committee member

Masters in Management

08 **Kholeka Mzondeki** (49)

Independent non-executive director
Audit committee member
Investment and transactions committee member
Remuneration committee member

BCom, FCCA (UK)
Dip (Investment Management)

09 **Dr Hamadoun Touré** (63)

Independent non-executive director
Investment and transactions committee member
Risk committee member

MSc (Electrical Engineering)
Satellite Engineering
PhD (Electrical Engineering)
Appointed on 19 October 2016

10 **Fagmeedah Petersen-Lurie** (41)

Independent non-executive director
Chairman investment and transactions committee
Risk committee member

BBusSc (Actuarial Science)
PGDip (Management Practice), FASSA, FIA, CFP

11 **Rex Tomlinson** (54)

Independent non-executive director
Audit committee member
Investment and transactions committee member

BCom (Econ), HDip (Personnel Management), SEP

12 **Louis von Zeuner** (56)

Independent non-executive director
Chairman risk committee
Audit committee member
Social and ethics committee member

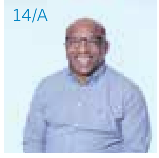
BCom (Econ)

13 **Nunu Ntshingila (Njeke)** (53)

Independent non-executive director
Nominations committee member
Social and ethics committee member

BA, MBA
Resigned on 3 November 2016

Executive directors

14/A 
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14/A **Sipho Maseko** (48)

Group chief executive officer
Investment and Transactions committee member

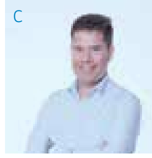
BA, LLB

15/B **Deon Fredericks** (56)

Group chief financial officer

CA(SA), BCompt (Hons), Honours in Business Management, ACMA(UK)

Exco

C 
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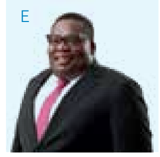
E 
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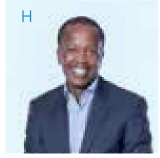
H 
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C. **Brian Armstrong** (56)

Chief commercial officer

BSc (Eng), MSc (Eng), PhD
Resigned effective 30 June 2017

D. **Len de Villiers** (60)

Chief information officer

DIS, Information Technology (Harvard) GITI, Information and Technology and Telecommunications (Insead Business School)

E. **Isaac Mophatlane** (44)

Chief executive officer BCX

BA
Resigned effective 31 July 2017

F. **Ian Russell** (45)

Chief administration officer

BSc (Econ), MBA, FCIPS
Appointed CEO of BCX 1 May 2017

G. **Alphonzo Samuels** (51)

Chief executive officer Openserve

BTech, Dip (Human Resource Management), NTech Dip (Telecommunications), Executive Development Programme (UCT)

H. **Thabo Seopa** (52)

Chief executive officer Trudon

BCom, HDip Tax, Dip (Financial Management)

I. **Attila Vitai** (61)

Chief executive officer Consumer

BA (Hons), MBA, FCA (England and Wales), OBE

J. **Johann Henning** (57)

Chief executive officer Enterprise Business

BEng (Electronics), MBA
Stepped down on 30 November 2016 following merger of Enterprise with BCX

New appointments

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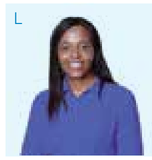
L 

K. **Melody Lekota** (46)

Chief human resources officer

Masters in HR, MBA
(De Montfort University)
Appointed to exco on 1 March 2017

L. **Tsholofelo Molefe** (48)

Chief risk and compliance officer

CA(SA), BCompt (Hons), CTA, BA (Hons) Accounting and Finance
Appointed to exco on 1 April 2017

Refer to www.telkom.co.za/about us for the curricula vitae of exco.

How our leadership supports value creation | The board of directors and management team – continued

Board of directors

01 **Jabu Mabuza**

Jabu Mabuza was appointed to the board in November 2012. He is widely recognised as a successful entrepreneur. He is also the executive chairman of Sphere Holdings, president of Business Unity South Africa (BUSA), chairman of the Casino Association of South Africa, co-convener of the CEO Initiative, recently appointed as chairman of the Africa portion of the merged Anheuser-Busch InBev and SABMiller, and chairman of Business Leadership South Africa in 2016.

Prior to this, he was the GCEO of Tsogo Sun and chairman of the board of South African Tourism.

He has received several awards, which include the Lifetime Achiever Award presented by the South African Minister of Tourism and the Business Leader of the Year award received at the South African of the Year awards.

02 **Susan (Santie) Botha**

Susan was appointed to the board in December 2012. She is currently the chairman of both Curro Holdings Ltd and Famous Brands Holdings.
She serves on the boards of Liberty Holdings, Tiger Brands Ltd and Accenture Advisory Board, and is the chancellor of Nelson Mandela Metropolitan University.

She was previously an executive director of MTN Group Ltd (2003 to 2010) and Absa Bank Ltd (1996 to 2003).

03 **Graham Dempster**

Graham was appointed to the Telkom board in December 2014. He is a chartered accountant by profession and has done advanced management programmes at Insead (1995) and Harvard Business School (2002).

He is a business adviser and sits on the board of Imperial Holdings Ltd, Imperial Logistics (Pty) Ltd and Sanlam Capital. He is a director of AECI Ltd.

04 **Thembisa Skweyiya (Dingaan)**

Thembisa was appointed to the Telkom board in December 2014. She is currently a non-executive director of Famous Brands, Imperial Holdings, Cardiac Mobile and Sumitomo Rubber South Africa (Pty) Ltd. In addition to being a non-executive director of Absa Bank Ltd, she is also a board member of Absa Financial Services and Absa Fund Managers, as well as being a trustee of Absa's pension fund. Thembisa's considerable legal experience includes being admitted to the New York State Bar.

05 **Navin Kapila**

Navin 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. He is a special advisor at ITU.

06 **Itumeleng Kgaboesele**

Itumeleng was appointed to the Telkom board in July 2011. He is the co-founder and chief executive officer of Sphere Holdings (Pty) Ltd, 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 of Investment Banking at Citi. He represents Sphere on the boards of a number of businesses in which Sphere has invested, and is an independent non-executive director of Old Mutual Emerging Markets Ltd.

07 **Khanyisile Kweyama**

Khanyisile was appointed to the board in December 2012. She is currently the chairman of Brand South Africa, commissioner on the National Planning Commission and the chairman of the SABC interim board. Prior to this, she was the CEO of BUSA and was the executive head of human resources at Anglo American Platinum Ltd.

She gained corporate experience in a number of international companies, including BMW, Altech and Barloworld Ltd, holding executive roles incorporating human resources, industrial relations, corporate affairs, stakeholder relations and transformation.

She sits on the boards of Key Mix Investments, Tenon Investment Holdings and Independent Actuaries and Consultants.

08 **Kholeka Mzondeki**

Kholeka was appointed to the board in November 2012. She is a UK-qualified 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.

She sits on the board and audit committees of Aveng and Balwin, and is an associate of API.

09 **Dr Hamadoun Touré**

Hamadoun Touré was appointed to the board in October 2016. He is currently a non-executive member of the board of Inmarsat. He was elected secretary general of the ITU and served two consecutive terms (2007 to 2014). In October 2015 he was selected by the board of Smart Africa as the founding executive director.

He founded and served as co-vice-chairman of the Broadband Commission for Digital Development, which was launched in May 2010 by ITU and UNESCO, with Paul Kagame, President of Rwanda, and Carlos Slim Helú, Honorary Lifetime Chairman of Grupo Carso, as co-chairs.

10 **Fagmeedah Petersen-Lurie**

Fagmeedah was appointed to the board in December 2012. She sits on the board of Export Credit Insurance Corporation of South Africa, on the audit committee of Bankmed,

Continuum Investment Management and is a lead Independent director of Gauteng Cricket Board.

She is a fellow of both the Actuarial Society of South Africa and Institute of Actuaries.

11 **Rex Tomlinson**

Rex Tomlinson was appointed to the Telkom board in December 2014. Mr Tomlinson is a member of the Old Mutual plc executive and sits on the boards of Old Mutual Emerging Market Limited, Mutual & Federal Limited, International Player Management (Pty) Ltd and DIGA Digital Intelligence.

He previously served on the board of Liberty Holding Limited as deputy group CEO and served as an executive director of Nampak and Illovo Sugar Ltd.

12 **Louis von Zeuner**

Louis was appointed to the board in December 2012.

A member of the Institute of Directors South Africa, he completed 32 years' service at Absa and served as deputy group chief executive from 2009 until 31 December 2012. He has extensive business experience, including experience in audit, risk and capital matters, particularly in the financial sector. He currently serves on the boards of African Bank Holdings, Paycorp Investments, Eqstra, Afgri, Cricket South Africa, MMI Holdings and serve as chairman of MyPayers.

13 **Nunu Ntshingila (Njeke)**

Nunu was appointed to the Telkom board in December 2014. She is currently the regional director for Facebook Africa. She is also a director and shareholder of Ntinta Investments.

Prior to joining Facebook she was chairman of Ogilvy and Mather Africa and its CEO from 2005 to 2012, having previously been communications director of Nike South Africa.

She also held directorships on the boards of several South African and international companies.

14 **Sipho Maseko**

Sipho was appointed as GCEO of Telkom in April 2013 and serves as an executive director. He attends all board committee meetings of which he is not a member by invitation.

Prior to joining Telkom, he served as group chief operating officer and Managing Director at Vodacom. He held various roles at BP starting in 1997, serving as the CEO of BP Southern Africa (Pty) Ltd from 2008 to 2012 and chief operating officer before this.

He 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.

15 **Deon Fredericks**

Deon was appointed as the GCFO in September 2014. He previously served as deputy to the CFO and as the group executive of corporate finance accounting services from November 2004 to October 2013. He joined Telkom in 1993 as a senior manager in internal audit and has held several executive positions in the finance department.

He currently serves on the board of BCX (Pty) Ltd, Gyro group and is an advisory board member of Business Against Crime (BAC) Mpumalanga. He previously served on the Vodacom (Pty) Ltd board where he chaired the audit committee.

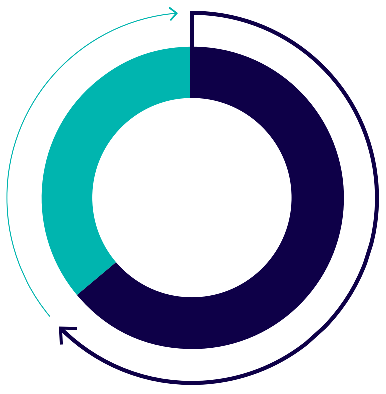
Deon is also a member of the Chartered Institute of Management Accountants (UK).

How our leadership supports value creation | The board of directors and management team – continued

Our board is properly constituted and balanced and possesses, individually and collectively, the competencies required to deal with issues and challenges faced by Telkom. Their skills complement each other and their diversity increases the range of views that are expressed in the spirit of constructive engagements.

The board is led by an independent chairman whose role is to provide leadership. The board discharges its responsibilities through well-established committees. These committees have formally delegated terms of reference, are chaired by independent non-executive directors, and are supported by the group company secretary. For information on our board committees' terms of reference, refer to the board committees section on our website www.telkom.co.za/ir

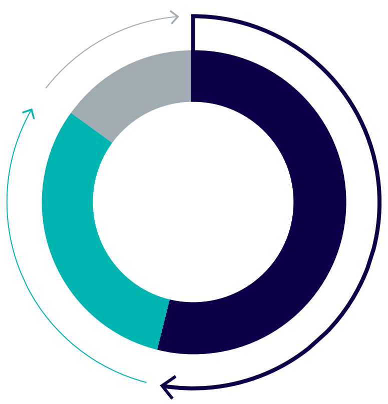
Gender diversity*



69% Men

31% Women

Board demographics*

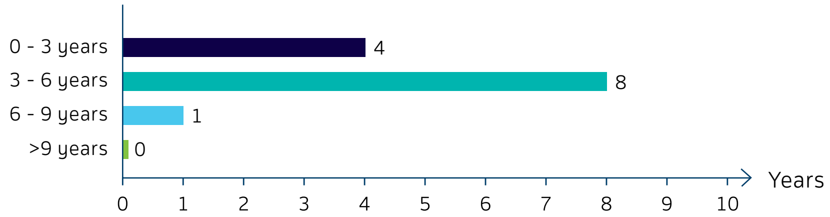


54% African

31% White

15% Non-South African
One Indian non-South African
One African non-South African

Board tenure*



** Based on the current board members.*

Board key activities

Approved

> the new operating model for the group
> financial assistance for two subsidiaries in line with the approved resolution of the shareholders
> the introduction and subsequent declaration of an interim dividend of 131.23874 cents per share, and final dividend of 290.75253 cents per share
> the gender diversity policy for the board
> the integration of BCX with our Enterprise business
> the FY2017 and three-year business plan to align with the operating environment
> the board charter
> the various recommendations of the sub-committees

Reviewed and considered

Reports from the GCEO, GCFO, chief administration officer, and various business units on strategic progress, financial position, union engagements and employee remuneration.

Board sub-committees' key activities

The committees met their objectives in terms of their terms of references as approved by the board. To view the terms of reference of the committees, which outline the duties of each committee, refer to www.telkom.co.za/ir

Audit committee

Recommended:
> a dividend policy which introduced an interim dividend
> the annual and interim financial statements of Telkom and its subsidiaries for board approval
> the appointment of Nkonki Inc as joint auditors with EY

Approved:
> the going-concern statement and recommended it to the board
> the internal audit charter and annual plan

Reviewed and considered:
> the effectiveness of the group's internal controls over financial reporting
> the effectiveness and independence of the group's internal and external auditors
> the solvency and liquidity tests in respect of the financial assistance granted to Telkom subsidiaries during the year
> suitability of a CFO and finance function

Chairman: I Kgaboesele
Members: T Skweyiya (Dingaan)
KW Mzondeki
LL von Zeuner
RG Tomlinson

Remuneration committee

Recommended:
> considered and recommended to the board the short-term (STI) and long-term (LTI) incentive plan as well as payouts for FY2017
> reviewed the guaranteed package for employees and made a recommendation to the board

Approved:
> the talent management roadmap and retention plan for top management

Reviewed and considered:
> the non-executive directors' remuneration for Telkom
> the succession framework and recruitment plans of senior executive posts
> reports on the new innovative recruitment programme, Bright Young Minds (BYM)
> the committee's terms of reference

Chairman: SL Botha
Members: JA Mabuza
KW Mzondeki
T Skweyiya (Dingaan)

Nominations committee

Recommended:
> a board diversity policy
> the appointment of Dr Hamadoun Touré
> directors for retirement by rotation at the 2017 annual general meeting (AGM)
> external service provide for the board assessments

Reviewed and considered:
> the composition of the board committees with the aim of making recommendations on strengthening them
> the committee's terms of reference

Chairman: JA Mabuza
Members: SL Botha
K Kweyama
N Ntshingila (Njeke)

Investment and transactions committee

Recommended:
> the integration of BCX with the Enterprise business

Approved:
> the extension of several contracts which required committee approval in terms of the delegation of authority
> the transfer of Telkom group Information technology (IT) business unit into BCX

Reviewed and considered:
> various investment proposals
> the committee's terms of reference

Chairman: F Petersen-Lurie
Members: N Kapila
Dr H Touré
GW Dempster
RG Tomlinson
SN Maseko
KW Mzondeki

Social and ethics committee

Reviewed and considered:
> reports around ethics management, specifically the in-house ethics survey
> reports related to talent management and skills development, specifically regarding the broad-based black economic empowerment (B-BBEE) implementation plan to address employment equity
> reports related to the Telkom Foundation, which included the finalisation of the strategy focused on ICT education within the high school supplementary tuition programme
> reports relating to the matters reported to the whistle-blowing hotline, which deals with the BCOE transgressions, fraud and conflicts of interests

Chairman: K Kweyama
Members: N Kapila
LL von Zeuner
N Ntshingila (Njeke)

Risk committee

Recommended:
> the risk appetite and risk-bearing capacity of the company and the board

Approved:
> the information security plan
> the risk management framework and risk management plan

Reviewed and considered:
> updates on cybersecurity status and ways to enhance security
> the group chief information officer's reports with respect to IT governance
> the committee's terms of reference
> risk elements of investments submitted
> internal audit report

Chairman: LL von Zeuner
Members: GW Dempster
Dr H Touré
F Petersen-Lurie

How our leadership supports value creation | The board of directors and management team – continued

Meeting attendance

Board sub-committee meetings are held before the quarterly board meetings to enable the committees to report immediately to the board on their deliberations and make recommendations for approval as required. Though committees discharge their duties as delegated, the board acknowledges that deliberations by the committees do not reduce the individual and collective responsibilities of board members regarding their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their statutory obligations.

			Committee meeting attendance					
	Date appointed	Board meeting attendance[1]	Audit[2]	Remuneration[3]	Nominations[4]	Investment and transactions[5]	Social and ethics	Risk
Independent non-executive directors								
JA Mabuza	November 2012	7/7		5/5	5/5			
I Kgaboesele[6]	July 2011	4/7	7/7			2/3		4/4
SL Botha	December 2012	5/7		5/5	5/5			
LL von Zeuner	December 2012	7/7	7/7				3/4	4/4
K Kweyama	December 2012	5/7			5/5		4/4	
GW Dempster	December 2014	7/7				8/8		4/4
T Skweyiya[7] (Dingaan)	December 2014	6/7	5/7	5/5				
N Kapila	February 2011	7/7				8/8	4/4	
KW Mzondeki[8]	November 2012	6/7	6/7	5/5		5/5		
N Ntshingila[9] (Njeke)	December 2014	3/4			3/4		3/4	
F Petersen-Lurie	December 2012	7/7				8/8		4/4
RG Tomlinson	December 2014	7/7	7/7			7/8		
Dr H Touré[10]	October 2016	4/4				4/4		2/2
Executive directors								
SN Maseko	April 2013	7/7	5/7	5/5	4/5	7/8	2/4	4/4
DJ Fredericks	September 2014	7/7	6/7	5/5		7/8	2/4	4/4

[1] *The board had five scheduled meetings and two special meetings.*
[2] *The audit committee held six scheduled meetings and one special meeting.*
[3] *The remuneration committee held four scheduled meetings and one special meeting.*
[4] *The nominations committee held three scheduled meetings and two special meetings.*
[5] *The investment and transactions committee held four scheduled meetings and four special meetings.*
[6] *Ceased being a member of the investment and transactions committee in September 2016.*
[7] *Resigned 10 May 2017.*
[8] *Appointed to the investment and transactions committee in September 2016.*
[9] *Resigned 3 November 2016.*
[10] *Appointed 19 October 2016.*

Rotation of directors

In terms of the company's memorandum of incorporation, one third of the directors is required to retire from office at every AGM. The directors to retire are the longest-serving directors since the date of last election. Directors retiring this year appear on page 162 of the notice of the AGM.

Process for selection and appointment of new directors

Through the nominations committee (nomco), a formal process is followed for the selection and appointment of new directors to the board. The nomco is informed and guided by the company's strategy. It evaluates the balance of skills, knowledge and experience of the board and takes cognisance of the gender diversity policy. It determines the requirements for the board and specifies the key attributes that an incoming director should have. After the short-listing process is complete, the nomco recommends the most suitable candidate/s for appointment.

Board evaluation

There is a rigorous process in place to assess the effectiveness of the board and its committees. The board is subject to an external appraisal every two years. The reports from the appraisal outlining the outcomes are presented to the board for discussion.

These outcomes inform the development and training requirements, if any, for the directors. The last external board appraisal was performed in June 2016. The results indicated that the directors worked well together and that members were engaged and comfortable to contribute and participate in board deliberations. Potential challenges were highlighted and these are constantly monitored and addressed through the group company secretary's office.

Group company secretary

The group company secretary is responsible for providing directors with guidance on their duties, responsibilities, powers and regulations relevant to the company. She provides advice on business ethics and good governance and ensures compliance with the company's memorandum of incorporation, the JSE Listings Requirements, the Companies Act, King III and all relevant rules and regulations.

Our group company secretary, Ephy Motlhamme, has 15 years' experience in her role, and possesses the necessary qualifications and competence to fulfil her duties. The board is confident that she has an arm's-length relationship with the executive team, the board and the individual directors. Having assessed her abilities, based on her qualifications, experience and the level of competence she demonstrates as Telkom's group company secretary, as required in terms of section 3.84(l) of the JSE Listings Requirements, the board agreed that she is sufficiently qualified, competent and experienced to act as Telkom's group company secretary.

Refer to page 101 for our corporate governance report.

Input

Financial capital

- > Equity invested (by shareholders)
- > Retained earnings
- > Debt funding
- > Cash generated from operations

Productive capital

- > Network footprint including mobile, wireless, fixed lines (fibre and copper), national backhaul (connectivity of base stations), etc
- > Base stations, mast and towers, fixed-line exchange, etc
- > Spectrum[1]
- > Data centres
- > Office and retail buildings

Human capital

- > 18 847 employees (FY2016: 20 341)
- > Employee remuneration policies and structures that aim to attract and retain the required skills
- > Experienced and skilled leadership
- > Training programmes
- > Talent management and succession planning programmes
- > Employee wellness programmes
- > Company culture

Intellectual capital

- > Recognisable brands such as Telkom, BCX, Openserve and Trudon
- > Rights and licences such as:
  - Licences to provide electronic communication networks and communication services
  - Licences to use spectrum
- > Research and development
- > Internal policies, procedures and frameworks such as Telkom's governance framework, enterprise risk management (ERM) framework, environmental management systems (ISO 14001 certification), with the aim of maintaining compliance and internal control

Social and relationship capital

- > The Telkom Foundation
- > FutureMakers programme
- > Stakeholder engagement activities
- > Reputation management
- > Telkom's BCOE and values that are the foundation of our business
- > Partnerships with IT application providers

Natural capital

- > Telkom owns in excess of 20 million square metres of land
- > Electricity usage (South Africa has a majority coal base supply)
- > Water
- > Copper
- > Timber

Business activities

Telkom's operational activities high-level consist of three areas:

1 Planning, building and maintaining Telkom infrastructure

Network planning is a key component and is the basis from which infrastructure is developed, expanded, improved and maintained. Various permits, assessments, commercial negotiations, compliance with regulations, among others, are required within this process.

2 Connecting consumer customers

This follows a straightforward value chain.

- Customer request received online, via contact centre or at retail facility
- Infrastructure confirmed (if applicable) | Technician dispatched (if applicable)
- Service activated/ product provided | Client billing process

Telkom provides mobile solutions and fibre through third parties who are paid commission for reselling Telkom's products and services .

3 Providing solutions/ infrastructure to corporates

The value chain followed for the provision of these types of solutions will depend on the nature of the request, but typically follows the process below:

- Customer request received directly or via tender request
- Either a standard solution or a new, customer-specific solution is developed
- Tender awarded/ solution approved | Solution implemented and activitated
- Customer billing process
- Any maintenance/continuous support provided

Telkom's enabling and support functions play an important role in building a sustainable business.

Regulatory
Human resources
Finance
Procurement
Marketing and sales
Reputation management
Strategy
Corporate social responsibility
IT

[1] Spectrum is the invisible frequency that travels through air. It is highly regulated internationally and licences are required for the different bands of spectrum.

Outputs

Telkom's products and services can broadly be divided into four categories

1 Connectivity

Connectivity to broadband (data) and narrow band (voice) is provided to wholesalers, large companies and residential users through fixed-line (copper and fibre), mobile and wireless transmission

2 Infrastructure and network elements

This allows for Telkom wholesale customers to connect their customers in turn

3 Converged ICT solutions

Provision of IT products and solutions to corporate customers

4 Electronic advertising and media

This includes the *Yellow Pages*, *White Pages* and advertisements

These products and services are provided by Telkom's four business units:

	Telkom Consumer	BCX	openserve	trudon
Connectivity	●	●	●	
Infrastructure and network elements			●	
Converged ICT solutions	●	●		
Electronic advertising and media				●

The outcomes of our business model represent the value we created for our stakeholders. Each icon under outcomes represents our stakeholder group as defined on page 43.

[2] *Our performance excludes the R2 193 million and a related tax benefit of R517 million relating to voluntary early retirement packages (VERPs) and voluntary severance packages (VSPs) in FY2016 and R66 million and a related tax benefit of R13 million FY2017.*

Outcomes*

- > Operating profit of R5 280 million (FY2016: R5 471 million) of which R3 907 million (FY2016: R3 997 million) is reinvested in future growth (retained earnings)[2]
- > Cash generated from operations of R5 542 million (FY2016: R6 701 million)[2]
- > Annual dividend of 422.0 cents per share (FY2016: 270 cents per share)
- > Total shareholder return of 38 percent
- > Repayment of debt (R1 539 million) and interest paid (R469 million)

- > Increase in active mobile subscriber base by 47.7 percent to 4 million
- > Increase of 44.6 percent in mobile broadband subscribers to 2.6 million
- > Openserve has an open-access model which provides Telkom with a competitive advantage
- > Passed more than 2.2 million premises with fibre
- > 219 825 homes passed with fibre
- > 5 928 fibre links to base stations
- > 52 755 fibre end-points to business
- > More than 149 000 kilometres of fibre

- > 96 percent of key roles with emergency succession coverage
- > R10 562 million (FY2016: R12 165 million) paid to employees in remuneration and benefits[2]
- > Employee turnover rate of 18 percent (FY2016: 23 percent)
- > BYM recruitment and female leadership and development programme (FLDP)
- > Investment in employee training and development

- > Telkom's improved ICT solutions gives Telkom the ability to provide converged solutions to customers and improve customer knowledge to facilitate upselling of products and services
- > Received the Most-Innovative Operator Award in the mobile market from MyBroadband
- > New products and service offerings such as FreeMe, launched in July 2016, and FreeMe Family, launched in February 2017
- > Compliance with licence requirements and other laws and regulations

- > Net promoter score (NPS) increased by 26.3 percent
- > Telkom reputation: RepTrak score of 66.3 (FY2016: 45.7)
- > Education initiatives through the Telkom Foundation
  - R32 million invested (FY2016: R29 million)
  - 660 teachers trained (FY2016: 430)
  - 3–5 percent improvement in average science and maths pass rate
- > Small business development through the FutureMakers programme
  - R106 million invested (FY2016: R128 million)
  - 40 black-owned businesses through our independent field technician (IFT) programme, which in turn created 364 technician jobs
  - 1 102 new jobs created
- > More than R130 million procurement opportunities was accessed by black-owned small businesses

- > Total carbon footprint of 675 850.92 tCO_2e
- > Progress against environmental management programmes to reduce water and electricity usage, including increasing the use of renewable energy.

What is material in our value-creation process? | Operating environment

We define our material matters as the factors that will substantially affect our ability to create value for our stakeholders over time.

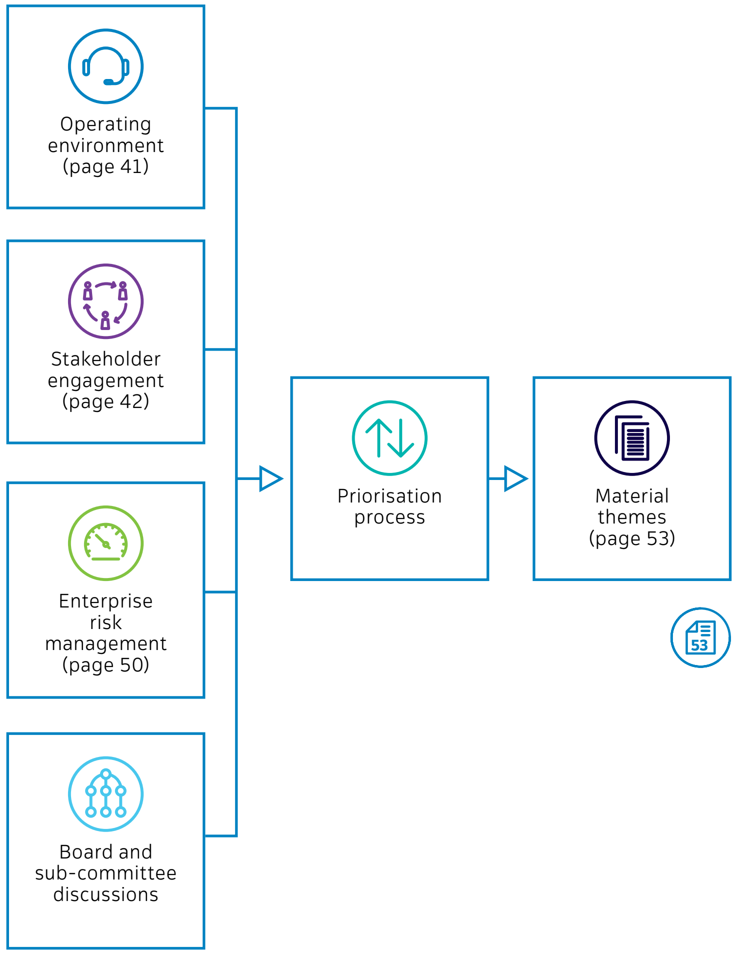
41

The process of determining our material themes included assimilating a set of material risks and opportunities through the review of our operating environment, enterprise risk management (ERM), stakeholder engagement and board and sub-committee discussions.

42

50

Materiality determination process



The ICT industry is one of the biggest contributing factors to growth in South Africa. Private business spent 3.8 percent of revenue on IT software solutions during 2016, which bodes well for growth in the sector.*

ICT sector

The South African ICT market is set to grow at a compound rate of 8 percent between now and 2020 to over R100 billion, with the biggest growth expected in the data segment.* With 5G and artificial intelligence on the horizon, there is no limit to where the digital revolution will go and the opportunities it will yield.

Companies are driving big data analytics, mobility and machine-to-machine technologies, to assist in optimising processes and to find new and innovative ways to transform the way they do business. There is significant opportunity in the market for cloud and software-as-a-service application assistance.

Because most businesses and their employees use mobile devices or tablets to enable these new digital technologies, many vertical integration opportunities exist between business and telecommunications operators. The convergence between telecommunications, technology, media and consumer electronics adds to the competitive telecommunications market by bringing lateral competition and propelling players to differentiate by way of network quality, coverage, data and advanced mobile services.

Staying ahead of technology demand requires increased capital investment in a market that is price-sensitive and characterised by low customer loyalty, where customers are prone to switching between mobile operators.

Skills requirement

It is estimated that the ICT sector is in need of between 30 000 and 70 000 qualified professionals. Our tertiary education sector is unable to produce this as fast as is necessary, because few students have the required maths, engineering and science skills required for tertiary-level education. In the 2016 Johannesburg Centre for Software Engineering Survey, a statement was published that the ICT skills gap reality hinders South Africa's ability to perform across all sectors. An appeal was made for stakeholders to unite in coordinated skills development efforts. Should the skills gap continue, growth in the ICT sector is unlikely. ICT is one of the sectors in South Africa that can improve GDP growth.

Economic and political environment

Following the South African sovereign rating downgrade by key rating agencies, the country's economy moved into recession in the first quarter of 2017 with GDP contracting by 0.7 percent. This follows a 0.3 percent decline in the fourth quarter of 2016. These do not bode well for the stimulation of consumer and business spend on ICT products for the year to come.

The political upheavals reflected negatively in the strength of the South African Rand against key foreign currencies. The exchange rate impacts on Telkom as we have dollar-denominated software licensing and capital imports costs.

The added pressure of a sovereign downgrade may not impact rating immediate capital requirements, but could affect future lending and payback ability should interest rates increase.

Regulatory environment

The regulatory environment in South Africa is changing. In October 2016, the government published a new integrated ICT policy. This policy is underpinned by an open-access philosophy. It envisages a change in the structure of the market; promotion of services-based competition; discouraging the duplication of infrastructure in the short term; and the implementation of service-based competition in the long term. The policy proposes the establishment of a new economic regulator, a content regulator and digital development fund, to take over the mandate of the Independent Communications Authority of South Africa (ICASA) and the Universal Service and Access Agency of South Africa.

Where spectrum is concerned, it is anticipated that all unassigned spectrum will be allocated to a wholesale open-access network (WOAN) operator. Subject to a future market analysis and enquiry, in the long term, the spectrum may be transferred to the WOAN. Most wide-ranging changes envisaged in the policy require legislative amendments and a change to existing regulations. The sector is engaging with the government on the meaning, content and extent of the changes contemplated in the policy.

* Source: South Africa IT and telecommunication reports – BMI Research 2016.

What is material in our value-creation process?

Stakeholder engagement

Our stakeholder management programme is achieved by identifying stakeholders, engaging with them, understanding their various challenges and expectations, and aligning these to Telkom's strategic and operational objectives and targets.

Stakeholder engagement is a critical step in the realisation of business strategies because it helps to identify existing and potential stakeholder capacity (interest, influence, support and resources). We recognise the importance of strong and constructive relationships with our stakeholders, built on the principles of trust, respect, transparency and constructive engagement. We aim to balance the needs of stakeholders with our responsibility to provide reliable ICT networks, products and services.

We regularly engage with the following stakeholders

Methods of engagement

> SENS announcements
> Meetings
> Results announcements
> Integrated report
> Conference calls
> Press releases
> Roadshows
> Call centre
> Telkom website
> Surveys
> Social media
> Workshops
> Submissions to regulators
> Intranet
> Newsletter
> Broadcasts
> Forums
> Round table
> Emails
> Marketing and advertising
> Omni online channel
> Monthly digital magazine

What is material in our value-creation process? | Stakeholder engagement – continued

Our stakeholder concerns and our responses

Stakeholder group and why they are important to us	Their interest in Telkom	Our response
Investor community Investors, including equity and debt investors, strategic shareholders, and sell-side analysts *The investment community creates access to equity and debt markets, and ultimately drives demand for the shares, increasing our market capitalisation*	Telkom's ability to meet its guidance to the market and sustain positive momentum	Financial guidance is regularly reviewed by the company and is discussed with the audit committee to ensure it is a fair representation of the company's internal expectations. We inform the market timeously of any expected changes regarding the company's performance in line with the JSE Listings Requirements. For our revised guidance refer to page 70
	Whether the integration of BCX is realising synergies as planned and what the outlook is for BCX (post-integration with Telkom Enterprise)	The integration is complete and synergies were realised in line with expectations. There is one go-to-market strategy. BCX continues to gain market share as it leverages its competitive advantage of being the only truly converged platform in the enterprise market. The outlook for BCX is discussed under the strategic focus areas on page 62
	Telkom's ability to grow the business and the drivers of growth	The group strategy is geared for growth. All our business units are expected to grow and win against their peers – refer to page 62 for their strategic focus areas. Underpinning the growth strategy is the investment in capital expenditure in our growth areas such as fibre and mobile
	The outlook for the core fixed-line business given the decline in the business	The decrease in fixed-voice is expected to continue in line with our expectations. Our focus is to grow data connectivity of high-speed broadband across fixed and mobile, as well as IT to offset the ongoing decline in fixed-voice. We continue to modernise our network through deploying fibre deep into our network to grow data revenue. We have accelerated our capex to grow the Mobile business. We are also focusing on growing our IT revenue streams, and leverage on BCX's ability to offer end-to-end solutions
	A clear and a sustainable dividend policy	During the year, the board amended our dividend policy to an annual dividend of 60 percent of headline earnings with an interim dividend of 40 percent of interim headline earnings

70
62
62

Stakeholder group and why they are important to us	Their interest in Telkom	Our response
Government and regulators including Parliament, the Department of Telecommunications and Postal Services, the Department of Communications and the ICASA *They set policies, legislation and regulation that impact on the cost of doing business and the ability to derive a reasonable return on investment. They have the authority to penalise the group through fines for non-compliance*	Ensure efficient use and management of scarce resources such as spectrum and fixed-infrastructure	We established Openserve, a functionally separated wholesale division
	Promote competition in the mobile industry	We introduced innovative Mobile business products such as FreeMe
	Promote investment in fixed-broadband infrastructure	We embarking on customer-first initiative to ensure improved customer service
	Promote compliance with regulations such as customer-focused end-user subscriber charter regulations	We continuously engaged Parliament and the executive arm of government on changes in policy, legislation and regulation
	Contribution towards socio-economic development	We promoted enterprise development of SMEs through FutureMakers programme
	B-BBEE compliance	Telkom has adopted an integrated approach to B-BBEE. A plan with focused programmes guides the company's journey in compliance with the Amended ICT Sector Codes
Employees *Employees present the intellectual capital required for all core and supporting business processes. They are our strategic partner in ensuring that the group is sustainable through performance, culture and skills*	Lack of job security following several phases of retrenchments and outsourcing in 2016	The Collaborative Partnership Agreement, which expires on 31 March 2018, has two important provisions that make a serious attempt at assessing the issue of job security within Telkom. In this collective agreement, Telkom and organised labour have agreed a moratorium on section 189 - forced retrenchment processes for the duration of the current substantive collective agreement. Telkom and organised labour have also agreed to limit outsourcing transactions to impact only a maximum of 1 000 Telkom employees for the duration of the current substantive collective agreement. The outsource limitation does not apply where outsourcing is within the Telkom group, but applies to external third parties. This is a ground breaking agreement in the country and received recognition from government and major media houses. With the signing of certain revised collective agreements such as organised labour engagement framework agreement and the full-time shop steward collective agreement, these revised collective agreements support and inculcate the new Telkom operating model and clearly set out engagement structures between the company and organised labour

What is material in our value-creation process? | Stakeholder engagement – continued

Our stakeholder concerns and our responses

Stakeholder group and why they are important to us	Their interest in Telkom	Our response
Employees – continued	Fair remuneration and rewards system	Telkom's remuneration structure is designed to ensure that individual contribution is aligned to both short-term business plans deliverables and long-term strategic, operating and financial performance sustainability. The company aspires to reward total remuneration (guaranteed package, STI and LTI) on market median. The fundamental principle of the remuneration model is to ensure that the company moves towards paying equitable remuneration in relation to external market trends based on a job-specific approach for management employees. Telkom has introduced a new variable-based incentive scheme for bargaining unit employees, known as Performance Pays. Performance Pays focuses on customer satisfaction and productivity metrics, and replaces the STI scheme, which is primarily driven by group financial performance. This empowers and enables bargaining unit employees to be more in control of their own destiny and rewards, and gives more direct and clear linkage between individuals' efforts and their rewards
	Career progression, including skills development opportunities	Targeted investments across the business aim to identify, develop and retain the right talent for the organisation. The implementation of the talent management framework commenced during the second half of FY2017. This has resulted in gaining clear sight of the talent across the organisation at executive levels, while also safeguarding leadership and key roles by having succession plans in place for executive roles. The talent information is a key input to talent mobility decisions across the business. Specific high-potential development programmes have been established to target key talent. The Step Up programme, which focuses on the development of the identified key talent (as identified through the talent mapping process) aims to enhance the capability, knowledge and skills of Telkom's future leaders. The FLDP is a two-year blended learning programme aimed at middle and junior management levels, and focuses on identifying women from across the organisation who display leadership potential. A total of 50 women formed part of the first FLDP group, which has recently concluded with 42 percent of the group being promoted during this period. The second intake commenced in May 2017 with 37 women from across the organisation
	Telkom's commitment to employment equity (EE) transformation	Telkom recognises the moral, social and economic imperative to embrace and support transformation including EE in South Africa. An EE policy is in place and a strategy to support workforce transformation across all occupational levels, is being implemented.

Stakeholder group and why they are important to us	Their interest in Telkom	Our response
Employees – continued	Telkom's commitment to employment equity (EE) transformation – continued	Focused recruitment, especially at senior levels with a specific preference to the most under-represented groups (including black women and people with disabilities) will assist in maintaining and improving Telkom's workforce profile. Succession management and other talent development strategies are being aligned to EE plans and, in particular, the FLDP, whose main objective is to address the under-representation of women at senior management levels. There is continued focus and investment in young talent development through the implementation of learnerships and internships for both employed and unemployed black people. The creation of a future talent pipeline to address the IT/digital skills gap includes a significant investment that Telkom is making to support coding/programming skills development by partnering with institutions such as "WeThinkCode" that provide skills for the youth in this field. Programmes such as the BYM and now the Future Minds are young talent pipelines whereby a group of millennials is offered a one-year internship programme in Telkom. These graduates, with their unique backgrounds, offer the business a fresh approach to problem solving, strategic projects and new business development prospects. In turn, they have the opportunity to grow their careers as they work on a variety of strategic projects across the business and are mentored by top leadership
Customers *Customers underpin our existence and drive our reputation and brand. They provide the market for our products and services from which we generate revenue. Customers guide our product or service development in terms of new trends*	Poor customer experience	A Workplace Excellence Programme has been introduced to optimise this end-to-end core business process and flow to ensure focus and delivery. This is supported by investment in staff (training/recognition via Performance Pays) to equip them better as well as associated technology enhancements to facilitate better control and visibility. A few examples are knowledge management system, speech analytics application to identify problem and performance issues, Click to Call, and Q-Buster for customers visiting stores to speak to experienced call centre agents
	Order installation and fault resolution times	Telkom is in the process of migrating to a different, more advanced system which will enhance order processing capabilities to improve customer experience through better order orchestration and visibility in the end-to-end order flow. In parallel we started with an IT transformation project to drive the simplification and automation of core operations
	Pricing	Product costing and pricing methodologies are reviewed in line with technological changes
	B-BBEE level and transformation	The implementation plan for programmes is developed to ensure compliance with the amended ICT Sector Codes and to ensure meaningful transformation

What is material in our value-creation process?

Stakeholder engagement – continued

Our stakeholder concerns and our responses

Stakeholder group and why they are important to us	Their interest in Telkom	Our response
Organised labour *Organised labour supports sound labour practices and assists in communication of labour-related matters. They are a strategic partner in creating shared value between the group and our employees. The nature of the relationship can influence the group's strategic plans through industrial action*	Telkom's commitment to transformation, diversity, EE and skills development	Telkom revised the EE and disability policies to include organised labour concerns. We also implemented transformation and skills development programmes which include learnerships and preferential recruitment
	Conflicting relationships	An engagement framework has been developed to improve the relationship between Telkom and organised labour
	Uncertainty related to restructuring	We held interactive GCEO strategic briefing sessions with union leadership on company performance, initiatives, changes and strategic direction
	Collaborative partnership agreement – wage gap	Industry and market-related benchmarks are conducted in determining appropriate market positioning offerings which are higher than the minimum prescribed wages. In addition, Telkom recognises "equal pay for work of equal economic value", and strives to remunerate employees doing the same work or substantially the same work, within the same range in accordance with the Labour Relations Act. However, Telkom recognises that there could be differences which are attributed to the following: > Individuals' respective seniority or length of service > Individuals' respective qualifications, ability, competence or potential above required levels of performance for the job > Individuals' performance – all employees are equally subject to Telkom's performance management system > An individual is demoted due to Telkom's restructuring without a reduction in remuneration > Individual's lack of relevant skill for a particular job level > Any other differentiator as long as it is not unfairly discriminatory To this end, all bargaining unit employees were placed on the market 50th percentile of their respective functional areas
	Reduction of full time shop stewards	The spirit of the new full-time shop stewards' collective agreement aligns to the new Telkom's new operating model and embeds the operation of the newly established Strategic Business Unit Forum structures. These forums are aimed at driving business unit-specific discussions
	Performance and development management (PDM) policy	Performance management focuses on defining key performance indicators (KPIs) for all employees to implement a high-performance management culture that is outcome-oriented, consistent, simple and practical. More rigorous consequence management is a desired outcome of the KPI and target-setting process with specific focus on > Targets linked to business outcome and financially incentivised > Consistent cascading down to the lowest levels > Accelerated performance feedback to a three-month review cycle > Clearly defined consequence management process (coaching, evaluation, etc.)

Stakeholder group and why they are important to us	Their interest in Telkom	Our response
Suppliers *Suppliers underpin our value chain and have a direct influence on our raw materials and other input costs. Delivery by suppliers impacts our ability to deliver on the customer expectations*	Feedback on tender or application process	The supplier relations framework is being finalised
	Procurement pay process	Procurement to pay process is finalised and linked to contract terms
Communities *Communities are a source of our future employees, and are our customers that contribute to our revenue. They can be impacted by our operations*	Corporate social investment funding and assistance for educational and social development programmes	The Telkom Foundation works closely with communities to address the socio-economic challenges through a number of programmes which are aimed at educational and social development. The Telkom Foundation invested R32 million in education initiatives providing supplementary teaching to over 3 900 learners in five provinces and resulted in an average of 3 to 5 percent improvement in maths and science. BCX implemented an IT laboratory in partnership with the League of Friends of the Blind in the Western Cape to allow blind grade 12 learners to write their matric exams with the aid of technology
	Creation of employment and business opportunities in communities	Telkom has established Telkom FutureMakers Programme which is an Enterprise and Supplier Development programme, aimed at supporting black owned ICT businesses with financial and non-financial support. R234 million has been invested in the FutureMakers programme since inception in May 2015, supporting more than 1 000 ICT small businesses, R63 million was disbursed in business loans and more than R130 million procurement opportunities was accessed by black-owned small businesses. Collectively all our black-owned small business beneficiaries have created 1 102 jobs
	Network infrastructure connectivity in communities	Telkom has established the FutureMakers programme with significant budget allocation for enterprise and supplier development. The programme provides support and contributes to the development of black-owned companies in the ICT sector, and ultimately contributes to job creation. The FutureMakers programme has provided fully subsidised high-speed connectivity for 27 internet cafés and hubs (Bandwidth Barn in Cape Town, Propella in Port Elizabeth, and Tshimologong in Johannesburg)
Media *The media has an influence on public perception and brand reputation*	Access to significant information	Media releases and product-related publicity
	Transparent engagement	Ongoing interviews with GCEO and key executives
	Telkom's performance and direction	Communicate the new growth strategy, which includes Journey of Independence, and company results, among others, to inform key stakeholders, including shareholders

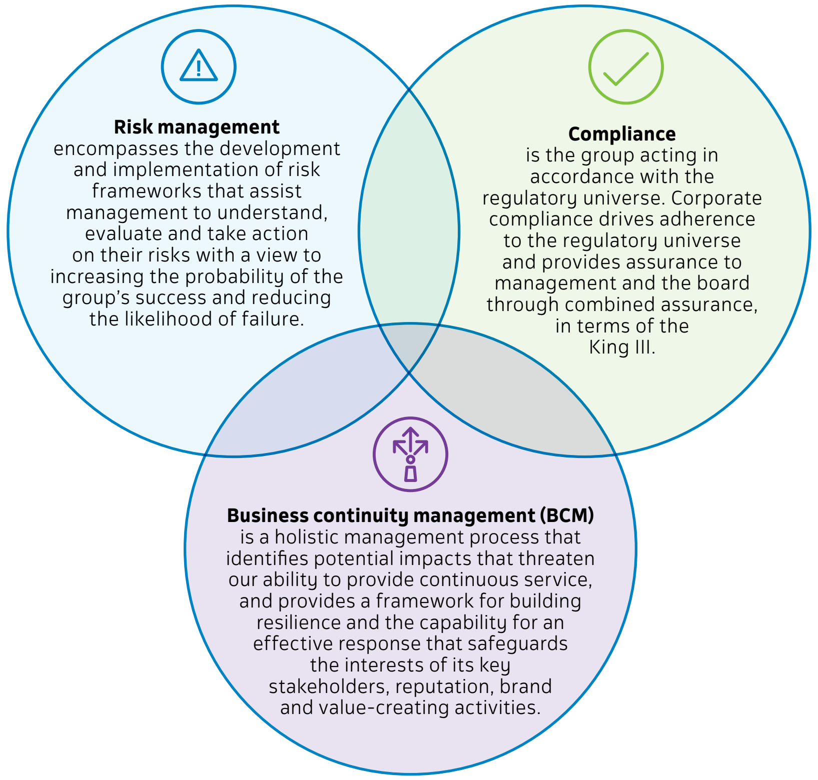
What is material in our value-creation process? | Enterprise risk management (ERM)

The objective of Telkom's ERM programme is to effect an ERM process to reduce the total cost of risk, add maximum sustainable value to all activities of the group, and assist in achieving key strategic objectives.

Our ERM model is continuously maturing, and is reviewed to ensure that it aligns to our group strategy. Our ERM team conducted intensive risk assessments to ensure that the group identifies the risks it faces, in line with our current strategy. The realisation of our strategy depends on us being able to take calculated risks in a manner that does not jeopardise the direct interests of stakeholders.

Sound management of risk will enable us to anticipate and respond to changes in our environment, as well as to enable us to make informed decisions under conditions of uncertainty.

Telkom adopted a risk management process that provides a converged view of the risks in relation to risk management, corporate compliance and business continuity management.



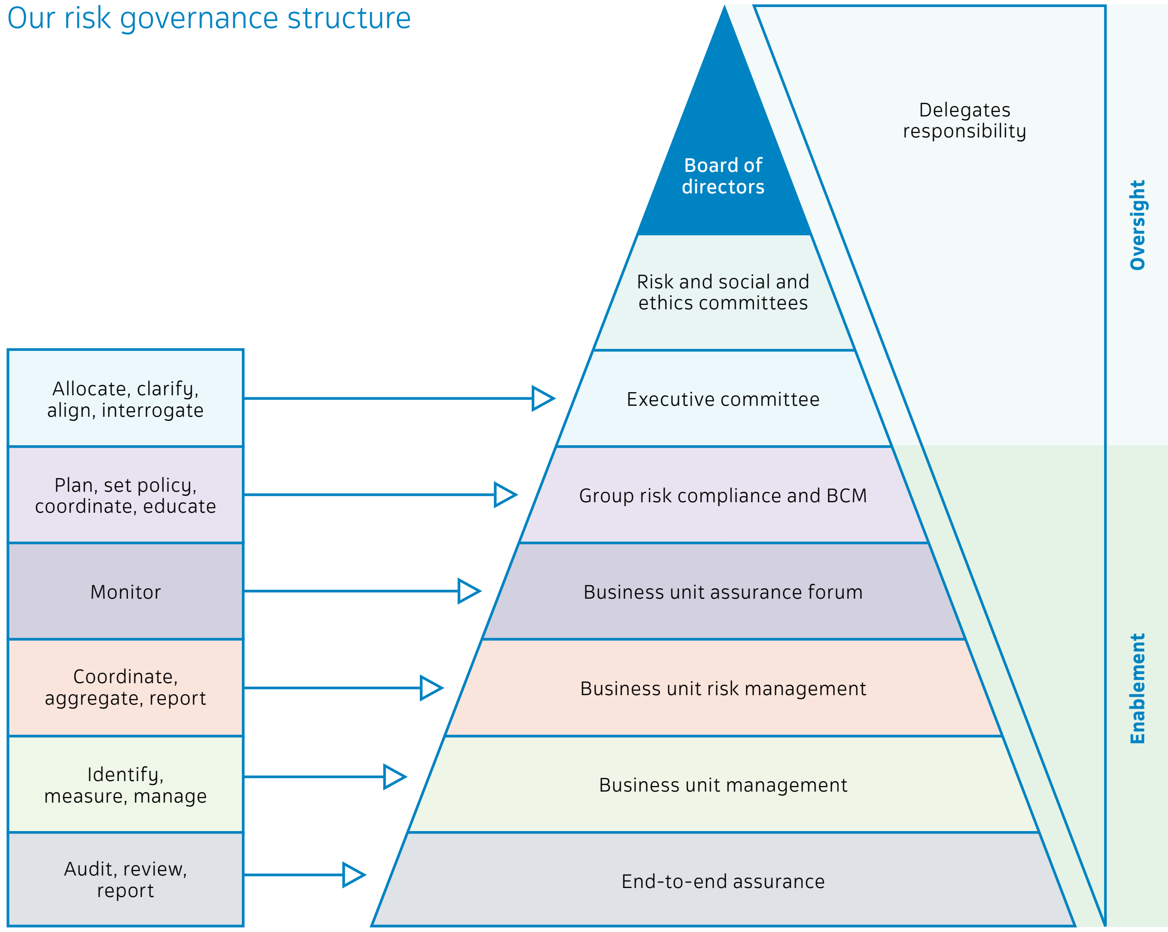
The board committed Telkom to a process of risk management aligned to the principles of King III, the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Integrated ERM Framework of 2004 and ISO 31000. ERM methodologies are refined through continued research and development, and benchmarked against international best practice.

The board, through the risk committee, is responsible for the total process of risk management and takes ultimate accountability.

We adopted a decentralised risk management approach during the year. This places greater responsibility on the management of the respective business units to implement and report on the policies, frameworks and requirements of the group ERM function. Through the adoption of this approach, it is imperative to maintain and enhance the current maturity of ERM across the group.

The board, through the risk committee, is responsible for the total process of risk management and takes ultimate accountability.

Our risk governance structure



Group risk develops the ERM policy and framework, annual risk management plan and risk appetite framework. It is further responsible for the aggregation of risks, monitoring the risk landscape, communication of emerging risks, and reporting them.

The business units facilitate the implementation of the ERM policy, and framework, risk management plan, and the risk appetite framework.

They implement and maintain the risk registers, identify mitigating controls, implement action plans and operationalise the business unit assurance forum. Each business unit performs ongoing risk exposure analysis in consultation with ERM, who in turn produces a risk profile report, demonstrating the management of key risks and opportunities identified.

The various risk profiles are consolidated for presentation to the business unit assurance forum, risk committee and executive committee. Data generated by ERM assists management in its decision-making. This is an ongoing process, and reports are updated through monitoring the internal and external environment. Risk dashboards and key risk indicators have been developed and implemented to ensure that the risk landscape is effectively monitored.

The business unit assurance forum is a dedicated assurance forum appointed to give effect to the ERM framework through the implementation of an effective process of risk management and combined assurance to optimise risk-taking.

What is material in our value-creation process? | ERM – continued

Telkom's risk appetite

The risk appetite statement and tolerance levels are calibrated against Telkom's broad financial targets, including dividend policy and operational effectiveness. The statement is prepared annually as part of Telkom's planning process, combining a top-down view of the group's risk capacity, with a bottom-up view of the group's risk profile.

Risk appetite is determined directly in relation to Telkom's strategy and considered in:

> strategy setting
> resource allocation in proportion to the contribution of risk
> key management decisions and actions

Key actions taken to enhance risk management

> aligned the risk management programme to Telkom's new operating model and established risk management functions within the respective business units. The risk governance structure was enhanced by establishing business unit assurance forums
> enhanced the risk quantification and assessment methodology to support combined assurance and developed a technology-enabled risk assessment application
> developed and implemented a regulatory universe for the respective business units from a compliance perspective and compiled compliance risk management plans for all priority legislation in the business units
> developed an ERM risk training module, which was rolled out to senior management

Future focus

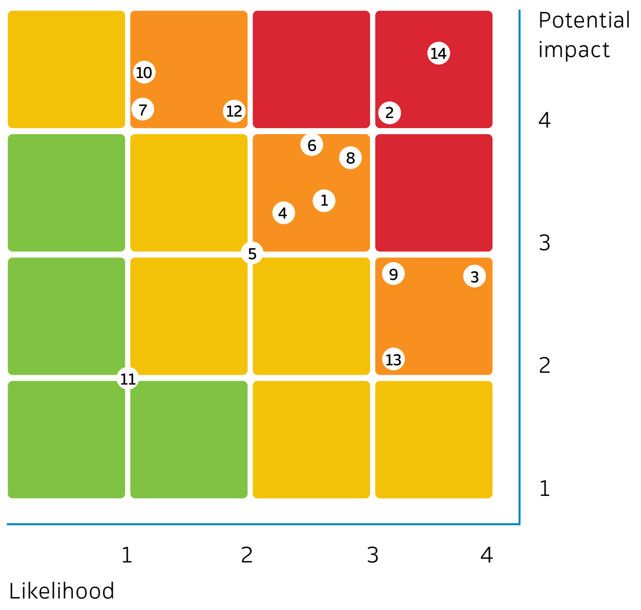
In order to maintain our current maturity and improve where possible, growth and maintenance strategies will be implemented. Our focus includes:

> working on the transitional elements from the current ERM model to the next-generation model, which addresses the transition, risk appetite model and combined assurance, King IV best practice, and redefining operational processes including roles and responsibilities
> maintaining a converged approach by aligning frameworks across all disciplines, allowing for a common risk language
> a greater emphasis on the first line of defence and combined assurance
> revising the risk appetite model's alignment to strategy, value drivers and business model
> ownership of risk appetite at group and business unit level
> deploying our technology-based risk assessment tool

Our risk heatmap

Priority 1
Priority 2
Priority 3
Priority 4

1 Revenue growth and profitability
2 Customer experience
3 Voice revenue decline
4 Human capital health
5 Procurement and property
6 Regulatory and compliance
7 Financial stability
8 Inefficient outdated IT systems
9 Information security
10 Vertically integrated operating model not sustainable
11 Non-compliance with Competition Commission settlement agreement
12 Network transformation
13 Business continuity
14 B-BBEE rating



Material themes

Our material themes represent a prioritised view of our inherent risks and opportunities as determined by the materiality determination process (page 40). Following the determination of our material matters, the below were identified as the key material themes that are addressed throughout this report.

Each of the material themes identified cross-references to the risk profile depicted on the risk heat map tabled on page 52.

Material themes and what they mean for Telkom

Context to Telkom	Related key risks	Strategic response
1. Evolving technology and ICT market trends		
Forming an accurate assessment of where the ICT market is headed and which products and services will be in demand are critical to long-term viability. The immediate business opportunities lie within products and services around IoT, cloud and data, and analytics over and above the opportunities through investments in 5G technology	> *Revenue growth and profitability* 1 > *Voice revenue decline* 3 > *Inefficient outdated IT systems* 8 > *Vertically integrated operating model not sustainable* 10	> Refer to our strategy section on BCX, Openserve and Telkom Consumer focus areas which adresses the immediate business opportunities on page 60
2. New generation network and infrastructure		
Significant capital expenditure is required in an ICT business to remain ahead with the latest and fastest technologies such as long-term evolution (LTE) and fibre. Capital spend for rehabilitation of networks, including theft prevention and reduction, will form part of IT infrastructure projects, and Telkom has internal infrastructure requirements. In order to support service delivery to clients, our own network and IT infrastructure needs continuous upgrading. Separate "stacks" or network infrastructure modules supporting billing and operational capability need to be built to support the business	> *Revenue growth and profitability* 1 > *Financial stability* 7 > *Inefficient outdated IT systems* 8 > *Information security* 9 > *Network transformation* 12	> Refer to our strategy section on Openserves' focus areas relating to our network and infrastructure on page 60 > Refer to the GCFO's report (financial capital section) on page 66 for our five key capex investments > Refer to intellectual capital on page 74 on how we continue to rationalise our legacy systems to be fit for purpose, replacing archaic systems with simpler, more efficient systems where possible to enable us to become a more effective Telkom for the future

What is material in our value-creation process | Material themes – continued

Context to Telkom	Related key risks	Strategic response
3. Customer experience and reputation		
Customer sentiment analyses, surveys and risk management procedures indicate that our retail customers are not satisfied with service at direct and indirect stores. What contributes to the lagging customer experience for wholesale and business customers are: prolonged installation time, insufficient communication regarding installation or fault clearance, and billing errors. Poor sub-contractor management contributes to customer complaints. These concerns were raised by our customers against the backdrop of the South African ICT consumer, who is mainly price driven and prone to switching networks. Telkom should focus on the customer experience and our reputation with customers Copper theft, although not material in financial terms, has a negative effect on our customers' daily lives and our reputation. We appeal to the public to #tellTelkom and report criminal activity on the hotline: 0800 124 000	> *Revenue growth and profitability* 1 > *Customer experience* 2 > *Business continuity* 13 > *Network transformation* 12	> Refer to our stakeholder engagement section on page 42 on how we respond to customer concerns > Refer to productive capital on page 71 on how each business unit is addressing customer experience > Refer to intellectual capital on page 74 on how we continue to upgrade our IT systems with our focus on customer demands and innovative solutions. These have played a role in enhancing customer experience
4. Intense competitive landscape		
Many believe the competition within the industry is limited/muted because there are so few large mobile players. The convergence between telecommunications, technology, media and consumer electronics causes lateral competition, which has significantly increased competition and has seen many partnership agreements and large acquisition deals Competition in fibre is high, with many smaller agile players and new private entrants attracting influential investment. ICASA's ruling allowing other operators to backhaul between substations resulted in further competition The ability to compete in such a landscape will depend on an agile but robust strategy focused on customer needs	> *Revenue growth and profitability* 1 > *Voice revenue decline* 3 > *Inefficient outdated IT systems* 8 > *Network transformation* 12	> Refer to our operating environment on page 41 > Refer to our strategy section on page 60 which is geared for growth in an intensive competitive landscape > Refer to productive capital on page 71 on how each business unit is addressing customer experience

Context to Telkom	Related key risks	Strategic response
5. B-BBEE transformation		
Transformation of the ICT sector is a key priority. Based on the new ICT Sector Codes which have more stringent requirements we are a Level 6 contributor	> *Revenue growth and profitability* 1 > *B-BBEE rating* 14 > *Regulatory and compliance* 6	> Refer to the chairman's statement and social and relationship capital on page 89 on our approach to transformation > Refer to the human capital section on the initiatives implemented to address transformation on page 76
6. Regulatory uncertainty		
The global ICT industry is still to agree regulation on net neutrality and digital migration. In South Africa, the ICT *White Paper*, which proposes the principle of an open-access network to all South Africans, will directly affect Telkom. Many forums and stakeholder groups regularly interact with ICASA, promoting regulation of pricing on mobile network operators to ensure effective competition. The uncertainty about what the regulator will be moved to do regarding regulating mobile data charges brings an element of uncertainty to future operating conditions	> *Regulatory and compliance* 6 > *Revenue growth and profitability* 1	> Refer to our operating environment on page 41 > Refer to our stakeholder engagement section on page 42 on how we respond to regulatory and government concerns
7. People skills and expertise		
Telkom needs more pure technical ICT skills across the group from lower to senior management. This is an imperative for driving the products and solutions needed for future revenues. Current employee turnover rates are low, with an average tenure of 20 years, reflecting in-depth legacy skills and experience, but not necessarily ICT skills. Talent attraction and retention in the right areas of the business are critical Telkom sees its role as a leader in skills development in the ICT sector as critical to the development of South Africa. We want to develop skills for our use, and the ICT sector as a whole, bringing opportunity to South Africa. Our involvement in skills development at a secondary and tertiary level is required to build a sustainable ICT skills base	> *Human capital health* 4 > *Revenue growth and profitability* 1	> Refer to human capital on page 76 on how we attract and manage talent > Refer to social and relationship capital on page 89 on skills development

Our value-creation strategy | Group chief executive officer's report

Enabling our strategy will create value and secure a prosperous future for our stakeholders.

Value creation is the central cog of our strategy, and ensures that our activities are aligned with the material needs of our stakeholders. As a result of this approach, our employees feel vested in the performance and the future of the company, and our customers find greater value in the solutions and products that we provide. The recognition of "most innovative network operator in the mobile market in the country" is a direct result of our focus on creating value and realising a positive socio-economic impact.

Key operational highlights

The mobile service revenue grew

38.4%

supported by a growth of

47.7%

in active customers to

4 million

The fibre footprint grew across the eco-system with

52 755

fibre to the business (FTTB) end-point connections which, increased fibre links to base stations with

5 928

supported by fibre deployed across

>149 000 km

Performance of the group

The operating environment was characterised by uncertain political, economic and policy developments. A weak South African GDP, high levels of inflation and currency volatility added pressure to our operations. Regardless, we remain committed and hard-working, and responded to these challenges through persistent innovation and a value-driven focus.

We grew operating revenue by 9.8 percent to R41 billion, benefiting from consolidating 12 months of BCX compared to seven months in the prior year. Our underlying group EBITDA was flat at R11 billion in a 6 percent inflation environment. Our Mobile business also contributed positively with an EBITDA of R660 million compared to an EBITDA loss of R43 million in the prior year. Lastly, we returned cash to our shareholders, paying an annual dividend of 422 cents per share, which is in line with our dividend policy of 60 percent of annual headline earnings. This is 56.3 percent growth in annual dividend compared to last year's annual dividend of 270 cents per share. I am pleased that we delivered total shareholder return (TSR) of 38 percent to our shareholders.

The operational performance for the year reflects our approach to business. We were returns driven in our allocation of resources, simplified our processes where possible, and recruited talented people with the right skills to help us in our next phase of growth.

Our Mobile business has been a star performer in the financial year, underpinned by increased capital investment, launch of innovative products such as FreeMe, extension of distribution channels and store footprint, and initiatives to improve customer experience. The Mobile business recorded a service revenue of 38.4 percent supported by a 47.7 percent increase in active subscribers to 4 million. Our mobile broadband-led strategy continued to pay off with mobile broadband revenue increasing 49.6 percent to R2.4 billion, driven by a 44.6 percent increase in mobile broadband subscribers.

The fixed-business has seen good growth in fibre customers which was a combination of both migration from asymmetrical digital subscriber line (ADSL) and new to franchise customers. Even though we are still experiencing churn in ADSL, this was offset by an increase in demand for higher speeds and larger uncapped data.

Openserve made significant inroads to modernise its network, having passed 2.2 million premises with fibre. This was underpinned by an increase in investment, improved operational superiority in network rollout and more streamlined processes. Openserve continues to lead in the fibre market, providing high-speed network generation broadband access with over 149 000 kilometres of fibre deployed. Openserve increased its focus to commercialise its network with connectivity rate for FTTH increasing from 10 percent in the prior year to 18 percent. The number of fibre end-point connections to the business and fibre links to the base stations increased to 52 755 and 5 928 respectively.

The integration of **BCX** is complete. The integrated entity now has a singular sales team and a unified go-to-market strategy to meet the end-to-end digital solutions needs of our corporate customers. The integrated business has the ability to deliver end-to-end digital solutions to its customers with unmatched data centre capabilities and a strong network offering. The integrated entity realised synergy benefits evident in key deals won in the public, banking, financial services and retail sectors against highly competitive and credible challengers. These deals would have necessitated striking partnerships with various entities. BCX strengthened its data centre capabilities to include Oracle, and launched Cisco Hosted Collaboration solutions and SAP HANA Enterprise Cloud services.

For detailed performance per business unit refer to page 71 under productive capital.

Our value-creation strategy | Group chief executive officer's report – continued

As we seek a sustainable growth framework for the group, we have embarked on an accelerated capital investment programme which focuses on key growth areas such as fibre and mobile.

Our strategic focus

Over the last four years, we focused on driving strategic initiatives to transform our business, dealt with our employee headcount challenges in a productive manner, stabilised our Mobile business, and managed our third-party spend effectively, while displaying improved discipline in our allocation of capital. Our business units are well positioned for growth and accelerated capital investment in the year under review.

As we seek a sustainable growth framework for the group, we have embarked on an accelerated capital investment program which focuses on key growth areas such as fibre and mobile, which are key to the sustainability of our business. Our accelerated investment programme commenced in the year under review with an investment of R8.6 billion. We are planning to invest between 17 percent and 20 percent of capex to revenue. Our investment programme will be strategic, success-based, measured and flexible throughout the cycle. We will only accelerate capex where we see acceptable return on investment.

While we continue to invest in multiple technologies. We believe a robust, reliable and, more importantly, flexible fibre-enabled network will ensure we are ready for the exponential data growth we are seeing across mobile and fixed network. Underpinning this investment lies the ability to offer pricing flexibility through our wholesale arm which will bring high-speed broadband with reliable quality to consumers and enterprises at affordable prices. Our Mobile business has shown significant growth and has become a formidable player in the market. We are building an IP core network to support our strategic ambition of becoming a leader in fixed-line and mobile broadband. Our current growth demonstrates the appetite for our data-led products in the market. Our capex investment in mobile business will be returns-driven and focus on coverage and density of our network to support the anticipated growth.

Relationships and leveraging human capital

Our employees

We aim to have the right people, with the appropriate skills in the right positions to take us forward after a challenging but critical review of our employees and headcount over the last few years. During the year, Telkom appointed a new head of human resources (HR), Melody Lekota. Her perspective and experience in a wealth of customer-facing business environments will further align our workforce to grow our business. New HR department heads were appointed for Openserve and Telkom Consumer.

We continuously measure our effectiveness and use the feedback from customers to measure employee performance and prioritise areas of improvement. Our management of succession and talent continues to improve, and we implemented quarterly talent and succession events to directly engage with employees on future prospects, career paths and performance. The fair, clear guidance and interaction provided by our management to employees provides a reference point for them to assess their performance and improve.

Our business leaders are intrinsically tied to the performance of their teams through new remuneration procedures, fostering a teamwork mentality to support Telkom's evolving culture. We introduced an incentive system based on performance, called Performance Pays. This was implemented toward additional employee efforts by up to 12 percent of their base salary every month. Refer to page 109 for information on our remuneration policy.

109

Our succession planning for critical roles and leadership succession combines skills development and remuneration approaches to ensure stability. Our employees are exposed to leadership development programmes across various roles to allow interaction in different parts of the business, and reskilling and upskilling are used to retain and redeploy capable people in line with changes in the business environment and our business needs.

Labour relations

Our transparent and clear interactions with unions fostered a significant level of goodwill in an environment that is traditionally characterised by difficult interfaces. The result was the signing of a two-year agreement starting 1 March 2016, which provides clear commitments and guidance for both parties.

Compliance FY2017

I can confirm that Telkom has complied with the terms of the settlement agreement with the Competition Commission during 2017, as well as the behavioural conditions that were agreed to as part of the BCX and Telkom merger agreement.

Government interaction

Our interaction with government remains positive. The most material interaction point was the ICT policy. In essence, the policy looks at the sector from an integrated basis, bringing a level of coherence. That said, there are elements of the policy that we agree with and elements of concern. Our channels of engagement with various levels of government remain open and clear to address these aspects.

Outlook

Looking forward, we intend to invest in a manner that enhances our financial stability and provides a platform for growth. This is a primary reason that investment in fibre and mobile is being pursued; to diversify our revenue base while creating a platform for growth.

Customer experience is an ongoing journey for us. The fundamental reason for our system improvements is to enable us to be better at what we do to create an improved customer experience. We continue to rationalise our legacy systems to be fit for purpose, replacing archaic systems with simpler, more efficient systems where possible to enable us to become a more effective Telkom of the future. Driving this approach reduces costs and the integration of systems, and enables us to get a more complete view of our customers' needs while catering for them more efficiently.

In addition, we have embarked on a programme to simplify, standardise and optimise all our end-to-end processes to ensure a step change in our performance and grow sustainability. We intend to improve our organisational culture and foster increased initiative and individual accountability. These aspects, coupled with persistent customer focus, our strategy, our new operating model, and synergy improvements in our business units, are expected to yield another year of positive growth, financial prosperity and stakeholder value creation.

Appreciation

I wish to acknowledge my executive team for it's commitment and execution of our strategy. My thanks extend to the board for providing the right level of counsel given the complexity and size of our business. My core team remains dependable and focused, and gives its best to our agenda daily; thank you all. To our employees who remain hard-working and live a mantra of unified progression, thank you for walking this journey of value creation with us. To our customers, your continued support and interaction are appreciated.

Sipho Maseko
Group chief executive officer

Our value-creation strategy | Strategy

Our strategy review is a continuous process to ensure that our strategy is relevant and fit for our dynamic operating environment.

The objectives of the new operating model

Our new operating model design principles address our operating structure, accountability, governance, and our way of working, and enabled by the right mix of people, processes and technology. The new operating model aims to achieve the following objectives:

Profit accountability
To improve accountability for business performance and service delivery. This clarified line of accountability will enhance transparency and improve the performance of each business unit

Commercial focus
Creating customer boundaries for each business unit will improve customer centricity and enhance our competitive advantage

Cost/capital efficiency
Enable business units to focus on the relevant cost and capital drivers to extract efficiencies

Regulatory compliance
The operating model must promote regulatory compliance

Strategic flexibility
Enhance flexibility to support any future mergers, acquisitions and partnerships

Value
Increase value creation for shareholders

The journey

We achieved functional separation of our various businesses and integrated BCX. The focus going forward is on deeper operational separation. The timeline below sets out the milestones achieved and targets in this journey.

FY2013 to FY2016

Achieve functional separation with the launch of three business units

Create a platform to unleash full potential

- Created **three business units** (Openserve, Consumer and Enterprise, which subsequently integrated with BCX) with **greater autonomy**
- Implemented a **lean and effective centre** playing a command and control role
- **Clearly defined centre/business unit processes** and ways of working (trading model)
- Developed a clear plan to address **capability gap**

FY2015 to FY2018

Improve functional separation and BCX integration

Leverage platform to reinforce core

- Business units became **semi-autonomous** with the centre as the strategic architect
- Optimised the centre/business unit **processes and ways of working**
- Launched **open-access** products
- Closed **capability gap**
- Defined and launched the **business unit to business unit trading model**

FY2017 to FY2021

Full operational separation

Create context for unlocking and optimising value

- Centre to play an **active role in unlocking and optimising value**
- **Diversify** ownership of group
- Expand into **new business lines** through new business development, and mergers and acquisitions if appropriate
- **Process redesign work,** and digitisation

Benefits of the new operating model

For customers
- Business units will be more responsive in addressing customer needs through:
  - innovation and solutions
  - connectivity and value-added services
- Provides a greater choice and control over service provider and proposition selection for fixed-services

For service providers
- More commitment to high-quality service for other licensed operator channels
- Greater flexibility in developing of service propositions for customers
- Equal footing with Telkom Retail businesses in terms of access to services and prioritising of needs

For government/regulators
- Greater service providers competition and innovation resulting from a higher degree of open access
- Fair and equal treatment of Telkom retail and other licensed operators

For Telkom employees
- Clearer sense of identity and mission within each business unit
- Clearer decision-making responsibilities to make it easier to take action with more clarity between business units

Each business unit has a strategic ambition built on the foundation of putting the customer first

BCX	Telkom Consumer	openserve	trudon	Gyro
Lead in integrated/transformation solutions for enterprise and government customers	Be South Africa's number-one broadband and data services business	Be the communications infrastructure provider of choice	Be the largest data-driven digital marketing solutions provider for South African SMEs	Be the leading sustainable property and infrastructure business in Africa and providing end-to-end solutions by leveraging the Telkom group property assets and ICT capabilities

For our strategy to be successful and sustainable, we rely on the following key enablers:

Evolving operating model
An operating model that reflects changes in the external environment and improves the group's competitiveness.

People and organisational capabilities
People with the right skills and capabilities to ensure successful delivery of our strategic objectives. Refer to human capital on page 76

A competitive cost base and efficiency
A cost base that reflects efficiencies and that will ensure that Telkom remains competitive with smaller players. Refer to financial capital on page 66

Service delivery excellence
An effective and efficient service delivery model that improves customer experience. Refer to productive capital on page 70

A sustainable regulatory stance
An operating model that is future-proof and consistent with regulatory and policy developments.

76 66 70

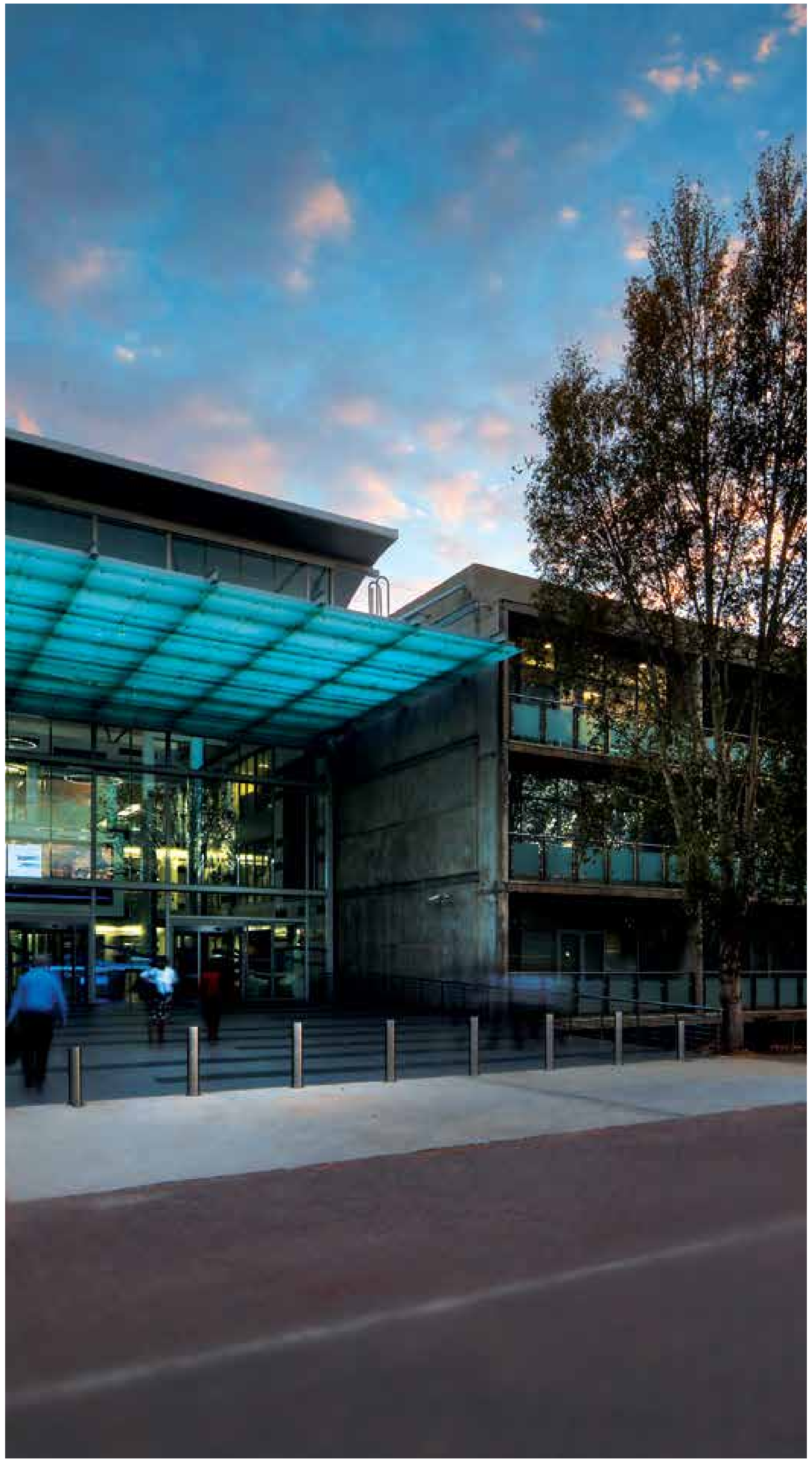
Our value-creation strategy | Our new operating model

Business unit strategic focus areas

The following are the broad strategic areas that each business unit will focus on supporting Telkom's vision and strategic objectives. For detailed performance against these strategic focus areas refer to our annual results presentation available online.

Business units	Key strategic focus areas	Performance against focus areas
openserve	> Modernise the network > Commercialise the network > Transform service delivery	> More than 149 000 kilometres of fibre footprint and packet optical network (POTN) deployment > 2.2 million premises passed with fibre to the premises • FTTH up 169.7% to 219 825 • FTTC up 37.2% to 1 991 449 > FTTB 52 755 fibre end-points > 5 928 base stations > 18% connectivity rate for FTTH > Digitised and automated business operations
BCX	> Offer cloud solutions > Advance unified communications > Lead in IoT > Drive big data analytics > Security	> Strengthened data centre capabilities to include Oracle, Cisco and SAP HANA > Migration of fixed-line voice to unified communications > Big data analytics integrated into BCX intelligent solutions > Continued growth with IoT workstream and retail eco-systems
Telkom Consumer	> Continue mobile growth through disruptive data-led propositions > Grow high-speed broadband on the back of LTE and fibre > Launch digital services > Offer content and value-added services	> Mobile service revenue up 38.4% to R3.5 billion > Mobile EBITDA of R660 million after four years of recording losses > Active mobile subscriber growth of 47.7% to 4 million > Mobile broadband revenue up 49.6% to R2.4 billion > Mobile broadband subscribers up 44.6 percent to 2.6 million > Partnerships with Netflix and ShowMax
trudon	> Grow mobile ad exchange network coverage > Expand omni-channel offerings > Establish an e-commerce market place > Expand partnership to over the top players	> Launched Yapp, a chat based market place for SMEs in both iOs App store and Google Play Store > Introduced InSync Digital Presence to allow customers to have one data repository source across multiple online platforms > Successfully launched Black Friday campaign using the Kompare platform to enable customers to do end-to-end e-commerce transactions
Gyro	> Unlock value through commercialising property portfolio > Extract value from excess building capacity > Enable smart building solutions > Diversify income streams	> Launched 1 April 2017

Looking forward our business units will continue to pursue their key strategic focus areas to support the Group's strategic objectives.



03

Performance

Financial capital | Group chief financial officer's report

Key highlights

Operating revenue up
9.8%
to R40 970 million

Net revenue up
7.9%
to R31 854 million

EBITDA margin of
26.7%*

Headline earnings per share (HEPS) up
12.4%*
to 731.4 cents

Annual dividend increased 56.3% to
422.0 cents
per share

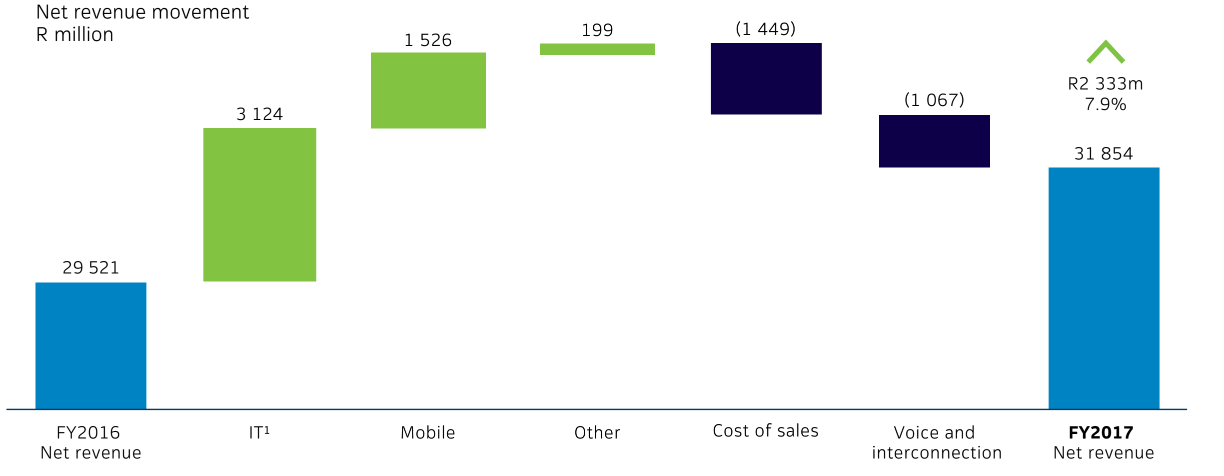
Capex up
43.3%
to R8 654 million

Key messages

> We delivered solid results in a difficult environment
> Our Mobile business continued to outperform our expectations, with a service revenue increasing of 38.4 percent
> Our fixed date business was slightly down 1.1 percent, however we were encouraged by an increase in next generation and fibre based products, such as metro-ethernet
> We saw good growth in IT revenue. We expect this to continue past the integration of BCX with Enterprise, as we offer end-to-end solutions
> We continued to see the benefits of our ongoing business transformation. Our Mobile business contributed R660 million to the group EBITDA improvement for the first time, after four years of recording losses
> Our group cash balances were negatively impacted by increased cash flows relating to dividend payments, VSP and VERPS and a significant capital investment
> We accelerated capex to revenue increasing to 21.1 percent with specific focus on fibre and mobile as we saw traction in both areas
> We increased our annual dividend by 56.3 percent year-on-year. Our TSR was 38 percent for the year

** Our performance excludes the R2 193 million and a related tax benefit of R517 million relating to voluntary early retirement packages (VERPs) and voluntary severance packages (VSPs) in FY2016, and R66 million and a related tax benefit of R13 million FY2017.*

Revenue growth boosted by BCX and Mobile performance

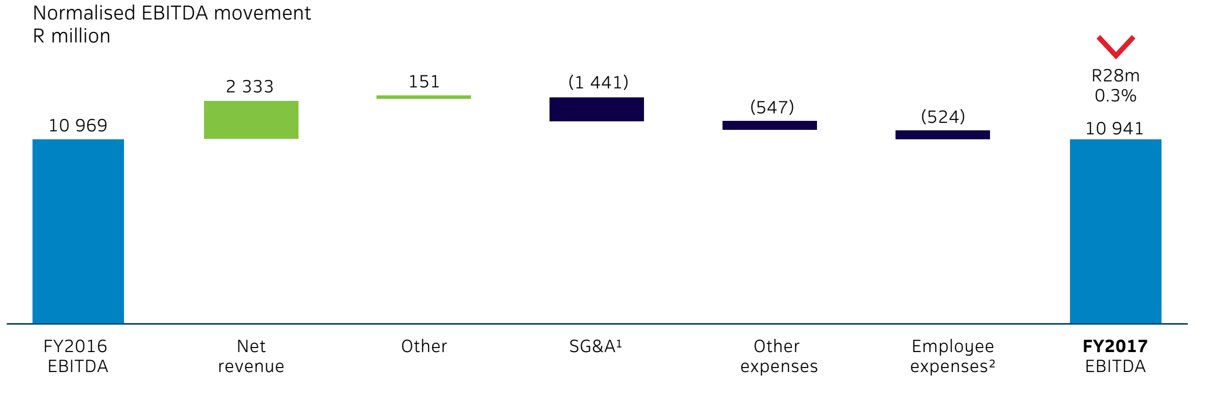


[1] IT business revenue of R767 million (FY2016: R314 million) previously reported as fixed data is now disclosed as information technology.

Operating revenue grew 9.8 percent to R40 970 million boosted by the consolidation of BCX for the full year, along with the solid performance of our Mobile business. Net revenue growth of 7.9 percent was positively impacted by the reclassification of BCX cost of sales as part of the change of the group accounting policy.

BCX was consolidated for the full year compared to seven months' revenue in the prior year. The Mobile service revenue accelerated by 38.4 percent driven by a 47.7 percent increase in active customers as the demand for our products and mobile services continues to increase.

Excluding gains on sale of assets, EBITDA increased 4.5 percent

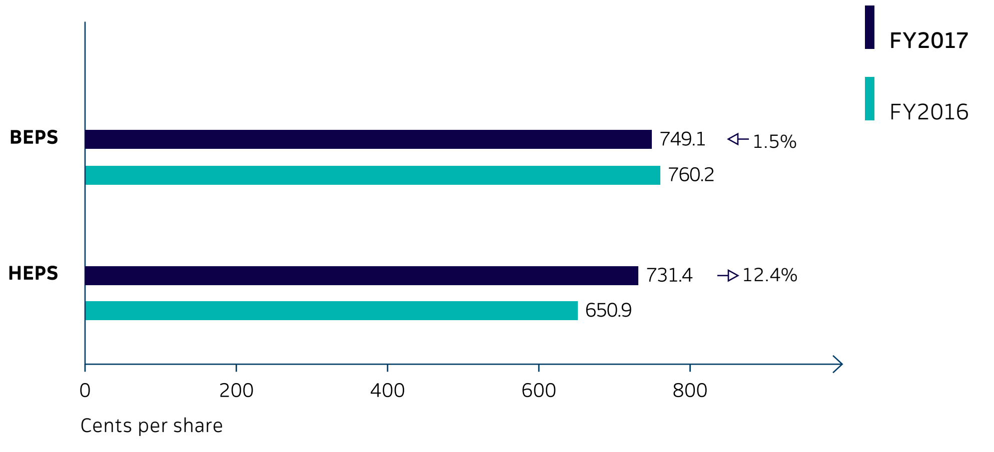


[1] The increase in SG&A expenses is largely attributable to the inclusion of the full-year expense of BCX and increased outsourcing costs.
[2] The increase in employee expenses is largely attributable to the inclusion of the full-year expense of BCX which amounted to a year-on-year increase of R1.9 billion.

Group EBITDA was stable at R10 941 million with an EBITDA margin of 26.7 percent in a 6 percent inflation environment. We continued to see efficiencies from our service fees and operating lease expenses as a result of cost-saving initiatives from our ongoing business transformation. These savings were partially offset by an increase in selling, general and administration (SG&A) costs relating to outsourcing our shared services and increased maintenance costs as we accelerate the deployment of our network and improve service levels.

Financial capital | Group chief financial officer's report – continued

HEPS up on improved operating profits and tax benefits



HEPS grew 12.4 percent to 731.4 cents. Basic earnings per share (BEPS) decreased 1.5 percent to 749.1 cents. The main difference between HEPS and BEPS is the gain on sale of assets.

Accelerated investment for future growth

Capex increased 43.3 percent to R8.6 billion with capex to revenue of 21.1 percent, ahead of our guidance but in line with our strategic focus. The largest portion of our capex was deployed to our primary revenue-generating areas, which are our fibre deployment zones and supporting the acceleration of our mobile growth.

Our unrelenting investment drive in fibre and mobile has now created the required momentum to support our strategic growth areas.

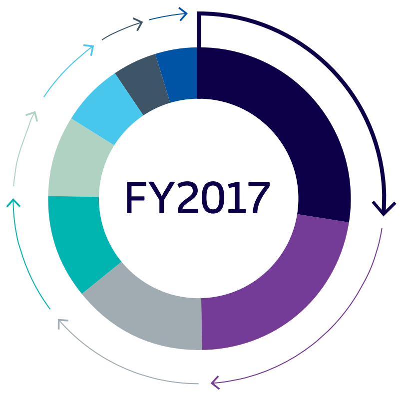
FTTP remains our key priority. We increased the number of premises passed to over 2.2 million, providing high-speed broadband connectivity using next-generation broadband open-access network.

This is an increase of 44.2 percent from the 1.5 million premises recorded in the prior year. Mobile investment was accelerated as we re-farmed our 1 800 MHz spectrum to expand our LTE services to smart phones. We invested in our mobile network by expanding the number of integrated base stations by 12.1 percent to 2 986 and increased capacity in existing sites to cater for the increase in data traffic growth.

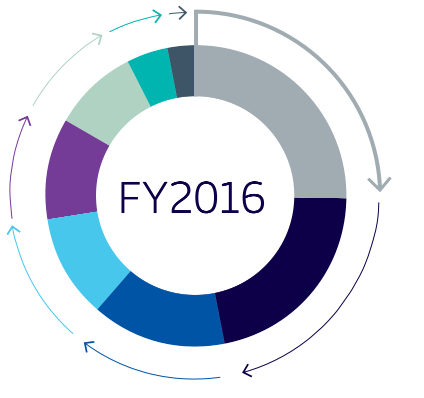
Group cash balances at year end declined 40.2 percent to R1.5 billion compared to the prior year as a result of increased cash outflows relating to increased dividend payments, VSPs and VERPs payments, and a significant increase in capital investment.

We have sufficient cash balances and other short-term investments to fund our annual dividend of 422.0 cents per share in line with our dividend policy of paying 60 percent of annual headline earnings.

Capex – key focus areas



- 27.6% Fibre
- 22.4% Mobile
- 14.5% Service on demand
- 11.1% Core network
- 8.6% OSS/BSS programme
- 6.6% Network rehabilitation/ sustainment
- 4.7% Subsidiaries*
- 4.6% Other



- 25.5% Service on demand
- 21.7% Fibre
- 14.3% Other
- 11.2% Network rehabilitation/ sustainment
- 10.9% Mobile
- 9.0% OSS/BSS programme
- 4.5% Core network
- 2.9% Subsidiaries*

** BCX, Trudon, Swiftnet, Acajou (VS Gaming).*

Strong balance sheet to fund future growth

Despite the increase in net debt, including financial assets and liabilities, to R5 020 million from R1 373 million as at 31 March 2016, our capital structure remains strong with a net debt-to-EBITDA ratio of 0.5 times. Our net debt to EBITDA remains below our guidance of one time, providing us with sufficient capacity to invest in future growth.

On 31 March 2017, the group had cash balances, including other financial assets and liabilities, of R1 204 million (31 March 2016: R3 841 million). Our group cash balances decreased mainly due to higher dividends paid and an increase in capital expenditure in line with our strategy. We remain lowly geared with a comfortable debt maturity profile.

Financial capital | Group chief financial officer's report – continued

Outlook

- Our guidance should be considered in light of the current difficult operating environment and the recent sovereign rating downgrade. Furthermore, we continue with our cost transformation programme, while managing challenges and investing for the future through our operating and capital investments.
- Despite negative GDP growth expectations for South Africa and a continued decline in voice revenue, we expect to **grow our operating revenue by mid single digit.**
- **EBITDA margin of 23 to 25 percent** implies contraction in margins as a result of an increase in our operating expenditure investment in new subsidiaries such as Gyro, VS Gaming and supporting of our Mobile business. Our benefit from the gain on sale of assets will reduce from the previous year, as we focus on extracting long-term value from the balance of our property portfolio.

Guidance	FY2017 Guidance	FY2017 Actual	FY2018 Guidance
Net revenue	Modest growth	7.9%	N/A
Operating revenue			Mid-single digit
EBITDA margin	23%-25%	26.5%*	23% to 25%
Capex to revenue	15%-18%	21.1%	17% to 20%
Net debt to EBITDA	≤ 1	0.5	≤ 1
Mobile EBITDA breakeven	Achieve	R660 million	N/A
Annual dividend increased 56.3% to 422.0 cents per share			

Includes VERP and VSP costs.

- **Capex to revenue of 17 to 20 percent**. We have accelerated our capex to revenue as we continue to invest for the future. We will apply a success-based and measured approach to capex. Our key focus areas will remain fibre and mobile. Returns for fibre are long-term in nature while returns for mobile are medium-term in nature. It is critical that we invest for the sustainability of our business. We will continue our measured and responsible allocation of capital resources.
- **Our target net debt ratio** is ≤1 times. We expect to see an increase in our net debt-to-EBITDA ratio as we gear up our balance sheet to fund growth areas of our business. However, we do not expect our capex funding to breach our target for FY2018.

We confirm **our dividend policy of 60 percent of headline earnings** as we continue to invest for the future and address current competitive challenges.

We will remain disciplined in our cost allocation while focusing on generating free cash flows.

Dividend policy

During the year, the board amended our dividend policy to an annual dividend of 60 percent of headline earnings with an interim dividend of 40 percent of interim headline earnings.

Declaration of dividend

In line with our dividend policy, the board declared a final ordinary dividend 20 of 290.75253 cents per share. This follows an interim dividend of 131.23874 cents per share declared in the interim results, taking the annual dividend in respect of the financial year to 421.99127 cents per share (FY2016: 270 cents per share). The declared dividend is payable on Monday, 3 July 2017 to shareholders recorded in the register of the company at close of business on Friday, 30 June 2017. The dividend will be subject to a local dividend withholding tax rate of 20 percent which will result in a net final dividend of 232.60202 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary dividend will be paid out of cash balances.

The number of ordinary shares in issue at date of this declaration is 526 948 700. Telkom South Africa SOC Ltd's tax reference number is 9/414/001/710.

For full financial statements refer to www.telkom.co.za/ir

Deon Fredericks
Group chief financial officer

Productive capital

openserve

Openserve is investing for future growth

Our investment to modernise the network, by covering multiple fibre connection points to homes, businesses, cabinets and base stations, continued to ensure that we maintain and grow our market share in the fibre market. We made significant inroads in our strategy to modernise our network, having passed more than 2.2 million premises with fibre. This was underpinned by an increase in capital investment, improved efficiencies in network roll-out and more streamlined processes. We continue to lead in the fibre market, providing high-speed next-generation broadband access with over 149 000 kilometres of fibre deployed.

The number of homes passed with fibre (FTTH) increased by 169.7 percent to 219 825 homes, as we improved our deployment approach and focused on gated communities and key suburbs. Of this, 40 627 homes benefited from our accelerated refreshing programme. This translates to a connectivity rate of 18 percent (FY2016: 10 percent). Our connectivity rate was higher this year, at approximately 23.4 percent, reflecting our increased efforts to commercialise our network. This was also supported by an extension of our fibre resellers, which increased to 144.

We increased the number of fibre end-point connections to businesses to 52 755. This allowed us to provide multiple services with high-speed links to major corporates in South Africa, catering for their major site requirements as well as lower-speed fibre-based metro ethernet links, for the branch connectivity.

This sound performance was driven by a significant demand and uptake in fibre solutions as customers increasingly see fibre as a cost-effective, high-bandwidth medium that fulfils their current and future needs.

We increased the number of fibre links to base stations to 5 928, which provides services to mobile players. Our pricing and engagement strategy continued to make headway in reducing self-provisioning, resulting in an increase in orders from our customers. The strategy stimulates growth in our megaline circuits and other products that service the requirements of our clients at the base stations.

While we drive the fibre rollout, we continue to see a market need for using our existing network, enabling access to internet at the required speeds. To this end, we have seen an increase in fibre to the cabinet by 37.2 percent to approximately 2 million.

Customer experience remains a top priority to us. With our internal big data analytics services, we are able to accurately predict problems and have better access to information that allows us to have a more proactive approach to managing our network. Several initiatives underpin this drive, which include the implementation of the digital technician concept, improving our dispatching methodology and ensuring quality productivity. The aim is to improve customer satisfaction and improve internal efficiencies by driving the first-time-right principle. We will continue to improve our fulfilling and assurance processes.

Productive capital – continued

BCX

Successful integration of Enterprise with BCX

With the integration of Telkom Enterprise with BCX in November 2016, the sales and leadership teams of both organisations were integrated into a single point of contact for our public and corporate enterprise sector customers.

Opportunities are being identified to cross-sell IT and connectivity solutions in the new combined customer base.

The integrated business has the ability to deliver end-to-end digital solutions to its customers, with unmatched data centre capabilities and a strong network offering. Synergistic benefits of the integration are evident in key deals won recently, mostly in the public, retail, banking and financial services sectors. These deals would normally necessitate striking partnerships with various entities, given the scope of the needs of our customers.

The merger of Enterprise with BCX has increased the gross profit and EBITDA margin, as the Enterprise business historically operated at higher margins. EBITDA margins increased from 7 percent in FY2016 (BCX prior to the merger) to 15 percent in FY2017 (combined entity). The Enterprise business contributed approximately R5 billion in revenue to BCX. BCX consolidated the basic cloud services and created a single platform to deliver cloud services that are syndicated from independent software vendors and hyperscale providers and consume our own from BCX data centres. We strengthened our data centre capabilities to include Oracle and launched Cisco-hosted collaboration solutions and SAP HANA Enterprise cloud services. The BCX platform provides cloud solutions that allow the provisioning and billing of infrastructure as a service, platform as a service, and software as a service. BCX believes that the simplicity of how customers can manage their own accounts using this platform allows for quicker adoption and improves our ability to up-sell and cross-sell.

Trudon

Digital revenue generated continued to increase

We still rely on print revenue and the growth in the digital stream is not yet sufficient to compensate for the decline in the traditional print services. This caused margin limitations.

Our Kompare app – a consumer product and price comparison app - was upgraded to allow customers to review and transact through the vendors e-commerce platform. Through new and continuously improving relationships with merchants and various businesses, we provide customers with access to product purchasing on a convenient platform. We successfully launched the Black Friday campaign using the Kompare platform to enable customers to complete end-to-end e-commerce transactions.

The chat-based market place web and mobile app called Yapp, was successfully launched in February 2017 for small medium entities (SMEs) customers. This will provide SMEs with an interactive market place that offers suppliers the ability to interact with their customers via online chat. It allows customers the opportunity to rate their suppliers performance.

The first year of launch focused on on-boarding service providers, customers and growing usage.

Businesses are demanding omni-channel capabilities from their suppliers when making work-related purchases. We have commenced to roll-out engagement capabilities that enable SMEs to offer omni-channel services to their customers. This also assists SMEs align their service fulfillment and organisational processes with the desires of their customers for rich omni-channel experiences.

In order to offer the full scope of services, partnerships have been entered into with a number of over the top players. We will continue to form partnerships with other players to provide new solutions to the market. Customer satisfaction is key to us therefore increased focus was given to improve customer satisfaction.

Telkom *Consumer*

Mobile driving growth in Telkom Consumer segment

The Mobile business recorded service revenue growth of 38.4 percent driven by an increase in the active subscriber base as result of an expansion in our network, extension of our distribution channels, increased store footprint, and innovative products launched during the year, such as FreeMe (for individuals) and FreeMe Family (for families and small businesses), which are primarily data offerings.

The active subscriber base grew by 47.7 percent to 4 million with a blended average revenue per user (ARPU) stable at R89. Our post-paid subscribers increased 54.5 percent to 1.2 million with an ARPU of R181 supported by FreeMe. This popular product was well received, with Tariffic pronouncing FreeMe packages as the top choice for high data and voice users in South Africa. Of our post-paid subscribers, 13 percent use FreeMe, of which 79.0 percent are new customers. On the back of this successful product, we launched FreeMe Family in February 2017, which allows subscribers to share their data bundles with up to nine members of their families or in a small business. FreeMe Family strives to consolidate the mobile telecommunications spend for families, and is a single contract for families or small businesses with easy sharing options on voice and data.

Our mobile broadband-led strategy delivered a strong performance, with mobile data revenue increasing 49.6 percent to R2.4 billion supported by an increase of 44.6 percent in mobile broadband subscribers to 2.6 million. Following the re-farming of our 1 800 MHz spectrum to extend our LTE offering to smart phones, we observed good growth of 45.7 percent in our smart phone base to 1.9 million.

Our nomadic LTE offering continued to grow, driven mainly by our popular "Deals of the Month" smart broadband and uncapped offerings. Our LTE strategy will continue to offer higher bundles and greater customer value propositions.

The fixed-line business saw good growth in fibre subscribers, which was a combination of both migration from ADSL and new customers. Even though we are still experiencing churn in ADSL, this was offset by an increase in demand for higher speeds and more uncapped data.

The integrated data services SIM allows the customer to use a percentage of the SoftCap data from a mobile device.

For the small business unit, we invested in creating capabilities and introducing solutions to improve overall customer experience. During the year, we launched various innovative products with customer needs in mind such as "Voice and Data Failover" and "Smart Virtual Office Solutions" (SVOS). The SVOS were developed to provide customers with back-up functionality to ensure that they are connected in case of any connectivity disruptions. SVOS were introduced to help businesses grow their footprint without set-up costs. The solutions enable the customer to have various virtual telephone numbers linked to different local area codes, to effectively market themselves anywhere, and gives peace of mind to customers who feel more comfortable with dealing with a company that has a local presence.

With our focus on customer experience improvements, we simplified our channel interactions with our call centres, stores and online. We implemented account management capabilities for selected customers. Telkom Direct Stores' answering service functionality was established, resulting in 118 000 calls handled, leaving more time for agents to effectively handle sales in the stores and concentrate on customer experience. We improved our operational issues with the fulfilment of orders, and installation time between customers placing an order and service has been reduced.

Intellectual capital

Telkom is a different company than it was a few years ago – we transformed from a telecommunications provider to an integrated ICT services provider. IT played a critical part in the transformation journey.

Information technology

We are at an important point in our transformation journey where we need to prepare for a higher pace of change and more demand from business. This is fuelled by our focus on satisfying ever-changing customer demands for new and innovative communication and ICT solutions. We spent a considerable amount of time during the first three years of our transformation journey to get closer to the business, and to understand business plans, customer strategies and digital ambitions - what we deliver to each business unit. This culminated in a revised Telkom IT strategy. At the same time, we look at further transforming how we deliver IT solutions. Our IT strategy will continue to guide our delivery and strategic investments going forward, and will guide us to achieve a better balance between investing in "transforming and growing the businesses" versus "running the business".

During the year we made progress in aligning IT with business as captured in our IT strategy. We evaluated our investments in business support system/operations support system (BSS/OSS) and identified areas that will have to change going forward. We are evaluating our strategic vendors and partnerships to ensure they are able and ready for the changes. We are pushing ahead with further restructuring and outsourcing IT functions to align with our new operating model.

IT contributed to enhancing the customer experience (improved NPS) by reducing systems response time, increasing self-service systems response time, increasing self-service via mobile applications, and streamlining processes to reduce the multiple steps in the approval process for Telkom customers.

IT strategy

Telkom IT strategy
More business-aligned, enabler of business plans, driving digitisation and automation

Telkom Consumer	BCX	openserve
Faster time to market and increased agility with a focus on innovation and customer experience enhancements through digitisation and automation of end-to-end business processes	Enabling the integrated telecommunications and ICT service and product portfolio requires new ways of engaging with customers to understand their business needs. It requires the ability to quickly convert a sales discussion into a serviceable order that automatically integrates into a multitude of back-end provisioning systems to deliver a consistent customer experience	Expanding on its leading position as the primary wholesale infrastructure connectivity provider, enabling a new business partner ecosystem by integrating various retail service providers and other wholesalers to deliver higher-quality solutions faster

BSS/OSS

The BSS/OSS landscape typically attract significant investment from telecommunications service providers. We continued to invest in this area, cognisant of its positive impact on customer experience and time-to-market improvements. As part of our IT strategy formulation, we performed a critical review of BSS/OSS investments in light of the changing operating model, changes in the business plans and the product offerings we will launch, and aligning to the ever-changing business environment. We are finalising a three-year road map that will involve changes in the BSS/OSS landscape to address areas that have not kept pace with the transformation journey.

We are engaging with our strategic delivery partners to ensure they are ready and able to walk this journey with us. The review of BSS/OSS investments coincides with the maturity of long-term support agreements with vendors. It provides an opportunity for renegotiation to achieve cost efficiencies and service delivery improvements.

Looking forward

We are pushing ahead with outsourcing our IT development and operations functions to BCX, which should be completed in FY2018. We are evaluating cloud alternatives for some areas of our business and determining how it enables cost efficiencies and reduces dependency on costly and ageing in-house infrastructure.

We invest in IT to ensure a consistent experience across all customer touchpoints, whether online or in stores wherever and whenever our customers choose to engage with us. Further integration is underway of customer touch points and interfaces into the new back-end systems to deliver a more seamless and consistent experience.

Further focus areas include:
> to appoint chief information officers for each business unit in line with our new operating model
> retire old legacy platforms and the systems once the new ones are fully implemented
> migrating Telkom group IT team to BCX, aiming for completion in FY2018
> BCX to service business units, chief information officers and corporate centre

IT governance

Telkom group IT governance is based on King III principles. Telkom's technology is considered and positioned based on strategic enterprise architecture frameworks and roadmaps to ensure the best solutions and technologies are adopted. Strategic considerations are given to selected strategic IT partners and technologies. Specialist teams oversee that we adhere to proper governance and compliance. Constant validations are made in terms of best practices and best demonstrated practices to ensure that we select, build and integrate our technology through properly governed processes and practices.

Innovation

We continue to develop and implement FreeMe products, new mobile applications and an e-shop capability across the group.

We launched the new Telkom App that enables customers to order products from their mobile devices, buy bundles, track usage, track orders,among others. We also launched our e-shop portal on our website, simplifying the ordering process.

Our IT systems enabled the simple and quick purchase of FreeMe packages.

We are engaging with our strategic delivery partners to ensure they are ready and able to walk this journey with us.

Human capital

Our philosophy is that our people are our number-one asset and having the right talent in the right place at the right time will determine Telkom's ability to execute our strategy sustainably.

Human capital management strategy

Our human capital management strategy guides our focus areas, and our employment policies ensure our approach adheres to global best practice and upholds critical principles such as those described in the UN Universal Declaration of Human Rights, the UN Global Compact, and the International Labour Organisation's Declaration of Fundamental Principles and Rights at Work.

How we deliver on our strategy is guided by our capability management and talent management frameworks.

During FY2017 we:
> upheld the right of our employees to freedom of association and collective bargaining
> provided equal opportunities to potential and existing employees
> achieved a diversified workforce that reflects the demographics of our country
> provided a workplace based on:
- mutual respect
- fairness
- integrity
- non-discrimination
- equal opportunities at all levels
- open and two-way engagement with our employees and their representatives

> consulted with the affected parties, including management, employees and trade unions

Although good progress has been made in FY2017, we need to focus on accelerating the prioritised five change areas over the next 18-24 months to drive sustainable change.

Human capital dimensions

1 STRATEGY Accelerate and Evolve	2 POLICY and CULTURE Unfreeze and Invigorate	3 TALENT and LEADERSHIP Fill the Gap	4 PERFORMANCE Shift to Achievement	5 OPERATIONAL ENABLEMENT Simplify, Digitise, Automate
No regret priorities				
Business critical				
1.1 Human capital strategy	2.1 Human capital policies definition	3.1 Critical and scarce skills talent plan	4.1 Performance achievement shift	5.1 Human capital process simplification and digitisation
1.2 Business unit HR strategies	2.2 Employee journeys, values and behaviours definition	3.2 Leadership development and succession planning	4.2 Adoption of Performance Pays	5.2 Cloud-based modules
1.3 Cost reconfiguration	2.3 Unfreeze programmes	3.3 People investment platform	4.3 Exit and retention pathway programmes	5.3 Single-truth reporting and analytics platform
1.4 Structural accountability refinement	2.4 Diversity and inclusion operationalisation	3.4 Agile fulfilment model	4.4 Performance metrics alignment	5.4 Optimised third-party management
1.5 HR functional integration and transition management	2.5 Three-year culture transformation journey	3.5 Coaching and mentoring adoption	4.5 Cross-business unit rewards normalisation	5.5 BCX transition and system on-boarding

Talent management framework

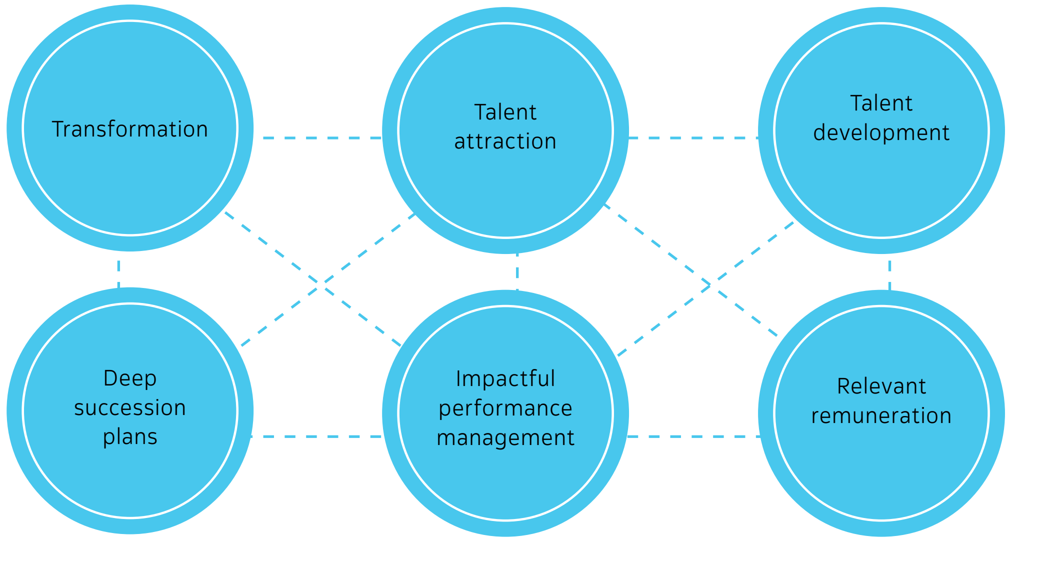
The new talent management framework enables us to identify critical skills and key talent across various business units, and allows us to invest properly and thoughtfully into developing our people. In FY2018 we will aim to further embed this framework, making it an integral part of how we operate.

During the second half of the financial year, this approach was rolled out to all business unit leadership teams and their direct reports. As such, a clear view of just over 300 senior leaders in the business was gained. This assisted in the mitigation of talent risk by:
> safeguarding senior leadership roles through deep succession pipelines, including the identification of emergency replacement plans per role
> providing insight to risk and impact of loss of key talent
> identifying next development moves for identified successors and top talent
> ascertaining action plans for critical roles per business unit (build internal, borrow consultants, hire new people)
> industriously managing misaligned talent (performance improvement)

A key outcome of the talent management framework is career development plans aligned to personal career aspirations and the business's needs. Conversations about talent between leaders and their direct managers help inform the individual's career and development plans, ensuring alignment with business requirements.

In order to achieve our objective of attracting, developing and retaining talent, we need to:
> ensure a continuous talent rhythm is adopted across the business
> invest in high-potential diverse talent, ensuring readiness to assume future leadership roles
> leverage off talent insights to use key talent in line with business needs

FY2017 focus areas



Human capital – continued

Telkom has invested R4.7 million in 2017 in these initiatives collectively: BYM, Future Minds, FLDP and WeThinkCode.

Talent attraction

Bright Young Minds

Our BYM programme offers an innovative, disruptive recruitment approach that proved successful in selecting forward-thinking, visionary interns. The internship is advertised on digital and social media, and potential candidates can apply by completing knock-out challenges and a YouTube video response to a business challenge. Following this, candidates participate in an intensive three-day selection process that includes a presentation to exco.

The culmination of our 2016 inaugural BYM programme led to the permanent placement of seven interns into the business with effect from 1 March 2017. In their permanent capacity, these interns are structured as an internal consultancy unit to provide innovative thinking and millennial perspective to key strategic projects across the business. The unit, housed under the chief of human resources, assists in ensuring enhanced concentration of the BYM skills and focus on project delivery and execution.

Future Minds

Round two of our graduate internship programme adopted an anonymous gamified digital challenge targeting millennials across a variety of digital platforms. This year's programme, branded Future Minds, experienced a 23 percent performance increase, with in excess of 47 000 hits to our application site. Candidates gained access to the application process by completing of a brainteaser; applicants then attempted a number of increasingly high-intensity online challenges and completed a 60-second video clip business challenge. 17 applicants attended the three-day selection boot camp.

Eight individuals presented their innovative business responses to an exco panel. All eight candidates were successful and seven, aged 23 to 27 years, accepted the 12-month internship opportunity and started on 1 March 2017. The candidates, with qualifications in economics, law, medicine, investment management, financial management, mathematics and mechatronics engineering, are allocated to key, primarily digital, strategic projects across the Telkom group.

The internship programme contributes to Telkom's business strategy, bringing unique and fresh thinking to problem solving, strategic projects and new business development.

Our Future Mind
Dike Phatudi (24)

> BA Law, Postgraduate Diploma in Management (Business Administration)
> "I care about youth development and education, and believe passion is everything when it comes to your work"

Our Future Mind
Summaiyah Adamjee (27)

> BCom Law , BCom Economics and Econometrics, Certificate in Photography
> "I live by the words of Ellen Degeneres 'Be kind to one another'"
> "We need to invest in youth development and education to shape our future"

Future talent pipeline

As part of our focus on empowering the youth of our country, we supported learnerships and internships for employed and unemployed young black people.

The creation of a future talent pipeline to address the IT and digital skills gap includes a significant investment that Telkom, through its wholly owned subsidiary BCX, is making to support coding and programming skills development. We do this by partnering with institutions such as WTC, that provide skills for the youth in this field.

WeThinkCode (WTC)

WTC is a non-profit social enterprise that provides tuition-free peer-to-peer learning. The core mission is to source and develop the next generation of digital talent, aimed at students who are 17 to 35 years old, regardless of previous education, socio-economic background or financial means. The students solve real-world problems and are funded through partnerships with BCX.

The three-year partnership with WTC includes an investment of R60 million over the period beginning in 2016. There is an agreement that there will be geographic expansion to Cape Town within the three-year period, in order to extend the reach of the programme. The total number of students is expected to increase to approximately 600 or more by the end of the three years.

The programme will give the group the scale to significantly grow and directly benefit from the students' coding skills.

The investment also allows Telkom to stimulate the technology industry through:

> potential partnerships on research and development laboratories:
  • gaming/virtual reality lab in Johannesburg
  • data science lab in Cape Town
> BCX becoming a growth partner
> students solving real-world problems
> access to talent for Telkom and BCX partners
> leveraging investment to achieve scale as we grow in innovation

Refer to the human capital supplementary report available online for case studies.

Human capital – continued

Talent development

Step Up

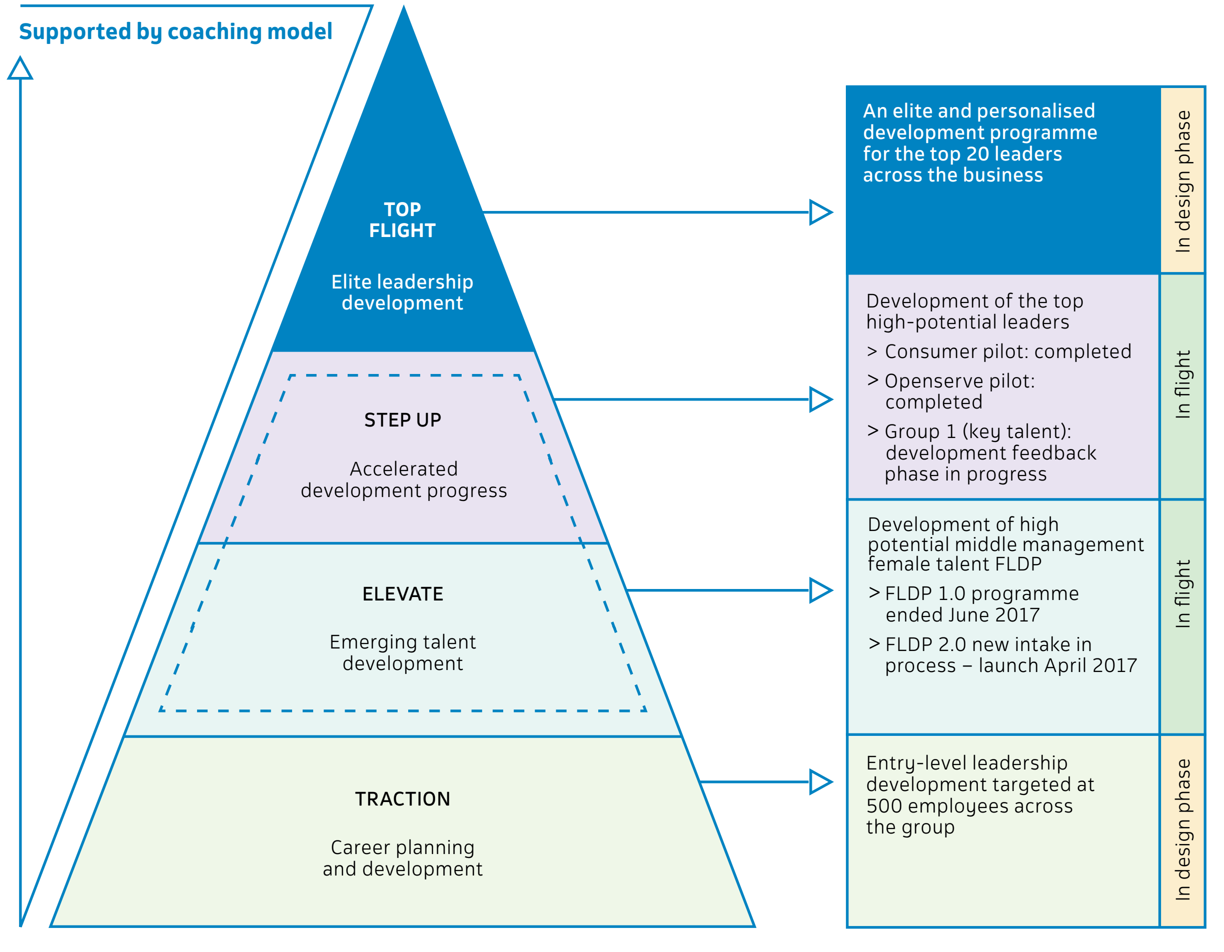
The Step Up programme is aimed at developing top talent identified in Telkom. The outcome of the programme is to enhance the capability, knowledge and skills of Telkom's future leaders.

The succession mapping process is an input of Step Up's delegate selection.

Investing in high-potential talent

Centralised talent development Interventions

A focused approach to developing high-potential talent across each talent segment in line with specific business needs.



Female leadership development programme

Our FLDP contributes to the improvement of female representation at leadership levels and forms part of the broader succession planning process. The first group of 42 women will complete the programme in June 2017.

The objectives of the programme are to:

> build business knowledge by creating transdisciplinary/multi-skilled leaders;
> create talent pools by identifying and growing high-potential talent in middle management for the succession pipeline;
> develop socially intelligent and accountable brand ambassadors by enabling an environment of mentoring and coaching to foster self-confidence;
> accelerate development by facilitating skills transfer and creating pockets of excellence;
> motivate, engage and retain key talent by enabling work/life integration and the experience of alternative career paths; and
> cultivate future leaders by building leadership capability across middle management and nurturing future leaders.

A few of the critical success indicators of the programme include:

> 42 percent of participants received promotions.
> one finalist and two semi-finalist FLDP participants were nominated in the Standard Bank Raising Star Awards 2016.
> candidates were 85 percent satisfied that the programme added value to their growth and development.
> 90 percent of participants successfully completed the FLDP to date.

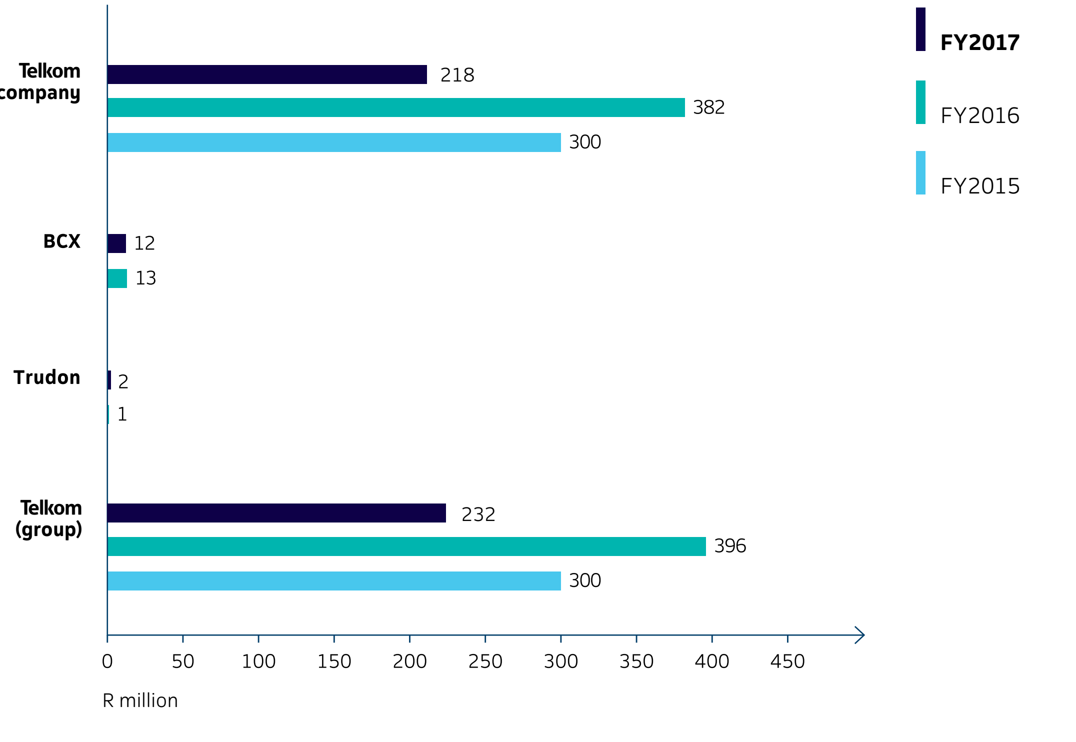
The second FLDP was approved and 46 women are in the process of being presented for verification and approval. Refer to the human capital supplementary report available online for case studies on the FLDP.

Employee training and development

Telkom operates in a rapidly changing environment. To ensure we remain relevant, we are committed to develop our employees, both technically and personally. We provide a combination of classroom training and on-the-job training.

Telkom spent a total of R218 million on employee training and development, with each employee receiving an average of 38.45 hours of training. The decrease in training and development spend was largely a function of headcount reduction and the restructuring of our training programme.

Training and development spend



Human capital – continued

Deep succession plans
Succession maps were developed for 69 leadership roles. These include identification of emergency, short-term and long-term successors.

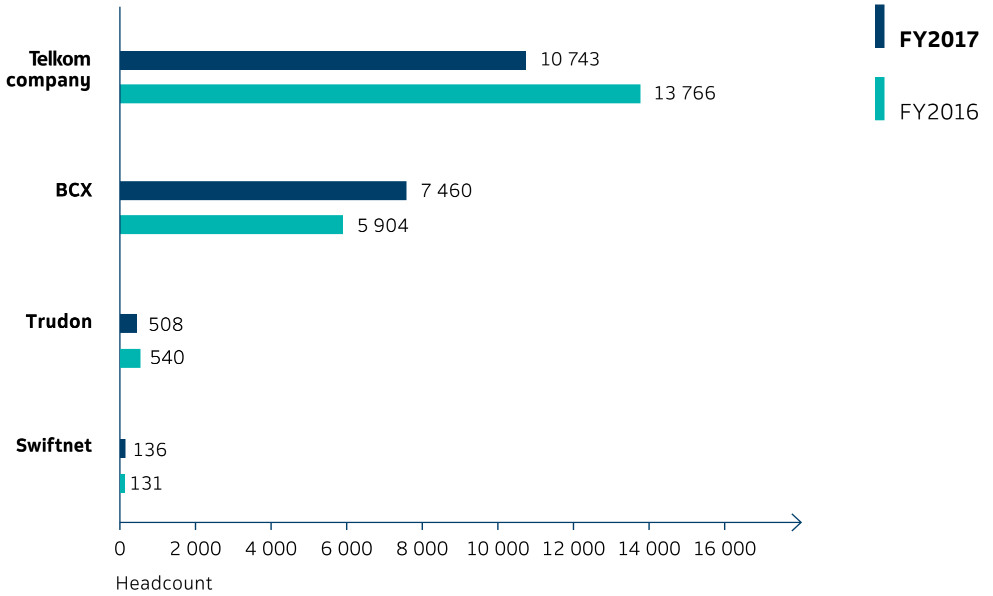
Focused and fast-track development plans for the identified successors will be implemented to ensure future readiness and manage future risk.

Impactful performance management
Telkom company has a new variable-based incentive scheme for bargaining unit employees, known as Performance Pays. Performance Pays focuses on customer satisfaction and productivity metrics, and replaces the current STI scheme, which is primarily driven by group financial performance.

This empowers and enables bargaining unit employees to be more in control of their own destiny and rewards, and gives more direct and clear linkage between individuals' efforts and their monthly pay.

Relevant remuneration
Remuneration is discussed on page 108. This provides details of STI and LTI programmes for employees in addition to the Performance Pays initiative.

Workforce
In order to effectively and sustainably position our business for future growth, permanent employee headcount was reduced by 1 494 in FY2017. This year brought stability, at an employee complement of 18 847 (FY2016: 20 341).



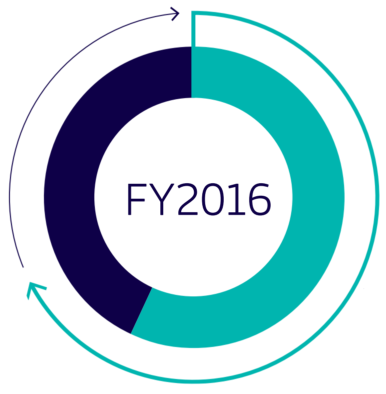
The 22 percent decrease in permanent workforce in Telkom company was primarily due to the transfer of 1 180 employees to BCX as well as the effect of the VERPs and VSPs offered.

Transformation
Transformation speaks to culture empowerment, diversity and respect.

Diversity and inclusion
Telkom believes that blending different cultures, experiences and perspectives in the work environment promotes innovation, improves our ability to tackle challenges, and creates a forward looking and engaged environment. Gender, age, race, culture, and disability are all elements that contribute to this. Our EE plan and disability policy, approved in July 2016, guides us as an equal opportunity employer.

Our female representation as a group reduced to 32 percent (FY2016: 42 percent) mainly due to VSPs and outsourcing. Even though at a group level the female representation reduced, BCX and Trudon increased female representation by 3 percent and 2 percent respectively.

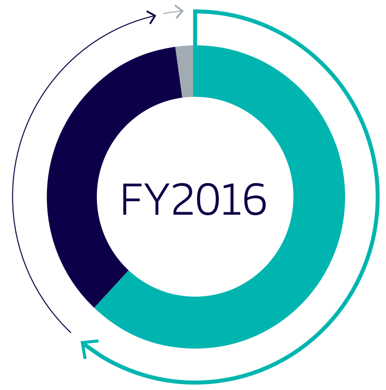
Telkom group: Gender breakdown of permanent employees



FY2017		FY2016	
68%	Men	58%	Men
32%	Women	42%	Women

Our 2017 figures included BCX, which has operations outside of South Africa.

Telkom group: Racial breakdown of permanent employees

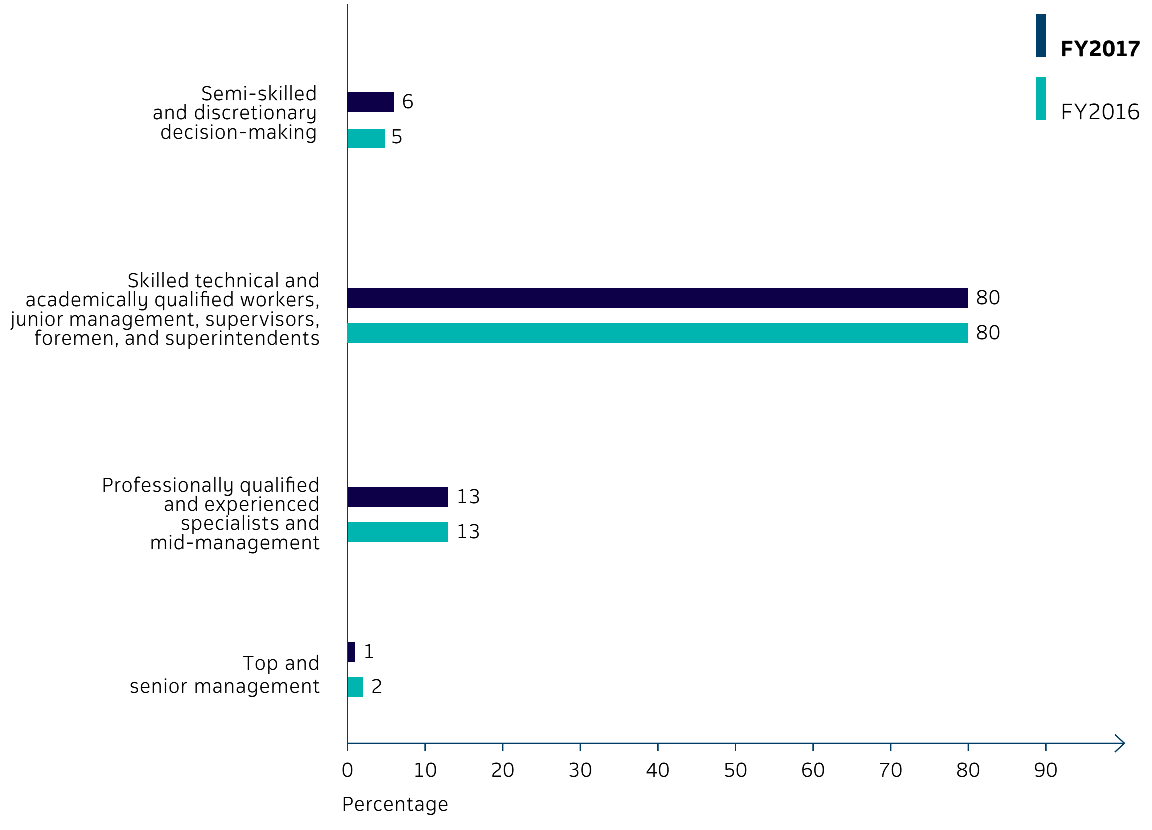


FY2017		FY2016	
64%	Black South Africans	62%	Black South Africans
34%	White South Africans	36%	White South Africans
2%	Non-South Africans	2%	Non-South Africans

Human capital – continued

The group employs 158 disabled people (2016: 209).

Occupation level breakdown of disabled employees



Total number of permanent Telkom company employees belonging to a recognised union for FY2017 was 70 percent (FY2016: 80 percent).

Total number of permanent BCX employees belonging to a recognised union for FY2017 was 15 percent (FY2016: 10 percent).

The rights to freedom of association and collective bargaining were upheld across the group.

Organised labour

Over the past few years, the group has experienced significant structural optimisation and transformation.

We continue to maintain positive relationships with organised labour. While we have processes in place to ensure open and effective communications with unions, we recognise that building and maintaining trust requires constant attention. The group lost 34 days to industrial action during the year (2016: 15 days). This was primarily due to salary negotiations that were ultimately resolved.

The rights to freedom of association and collective bargaining were upheld across the group. The following significant labour-related agreements were concluded:

> collaborative partnership agreements with two recognised unions addressing principles around performance pay, retrenchments and outsourcing

> engagement framework agreement with two recognised unions that outlines the strategic engagement platform at which Telkom will brief, interact and update the recognised union leadership on all group and business unit progress, initiatives, changes and strategic direction

> the full-time shop steward agreement was replaced

Occupational health and safety (OHS)

Safety, health and well-being

It is critical that we manage our employees' safety, health and well-being to maintain our human capital, and ensure we create and maintain a resilient, productive and agile workforce, thus enabling our employees to create value within our business.

Safety, health and well-being form part of our employee value proposition, contributing to us being identified as an employer of choice.

In addition to our employees, we have a responsibility to ensure the health and safety of our contractors and customers.

How we manage OHS

Safety, health and wellness are strategically managed by the group's OHS division. The strategy is implemented at business unit level with support from the regional OHS consultants and the group.

OHS management is guided by the OHS strategy, policies and a health and safety system, all of which ensure compliance with the OHS Act, 85 of 1993, and other applicable legal requirements. The health and safety system managed by the OHS division is OHSAS 18001:2007 accredited.

As per the requirements of the OHS Act, health and safety management is supported by health and safety committees and representatives. The social and ethics committee oversees safety, health and wellness. Ultimate accountability rests with the board.

To ensure we comply with health and safety standards and that we provide a safe working environment, we implemented a OHS audit programme for our operations. To date, we conducted 257 OHS audits nationally.

The year in review

Occupational safety

We refined our health and safety management approach, aligned incident classification and methodologies to global best practice. Historically, Telkom's focus regarding health and safety was compliance, audits and medical surveillance. While we have achieved success in those areas, we began a drive to move beyond compliance and embed health and safety within our culture.

Telkom's performance improved from the prior year.

"Safety starts with me" campaign was run at the end of 2016 to educate employees on the risks and promoting safe behaviour.

KPI	FY2017	FY2016
Fatalities	**0**	3
Lost time injuries	**182**	239
Total recordable injury frequency rate	**1.68**	2.02
Lost time injury frequency rate	**1.37**	1.39

The safety data excludes Trudon and BCX. Trudon and BCX are in a process of aligning definitions and methodology with Telkom. Their data will be included in FY2018.

Human capital – continued

Occupational health

Occupational health is managed through the industrial hygiene monitoring programme and a risk-based medical surveillance programme. As part of these programmes, indoor air quality, illumination and noise levels are monitored, and entry, periodical and exit medicals are required based on the specific risk profile of the position. No occupational illness risks were identified during the year.

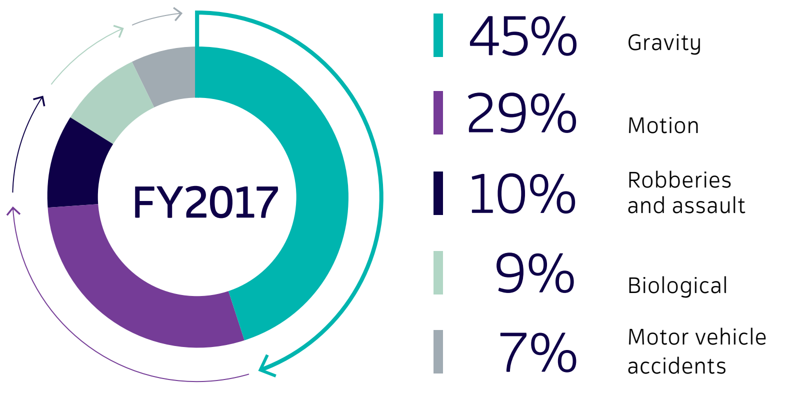
Trudon and BCX are in the process of aligning definitions and methodologies with Telkom, and their data will be included in the FY2018 integrated report.

Due to the nature of BCX and Trudon operations, no significant health and safety risks were identified. Limited and no injuries respectively were recorded. The injuries at BCX were as a result of lifting, carrying, and falling on stairs. Training was undertaken to address these risks.

Telkom, through our annual risk assessment, identified the high-risk areas as:

1. Gravity – slips, trips and falls
2. Motion – lifting and pushing
3. Robberies and assault
4. Biological – bites, stings etc
5. Motor vehicle accidents

Injury on duty causes



Of the 223 recordable injuries (medical treatment cases, lost-time injuries and fatalities) for Telkom, 46 percent is due to gravity, and 30 percent due to motion, in the technical field work areas 93 percent of injuries occurred.

In response to the injuries, Telkom company developed an Openserve SHE strategy which focuses on implementing a systematic management approach to OHS, and improving leadership accountability to create an incident and injury-free workplace. A risk assessment was conducted to identify safety gaps and high-risk areas. Action plans were developed to mitigate the risks, and resources were allocated through the Openserve OHS strategy, which was approved by the Openserve exco.

Telkom company experienced challenges regarding the quality and diligence of OHS management by our contractors. In response to this, we introduced OHS KPIs for new and existing service providers. These KPIs will be used to monitor contractor compliance with OHS requirements. Contractor OHS audits will be conducted to verify and validate contractor performance. A consequence management model will be instituted for non-compliant contractors.

Telkom company employee wellness

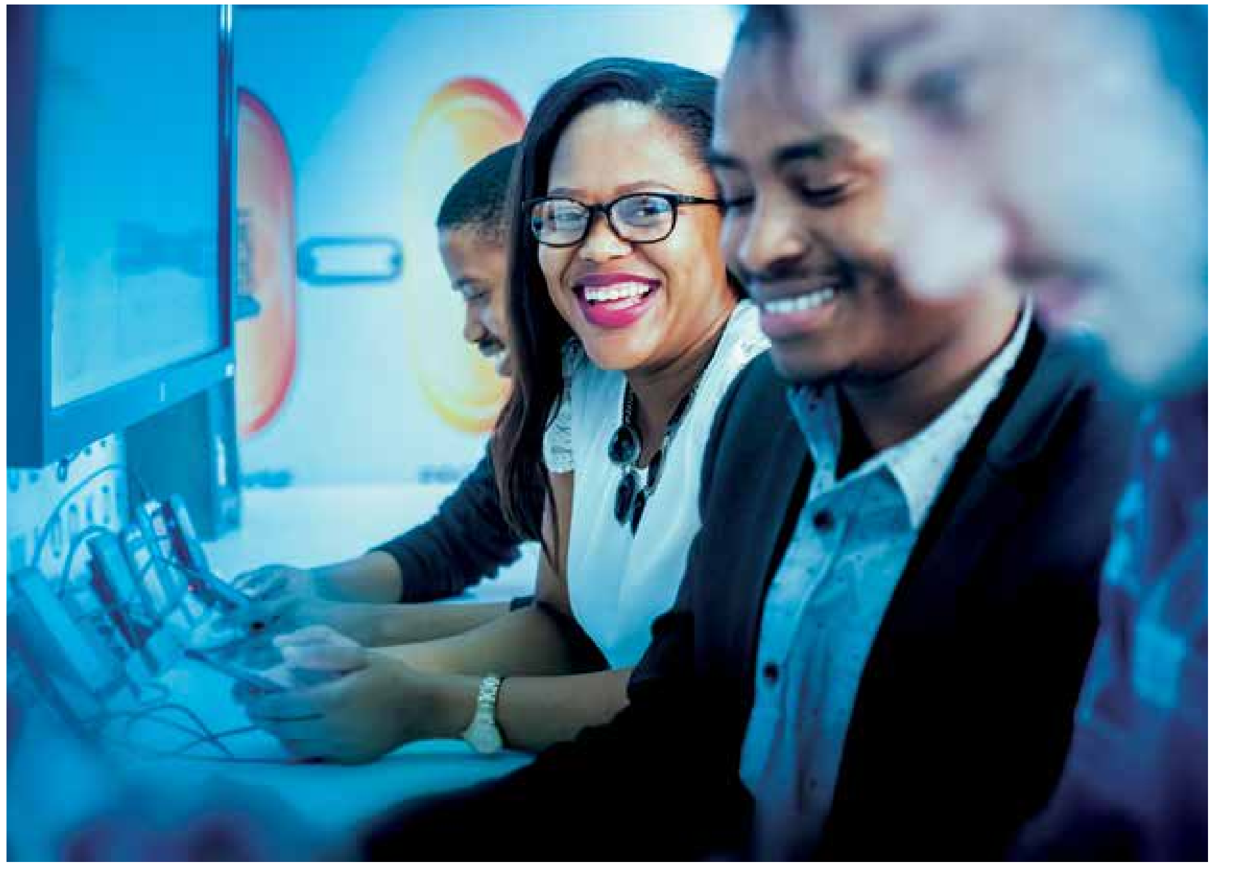
The following programmes comprised the focus of the year's investment in wellness:

> Employee assistance programme: This voluntary programme offers sponsored counselling and psychology sessions specifically aligned to the individual's needs
> Thuso wellness programme: For over a decade this programme continues to offer employees and their families the opportunity to undergo health screening, which includes human immunodeficiency virus (HIV) and tuberculosis screening, and receive subsequent counselling, support and treatment

HIV statistics	FY2017 Employees	FY2016 Employees	FY2015 Employees
Number of people who agreed to HIV counselling	377	4 521	4 780
Number of people who agreed to be tested for HIV	365	4 234	4 482
Number of people who tested positive for HIV	10	60	109
Number of people who started antiretroviral treatment (ART) during the year	28	31	43
Number of people who stayed on ART	257	364	386
HIV prevalence rate	2.73%	1.41%	2.43%

The above demonstrates the HIV statistics for Telkom, excluding BCX and Trudon. There has been a large decrease in voluntary HIV testing and counselling for FY2017. This is mainly as a result of testing that took place at the Telkom head office campus only and was not, as previously, a country-wide initiative.

Although Trudon and BCX outsourced their employee wellness to their medical aid providers, their employees have access to the Telkom programmes.



Human capital – continued

Looking forward

Going forward, in the effort to achieve more efficient and effective outputs from our human capital, safety, health and wellbeing will be considered holistically. Our business units will conduct 360-degree risk assessments to profile and categorise safety, health and wellness risks. The intention is to proactively manage occupational injuries and reduce lost time early injury management. For example, Openserve's operations require a significant number of technicians to drive. Through managing driver behaviour and fatigue, potential injuries will be reduced.

OHS incident classification, investigation and reporting methodologies and management will be integrated and aligned across the group. As part of continual improvement and fostering the safety culture within the organisation, the following key initiatives will be implemented:

> keeping abreast of the OHS legal requirements - in January 2017, the Department of Labour published the Draft Ergonomics Regulations for comments. The requirements will be analysed and appropriate actions and controls will be developed to ensure compliance once promulgated

> the Openserve OHS strategy - to reduce workplace injuries at Openserve, and build and foster the safety culture and behaviour

> strengthen our relationships with our contractors - Telkom will hold "Contractor Safety Stand-downs" in all regions to facilitate and improve contractor OHS awareness and compliance, and improve the measurement, monitoring and reporting of contractor safety performance

> the integrated occupational health and wellness programme – the programme will offer end-to-end occupational health, safety, and well-being (organisational and individual) solutions. The intention is to maximise the effectiveness of safety interventions and initiatives across the organisation to ensure a healthy and resilient workforce

Social and relationship capital

Through generating societal value, we will create business value and vice versa. We do this through our responsible and impactful business activities and relationships.

Through building healthy social and relationship capital, we contribute to national and global development goals, comply with legislation, drive our business strategy, create shared value, promote transformation, and maintain our social licence to operate.

How we manage social and relationship capital

We combined our activities responsible for integrated social impact under one portfolio in the corporate social responsibility (CSR) department. This department comprises the Telkom Foundation; the FutureMakers programme; and skills development, and sustainability initiatives. The Telkom CSR department and the corporate social investment (CSI) units of BCX and Trudon are the vehicles through which the group's social capital is managed. The Telkom Foundation strategy, BCX's CSR strategy and Trudon's CSI policy guide the management of social capital.

Who we engage with, why we engage them, what we engage on and how we engage, determine the quality of our stakeholder relationships and our ability to achieve our strategic objectives. Our stakeholder engagement is integrated throughout our business and is guided by our material themes. Refer to page 42 for more information on our stakeholders.

42

Management control

Telkom has EE policies and is implementing a strategy to support workforce transformation across all occupational levels per the economically active population.

Through focused recruitment, especially at senior levels with a specific preference to the most under-represented groups (including black women and people with disabilities), the aim is to increase management representation. Succession planning and other talent development strategies are being aligned to employee equity plans, in particular the FLDP. The main objective is to support the succession plans that address under-represented females at senior management levels. These initiatives are further detailed in human capital on page 76.

76

Social and relationship capital – continued

B-BBEE in review

We recognise that sustainable transformation is at the heart of our B-BBEE status, and apply a "beyond compliance" perspective when addressing our B-BBEE status.

Based on the new ICT sector codes which have more stringent requirements we are a Level 6 contributor. Transformation and sustainability remain key components to our overall business and we have initiated strategies and programmes to improve our status.

R234 million has been invested into the fund since inception on 7 May 2015.

Skills development

Skills development continues to be a significant focus area. The following initiatives contribute to skills development:

> FLDP
> leadership Accelerated Development Programme, a new programme aimed at supporting talent development at senior management levels
> training and development of employees (refer to page 80)
> the digitally focused career and leadership programme will be launched in FY2018
> internships and learnerships for employed and unemployed black youth (refer to page 79)
> partnerships with institutions such as WTC to address the IT and digital skills gap of youth and create a future talent pipeline (refer to page 79)
> BYM programme aimed at disruptive recruitment and talent development (refer to page 78)

80
79
79
78

Enterprise and supplier development (ESD)

Telkom's ESD programme, FutureMakers, demonstrates our commitment to SME development. Launched in May 2015, the initiative is aimed at enhancing market access opportunities, driving ICT innovation, and fostering inclusive participation of majority black-owned ICT businesses in Telkom's supply and value chain.

The primary objective of the programme is to enable the development and growth of qualifying black-owned businesses in the ICT sector by providing financial and non-financial support. In turn, these businesses will drive job creation.

R234 million has been invested into the fund since inception on 7 May 2015. During the year, FutureMakers invested R106 million (FY2016: R128 million) in SMME development. Of this, R50 million was set aside to provide corporate and micro-financing support, and R63 million was approved for debt or equity financing, benefiting 11 black-owned small businesses. More than 39 Telkom suppliers accessed working capital. These funded businesses created more than 1 102 new jobs. In addition, R40.4 million was invested in providing non-financial support such as connectivity, office space, mentorship, training, and business management systems.

Supplier development

Through supplier development, we aim to diversify Telkom's supply chain by facilitating the integration and development of qualifying black-owned businesses in the ICT sector. The programme encourages the buy-back of skills from former employees by helping them to set up businesses and manage operations, and providing these businesses with a procurement contract. Key initiatives included:

> **Independent field technician (IFT)**
Growing IFT beneficiaries from three black-owned technician businesses employing 12 technicians in December 2015, to 40 black-owned technician businesses employing 364 technicians by March 2017. These technicians' businesses invoiced approximately R130 million to Telkom during FY2017

> **Innovation**
This programme supports digitally innovative start-ups and existing businesses to generate ideas, and develop and commercialise their business solutions. Telkom intends taking these technology business solutions to market, as this is seen as a revenue stream for Telkom

In this regard:
- Three hubs received financial support (Bandwidth Barn in Cape Town, Propella in Port Elizabeth, and Tshimologong in Johannesburg). The hubs supported over 1 000 technical entrepreneurs by various means, including: virtual and physical business incubation; business development support; hot desks; technology events; connectivity; and market access
- The Microsoft Accelerator programme was initiated, benefiting six black-owned businesses through business development support, technology architecture and market access

> **Channel development**
is about building sales force capacity through setting up black-owned sales and distribution partners to enable Telkom to diversify its revenue channels, penetrate the informal market, and enhance product access and brand visibility in areas where we have low representation. A structured initiative called FuturePartner Channel programme was initiated and achieved the following:
- four black-owned Express stores were built
- 11 black-owned dealers were set up and enabled to sell Telkom products
- 24 internet cafés are operational and sell prepaid Telkom products
- partners on the FuturePartner Channel programme generated R7.2 million revenue from Telkom

Telkom's digital faculty

Telkom understands that the educational performance of a learner is influenced by numerous other socio-economic factors, and in order for our direct education investment to have the intended impact, we invest in social development to enable our education focus area. The social development programme continued to support the following partnerships during the year:
> Childline and Lifeline: provided toll-free access to trained support personnel
> Love Life Trust: provided ICT equipment and connectivity support to six centres in six provinces, increasing reach to more than 500 youth daily
> Families South Africa: provided social support to learners of schools benefiting from the partnership with Nelson Mandela Metropolitan University for a maths and science supplementary programme

Social and relationship capital – continued

FutureMakers builds strategic relationships with key stakeholders to enhance a collaborative approach to developing SMEs.

This approach enables partners to cooperate and share expertise and resources. We value the key partnerships that drive this programme. Partnerships include local enterprises such as SizweNtsalubaGobodo, Thrifty Car Rental, and TIA; and global corporates such as Microsoft, Accenture and Cisco.

"Telkom FutureMakers has been invaluable in helping us grow our business. With exposure to networking, infrastructure, a venue (to conduct business) and access to finance… I could just list so many things they do, it's incredible."

"A kid in matric will come through and say, 'I want to apply online to university'. I will then help them, not spoon feed them, let them make a mistake."

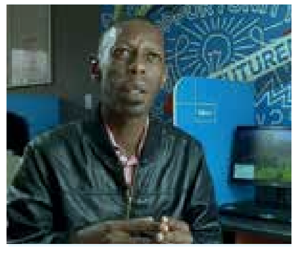
Meet Thulisile Volwana and Sabelo Sibanda,
Owners of Tuse

Tuse makes communications technologies available in places with little to no signal through wireless mesh networks. They believe their business will help people in marginalised, rural areas that do not have communications infrastructure, through enabling ICT for development, health, and education.

"Basically, to try save the world in our tiny little way."

Their company was started as the result of an initial innovation – the development of Africa's first solar-powered tablet PC.
"We missed the most important part of the entire value chain in which the tablet PC would exist. We needed to make sure people were connected. So we went about trying to solve the connectivity issue."

Telkom FutureMakers, through one of its hubs – Propella, provided Tuse with business incubation and business development support. Tuse also received funding and advice from another Telkom FutureMakers partner, the Identity Development Fund.



Meet Mandla Phakathi,
Owner of Netroutes

Mandla owns an Internet café, supported by Telkom FutureMakers, in Vosloorus. It was a challenge opening this type of business in a community with low computer literacy. His time is spent running a business and being available to help those in need.

However, the greatest challenges bring the greatest rewards. "It's very rewarding when someone comes through, and they come to you and say – 'through your Internet café I was able to find a job, it's through you and your help that I was accepted into University of Johannesburg (UJ)'."

Telkom FutureMakers helped Mandla grow his business in terms of revenue through selling Telkom products and assistance with branding, and "over and above that, how they've helped me, they've married into the vision of where I want to go".

"Over the past three years Telkom Foundation invested R85 million in education. Telkom Foundation, BCX and Trudon collectively invested R38.4 million in education in FY2017."

Socio-economic development

The Telkom Foundation, BCX and Trudon CSI drive Telkom's social investment. We continued to focus on education, enabled by social development and employee volunteering.

The education focus area aims to improve learner results through high school scholarships, supplementary education, and tertiary bursaries. The desired impact is to enable access to tertiary education to create an ICT-educated, innovative generation that will contribute positively to the sector and economy.

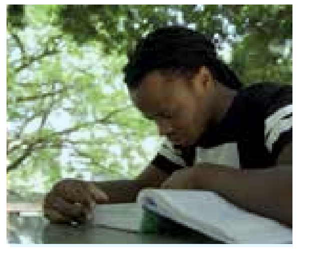
The Telkom company and Trudon high school scholarship programme places learners, with academic promise from disadvantaged backgrounds, into better resourced schools. The Telkom programme supported 33 grades 9 to 12 learners in three provinces, all of whom matriculated, and five learners enrolled for tertiary studies. The Trudon programme, a five-year programme started in 2013, continues to support a total of 16 learners in grades 9 and 11.

The supplementary teaching programme, through multiple projects, provides learners with additional classes in maths, science, technology and English. The programme benefited over 3 900 learners in five provinces, and resulted in an average improvement of 3 percent to 5 percent in maths and science results. Trudon CSI engaged in a three-year partnership with a maths centre in Mdantsane, Eastern Cape, to intervene in 10 high schools to enhance educator and learner performance in maths and science.

Trudon CSI provided nine full bursaries to students at a public-accredited South African university to continue their second year of ICT studies. This increased the number of students participating in the programme to 15.

BCX implemented an IT laboratory in partnership with the League of Friends of the Blind, in the Western Cape. This initiative allows blind grade 12 learners to write their matric examinations with the aid of technology. Although successful, the challenge of connectivity in rural areas persists.

Trudon CSI bursary student participated in the South African Tertiary Maths Olympiad 2016



Our bursary student, **Bhomela Mzimasi** – a BSc Mathematical Science student at UJ – was selected to participate in the Tertiary Maths Olympiad 2016. At the end of 2015, Bhomela was in the top 15 of his class, resulting in him attending a "Maths Camp" and an invitation to join the UJ Olympiad training group. During the year, the training group attended fortnightly training sessions to prepare for the competition. Although the winner of the Tertiary Maths Olympiad 2016 was the University of Cape Town, Trudon CSI is very proud of Bhomela.

The Telkom company employee volunteering programme and BCX "LetMeLearnMyTime" and "LetMeGive" support our education focus area and encourage employees to contribute to our social capital. In excess of 340 hours were volunteered by Telkom company and BCX employees to causes such as food security, literacy and cyber safety workshops.

Outlook

Going forward, the group will pursue the concept of shared value, creating a direct link between the community's and the group's competitiveness. We will strive to achieve impact, structuring our interventions to be focused, linked and empowering. This involves re-evaluating strategies and policies to ensure collaboration across the group; aligning new and existing programmes, projects and initiatives to the strategic objectives of the business; and responsibly exiting misaligned projects.

The Telkom Foundation recently developed a long-term strategy that will align to the new ICT charter. It is ultimately aimed at producing a pool of individuals from disadvantaged communities that are highly skilled in ICT and who will contribute to the sector and economy. This will be achieved through the provision of structured support at basic and tertiary education level, and facilitating access to economically productive opportunities in the ICT sector.

Natural capital

Natural capital is integral to a functioning and sustainable society and economy, and so supports Telkom's other capitals.

3MW grid-tied solar photo-voltaic (PV) plant at Telkom campus, a R88 million investment, became fully operational in July 2016. Since then it has generated 3 708 MWh. This is 90% of our Telkom campus daytime energy demand, excluding the data centre.

In order for Telkom to generate revenue, it requires multiple inputs including products, services, labour and market demand.

Sustaining these inputs are the assets and services provided by the natural environment, such as fossil fuels for electricity and transport, land for the food we eat, mineral resources for product manufacture, potable water, a regulated climate, and clean air. During our business activities, natural capital is either enhanced or destroyed by operational trade-offs made over the short, medium, and long term.

The majority of environmental data collection, collation, and management is outsourced to a facilities management service provider.

Our natural capital management is guided by our sustainability strategy, environmental policy statement and climate change policy statement. Due to Telkom's restructuring, the dissemination and implementation of the strategy across the group was delayed. As a result, the management of our natural capital across the group remained fragmented and compliance driven.

The Telkom OHS division retained its ISO 14001:2004 environmental management system certification.

Telkom's natural capital management is guided by our sustainability strategy, environmental policy statement and climate change policy statement.

Climate change

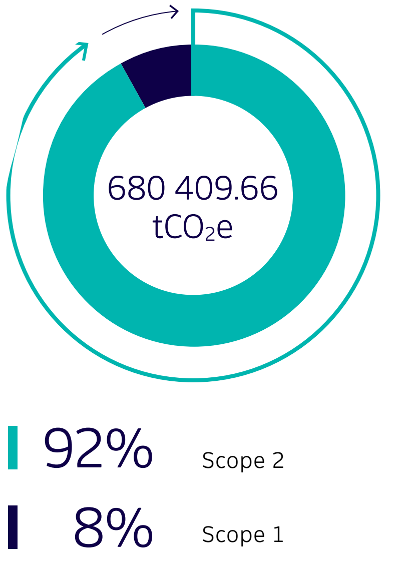
The UN Climate Change Conference (COP22) saw increased global commitment to implementation and action on climate change. South Africa is one of 111 countries that share in this commitment through ratification of the Paris agreement (UN Framework Convention on Climate Change). This deals with greenhouse gases emissions mitigation, adaptation and finance, starting in the year 2020, as well as submission of its national emissions reduction targets (nationally determined contributions).

Telkom realises the vital role business has to play in supporting South Africa to reach its goals. The impending carbon tax forms part of this international commitment. While our operations are not significant emitters, there are complexities to the tax that have the potential to impact us directly or through our value chain. Emissions mitigation efforts take time to be implemented and, therefore, we need to be proactive in implementing without undue delay.

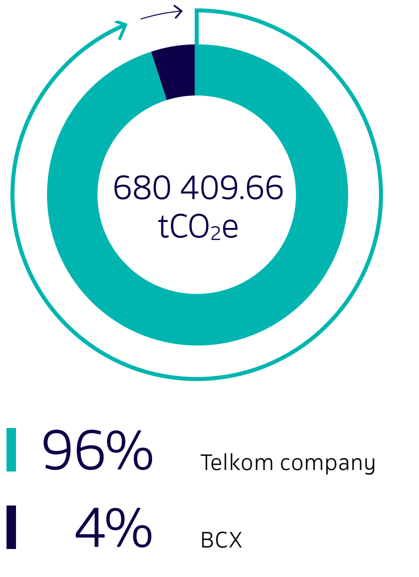
Telkom expanded its reporting scope to include BCX and Trudon, and refined its calculation methodology to include more actual data, for example, invoice-based, and assumptions based on actual data.

The total carbon footprint of the group is depicted below. Prior year data is only available for Telkom and BCX. It is therefore necessary to prioritise meaningful measurement, monitoring and reporting. Scope 3 data is not included in this year's report, however, a value chain assessment will be undertaken in the next year to determine material indicators.

Contribution to total carbon footprint per scope



Contribution to group carbon footprint



Natural capital – continued

As part of our commitment to managing our carbon emissions and contributing to the global knowledge base, Telkom continues to participate in the Carbon Disclosure Project (CDP).

KPI	Telkom	BCX	Trudon*	Telkom group
Scope 1 (tCO_2e)				
Refrigerants	23 715.69	338.25	*	24 053.94
Fleet	22 900.83	168.27	7.61	23 076.71
Diesel	7 750.02	81.33	*	7 831.34
Total scope 1	**54 366.54**	**587.85**	**7.61**	**54 961.99**
Scope 2 (MW)				
Electricity	596 677.82	28 482.52	287.34	625 447.67
Total scope 2	**596 677.82**	**28 482.52**	**287.34**	**625 447.67**
FY2017 total carbon footprint (tCO2e)	**651 044.36**	**29 070.36**	**294.94**	**680 409.66**
FY2016 total carbon footprint (tCO_2e)	714 204.59	30 643.54	*	744 848.12
% change year-on-year	(9)	(5)	*	(9)

** Limited data available for Trudon.*

Due to the size and nature of its operations, Telkom is the primary contributor to carbon emissions, of which the most significant source is electricity consumption. Telkom company's total carbon footprint for owned buildings (651 044.36 tCO_2e) was externally assured. We use the carbon footprint analysis to inform the direction and scale of our initiatives to reduce our emissions.

The 9 percent decrease in carbon emissions from the prior year is primarily attributed to:

> the implementation of 50 smart meters to measure electricity consumption in key buildings, which resulted in more accurate and reliable data, and improved calculation methodologies

> the rollout of the energy-efficient light-emitting diode (LED) lighting initiative which replaced conventional lighting systems in 900 buildings nationally, with sustainable lighting based on LED technology

> the implementation of a building management system at the Telkom campus. This automation system monitors and controls multiple facilities elements, including air conditioning, power distribution, lighting, and water usage. This results in more efficient operation of our buildings, and reduced energy and water consumption

As part of our commitment to managing our carbon emissions and contributing to the global knowledge base, Telkom continues to participate in the CDP.

Telkom carbon footprint only includes our owned buildings and excludes leased buildings.

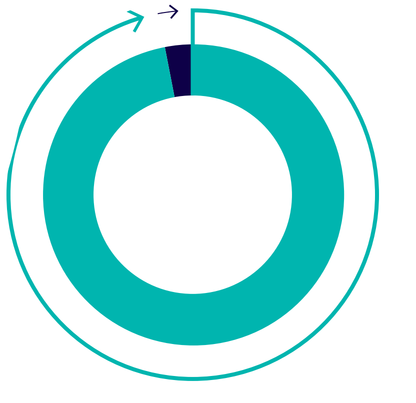
BCX data excludes all BCX International operations as well as other small South African operations such as Integr8, Accsys and Smart Office Premises.

This year we refined our calculation methodology to include assumptions based on actual data, and we included BCX and Trudon in the scope of reporting. Telkom's water consumption data covers owned buildings and leased buildings where utilities are excluded from the lease agreement.

Water

The ongoing drought and water restrictions have demonstrated the impact water scarcity can have on South Africa. If prolonged, this had the potential to impact our business operations. While the group is not a water-intensive business – using water primarily for cooling, drinking, catering, hygiene and landscaping – it is a responsible citizen. Occupying in excess of 7 000 premises, our footprint is large and we need to manage our consumption. Water data is collected using municipal invoices, and is based on what is billed. This is a challenge, as municipal billing is often based on estimates and, in some cases, only a rand value is provided. However, this year we refined our calculation methodology to include assumptions based on actual data, and we included BCX and Trudon in the scope of reporting. Telkom's water consumption data covers owned buildings and leased buildings where utilities are excluded from the lease agreement. The total water consumption for Telkom company of 443 743 kℓ was externally assured. The flow restrictors resulted in an approximate 40 percent savings from a normal flow rate. In addition, implementation of air-cooled heating, ventilation and air conditioning (HVAC) systems in our campus data centres is underway. As the data centres require 24 hours a day, 365 days a year of cooling, converting to air-cooled HVAC technology will significantly reduce the amount of water used. The building management system improved the efficient use of water on campus.

Total water consumption for Telkom group is 1 496 905.91 kℓ.



97% Telkom company

3% BCX

Telkom water consumption only includes our owned buildings and excludes leased buildings.

BCX data excludes all BCX International operations as well as other small South African operations such as Integr8, Accsys and Smart Office Premises.

Natural capital – continued

Waste

Based on our operations, it is presumed that our most significant and environmentally impactful waste streams, both internally and within the value chain, are cabling (copper and fibre-optic) and e-waste (batteries and electronic equipment). It is our responsibility to mitigate the environmental impact of these waste streams through responsible management, re-use, recycling and disposal.

Telkom company's cabling and e-waste is managed by Openserve supply chain management through a service provider responsible for reverse logistics. In this process, products no longer of use to Telkom company (such as out-of-service copper cabling, damaged fibre-optic cabling, ineffective payphones, and defective computers) are collected by distribution centres across the country and sent to a central hub.

Telkom's cabling and e-waste (tonnes)

Waste stream	FY2017	FY2016
Copper	**2 035**	1 582
Optic fibre	**398**	228
Batteries	**502**	324
e-waste	**202**	471
Total (tonnes)	**3 137**	2 605

All e-waste is auctioned to various approved e-waste recycling companies based on their ability and expertise to responsibly dispose of these materials in line with legislation and best practice.

Cabling is sold to Sindawonye, a recycling company, where the cabling is processed using environmentally and socially responsible techniques (no chemicals or burning). Copper recovered from the recycling process is sold to local and international markets. Fibre-optic cables are recycled through the Thembani Eagle Hout Integrated Project. This sensitive, labour-intensive process provides employment and empowerment for an Eastern Cape rural community, with 22 families relying solely on this project as a source of income.

The higher demand for fibre in the last year increased the fibre-optic waste due to unusable scrap offcuts and damaged pieces.

FY2016 saw large quantities of computer equipment recycled due to the consolidation of facilities and employees to Telkom Centurion campus. This stabilised during FY2017 and, as a result, computer equipment e-waste decreased by 103 tonnes. In addition to this, there was a decrease of 83 tonnes in payphone e-waste from the prior year. As payphones have become obsolete and not replaced when scrapped, it is expected that payphone e-waste will reduce over time.

This year BCX began to quantify the number of units of e-waste disposed. This included PCs, laptops, screens, printers and general e-waste; printers making up the majority of the total 5 878 units disposed.

Telkom group's additional solid waste streams include municipal waste, garden refuse, and paper. Telkom, through its facilities service provider, measured a limited portion of these additional solid waste streams. However, Telkom has a "no bin at desk" policy, which encourages the use of the recycling areas provided.

Paper-saving copiers with a printing time limit were installed to reduce excessive printing, and thereby paper wastage. BCX's total landfill waste decreased by 19 percent, and total recycled waste increased by 68 percent. A significant portion of the recycled waste was paper due to the move of office premises.

Outlook

Our primary focus for FY2018 is to refine our sustainability strategy to be inclusive of our subsidiaries and aligned to our future outlook. An integrated management approach will be developed to move the group beyond compliance, to embedding sustainability to maximise value.

Telkom will undertake a value chain assessment to understand our material impacts on natural capital upstream and downstream of our activities. The initial focus will be on solid waste streams and carbon emissions (Scope 3).

BCX is moving to more environmentally responsible offices in 2018. The building design has been rated four stars by the Green Building Council of South Africa.

Climate change

PV project is complete and adds value to our business, and we are investigating the following initiatives to further reduce our energy consumption and, therefore, our emissions and costs:

- The implementation of an EMS based on ISO 50001
- An energy audit at Telkom campus to determine an energy baseline, and identify high-energy-consuming equipment and wasteful use
- The development of a 3MW trigeneration (gas) plant at our campus to supplement the required base load and reduce our dependence on the national power grid
- Based on the performance of the current electricity meters, we will look to increase the number of metered sites, improving accuracy and reliability of data
- We will continue to roll-out energy-efficient LED lighting, smart lighting and climate control initiatives to more sites
- The sustainable power to strategic sites initiative will install solar/PV systems at other Telkom strategic sites
- At the Telkom head office campus we will offer employees and visitors the use of six electric vehicle charging points, connected to the solar/PV plant, at no cost

Water

Proof of concept was completed at 15 of our sites to install smart water meters. As a result, we will be able to verify municipal bills, benchmark facilities' water usage, and more effectively manage our water. Other sustainable water management initiatives that will be investigated during the next year include rain water harvesting and water recycling (use of grey water).

Waste

During FY2018, integration and standardisation of waste management will be considered.

04

Transparency and accountability

Corporate governance report

We consider good corporate governance as essential in enhancing the value of the group and the foundation of a sustainable business.

At Telkom we ensure the group's commitments to its stakeholders are met while supporting our long-term strategy and competitiveness through our corporate governance structures. Effective strategy and operations enable us to build a sustainable business by being cognisant of our economic, social and environmental surroundings. Our efforts towards sustainable and transparent business practices are reflected in our inclusion as a constituent of the FTSE/JSE Responsible Investment Index Series. As a responsible corporate citizen, we consider the short and long-term impact of our decisions on the economy, society and environment to avoid compromising the environment in which we operate, and the livelihood of future generations.

As a JSE-listed company, we fully comply with the JSE Listings Requirements and the mandatory and non-mandatory principles of King III. We endorse the principles of the King Code and have a King IV implementation plan for FY2018. We comply with the Companies Act, 2008, the company's memorandum of incorporation (MOI) and other relevant legislation.

Corporate governance report | Governance at Telkom

Board charter

The board is responsible for directing the group towards achieving the Telkom vision and strategy and is accountable for the group's strategy, operating performance and financial results. It operates in accordance with a clearly defined, annually reviewed charter that outlines its duties, powers and responsibilities. The charter was last reviewed in June 2017, and can be found under board and committees on our website (www.telkom.co.za/about us). The board met its objectives as outlined in the charter.

Delegation of authority

The board has a formal schedule of matters reserved for it to consider and take decisions on. These include approving:

> strategy
> business plans and budgets
> significant acquisition and disposal of assets
> executive directors' appointments and remuneration
> the review and approval of significant group-wide policies and frameworks
> dividend policy
> integrated reporting
> interim and financial reporting
> capital expenditure for investment
> granting varying authority levels

The delegation of certain matters to board committees is described in the terms of reference of these committees. The delegation of authority is reviewed as and when necessary.

Delegation of authority

Board
The memorandum of incorporation sets out the authority delegated to the board by shareholders

Exco
The delegation of authority policy allows the board to delegate authority to exco

Board sub-committees and subsidiary boards
The board delegates authority to its sub-committees and subsidiary companies

Heads of department
The exco delegates authority to heads of department who delegate authority to members of their leadership team

Combined assurance

The group adopted a combined assurance approach, which integrates assurance and risk management activities. It aims to embrace the tasks of Telkom Audit Services (TAS); risk and management reviews; and specialised audits that test and validate the internal control environment. The "combined assurance", or "integrated assurance" approach delivers a planned and holistic approach regarding various assurance providers.

Telkom's combined assurance framework was compiled on the basis of King III, which recommended three lines of defence. The framework is aimed at improving and monitoring risk management, control and governance, across the business.

Management	Business functions	Independent assurance providers
Owns and manages risks and opportunities and is responsible for setting strategy, performance measurement, and establishing and maintaining risk management, control and governance across the business.	Oversee various categories of risks within a formal, robust and effective risk management framework. These include regulatory, compliance, legal services, group revenue assurance, ethics, business continuity and health and safety, information security, tax and ERM.	Provide independent and objective assurance of the overall adequacy and effectiveness of governance, risk management and control within the organisation as established by the first and second layers of assurance. This comprises the audit and risk committees, supported by TAS and other assurance providers such as the external auditors and others as contracted by Telkom.

The audit and risk committees oversees the implementation of the combined assurance model, resulting in combining, coordinating and aligning assurance activities across the various lines of defense, as outlined alongside, so that the assurance has the right depth and reach.

They oversee that the scope of combined assurance is informed by the risks and opportunities that materially affect the ability of the organisation to create value.

A crucial element of a successful and effective ERM programme is assessing and enhancing its maturity. In this context, as emphasised in the King Code, risk is positioned as a cornerstone of corporate governance and risk governance. Refer to page 50 for our ERM.

TAS coordinates its work with that of the other assurance providers, including the external auditors, to provide the audit and risk committees with the comfort that Telkom's significant risks are adequately addressed.

Internal audit

TAS, the internal audit function, provides independent assurance on the adequacy and effectiveness of the system of internal controls and risk management to manage the significant risks of the business down to an acceptable level.

Telkom's corporate governance structure ensures effective internal controls and monitors the management of significant matters. As an independent value-adding assurance provider, TAS provides assurance to the company's stakeholders on the system of internal control by performing the following functions:

> Evaluating Telkom's governance processes including ethics, especially the 'tone at the top'
> Performing an objective assessment of the effectiveness of risk management and the internal control framework
> Systematically analysing and evaluating business processes and associated controls
> Providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities

The group executive: TAS reports functionally to the audit committee and administratively to the chief financial officer, and attends the audit, risk and executive committee meetings by invitation. The function's activities are governed by the internal audit charter, which is approved annually by the audit committee.

The annual audit coverage plan is developed by applying a risk-based approach, and is reviewed and approved by the audit committee. It is revised regularly to ensure that it remains relevant to the key business priorities and changing risk environment. All work is performed by teams of appropriately qualified and experienced employees, supplemented by co-sourced service providers. TAS subscribes fully to the codes of conduct and ethics that are promulgated from time to time by relevant professional bodies. All work is conducted in line and complies with the internal auditing standards set by the Institute of Internal Auditors (IIA). 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 and risk committees and monthly to the exco. This enables the committees to ensure that prompt action is taken to address key areas of concern.

The group executive: TAS chairs the Telkom Combined Assurance Forum, which provides a communication platform for the assurance providers in Telkom and key input for the written assessment on the effectiveness of the internal control and internal financial control environment provided by TAS to the audit committee annually.

TAS is subject to a five-yearly independent quality review, either in line with International Internal Audit Standards, or as and when the audit committee determines it appropriate, as a measure to ensure the function remains effective. During FY2017 TAS was subject to such an Internal audit quality assurance review. The review was conducted by the IIA and TAS achieved a "generally conforms" rating, which is the highest level of accreditation in terms of the IIA's three-tier rating scale.

The IIA validator commended TAS for the role it played as proactive assurance provider in respect of projects of a strategic nature as well as for its real-time continuous assurance of the critical sourcing processes. TAS was also acknowledged for the effectiveness of its management action tracking process, which was considered to be conducted better than most of our peers.

Corporate governance report | Governance at Telkom – continued

The social and ethics committee report

The Companies Act, 71 of 2008, as amended, requires that the chairman of the social and ethics committee reports on matters within the committees mandate for the period ended March 2017.

The committee met four times during the year. During this time the reports that were reviewed by the committee took into consideration the requirements of the FTSE/JSE Responsible Investment Index Series that measures the environmental, social and Governance themes of companies.

Telkom continues to adhere and improve on these responsibilities, with the review and monitoring around the key areas of B-BBEE transformation and skills development, ethics and social responsibilities.

The group has suitable policies and frameworks in place to sustain its commitment to social and economic development, fair labour practices, environmental responsibility and good corporate citizenship.

Compliance with legislation, regulations, as well as codes of best practice were adhered to during the financial year ended March 2017.

Khanyisile Kweyama
Chairman of the social and ethics committee

Ethics

Promoting ethical conduct

Our BCOE sets out our standards for ethical behavior and together with the supplementary policies, provides a guide to employees on how they should conduct themselves and interact with fellow employees, our stakeholders and the public in general.

Ethics management supports and echoes the King III principle of effective leadership based on an ethical foundation. All initiatives from the ethics office are aimed at creating an ethical culture.

An in-house ethics survey was conducted among employees. The results of the survey revealed that the state of ethics improved. The survey results are being used to re-design the awareness and training required around ethics in the different business units.

Monthly induction sessions are held with new employees, and these are customised and designed to facilitate separate business unit sessions.

Matters referred to the ethics mailbox consisted mainly of customer complaints, with the view that account and service-related matters are regarded as ethical dilemmas if not resolved satisfactorily. Employees mainly enquired about work outside their scope of duties and guidance around conflicts of interest.

The ethics office continued to provide guidance and advice on ethical dilemmas, with the aim to structure the ethics strategy around awareness and training initiatives in line with the new operating model.

Zero tolerance of fraud and corruption

Corruption in South Africa is perceived to be worsening. According to Transparency International's 2016 Corruption Index, our country ranked 64 out of 176 nations. Perceived high levels of fraud and corruption could jeopardise South Africa's standing among foreign investors and negatively affect business confidence. Telkom has a zero-tolerance stance against fraud, corruption and irregular conduct.

A number of policies and interventions are in place to mitigate the risk of fraud and corruption, including the following:

- whistle-blowing policy
- prevention of fraud and corruption policy
- delegation of authority
- ongoing fraud and awareness training by the forensics department
- fraud risk assessments, whereby business units and their respective risk owners are responsible for addressing identified high risks
- suspected fraud or corruption in excess of R100 000 is reported to law enforcement as per the provisions of Prevention and Combating of Corrupt Activities.

Telkom Crime Hotline

In terms of uncovering fraud, hotline tips are at the top of the list of the most effective detection methods. Worldwide, tips received, especially from employees, consistently expose more occupational fraud cases than any other method, and often deliver faster and less damaging results.

Telkom Crime Hotline (0800 124 000) is a powerful tool for combating fraud, corruption and irregularities. External and internal incidents are reported on the hotline. Our hotline number stands out on all Telkom/ Openserve vehicles, making it visible and accessible to the public.

The Telkom Crime Hotline, independently managed by KPMG, can be reached 24 hours a day, and issues a reference number to every caller so that all reports can be followed up. Callers may remain anonymous if they wish, although past experience shows that investigations tend to go faster and more smoothly when the tippers identify themselves.

Employees can discuss any suspected fraud affecting Telkom with their line manager or take matters up with legal services, employee relations or ERM forensic investigations.

All employees and contractors are required to report any suspected breaches of the BCOE. During FY2017, a total of 4 469 internal and external incidents were reported, of which 2 031 cases were investigated. The rest of the cases:

- there was no sufficient information to substantiate the case reported
- customer and credit management-related queries that came through the Telkom Crime Hotline number as these were referred to the relevant departments

Corporate governance report | Governance at Telkom – continued

- External cases mainly related to cable theft (34 percent) and subscription fraud (20 percent).
- Internal incidents mainly related to thefts of assets (29 percent) and violation of the BCOE (17 percent).

The increase of cases investigated was due to the increase in cable theft cases. In all 28 employees and contractors were dismissed, 36 employees received verbal and written warnings, and 10 resigned pending investigations. Proactive fraud awareness continues to be conducted.

Among the 2 031 cases was the Trudon fraud case, which received considerable media attention.

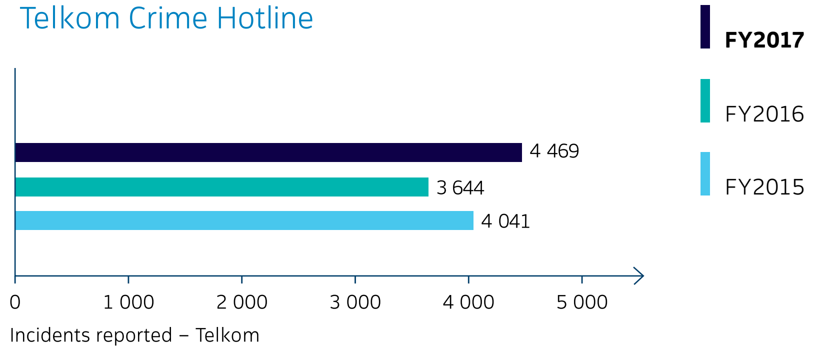
Refer to the audit committee report in the consolidated annual financial statements (available online) for the details of the Trudon fraud case.

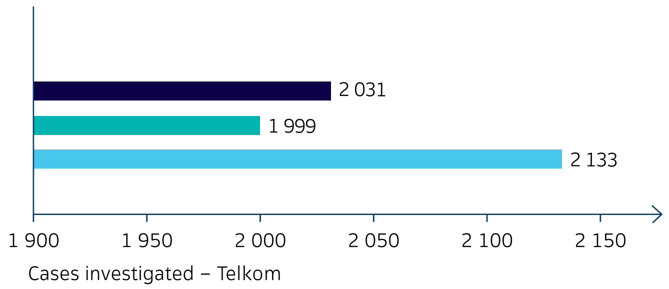
BCX whistle-blower service
BCX whistle-blower service (0800 003 316) is independently administered by Deloitte. This ensures that all reported matters are confidential and anonymous unless it is specifically requested by the reporting party that her/his identity should be revealed. Information is analysed and forwarded to designated senior officials of the company, who decide on a corrective action to be taken.

Training is limited to awareness of relevant policies, including the BCX code of ethics; conflict of interest policy; prevention of fraud and corruption policy; whistle-blowing policy; and gift, gratification and invitations declaration policy. The curriculum of the SIM Academy included the module of ethics. Employee induction training includes awareness of our response to ethics risk including anti-corruption. BCX developed an online awareness training for the ethics to further enhance its awareness training.

Going forward, BCX will work closely with Telkom regarding politically exposed persons and risk assessments. Due to limited data, BCX's number of incidents and cases will be disclosed in FY2018.

Telkom Crime Hotline





Conflict of interest
The board of directors understands the need to avoid conflict of interest in all its dealings, and that, in the event of a conflict, the interest of the company comes first. Our directors sign an annual declaration of interests every financial year, which details their directorships and shareholding in other companies. At every board and committee meeting, the declaration of interest is a standing agenda item and directors are required to declare any interests that they may have on the agenda.

Telkom's conflict of interest policy requires employees to declare details of their business interests and confirm they comply with the requirements of the policy. The disclosure policy ensures that disclosures about the group's activities meet relevant statutory and JSE Listings Requirements.

ERM has been charged with the responsibility to identify any potential conflicts of interest and investigate the nature and extent of these, if any.

Remuneration report

The company has 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.

Dear shareholder,
This remuneration report is intended to provide an overview and understanding of the company's remuneration principles and policies, with a specific emphasis on non-executive directors, executive directors, the executive committee and prescribed officers in the company.

The remuneration committee remains mindful of the remuneration trends in the global environment, carefully considers all practices against the business, and sets remuneration levels within the context of overall company performance. The remuneration committee is aware of its responsibility to protect and promote shareholders' interests in setting executive remuneration and is accountable for the structure and quantum of remuneration.

Susan (Santie) Botha
Chairman of the remuneration committee

Remuneration report – continued

Introduction

This report sets out the company's remuneration principles and policy for executive and non-executive directors and executive management, and provides details of their remuneration and share interests for the financial year ended 31 March 2017.

Role of the remuneration committee and terms of reference

The remuneration committee (remco) acts on behalf of the board in setting the remuneration policy of the group as a whole. It oversees total remuneration for executive directors and senior executives, monitors the execution of the remuneration policy for the organisation as a whole, including non-executives, and makes recommendations to the board.

The committee is responsible for:

> determining the remuneration policy for all employees, including the remuneration of executive directors and senior executives
> determining the total individual remuneration package of each of the executive directors including guaranteed package, benefits in kind, short-term incentive payments and share options. This includes undertaking an annual review, through performance appraisals conducted by the GCEO, of the performance of senior executives and reviewing their guaranteed packages based on the extent to which senior executives have met their performance targets, goals and objectives, as well as approving the annual guaranteed package increases for all other management and bargaining unit employees
> determining targets for performance-related incentive schemes implemented in the company
> seeking board and shareholder approval for any long-term incentive scheme and determining annual grants and share allocations to executive directors and senior executives
> annually reviewing the terms and conditions upon which the executive directors are employed and remunerated
> ensuring that contractual terms on termination and any payments made to executives are fair to both the individual and the company
> reviewing succession plans of executive directors and senior executives and ensuring a total company succession process is in place
> seeking board and shareholder approval for any substantial changes in the remuneration policy
> ensuring regular dialogue with shareholders, to create and maintain a mutual understanding of the meaning of performance and value creation, in order to properly evaluate the remuneration policy

Remco composition

The remco is comprises of non-executive directors, all of whom are independent, including the chairman. Executives attending Remco meetings do so in an ex-officio capacity and attend by invitation as provided for in the committee's terms of reference.

A quorum for a meeting is a majority of members. The following executives attend by invitation:
> SN Maseko (GCEO)
> IM Russell (chief administration officer) replaced by M Lekota (chief human resources officer)
> DJ Fredericks (group chief financial officer)
> JC Smit (group executive: total remuneration and performance management)

63 Refer to page 36 for the members of committee and meeting attendance.

This report is divided into two sections:
> Section 01 provides an overview of the company's remuneration principles and policies for executive and non executive directors, prescribed officers, and the exco members
> Section 02 discloses actual payments, accruals and awards for the year ended 31 March 2017

Section 01

Remuneration philosophy and policy

To ensure we remunerate employees competitively, we use market and industry benchmarks. The benchmarking is conducted to determine appropriate market positioning offerings, which are higher than the minimum prescribed wages. In addition, Telkom recognises "equal pay for work of equal economic value", and strives to remunerate employees doing the same work or substantially the same work, in the same range in accordance with the Labour Relations Act.

The Telkom remuneration strategy is designed to attract, motivate and retain high-calibre talent in a challenging business environment, and supports the delivery of our strategy in a sustainable manner without encouraging undue risks. As the market expands with operators in all spheres of our business and the new operating model, it is increasingly challenging to retain experienced executive leadership, and to attract new talent required for the new and growing areas of our business. Meeting this challenge requires having a competitive and attractive remuneration offering.

We embarked on a turnaround strategy where the current focus is on creating a platform for growth.

To ensure we remunerate employees competitively, we use market and industry benchmarks. Industry and market-related benchmarking is conducted to determine appropriate market positioning offerings which are higher than the minimum prescribed wages. In addition, Telkom recognises "equal pay for work of equal economic value", and strives to remunerate employees doing the same work or substantially the same work, within the same range in accordance with the Labour Relations Act. However, Telkom recognises that there could be differences which are attributed to the following:
> individuals' respective seniority or length of service
> individuals' respective qualifications, ability, competence or potential above required levels of performance for the job
> individuals' performance – all employees are equally subject to Telkom's performance management system
> demotion of individual due to restructuring without a concomitant reduction in remuneration
> individual's lack of relevant skill for a particular job level
> any other differentiator provided that it is not discriminatory

Remuneration report – continued

Remuneration objectives

The remuneration policy is designed to attract talent in a competitive labour market and enable Telkom to achieve the following objectives:

Remuneration objectives

- Promote sustainable value creation through transparent alignment with agreed corporate strategy
- Ensure that proper risk management processes are in place and that remuneration is appropriately aligned with both short and long-term performance
- Ensure that all employees are remunerated competitively relative to industry benchmarks, provided with appropriate incentives to encourage enhanced performance, and 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

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 employees' contribution. Therefore, our remuneration and reward policies and practices must be based on the following principles:

Remuneration principles

- Be designed to motivate and reinforce superior performance
- Encourage the development of organisational, team and individual performance
- Develop the competencies required to meet future business needs
- Be based on the premise that employees should share in the success of the company
- Aim to get the appropriate remuneration mix to ensure Telkom's business plan objectives are met
- Be fair and non-discriminatory

Remuneration structure

The remuneration structure is aligned with the group strategy and the agreed risk appetite, which seeks to reward success fairly, responsibly and transparently, while avoiding paying more than is necessary. The objectives of the policy are:

> to promote sustainable value creation through transparent alignment with agreed corporate strategy
> to ensure that proper risk management processes are in place and that remuneration is appropriately aligned with both short and long-term performance
> to ensure that all employees are remunerated competitively relative to industry benchmarks, provided with appropriate incentives to encourage enhanced performance, and 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

We follow a holistic, balanced approach across the following remuneration elements:

Elements	Type	Participants and composition of pay	Desired outcome
Guaranteed package	Fixed	**All employees** Guaranteed packages consist of a basic pensionable salary, retirement provision and flexible benefits, which include a non-pensionable allowance and a travel allowance where applicable.	Influenced by the scope of the role and the knowledge, skills and experience required. Salary levels are positioned at a market median.
Short-term incentives (STIs)	Variable	**All employees** STIs comprise a cash payment that is payable after finalisation of audited results. The STI plan is designed and aligned with the shareholders' expectations.	Delivers rewards on the achievement of annual performance targets. The level of achievement determines the level of payment against each weighted company performance measure.
Long-term incentives (LTIs)	Variable	**All employees** > LTI plan • senior leadership, M3 to M0 employees > Employee share ownership plan (ESOP) • middle management and bargaining unit employees, A to M4/S4	Motivate long-term sustainable stretch performance and align the interests of management with those of shareholders.

Remuneration report – continued

Guaranteed packages are influenced by the scope of the role and the knowledge, skills and experience required of the position holder. The packages reflect the market median which is determined through external market research that yields market data and appropriate salary ranges for specific positions.

Guaranteed packages

Introduction

Guaranteed packages	
The guaranteed packages consist of a basic pensionable salary, retirement provision and flexible benefits	Basic pensionable salary > company contributions to retirement > other flexible benefits: • travel allowance • non-pensionable allowance • medical aid • housing allowance • management provident fund

Employees are not entitled to annual guaranteed package increases. Annual increases are subject to industry market conditions, employee performance, internal equity, strategic investments and the company's overall financial position, financial performance and ability to pay. The packages are reviewed against individual performance, set against a market median, and determined on a total cost-to-company basis.

Employees can structure their packages within the framework of the applicable policies, practices and regulatory requirements. Remuneration adjustments outside the annual remuneration review process may be considered in exceptional circumstances and will be subject to the agreed authorisation.

All positions are evaluated to determine their relative value and contribution in terms of complexity and required outcomes. Positions are evaluated using the company's job evaluation system, which correlates with the Paterson Grading System as follows:

Hierarchical level	Level of leadership	Telkom grade
Group chief executive officer	Executive committee	M0
Chief officers	Executive management	M1
Managing directors/group/ managing executives		M2
Executives	Executive leadership	M3
Senior manager/manager	Frontline leadership	M4/5
Operations manager/supervisor	Frontline leadership	M6
Support staff/technician/specialist	Operational	OP/2/A

Exco

Guaranteed packages are in line with similar roles in the comparable market according to organisational size, profitability and complexity. They are influenced by the scope of the role and knowledge, skills and experience required of the employee. Guaranteed packages are reviewed against individual performance, and set against market median. For full details on exco refer to page 123. The average guaranteed package increase was 0 percent (FY2016: 6 percent).

Management employees

Guaranteed packages for management levels are reviewed annually as part of the company's overall remuneration review process and are assessed against individual performance. The average guaranteed package increase was 0 percent (FY2016: 6 percent).

Bargaining unit employees

Telkom follows a balanced approach in granting annual salary increases for bargaining unit employees with due consideration of the Consumer Price Index (CPI), market movements and affordability. The company entered into a two-year collaboration partnership agreement with organised labour in June 2016. The agreement will expire on 31 March 2018. As part of this agreement, no fixed salary increases were implemented for FY2017 and a 6 percent salary increase for FY2018 based on market functional areas' 50th percentile will be implemented.

Telkom introduced a variable-based incentive scheme for bargaining unit employees, known as Performance Pays. Performance Pays focuses on customer satisfaction and productivity metrics, and replaces the current STI scheme, which is primarily driven by group financial performance.
This empowers and enables bargaining unit employees to be more in control of their own destiny and rewards, and gives more direct and clear linkage between individuals' efforts and their monthly pay.

The Performance Pays incentives vary between 0 percent and 9 percent based on individual performance and are payable per quarter. In addition, employees who perform at or above a three performance rating each year, will each receive a '14th cheque', payable in June 2017. This 14th cheque will be calculated based on individual total package value subject to the company meeting its financial performance targets.

Benchmarking

Executive compensation is benchmarked to data provided in national executive compensation surveys, and information disclosed in the annual reports of companies listed on the JSE.

Ensuring an appropriate peer group to retain the integrity and appropriateness of the benchmark data is a key task of the remco. Executive pay is benchmarked annually.

Remuneration report | Remuneration structure – continued

Telkom introduced a variable-based incentive scheme for bargaining unit employees, known as Performance Pays. Performance Pays focuses on customer satisfaction and productivity metrics, and replaces the current STI scheme, which is primarily driven by group financial performance.

Performance management

Introduction

Telkom embarked on a performance management initiative in order to review the system and processes.

The focus is on defining key performance indicators (KPIs) for the GCEO, MDs and their direct reports, as well as the frontline staff. The purpose of the initiative is to implement a high-performance management culture that is outcome-oriented, consistent, simple and practical.

A monthly/weekly dashboard will be used to manage the business units and the focus will be on five to 10 critical and consistent KPIs (based on priorities which may change throughout the year).

Overall performance management process

Clear process definition	Compliance	Rewards and consequences
> Calendar > Stakeholders > Decision rights	> Checks > Reminders and follow-up > Implications of non-compliance	> Reviews and coaching > Financial impact > Promotions

Transparency on bonus ranges, calibration and bonus pool

Principles for KPI design and cascading include:

> **Strategic** - KPIs (flight plan) must be aligned with group strategy and financial objectives, and must contain a mix of customer, financial, operational and people metrics

> **Focused** - Metrics per individual are limited to between four and six KPIs (spread across categories). There should be at least one or two relevant shared/team KPIs (for example, consumer EBITDA)

> **Practical** - Employees must be able to directly influence their KPIs (other than group/BU KPIs). New KPI system was implemented from 1 June 2016

GCEO

The GCEO is rewarded on the delivery of the strategic and operational objectives 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 the company's strategic objectives and operational goals. The following key performance areas were contracted with the GCEO:

Weighting	Category	Key metrics
40%	Financial	> EBITDA (total company) > headline earnings per share (HEPS) > return on assets (ROA)
25%	Executing key strategic milestones	> define and implement journey of independence company structure and operating model > implement strategic shareholder model • fit-for-purpose strategic shareholder centre • bias to give business units full autonomy and as much control as possible
20%	Customer experience	> NPS
15%	People goals (leadership and employees)	> workforce transformation > culture shaping and change management > talent management • elite leadership development • accelerated development • emerging talent development • career planning and development

GCFO

The following key performance areas were contracted with the GCFO:

Weighting	Category	Key metrics
40%	Financial	> net revenue > EBITDA margin > capital expenditure to revenue > net debt to EBITDA
25%	Executing key strategic milestones	> capital investment > cash and liquidity > financial framework > stakeholder relationship
20%	Customer experience	> NPS
15%	People goals (leadership and employees)	> workforce transformation > culture shaping and change management > talent management

Remuneration report | Remuneration structure – continued

The STI component is an incentive that rewards the achievement of annual performance targets for management employees.

STIs

Introduction

The level of achievement determines the level of payment against each weighted company performance measure. The STI plan is designed and aligned with shareholder expectations.

It emphasises a remuneration policy that is performance driven, supports alignment between senior management and shareholders, and links STI to company performance.

The FY2017 plan was approved by remco and the board, with the following clearly defined principles:
> Both EBITDA and Profit after tax (PAT) targets must be achieved at the group company level to trigger any STI payment.
> No STI will be payable if the achievement is less than the hurdle rate.

STIs	
STIs comprise cash payment that is payable after finalisation of audited results *> Hurdle rate to qualify for any STI payment is 95%* *> Budget target – 100%* *> Stretch target – 110%* *> Maximum cap – 120%* *> Base payment set at 7.4% of PAT*	Bargaining unit employees, employees who perform at or above a three performance rating received a 14th cheque.

Telkom introduced a 25 percent interim STI payment for all management employees based on the achievement of interim EBITDA and PAT targets.

The size of the STI pool will depend on the achievement of PAT measures and will be variable. In line with the remuneration policy, the overall company performance will be measured at company, business unit and divisional level as indicated below.

	Business unit	Corporate centre	Total
Group financials	20%	20%	**20%**
Business unit/ corporate centre	60%	60%	**80%**
Divisional	20%	20%	
Total	100%	100%	**100%**

The rules, targets and measurements are tabled annually on the recommendation of remco to the board for approval, subject to the actual audited company performance reflected in the plan under review.

STIs plan awarded for FY2017

In accordance with the approved company STI plan, STIs were allocated to business units based on their actual achievement and divisional performance. Individual performance is recognised in the respective business units based on the achievement of individual performance contracts. FY2017 STI targets and achievements (excluding BCX and Trudon) are shown below:

Interim results

Performance criteria	Plan weighting %	Interim target FY2017* Rm	Actual FY2017* achievement Rm	Percent achievement (%)
PAT	50	**1 428**	**1 923**	134.7%
EBITDA	50	**4 615**	**5 311**	115.1%

Final annual results

Performance criteria	Plan weighting %	Baseline FY2016 Rm	Target FY2017 Rm	Actual FY2017* achievement	Percent achievement (%)
PAT	50	2 306	**2 117**	**3 224**	152.3
EBITDA	50	8 424	**8 344**	**9 005**	107.9

** The target and achievements exclude the results of BCX and Trudon.*

Remuneration report | Remuneration structure – continued

Telkom's share incentive plans are structured to optimise the company's overall position, while providing benefits that will assist the company to attract, retain and incentivise executives and top talented employees.

LTIs

Introduction

The plan is designed to support the principle of alignment between management and shareholder interests, with the ultimate aim of ensuring 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.
In terms of the forfeitable share plan (FSP), a free transfer of shares is awarded to employees, under the condition of forfeiture in the case of termination of service before the vesting/release date; and achievement of the company's pre-determined performance levels.

From the grant date, the employee has shareholder rights in respect of the forfeitable shares to receive dividend rights and voting rights. The Telkom LTI plan is an FSP, which has two components:

> LTI plan component (senior leadership, M3 to M0)

> ESOP component (middle management and bargaining unit, A to M/S4)

LTI		
Long-term incentives > *LTI Plan* > *ESOP*	LTI plan component (M3 – M0)	ESOP (A – M4)

Vesting of awards

The performance conditions are measured after three years and the number of shares to vest is based on the extent to which the performance conditions are met.

Vesting period: LTI Plan

Award (M3 - M0)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Total
FY2013	50%	**30%**	20%				**100%**
FY2014		**50%**	30%	20%			**100%**
FY2015			50%	30%	20%		**100%**
FY2016				50%	30%	20%	**100%**
Total	50%	**80%**	100%	100%	50%	20%	

Vesting period: ESOP

Award (A - M4)	FY2016	FY2017	FY2018	FY2019	Total
FY2013	100%				**100%**
FY2014		**100%**			**100%**
FY2015			100%		**100%**
FY2016				100%	**100%**
Total	100%	**100%**	100%	100%	

The following performance condition was set for the vesting of the FY2017 share awards, which were awarded in June 2016:
> Participants in the ESOP will only by measured on operational targets on which they have a direct influence.

Category	Performance condition	Weight		Target - Rand value			
			F2017	F2018	F2019	F2020	F2021
Financial 70%	Total shareholder return (TSR)	20%	Risk free* +4%	Risk free* +4%	Risk free* +4%	Risk free* +4%	Risk free* +4%
	HEPS	30%	As per the business plan				
	Free cash flow (FCF)	10%	As per the business plan				
	Return on invested capital	10%	As per the business plan				
Operational 30%	Customer first Customer Loyalty Measure (CLM) – Telkom overall quality (Revenue weighted composite score) Baseline 58.6 (FY2015)	15%	62.1%	63.8%	65.2%	66.6%	66.6%
	TSA 100 Index • Assurance Index • Fulfilment Index	15%	Composite score: 1 Threshold: 0.90	Composite score: 1 Threshold: 0.90	Composite score: 1 Threshold: 0.90	Composite score: 1 Threshold: 0.90	Composite score: 1 Threshold: 0.90

* *Risk-free rate: Government bond (R203) with a three-year term to maturity to correspond with term of vesting.*
A risk-free rate of 7.34 percent plus 4 percent equates to a CPI plus 5.74 percent (real return).

Total number of shares issued up to 31 March 2017

Year awarded	FY2014	FY2015	FY2016	FY2017
Date awarded	November 2013	April 2015	June 2015	June 2016
Total number of shares available	26 039 195	19 479 905	14 794 171	10 061 728
Shares awarded	6 559 290	4 685 734	4 732 443	4 886 209
Remaining shares available for future allocations	19 479 905	14 794 171	10 061 728	5 175 519

Total number of shares may fluctuate annually based on forfeiture of shares due to non-performance and resignations, and vesting of shares due to the achievement of performance conditions and pro-rata vesting for good leavers.

Remuneration report | Remuneration structure – continued

Vesting of 2013 forfeitable shares

In accordance with the Telkom FSP, the following shares vested in 2016 based on the achievement of the following performance vesting condition:

> Additional shares award (ASA) for exco members

100 percent if a share price of R50 is achieved after the three-year performance period – the full award vested based on the actual achievement of the performance condition:

Vesting of 2013 forfeitable shares – Performance conditions achieved

ASA award price	ASA target price	Share price as at 31 March 2016
R23.80	R50.00	R57.57

> LTI Plan (M0 to M3 level management employees):

50 percent of the shares vested in 2016 subject to the extent that the TSR was met over the three-year performance period:

Year	TSR target	TSR achievement	Percent achieved
March 2014	RFR (6 percent) +6 percent on a share price of R27.30 (19/11/2013)	R33.65	23%
March 2015	RFR (6 percent) +6 percent on a share price of R27.30 (19/11/2013)	R80.00	193%
March 2016	RFR (6 percent) +6 percent on a share price of R27.30 (19/11/2013)	R57.57 + R2.45 dividend declaration	120%

The full 50 percent forfeitable shares vested for qualifying employees.

> ESOP (M4 – A level employees):

100 percent of forfeitable shares will vest in year three based on achievements of NPS - customer index

Segment: NPS	Actual 2013/14	Actual 2014/15	Actual 2015/16	Target 2015/16	Target achieved
Total Telkom composite score	9	5.7	3.8	6.6	No

NPS target was not met and therefore, 0 percent of the ESOP shares vested.

A total of 796 224 forfeitable shares vested (excluding shares that vested to good leavers) on 6 June 2016 at a share price of R59.63

- ASA – 133 341 shares
- LTI Plan – 637 811 shares
- ESOP – 0 shares
- Performance shares – 25 072 shares

Employment contracts

Introduction

Employment contracts exist which require three months' notice of termination by the employee and three months' notice of termination by the company.

The retirement age for executive directors is 65 years. A standard restraint of trade clause is incorporated into the employment contract for a maximum of three months without reward.

All exco members are employed on a full-time employment contract except for LM de Villiers and A Vitai, who are on fixed-term contracts expiring on 1 March 2018 and 1 March 2019 respectively.

External directorships

Executive directors are allowed to hold one external directorship in any company subject to prior board approval. All compensation earned from external directorships will accrue to Telkom. The board may decline external directorships as it may deem appropriate.

Remuneration report | Remuneration structure – continued

Section 02

Telkom's share incentive plans are structured to optimise the company's overall position, while providing benefits that will assist the company to attract, retain and incentivise executives and top talented employees.

Pay mix for executive directors and prescribed officers

37.20% LTI
34.02% STI
28.73% Guaranteed total package
0.05% Fringe and other benefits

38.93% Guaranteed total package
32.38% STI
28.60% LTI
0.09% Fringe and other benefits

The Performance Pays incentives vary between 0 percent and 12 percent based on individual performance and are payable per quarter. In addition, employees who perform at or above a three performance rating each year, will each receive a '14th cheque', payable in June 2017.

49.52% Guaranteed total package
39.61% STI
9.89% LTI
0.98% Fringe and other benefits

Executive directors' remuneration

Remuneration and benefits paid and STIs approved in respect of the 2017 financial year are set out in the following table.

Rand	Guaranteed package	STI*	Fringe and other benefits	LTI (vested shares)	Total 2017	Total 2016
Executive directors						
SN Maseko	7 441 200	8 813 911	11 997	9 637 818	25 904 926	14 510 729
DJ Fredericks	5 250 000	4 365 753	11 997	3 857 167	13 484 917	9 456 765
Total	12 691 200	13 179 665	23 993	13 494 985	39 389 842	23 967 494

Prescribed officers' remuneration (excluding executive directors)

The aggregate remuneration, benefits paid and STIs and LTIs approved for the 2017 financial year are set out in the following table. Executive and prescribed officers' emoluments are set out in the financial statements in note 39.

2017 emoluments per prescribed officer

Company	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	LTI (vested shares) R	Total R	Pension – TRF 13 percent*** Rm
BC Armstrong	5 001 345	4 249 353	11 997	1 037 264	10 299 959	319 086
LM de Villiers	3 288 448	2 681 058	11 997	3 635 999	9 617 502	447 229
AN Samuels	4 500 000	4 433 738	11 997	–	8 945 735	339 300
IM Russell	4 153 353	4 103 244	11 997	1 236 249	9 504 843	323 961
J Henning[1]	1 900 000	594 660	96 371	921 224	3 512 255	172 841
A Vitai	5 830 000	5 777 314	11 997	–	11 619 311	–
NM Lekota[2]	266 667	179 207	–	–	445 874	28 000
I Mophatlane	5 804 827	5 341 562	519 909	–	11 666 298	246 371
T Seopa	3 460 184	–	–	–	3 460 184	260 898
Total	**34 204 823**	**27 360 137**	**676 265**	**6 830 736**	**69 071 961**	**2 137 686**

2016 emoluments per prescribed officer

Company	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension – TRF 13 percent*** Rm
BC Armstrong	5 001 345	3 340 323	481 830	8 823 498	455 122
LM De Villiers	3 288 448	2 051 514	321 557	5 661 519	447 229
TE Msubo[3]	1 383 071	–	317 475	1 700 546	107 880
GJ Rasethaba[3]	1 192 156	692 669	274 338	2 159 163	89 888
AN Samuels	4 291 667	3 489 288	350 649	8 131 604	524 667
V Scarcella[3]	1 430 000	1 011 458	329 038	2 770 496	111 540
IM Russell	4 153 353	3 000 011	402 977	7 556 341	323 961
MA Altman[3]	1 197 396	347 857	272 522	1 817 775	124 529
IC Coetzee	1 039 819	625 000	738 597	2 403 416	78 402
J Henning[4]	1 295 455	1 091 071	11 997	2 398 523	–
A Vitai[4]	2 650 000	1 911 922	11 997	4 573 919	–
Total	**26 922 710**	**17 561 113**	**3 512 977**	**47 996 800**	**2 263 218**

Rand	Guaranteed package	Short-term incentive	Long-term incentive	Fringe and other benefits	Total FY2017	Total FY2016
Executive management team	97 994 421	57 542 795	23 595 644	21 661 733	200 794 593	167 580 855
Number of employees					47	41

* *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 and flexible allowance.*
*** *The pension contribution is a company contribution.*

[1] *Stepped down following merger of enterprise with BCX.*
[2] *Appointed to exco 1 March 2017.*
[3] *Ceased to be prescribed officers on 31 August 2015.*
[4] *Appointed to exco 19 October 2015.*

Remuneration report | Remuneration structure – continued

Non-executive directors' fees

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.

Fees for Telkom's non-executive directors are determined by the board based on market practice, within the restrictions contained in Telkom's MOI. Telkom's non-executive directors receive no pay or benefits other than directors' fees, with the exception of reimbursement of expenses incurred in connection with their directorships. The non-executive directors participate in neither the LTI share plan nor the STI 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 company.

	FY2017 Rm	FY2016 Rm
Chair of the board	**1 250 000**	1 250 000
Non-executive director of the board	**366 000**	366 000
International board member	**505 408**	505 408
Audit committee chair	**220 600**	220 600
Audit committee member	**134 900**	134 900
Remuneration committee chair	**200 000**	200 000
Remuneration committee member	**120 000**	120 000
Nominations committee chair	**133 050**	133 050
Nominations committee member	**90 000**	90 000
Investment and transactions committee chair	**138 138**	138 138
Investment and transactions committee member	**90 000**	90 000
Social and ethics committee chair	**200 000**	200 000
Social and ethics committee member	**120 000**	120 000
Risk committee chair	**200 000**	200 000
Risk committee member	**120 000**	120 000

Refer to note 39 of the consolidated annual financial statements (available online) for fees paid to non-executive directors during the year.

Committee	Scheduled meetings	Fee per meeting	Special meetings	Fee per meeting
Board	5	Annual retainer	2	Chairman: R23 400
Audit	6	Chairman: R55 150 Member: R33 725	1	Board members: R17 500
Risk	4	Chairman: R50 000 Member: R30 000	–	
Remuneration	4	Chairman: R50 000 Member: R30 000	1	
Nominations	3	Chairman: R44 350 Member: R30 000	2	
Investment and transactions	4	Chairman: R46 046 Member: R30 000	4	
Social and ethics	4	Chairman: R50 000 Member: R30 000	–	

Where any board member voluntarily attends a meeting of a committee of which he/she is not a member, there is no attendance fee payable. All fees are paid proportionally to the period in which office is held.

Beneficial shareholding
Directors' shareholding as at 31 March 2017

Directors' interest and prescribed officers	Beneficial Direct	Beneficial Indirect	Non-beneficial Direct	Non-beneficial Indirect
Group and company				
Number of shares				
Directors' shareholding				
2017				
Executive				
SN Maseko	**52 520**	**–**	**–**	**–**
DJ Fredericks	**48 711**	**267**	**–**	**–**
	101 231	**267**	**–**	**–**
Non-executive				
JA Mabuza	**26 000**	**–**	**–**	**–**
I Kgaboesele	**12 000**	**–**	**–**	**–**
KW Mzondeki	**267**	**–**	**–**	**–**
	38 267	**–**	**–**	**–**

The beneficial interest for one of our executive directors, DJ Fredericks, has increased from 9 607 to 48 711 in July 2016. In terms of the Telkom share plan and as disclosed in our FY2016 integrated report, 64 685 shares vested for DJ Fredericks and he disposed of 25 581 shares on 5 July 2016. The balance of 39 104 shares added to the 9 607 shares which he already held brought his total shares to 48 711.

There have been no changes in the above since 31 March 2017 to the date of approval of the consolidated annual financial statements.

Directors' interest and prescribed officers	Beneficial Direct	Beneficial Indirect	Non-beneficial Direct	Non-beneficial Indirect
2016				
Executive				
SN Maseko	52 520	–	–	–
DJ Fredericks	9 607	267	–	–
	62 127	267	–	–
Non-executive				
JA Mabuza	26 000	–	–	–
F Petersen-Lurie	–	–	–	400
I Kgaboesele	12 000	–	–	–
KW Mzondeki	267	–	–	–
	38 267	–	–	400

In terms of the Telkom share plan 161 627 and 64 685 shares vested for SN Maseko and DJ Fredericks respectively. On 4 July 2016 SN Maseko disposed of 145 907 shares. On 5 July 2016, SN Maseko and DJ Fredericks disposed of 15 720 and 25 581 shares respectively.

Remuneration report | Remuneration structure – continued

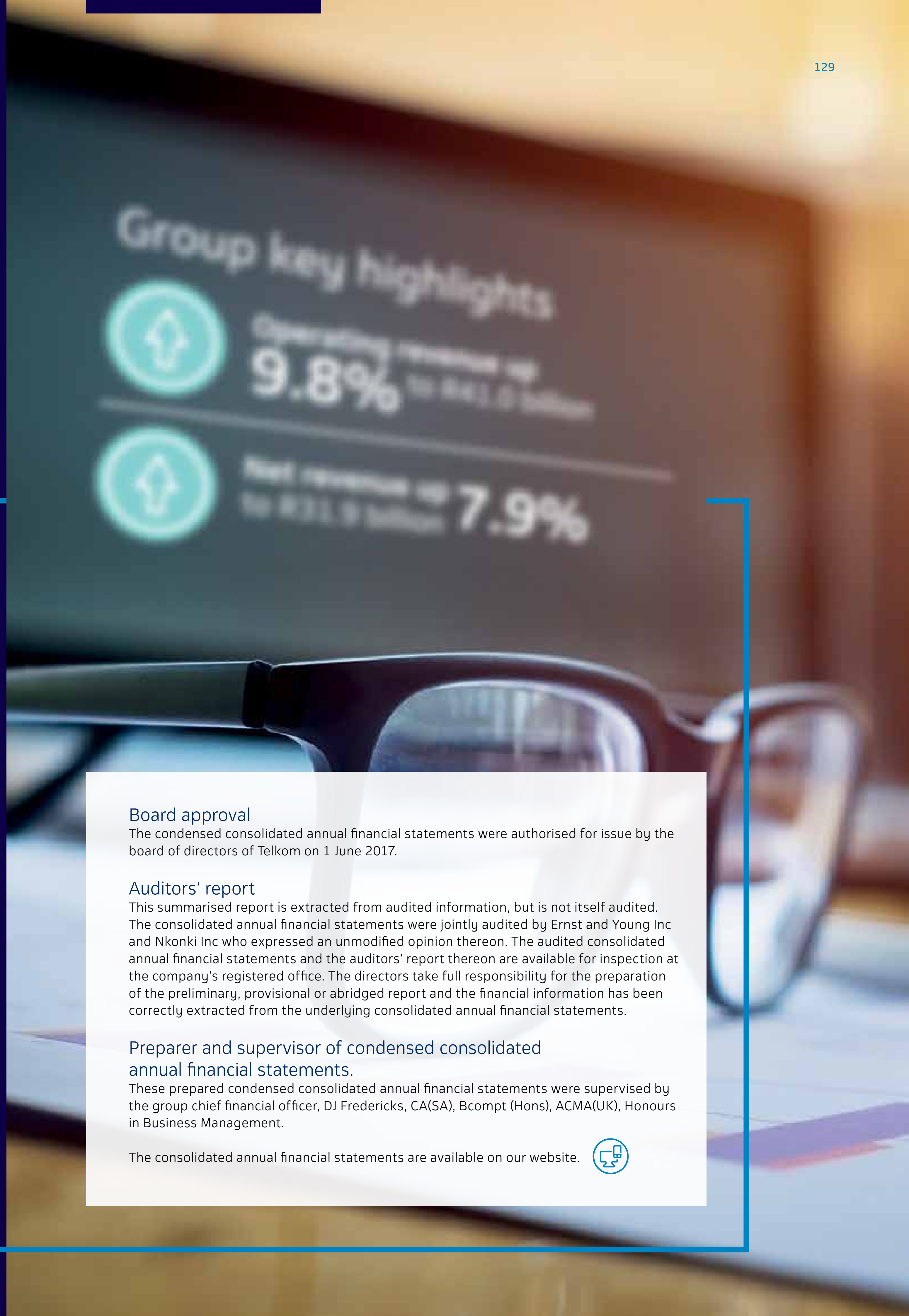
Shares awarded

	Year of the award	Shares awarded	Share award price R	Face value of award R	Vested shares	Vesting date	Vesting price R	Value of vested shares R	Closing number
SN Maseko									
FSP	2013	163 866	23.80	3 900 011	81 933	2016-06-06	59.63	4 885 665	81 933
ASA	2013	54 622	23.80	1 300 004	54 622	2016-06-06	59.63	3 257 110	-
FSP	2014	138 352	76.11	10 529 971	–	–	–	–	138 352
FSP	2015	150 428	74.20	11 161 758	–	–	–	–	150 428
Performance shares	2015	50 143	74.20	3 720 611	25 072	2016-06-06	59.63	1 495 043	25 071
FSP	2016	197 066	56.64	11 161 818	–	–	–	–	197 066
Performance shares	2016	65 689	56.64	3 720 625	–	–	–	–	65 689
Total		**820 166**		**45 494 798**	**161 627**			**9 637 818**	**658 539**
DJ Fredericks									
FSP	2013	74 898	23.80	1 782 572	37 449	2016-06-06	59.63	2 233 084	37 449
ASA	2013	27 236	23.80	648 217	27 236	2016-06-06	59.63	1 624 083	–
FSP	2014	86 705	76.11	6 599 118	–	–	–	–	86 705
FSP	2015	53 066	74.20	3 937 497	–	–	–	–	53 066
FSP	2016	69 043	57.03	3 937 522	–	–	–	–	69 043
Total		**310 948**		**16 904 926**	**64 685**			**3 857 167**	**246 263**
BC Armstrong									
FSP	2013	15 126	23.80	359 999	7 563	2016-06-06	59.63	450 982	7 563
ASA	2013	9 832	23.80	234 002	9 832	2016-06-06	59.63	586 282	–
FSP	2014	82 717	76.11	6 295 591	–	–	–	–	82 717
FSP	2015	50 553	74.20	3 751 033	–	–	–	–	50 553
FSP	2016	65 773	-	3 751 034	–	–	–	–	65 773
Total		**224 001**		**14 391 658**	**17 395**			**1 037 264**	**206 606**
LM de Villiers									
FSP	2013	70 603	23.80	1 680 351	35 302	2016-06-06	59.63	2 105 058	35 301
ASA	2013	25 674	23.80	611 041	25 674	2016-06-06	59.63	1 530 941	–
FSP	2014	54 569	76.11	4 153 247	–	–	–	–	54 569
FSP	2015	33 239	74.20	2 466 334	–	–	–	–	33 239
FSP	2016	43 246	57.03	2 466 319	–	–	–	–	43 246
Total		**227 331**		**11 377 292**	**60 976**			**3 635 999**	**166 355**
AN Samuels									
FSP	2014	55 629	76.11	4 233 923	–	–	–	–	55 629
FSP	2015	40 431	74.20	2 999 980	–	–	–	–	40 431
FSP	2016	59 179	57.03	3 374 978	–	–	–	–	59 179
Total		**155 239**		**10 608 882**					**155 239**

	Year of the award	Shares awarded	Share award price R	Face value of award R	Vested shares	Vesting date	Vesting price R	Value of vested shares R	Closing number
IM Russell									
FSP	2013	24 005	30.35	728 552	12 003	2016-06-06	59.63	715 739	12 002
ASA	2013	8 729	30.35	264 925	8 729	2016-06-06	59.63	520 510	–
FSP	2014	68 922	76.11	5 245 653	–	–	–	–	68 922
FSP	2015	41 981	74.20	3 114 990	–	–	–	–	41 981
FSP	2016	54 621	57.03	3 115 036	–	–	–	–	54 621
Total		**198 258**		**12 469 156**	**20 732**			**1 236 249**	**177 526**
A Vitai									
FSP	2013	–	–	–	–	–	–	–	–
ASA	2013	–	–	–	–	–	–	–	–
FSP	2014	95 374	76.11	7 258 915	–	–	–	–	95 374
FSP	2015	58 929	74.20	4 372 532	–	–	–	–	58 929
FSP	2016	76 670	57.03	4 372 490	–	–	–	–	76 670
Total		**230 973**		**16 003 937**					**230 973**
J Henning									
FSP	2013	30 897	23.80	735 349	15 449	2016-06-06	59.63	921 224	15 448
ASA	2013	–	–	–	–	2016-06-06	–	–	–
FSP	2014	23 680	76.11	1 802 285	–	–	–	–	23 680
FSP	2015	13 443	74.20	997 471	–	–	–	–	13 443
FSP	2016	17 491	57.03	997 512	–	–	–	–	17 491
Total		**85 511**		**4 532 616**	**15 449**			**921 224**	**70 062**
NM Lekota									
FSP	2016	21 042	57.03	1 200 025	–	–	–	–	21 042
Total		**21 042**		**1 200 025**					**21 042**
LI Mophatlane									
FSP	2016	255 384	65.34	16 686 791	–	–	–	–	255 384
Total		**255 384**		**16 686 791**					**255 384**
TS Seopa									
FSP	2016	147 805	70.23	10 380 552	–	–	–	–	147 805
Total		**147 805**		**10 380 552**					**147 805**

05

Group financial statements



Board approval

The condensed consolidated annual financial statements were authorised for issue by the board of directors of Telkom on 1 June 2017.

Auditors' report

This summarised report is extracted from audited information, but is not itself audited. The consolidated annual financial statements were jointly audited by Ernst and Young Inc and Nkonki Inc who expressed an unmodified opinion thereon. The audited consolidated annual financial statements and the auditors' report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the preliminary, provisional or abridged report and the financial information has been correctly extracted from the underlying consolidated annual financial statements.

Preparer and supervisor of condensed consolidated annual financial statements.

These prepared condensed consolidated annual financial statements were supervised by the group chief financial officer, DJ Fredericks, CA(SA), Bcompt (Hons), ACMA(UK), Honours in Business Management.

The consolidated annual financial statements are available on our website.

Condensed consolidated statement of profit or loss and other comprehensive income

for the year ended 31 March 2017

	Notes	2017 Rm	Restated* 2016 Rm
Operating revenue	4	40 970	37 325
Payments to other operators	5.1	2 618	2 793
Cost of sales	5.2	6 498	5 011
Net operating revenue		31 854	29 521
Other income	4	734	1 281
Operating expenses		21 713	22 026
Employee expenses	5.3	10 562	12 165
Selling, general and administrative expenses	5.4	7 237	5 796
Service fees	5.5	2 869	2 965
Operating leases	5.6	1 045	1 100
EBITDA		10 875	8 776
Depreciation of property, plant and equipment	5.7	4 752	4 448
Amortisation of intangible assets	5.7	766	880
Write-offs, impairment and losses of property, plant and equipment and intangible assets	5.7	143	170
Operating profit		5 214	3 278
Investment income	4	219	203
Finance charges and fair value movements		888	622
Finance charges		618	521
Foreign exchange and fair value movements		270	101
Profit before taxation		4 545	2 859
Taxation expense	6	691	538
Profit for the year		3 854	2 321
Other comprehensive income			
Items that will be reclassified subsequently to profit and loss			
Exchange losses on translating foreign operations		(61)	(9)
Items that will not be reclassified to profit and loss			
Defined benefit plan actuarial (losses)/gains		(30)	191
Defined benefit plan asset ceiling limitation		(6)	86
Other comprehensive (loss)/income for the year, net of taxation**		(97)	268
Total comprehensive income for the year		3 757	2 589
Profit attributable to:			
Owners of Telkom		3 797	2 210
Non-controlling interest		57	111
Profit for the year		3 854	2 321
Total comprehensive income attributable to:			
Owners of Telkom		3 700	2 478
Non-controlling interest		57	111
Total comprehensive income for the year		3 757	2 589
Basic earnings per share (cents)	7	738.8	432.4
Diluted earnings per share (cents)	7	724.1	425.8

* *Refer to note 2.2 and note 2.3.*
** *No tax effect due to Telkom company's limitation of deferred tax asset.*

Condensed consolidated statement of financial position

at 31 March 2017

	Notes	2017 Rm	Restated* 2016 Rm	Restated* 2015 Rm
Assets				
Non-current assets		34 125	33 689	30 695
Property, plant and equipment	8	27 918	25 350	24 471
Intangible assets	8	4 720	4 405	2 830
Other investments	10	40	2 318	2 231
Employee benefits	9	635	846	452
Other financial assets		60	55	28
Finance lease receivables		310	281	413
Deferred taxation	13	442	434	270
Current assets		13 912	12 864	11 100
Inventories	11	1 384	971	638
Income tax receivable		9	43	3
Current portion of finance lease receivables		237	207	200
Trade and other receivables		8 156	7 341	5 369
Current portion of other investments and other financial assets	10	2 514	1 754	1 247
Cash and cash equivalents	12	1 612	2 548	3 643
Asset of disposal group classified as held for sale	15	12		
Total assets		48 049	46 553	41 795
Equity and liabilities				
Equity attributable to owners of the parent		27 569	25 975	24 741
Share capital		5 208	5 208	5 208
Share-based compensation reserve		452	241	126
Non-distributable reserves		1 376	1 507	1 507
Retained earnings		20 533	19 019	17 900
Non-controlling interest		337	390	299
Total equity		27 906	26 365	25 040
Non-current liabilities		7 004	7 104	5 272
Interest-bearing debt	16	4 744	4 566	3 244
Employee related provisions	17	1 536	1 665	1 264
Non-employee related provisions	17	56	66	61
Deferred revenue		529	656	687
Deferred taxation	13	139	151	16
Current liabilities		13 139	13 084	11 483
Trade and other payables	18	7 516	7 134	5 635
Shareholders for dividend		25	22	19
Current portion of interest-bearing debt	16	1 541	703	1 612
Current portion of employee related provisions	17	1 397	2 231	1 882
Current portion of non-employee related provisions	17	124	142	303
Current portion of deferred revenue		1 570	1 708	1 502
Income tax payable		433	683	344
Current portion of other financial liabilities		440	455	185
Credit facilities utilised	12	93	6	1
Total liabilities		20 143	20 188	16 755
Total equity and liabilities		48 049	46 553	41 795

* *Refer to note 2.2 and 2.4.*

Condensed consolidated statement of changes in equity

for the year ended 31 March 2017

	2017 Rm	Restated* 2016 Rm
Balance at 1 April	26 365	25 227
Restatement (refer to note 2.3)	–	(187)
Restated balance at 1 April	26 365	25 040
Attributable to owners of Telkom	25 975	24 741
Non-controlling interests	390	299
Total comprehensive income for the year	3 757	2 589
Profit for the year	3 854	2 321
Other comprehensive (losses)/income	(97)	268
Exchange losses on translating foreign operations	(61)	(9)
Net defined benefit plan remeasurements	(36)	277
Dividend declared**	(2 202)	(1 405)
Increase in subsidiaries share-compensation reserve	21	126
Disposal of non-controlling interest (refer to note 15)	(3)	(100)
Purchase of Telkom shares by subsidiaries	(28)	–
Increase in share-compensation reserve	201	115
Increase in treasury shares	(205)	–
Balance at 31 March	27 906	26 365
Attributable to owners of Telkom	27 569	25 975
Non-controlling interests	337	390

** Refer to note 2.2 and 2.3.*
*** Dividend declared includes dividend to the non-controlling interests of the Trudon group and the BCX group.*

Condensed consolidated statement of cash flows

for the year ended 31 March 2017

	Notes	2017 Rm	Restated* 2016 Rm
Cash flows from operating activities		5 542	6 701
Cash receipts from customers		39 961	37 690
Cash paid to suppliers and employees		(31 051)	(28 996)
Cash generated from operations		8 910	8 694
Interest received		453	465
Finance charges paid		(469)	(768)
Taxation paid		(1 181)	(288)
Cash generated from operations before dividend paid		7 713	8 103
Dividend paid		(2 171)	(1 402)
Cash flows from investing activities		(6 637)	(8 215)
Proceeds on disposal of property, plant and equipment and intangible assets		230	567
Acquisition of subsidiary, net of cash acquired		(22)	(2 255)
Investments made by FutureMakers		–	(13)
Acquisition of non-controlling interest by BCX	15.4	–	(89)
Additions to assets for capital expansion**	8	(8 479)	(5 891)
Increase/(decrease) in repurchase agreements		1 634	(534)
Cash flows from financing activities		69	412
Loans raised		2 431	4 020
Purchase of shares for the Telkom share plan and subsidiaries long-term incentive share scheme		(234)	–
Loans repaid		(1 539)	(3 746)
Finance lease repaid		(43)	(430)
Repayment of net derivatives		(673)	(62)
Proceeds from net derivatives		127	630
Net decrease in cash and cash equivalents		(1 026)	(1 102)
Net cash and cash equivalents at beginning of year		2 542	3 642
Effect of foreign exchange rate gains on cash and cash equivalents		3	2
Net cash and cash equivalents at end of year	12	1 519	2 542

** R50 million restated from additions to assets for capital expansion to cash paid to suppliers due to fraud at one of the subsidiaries (Trudon). Refer to note 2.2.3*
*** Includes R48 million (2016: R83 million) inventory purchases in the current financial year.*

Notes to the condensed consolidated annual financial statements

for the year ended 31 March 2017

1 Corporate information

Telkom South Africa SOC Limited (Telkom) is a company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded. The main objective of the Telkom group is to supply telecommunication, multimedia, technology, information and other related information technology services to the group customers, as well as mobile communication services, in Africa.

2 Basis of preparation and accounting policies

2.1 Basis of preparation
The condensed consolidated annual financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited, the South African Companies Act, 2008, as amended, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Financial Reporting Standards Council.

The condensed consolidated annual financial statements are disclosed in South African Rand, which is also the group's presentation currency. All financial information presented in Rand has been rounded off to the nearest million.

The condensed consolidated annual 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 consistent with those applied in the previous financial year except for those listed below.

Significant accounting judgements, estimates and assumptions
In preparing these condensed consolidated annual financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements for the year ended 31 March 2016 except for the changes in note 2.2, note 4 and the assumptions used to calculate the deferred tax asset in Telkom company.

Significant accounting policies
The condensed consolidated annual financial statements have been prepared in accordance with the accounting policies adopted in the group's last annual financial statements for the year ended 31 March 2016, except for the adoption of the amendments, new standards and changes in accounting policies as described in note 2.2.

The following new standards and amendments to standards have been early adopted.

Standard(s), Amendment(s)	Salient feature of the changes	Effective date
IFRS 12 Disclosure of Interests in Other Entities	Amendment clarifying the scope of IFRS 12 with respect to interests in entities classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. This amendment has been adopted and has no impact on the group.	1 January 2017
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. These amendments have been adopted and do not have an impact on the group.	1 January 2017

The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2 Basis of preparation and accounting policies (continued)

2.2 Correction of prior period errors and change in accounting policy
Correction of prior period errors
The condensed consolidated annual financial statements provide comparative information in respect of the previous period. In addition, the group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy and a retrospective restatement. An additional statement of financial position as at 31 March 2015 is presented in these condensed consolidated annual financial statements due to the retrospective correction of a prior period error.

2.2.1 Telkom Retirement Fund
During the 31 March 2016 reporting period, the group reported the restatement of the balances as a "Reassessment of the Telkom Retirement Fund (TRF) Defined Benefit Plan". For classification purposes, it should be noted that the reassessment of the TRF constituted an error and not a change in accounting policy as previously stated. All relevant IAS 8 disclosures (nature, correction amounts and the amount of correction at the beginning of the year) regarding the error were appropriately disclosed in the FY2016 Financial Statements.

2.2.2 Fair value hierarchy
During the previous reporting periods, the group reported the fair value hierarchy of the TL20 bonds as level 1 instead of level 2 based on the fact that it could access the quoted price of the bonds. According to IFRS 13, bonds can only be level 1 if they are quoted on an active market. The TL20 bonds are quoted on the market, however their transactions are not frequent enough for the market to be regarded as liquid.

The group has corrected this disclosure by changing the TL20 fair value hierarchy from level 1 to level 2. The group has assessed that there has been no impact on the fair value of the TL20 bonds in the prior year as the quoted price is an adjusted market price, for perceived changes in risk as well as the time value of money. The group will continue to assess if the quoted price of the listed TL20 bonds is considered to be a level 1 or level 2 price and if further adjustment might be required.

2.2.3 Fraud - Trudon
During the current financial year, the group uncovered fraud at one of its subsidiaries, Trudon, resulting in the termination of the services of the general manager, IT.

An internal investigation into the fraud was launched, which identified invoicing and accounting irregularities which led to the incorrect recognition and subsequent measurement of intangible assets over a period of several years. The investigation also identified the past practice of irregularly capitalising operating expenditure as intangible assets. The nature of the errors identified included:
> Intangible assets capitalised for which there was no evidence of a valid asset or expense as a result of the above fraud
> Expenses capitalised to intangible assets which on re-evaluation of the nature of expense, based on the invoice detail, was deemed to not meet the recognition criteria of IAS 38 at date of capitalisation
> Identification of intangible assets which were no longer in use and which had been decommissioned in earlier periods but not de-recognised at time of decommissioning
> Income tax implications in relation to expenses and wear and tear allowances deducted in prior periods relating to invoices associated with financial irregularities which based on senior counsel opinion should not have been deducted for tax purposes.

These issues identified constituted material prior period errors and have been corrected by restating each of the affected line items for the prior period as shown in the table 2.3 and 2.4 below.

2.2.4 Change in accounting policies
Cost of sales
The group has previously included all the expenses that can be directly linked to revenue received for services provided and goods sold to customers in the definition of cost of sales.

Following the sale of the Enterprise business to BCX in November 2016, the group elected to change its accounting policy for cost of sales to only include expenses directly tied to revenue from the sale of goods. This decision to change the accounting policy in the view of management will provide more reliable and relevant information to ensure consistent presentation across the group following the sale of Enterprise to BCX.

The new group accounting policy now applies that cost of sales determined as:
> Cost of goods sold relating to the sale of goods net of supplier rebates and discounts including:
  • Commission costs paid to external parties for the sale of goods sold
  • Logistics and delivery expenses relating to the goods sold

All other costs are disclosed by nature with the following being the key categories:
> Employee expenses
> Selling, general and administrative expenses
> Service fees
> Operating leases
> Depreciation and amortisation

This change in policy has resulted in the re-classification of these line items in the comparative statement of profit or loss and other comprehensive income. Refer to note 2.3.

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

2 Basis of preparation and accounting policies – continued

2.3 Adjustments to the condensed consolidated provisional statement of profit or loss and other comprehensive income for the year ended 31 March 2016

	Group				
	As previously reported Rm	Telkom restatement * Rm	BCX restatement * Rm	Trudon IAS 8 disclosure** Rm	Restated Rm
Operating revenue	37 325	–	–	–	**37 325**
Payments to other operators	2 793	–	–	–	**2 793**
Cost of sales	6 969	100	(2 047)	(11)	**5 011**
Net operating revenue	27 563	(100)	2 047	11	**29 521**
Other income	1 281	–	–	–	**1 281**
Operating expenses	20 083	(100)	1 968	75	**22 026**
Employee expenses	10 901	–	1 264	–	**12 165**
Selling, general and administrative expenses	4 978	–	743	75	**5 796**
Service fees	3 106	(100)	(41)	–	**2 965**
Operating leases	1 098	–	2	–	**1 100**
EBITDA	8 761	–	79	(64)	**8 776**
Depreciation of property, plant and equipment	4 370	–	79	(1)	**4 448**
Amortisation of intangible assets	902	–	–	(22)	**880**
Write-offs, impairment and losses of property, plant and equipment and intangible assets	170	–	–	–	**170**
Operating profit	3 319	–	–	(41)	**3 278**
Investment income	203	–	–	–	**203**
Finance charges and fair value movements	622	–	–	–	**622**
Interest	521	–	–	–	**521**
Foreign exchange and fair value movements	101	–	–	–	**101**
Profit before taxation	2 900	–	–	(41)	**2 859**
Taxation expense	524	–	–	14	**538**
Profit for the year	2 376	–	–	(55)	**2 321**
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Exchange losses on translating foreign operations	(9)	–	–	–	**(9)**
Items that will not be reclassified to profit or loss					
Defined benefit plan actuarial losses	191	–	–	–	**191**
Defined benefit plan asset ceiling limitation	86	–	–	–	**86**
Other comprehensive income for the year, net of taxation	268	–	–	–	**268**
Total comprehensive income for the year	2 644	–	–	(55)	**2 589**
Total operations					
Basic earnings per share (cents)	439.4				**432.4**
Diluted earnings per share (cents)	432.8				**425.8**

** Refer to note 2.2.4*
*** Refer to note 2.2.3.*

2.4 Adjustments to the condensed consolidated provisional statement of financial position

	Group - March 2016			Group - March 2015		
	As previously reported Rm	Trudon IAS 8 disclosure* Rm	Restated March 2016 Rm	As previously reported Rm	Trudon IAS 8 disclosure* Rm	Restated March 2015 Rm
Assets						
Non-current assets	33 875	(186)	33 689	30 855	(160)	30 695
Property, plant and equipment	25 357	(7)	25 350	24 479	(8)	24 471
Intangible assets	4 584	(179)	4 405	2 982	(152)	2 830
Other investments	2 318	–	2 318	2 231	–	2 231
Employee benefits	846	–	846	452	–	452
Other financial assets	55	–	55	28	–	28
Finance lease receivables	281	–	281	413	–	413
Deferred taxation	434	–	434	270	–	270
Current assets	12 912	(48)	12 864	11 127	(27)	11 100
Inventories	971	–	971	638	–	638
Income tax receivable	57	(14)	43	11	(8)	3
Current portion of finance lease receivables	207	–	207	200	–	200
Trade and other receivables	7 375	(34)	7 341	5 388	(19)	5 369
Current portion of other financial assets	1 754	–	1 754	1 247	–	1 247
Cash and cash equivalents	2 548	–	2 548	3 643	–	3 643
Total assets	46 787	(234)	46 553	41 982	(187)	41 795
Equity and liabilities						
Equity attributable to owners of the parent	26 134	(159)	25 975	24 864	(123)	24 741
Share capital	5 208	–	5 208	5 208	–	5 208
Share-based compensation reserve	241	–	241	126	–	126
Non-distributable reserves	1 507	–	1 507	1 507	–	1 507
Retained earnings	19 178	(159)	19 019	18 023	(123)	17 900
Non-controlling interest	473	(83)	390	363	(64)	299
Total equity	26 607	(242)	26 365	25 227	(187)	25 040
Non-current liabilities	7 104	–	7 104	5 272	–	5 272
Interest-bearing debt	4 566	–	4 566	3 244	–	3 244
Employee related provisions	1 665	–	1 665	1 264	–	1 264
Non-employee related provisions	66	–	66	61	–	61
Deferred revenue	656	–	656	687	–	687
Deferred taxation	151	–	151	16	–	16
Current liabilities	13 076	8	13 084	11 483	–	11 483
Trade and other payables	7 134	–	7 134	5 635	–	5 635
Shareholders for dividend	22	–	22	19	–	19
Current portion of interest-bearing debt	703	–	703	1 612	–	1 612
Current portion of employee related provisions	2 231	–	2 231	1 882	–	1 882
Current portion of non-employee related provisions	142	–	142	303	–	303
Current portion of deferred revenue	1 708	–	1 708	1 502	–	1 502
Income tax payable	675	8	683	344	–	344
Current portion of other financial liabilities	455	–	455	185	–	185
Credit facilities utilised	6	–	6	1	–	1
Total liabilities	20 180	8	20 188	16 755	–	16 755
Total equity and liabilities	46 787	(234)	46 553	41 982	(187)	41 795

** Refer to note 2.2.3.*

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

3 Segment information

The executive committee (Exco) is the group's chief operating decision maker (CODM). Management has determined the operating segments based on the reports reviewed by Exco that are used to make the strategic decisions, allocate resources, and assess performance.

For the period ended 31 March 2016, the Telkom group presented two reportable segments, namely Telkom and BCX.

In the period under review, the group started implementing a more flexible and agile operating and reporting model to manage performance and allocate resources. In its journey to fully operationalise this aspiration, the CODM has started to assess the performance of the business units on a net operating revenue level and make decisions about the allocation of resources for fixed stream, mobile stream and BCX at an EBITDA level.

In September 2016 (Interim report), the group reported four segments, namely Openserve, Consumer, Enterprise and BCX. On 1 November 2016, Telkom company sold one of its business divisions (Enterprise division) to BCX, a wholly owned subsidiary of Telkom. The Enterprise segment was integrated into the BCX segment, resulting in three reportable segments, Openserve, Consumer and BCX for the group at the reporting date. Subsequently, Enterprise is no longer a reportable segment as its operating results are not regularly reviewed by the group's CODM. The results of the Enterprise business have been included into the BCX segment as if the sale transactions occurred on 1 April 2016 and the comparative information has been restated on the same basis.

"Other" includes Swiftnet, Trudon and other non-trading entities.

The financial information reviewed by the CODM excludes inter-segmental revenue and cost allocations as the transfer pricing principles continue to evolve.

The segment information provided to Exco for the reportable segments is as follows:	Openserve Rm	Consumer Rm	BCX* Rm	Other Rm	Consolidated Rm
March 2017					
Transactions with external customers					
Operating revenue from external customers	5 150	15 048	19 686	1 086	40 970
Payment to other operators					(2 618)
Cost of sales					(6 498)
Segment net operating revenue	3 819	10 978	16 559	498	31 854
Fixed stream	3 819	8 974	–	–	12 793
Mobile stream	–	2 004	–	–	2 004
BCX group	–	–	16 559	–	16 559
Other	–	–	–	498	498

Reconciliation of operating profit to profit before tax	Fixed stream Rm	Mobile stream Rm	BCX* Rm	Other Rm	Eliminations Rm	Consolidated Rm
Transactions with external customers and within the segments (before cost allocations and eliminations)						
Segment net operating revenue	15 189	2 004	17 692	631	(3 662)	31 854
Other income	692	62	58	503	(581)	734
Operating expenses	(9 617)	(1 467)	(9 806)	(4 930)	4 173	(21 647)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments excluding voluntary packages	6 264	599	7 944	(3 796)	(70)	10 941
Voluntary severance and early retirement packages						(66)
Depreciation, amortisation, impairment, write-offs and losses						(5 661)
Operating profit						5 214
Investment income						219
Finance charges and fair value movement						(888)
Profit before taxation						4 545
Other segment Information**						
Capital expenditure of property, plant and equipment and intangible assets	6 262	1 936	366	42	–	8 606

**Includes Enterprise results as if the transaction was effective on 1 April 2016.*

*** The R8.6 billion of capital expenditure includes R48 million that was purchased as inventory for network expansion. Refer to note 8.*

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

3 Segment information – continued **The segment information provided to Exco for the reportable segments are as follows:**	Openserve Rm	Consumer Rm	BCX* Rm	Other Rm	Consolidated Rm
2016					
Transactions with external customers					
Operating revenue from external customers	5 310	11 983	18 887	1 145	37 325
Payment to other operators					(2 793)
Cost of sales					(5 011)
Segment net operating revenue	4 362	8 666	15 935	558	29 521
Fixed stream	4 362	7 424	–	–	11 786
Mobile stream	–	1 242	–	–	1 242
BCX group	–	–	15 935	–	15 935
Other	–	–	–	558	558

Reconciliation of operating profit to profit before tax	Fixed stream Rm	Mobile stream Rm	BCX* Rm	Other Rm	Eliminations Rm	Consolidated Rm
Transactions with external customers and within the segments (before cost allocations and eliminations)						
Segment net operating revenue	11 786	1 242	16 612	776	(895)	29 521
Other income	484	4	-	882	(89)	1 281
Operating expenses	(9 568)	(1 348)	(4 129)	(5 630)	842	(19 833)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments excluding voluntary packages	2 702	(102)	12 483	(3 972)	(142)	10 969
Voluntary severance and early retirement packages						(2 193)
Depreciation, amortisation, impairment, write-offs and losses						(5 498)
Operating profit						3 278
Investment income						203
Finance charges and fair value movement						(622)
Profit before taxation						2 859
Other segment Information**						
Capital expenditure of property, plant and equipment and intangible assets	5 101	660	139	39	–	5 939

** Includes Enterprise results as if the transaction was effective on 1 April 2015. BCX has been included from the date of acquisition 31 August 2015.*
*** The R5.9 billion of capital expenditure includes R101 million that was purchased as inventory for network expansion. Refer to note 8.*

4 Total income	**2017 Rm**	2016 Rm
Operating revenue	**40 970**	37 325
Other income	**734**	1 281
Investment income	**219**	203

Operating revenue increased due to higher mobile data revenue, higher equipment sales and the BCX revenue. This is partially offset by the decline in fixed-line voice revenue and lower connectivity revenue.

The decrease in other income is mainly attributable to lower gains from the sale of properties of R487 million when compared to the year ended 31 March 2016.

In the current financial year Openserve reassessed its leased lines customer relationship period (CRP) that is used for the deferral of installation fee revenue. The CRP was changed from five years to four years. This is more reflective of the modern day customer behaviour within the industry. The change in estimate resulted in revenue increasing by R20 million in the current year.

5 Expenses	**2017 Rm**	Restated 2016 Rm
5.1 Payments to other operators Payments to other operators decreased mainly due to the lower traffic volumes.	**2 618**	2 793
5.2 Cost of sales The increase in cost of sales is largely attributable to the increase of IT service and the increase in the sale of high-end devices as well as the effect of the full year consolidation of BCX. ***Change in comparatives*** *Refer to note 2.3.*	**6 498**	5 011
5.3 Employee expenses The decrease in employee expenses is mainly due to the decline in headcount and the lower VSP/VERP expense compared to the prior financial year. ***Change in comparatives*** *Refer to note 2.3.*	**10 562**	12 165
5.4 Selling, general and administrative expenses The increase in selling, general and administrative expenses is mainly due to the full year inclusion of BCX and increased outsourcing costs. ***Change in comparatives*** *Refer to note 2.3.*	**7 237**	5 796
5.5 Service fees The decrease is mainly due to lower company transformation and property management expenses. ***Change in comparatives*** *Refer to note 2.3.*	**2 869**	2 965
5.6 Operating leases The decrease in operating leases is mainly due to a decrease in the number of vehicles leased. ***Change in comparatives*** *Refer to note 2.3.*	**1 045**	1 100
5.7 Depreciation, amortisation, impairment and write-offs	**5 661**	5 498
Depreciation of property, plant and equipment	**4 752**	4 448
Amortisation of intangible assets	**766**	880
Write-offs, impairment and losses of property, plant and equipment and intangible assets	**143**	170

The increase is due to accelerated depreciation of old technology as we intensify the roll-out of fibre and LTE as well as higher asset write-offs.

As a result of the transformation programme, the group reassessed the useful lives of certain technologies to address the challenges within the competitive market and IP-based products and services. The reassessment of useful lives had the effect of increasing the depreciation and amortisation expense for the year ended 31 March 2017 by R325 million (2016: R192 million). Depreciation and amortisation for each year of the remaining useful lives of the individually reassessed equipment will be significantly lower.

Change in comparatives
Refer to note 2.3

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

6 Taxation expense	2017 Rm	Restated 2016 Rm
Taxation expense	**691**	538
Normal company taxation	**713**	574
Deferred taxation	**(50)**	(15)
Withholding tax	**4**	1
Common control transaction	**24**	(22)

The tax expense increased in the current financial year as a result of higher group profit.

7 Earnings per share	2017 Rm	Restated* 2016 Rm
Total operations		
Basic earnings per share (cents)	**738.8**	432.4
Diluted earnings per share (cents)	**724.1**	425.8
Headline earnings per share (cents)	**721.1**	323.0
Diluted headline earnings per share (cents)	**706.8**	318.1
Reconciliation of weighted average number of ordinary shares:	**Number of shares**	Number of shares
Ordinary shares in issue	**526 948 700**	526 948 700
Weighted average number of shares held by subsidiaries and in escrow	**(12 994 315)**	(15 791 240)
Weighted average number of shares outstanding	**513 954 385**	511 157 460
Reconciliation of diluted weighted average number of ordinary shares		
Weighted average number of shares outstanding	**513 954 385**	511 157 460
Expected future vesting of shares	**10 416 531**	7 808 223
Diluted weighted average number of shares outstanding	**524 370 916**	518 965 683
Reconciliation between earnings and headline earnings:	**Rm**	Rm
Profit for the year	**3 854**	2 321
Non-controlling interests	**(57)**	(111)
Profit attributable to owners of Telkom	**3 797**	2 210
Profit on disposal of property, plant and equipment and intangible assets	**(217)**	(704)
Write-offs of property, plant and equipment and intangible assets	**143**	170
Taxation effects	**(17)**	(25)
Headline earnings	**3 706**	1 651

** Refer to note 2.3.*

Dividend per share (cents)
The calculation of dividend per share is based on dividends of R1 422 million declared on 4 July 2016 and R692 million declared on 11 November 2016 (FY2016: R1 291 million). 526 948 700 ordinary shares were outstanding on the date of the dividend declaration (FY2016: 526 948 700).

8 Capital additions and disposals	2017 Rm	2016 Rm
Property, plant and equipment		
Additions	**7 539**	5 263
Disposals	**(23)**	(231)
	7 516	5 032
Intangible assets		
Additions	**1 069**	726
Disposals	**(27)**	-
	1 042	726

The additions are largely due to the deployment of fibre and other technologies to support the growing data services business, internet capacity growth, links to the mobile cellular operators and access line deployment in selected high growth commercial and business areas.

An estimated amount of R48 million (FY2016: R101 million) included in inventories will be used for Telkom's network expansion, R48 million of which was purchased in the current financial year (FY2016: R83 million).

Finance charges of R130 million (FY2016: R103 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

9 Employee benefits	2017 Rm	2016 Rm
	635	846
Telkom Pension Fund asset	**23**	114
Post-retirement medical aid net plan asset	**612**	732

The assets recognised are determined in accordance with IAS 19. The Telkom Pension Fund assets decreased due to a S15E transfer in terms of the Pension Act to the Telkom Retirement Fund of approximately R96 million.

The decrease in the post-retirement medical aid net plan asset is due to the decrease in the fair value of the annuity policy.

10 Other investments and financial assets	2017 Rm	2016 Rm
Non-current other investments		
Other investments	**40**	2 318
Cell captive preference shares	**–**	2 235
FutureMakers	**11**	13
Equity investment in Number Portability Company	**5**	4
BCX group interests in associates and joint ventures	**24**	66
Other financial assets	**2 514**	1 754
Current other financial assets consist of:	**126**	1 754
> Repurchase agreements	**–**	1 634
> Derivative instruments	**78**	101
Forward exchange contracts	**54**	20
Firm commitments	**24**	43
Cross currency swaps	**-**	38
> Asset finance receivables	**48**	19

The decrease in other financial assets is primarily due to the disposal of the repurchase agreement.

Current other investments consist of:	**2 388**	–
> Cell captive preference shares	**2 388**	–

The cell captive preference shares were reclassified from non-current assets to current assets in the current financial year as it is highly probable that it will be liquidated in the short term.

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

11 Inventories	2017 Rm	2016 Rm
Inventories	**1 384**	971
Gross inventories	**1 522**	1 062
Write-down of inventories to net realisable value	**(138)**	(91)

The increase was mainly attributable to the increase in installation, maintenance and network equipment. Refer to note 8 for inventory required for capital requirements.

12 Net cash and cash equivalents	2017 Rm	2016 Rm
Net cash and cash equivalents	**1 519**	2 542
Cash shown as current assets	**1 612**	2 548
Cash and bank balances	**953**	418
Short-term deposits	**659**	2 130
Credit facilities utilised	**(93)**	(6)

The lower cash balance is as a result of dividend payment, voluntary severance and retirement packages settled in the current financial year.

13 Deferred taxation	2017 Rm	2016 Rm
Deferred taxation is made up as follows:	**303**	283
Deferred taxation asset	**442**	434
Deferred taxation liability	**(139)**	(151)

The group did not recognise deferred tax assets of R400 million (2016: R1.1 billion) in respect of temporary differences amounting to R1.4 billion (2016: R4 billion) that can be carried forward against future taxable income.

14 Financial 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 and risk committee.

The condensed consolidated annual financial statements do not include all financial risk management information and disclosures required in the consolidated annual financial statements and should be read in conjunction with the group's consolidated annual financial statements as at 31 March 2017. The group uses derivatives as hedging instruments.

14.1 Liquidity risk

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 the 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.

Compared to the 2016 financial year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

14.2 Fair value of financial instruments

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debt (at amortised cost) which has a fair value of R6 578 million (2016: R5 569 million) and a carrying amount of R6 285 million (2016: R5 269 million) (refer to note 16).

14 Financial risk management - continued

Valuation techniques and assumptions applied for the purposes of measuring fair value

Type of financial instrument	Fair value at 31 March 2017 Rm	Valuation technique	Significant inputs
Receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	**4 473**	Undiscounted future estimated cash flows due to the short-term maturities of these instruments	Probability of default
Derivatives	**(363)**	Discounted cash flows	Yield curves Market interest rates Market foreign currency rates
Borrowings	**(6 578)**	Discounted cash flows and quoted bond prices	Market interest rates Market foreign currency rates

The estimated net fair values as at the reporting date have been determined using available market information and appropriate valuation methodologies as outlined below. This value is not necessarily indicative of the amounts that the group could realise in the normal course of business. The fair values of the financial assets and financial liabilities are sensitive to exchange rate and interest rate movements.

Derivatives are recognised at fair value. The fair values of derivatives are determined using quoted prices or, where such prices are not available, a discounted cash flow analysis is used. These amounts reflect the approximate values of the net derivative position at the reporting date.

The fair values of the borrowings disclosed above are based on quoted prices or, where such prices are not available, the expected future payments discounted at market interest rates. As a result they differ from their carrying values.

The fair value of receivables, bank balances, repurchase agreements and other liquid funds, payables and accruals, approximate their carrying amount due to the short-term maturities of these instruments.

14.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value and amortised cost, by valuation method.

The different levels have been defined as follows:
a) Quoted prices in active markets for identical assets or liabilities (level 1).
b) Inputs other than quoted prices, that are observable for the asset or liability (level 2).
c) Inputs for the asset or liability that are not based on observable market data (level 3).

	Hierarchy levels	2017 Rm	2016 Rm
Assets measured at fair value			
Investment in cell captive preference shares	Level 2	**2 388**	2 235
Investments made by FutureMakers	Level 3	**11**	13
Forward exchange contracts	Level 2	**54**	20
Assets finance receivable	Level 2	**73**	39
Loans	Level 2	**35**	35
Firm commitments	Level 2	**24**	43
Cross currency swaps	Level 2	**–**	38
Liabilities measured at fair value			
Interest rate swaps	Level 2	**(22)**	(7)
Firm commitments	Level 2	**(189)**	(155)
Forward exchange contracts	Level 2	**(229)**	(293)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:		**(6 578)**	(5 569)
Listed debt*	Level 2	**(6 578)**	(5 569)

** Refer to note 2.2.2*

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

15 Acquisitions and disposals

15.1 Acquisitions

15.1.1 Taropa Technologies Proprietary Limited (Taropa)

On 1 March 2017 BCX acquired the entire issued ordinary share capital of Taropa.

The total purchase consideration was R13 million. The consideration is made up of R8 million cash and R5 million deferred consideration.

To the extent that Taropa's profit after tax exceeds the warranted profit, the seller will earn additional consideration amounting up to R5 million, payable in the 2019 and 2020 financial years.

Taropa provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

The merger will enable BCX to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance BCX's strategy.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 March 2017 and the financial statements include the Taropa results for the one month ended 31 March 2017.

The fair value of the identifiable assets and liabilities at acquisition date were determined as follows:

	2017 Rm
Assets	
Property, plant and equipment	1
Trade and other receivables	15
Inventories	18
Cash and cash equivalents	2
Total assets	36
Liabilities	
Trade and other payables	29
Income tax payable	1
Total liabilities	30
Total identifiable net assets at fair value	6
Non-controlling interest at proportional share of net assets	–
Goodwill arising on acquisition (provisional)	7
Purchase consideration transferred	13
Analysis of cash flows at acquisition:	
Net cash outflow on acquisition of the subsidiary (included in cash flows from investing activities)	
Cash paid	8
Cash acquired	(2)
Net cash outflow on acquisition	6

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R13.9 million.

From the date of acquisition, Taropa has contributed R9.3 million of revenue and R0.33 million to the net profit before tax from the continuing operations of the BCX group. If the acquisition had taken place at the beginning of the year, BCX revenue from continuing operations would have been R14 079 million and the BCX group profit from continuing operations for the period would have been R1 068 million.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Taropa with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of less than R1 million, which includes issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.

The fair value of intangible assets and goodwill has been measured on a provisional basis pending the completion of an independent valuation.

If new information is obtained within one year of the acquisition date on facts and circumstances that existed at the acquisition date, the above amounts will be revised.

15.1.2 African Arete Proprietary Limited (African Arete) - continued

On 1 November 2016 BCX acquired the entire issued ordinary share capital of African Arete.

The total purchase consideration was R19 million, which was settled in cash.

African Arete provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

The merger will enable BCX to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance BCX's strategy.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 November 2016 and the financial statements include the African Arete results for the five months ended 31 March 2017.

The fair value of the identifiable assets and liabilities at acquisition date was determined as follows:

	2017 Rm
Assets	
Trade and other receivables	7
Total assets	7
Liabilities	
Trade and other payables	3
Income tax payable	1
Total liabilities	4
Total identifiable net assets at fair value	3
Non-controlling interest at proportional share of net assets	–
Goodwill arising on acquisition (provisional)	16
Purchase consideration transferred	19
Analysis of cash flows at acquisition:	
Net cash outflow on acquisition of the subsidiary (included in cash flows from investing activities)	
Cash paid	19
Net cash outflow on acquisition	19

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R6.5 million.

From the date of acquisition, African Arete has contributed R21.2 million of revenue and R1.2 million to the net profit before tax from the continuing operations of the BCX group. If the acquisition had taken place at the beginning of the year, BCX revenue from continuing operations would have been R13 905 million and the BCX group profit from continuing operations for the period would have been R1 066 million.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of African Arete with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of less than R1 million, which include isssue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees. The fair value of intangible assets and goodwill has been measured on a provisional basis pending the completion of an independent valuation.

If new information is obtained within one year of the acquisition date on facts and circumstances that existed at the acquisition date, the above amounts will be revised.

15.1.3 Relational Database Consulting Proprietary Limited (RDC)

On 1 April 2016, Business Connexion Group Limited acquired the entire share capital of RDC.

The total purchase consideration amounted to R30 million, funded by a cash payment of R16 million and a deferred purchase consideration of R14 million payable on achieving financial targets.

RDC is a market leader in Database and Operating System administration with a strong focus on Oracle.

The merger will enable the group to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce the group's core connectivity business and enhance convergence strategy. Their expanded range of services includes Oracle E-Business Suite, Oracle Fusion Middleware, Oracle Solaris Support and Oracle Sales.

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

15 Acquisitions and disposals - continued

15.1 Acquisitions - continued

15.1.3 Relational Database Consulting Proprietary Limited (RDC) - continued

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 April 2016 and the financial statements include the RDC results for the twelve months ended 31 March 2017.

The fair value of the identifiable assets and liabilities at acquisition date were determined as follows:

	2017 Rm
Assets	
Trade and other receivables	5
Cash and cash equivalents	17
Total assets	22
Liabilities	
Non-current debt	(3)
Trade and other payables	(13)
Total liabilities	(16)
Total identifiable net assets at fair value	6
Goodwill arising at acquisition	24
Purchase consideration transferred	30
Analysis of cash flows at acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	
Cash paid	16
Cash acquired at acquisition	17
Net cash inflow on acquisition	1

To the extent that RDC's profit after tax exceeds the warranted profit, the seller will earn additional consideration amounting to R14 million, payable in the 2019 and 2020 financial years.

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R5.2 million.

From the date of acquisition, RDC has contributed R89.4 million of revenue and R13.5 million to the net profit before tax from the continuing operations of the BCX group.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of RDC with those of the BCX group. The goodwill is not deductible for income tax purposes. Transaction costs of less than R1 million, which includes issue costs, have been expensed since the inception of the acquisition.

March 2016

15.1.4 *Business Connexion group (BCX)*

On 25 August 2015, Telkom acquired the entire issued ordinary share capital and the entire issued "A"ordinary shares of BCX. The total purchase consideration of R2.7 billion was funded through Telkom's own cash resources.

BCX provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

15.1.5 *Anco IT Proprietary Limited (Anco)*

On 1 November 2015 BCX acquired the entire issued ordinary share capital of Anco. The total purchase consideration of R41 million was in the form of cash, earn-out payments, a loan to BCX and deferred consideration.

Anco provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

15.1.6 *UCS Solutions Proprietary Limited (UCS) minority interest*

On 31 December 2015 the Telkom group, through BCX, acquired the remaining 15% of the UCS (and its holding in Integr8 IT Proprietary Limited), based on the vested put option agreement with shareholders. UCS and Integr8 are now wholly owned subsidiaries of the BCX group. This transaction was accounted for as an equity transaction.

15.2 Common control transactions - continued

2017

15.2.1 Enterprise business

On 1 November 2016 Enterprise, previously a division of Telkom, was sold to BCX to realise synergies. The integration will enable the Telkom group to offer Enterprise solutions beyond connectivity and to strengthen Telkom's leadership in the Enterprise market.
The transaction was financed through redeemable preference shares from BCX to Telkom and accounted for as a common control transaction. BCX recognised the acquired Enterprise assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the Enterprise business was recognised as a common control equity reserve. In Telkom company the difference between the carrying amount of the Enterprise business and proceeds was recognised in profit or loss.

2016

15.2.2 Telkom DCO

On 1 November 2015 Cybernest (DCO), previously the IT business division of Telkom, was sold to BCX to realise synergies. The transaction was financed through a loan from Telkom to BCX and accounted for as a common control transaction. BCX recognised the acquired DCO assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the DCO business was recognised as a common control equity reserve. In Telkom company the difference between the carrying amount of the DCO business and proceeds was recognised in profit or loss.

15.3 Disposals	2017 Rm
15.3.1 Nanoteq Proprietary Limited	
The group concluded a transaction to sell its Nanoteq business shareholding, effective 30 September 2016, for a total consideration of R57 million.	
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:	
Net assets disposed	1
Non-controlling interest	(1)
Consideration	57
Profit on disposal	57

15.3.2 Other properties

Telkom board approved the disposal of an additional 26 properties to the market. These properties were identified as no longer needed for the Telkom operations. The sale is planned to take place during the 2018 financial period.

	2017 Rm
At 31 March 2017, the group recognised these properties as held for sale in its statement of financial position. The fair values of these properties at 31 March 2017 exceed their carrying values.	
Carrying value	12
15.4 Goodwill reconciliation - 2017	
Opening balance	1 214
Acquisition of Anco*	(8)
Acquisition of RDC	24
Acquisition of Taropa	7
Acquisition of African Arete	16
	1 253

	2016 Rm
Goodwill reconciliation - 2016	
Opening balance	63
Acquisition of BCX	1 119
Acquisition of African Arete	32
	1 214

** At 31 March 2016, goodwill of R32 million was raised in respect of the acquisition of Anco. This amount has been reduced by R8 million in the current year as a result of the finalisation of the goodwill calculation.*

In the current financial year the entire goodwill allocation relating to the BCX group was allocated to the BCX cash-generating unit (CGU). A value in use calculation was performed in the current financial year. There is no impairment on the BCX CGU.

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

16 Interest-bearing debt	2017 Rm	2016 Rm
Non-current interest-bearing debt	**4 744**	4 566
Local debt	**4 550**	4 340
Foreign debt	**123**	154
Finance leases	**71**	72
Current portion of interest-bearing debt	**1 541**	703
Local debt	**1 500**	654
Foreign debt	**2**	18
Finance leases	**39**	31

The current portion of interest-bearing debt of R1.541 million (2016: R703 million) for group as at 31 March 2017 is expected to be repaid from operational cash flow and other borrowings.

17 Provisions	2017 Rm	2016 Rm
Non-current portion of provisions	**1 592**	1 731
Employee related	**1 536**	1 665
Non-employee related	**56**	66
Current portion of provisions	**1 521**	2 373
Employee related	**1 397**	2 231
Non-employee related	**124**	142

The decrease in the non-current employee provision is mainly due to the change in assumptions used to value Telkom's obligation to future retirees in the Telkom retirement fund. The assumptions used are based on the valuation techniques prescribed by IAS 19.

The decrease in the current employee provision is mainly due to the settlement of the VSP/VERP packages provided in the prior financial year and a lower bonus provision in the current financial year due to changes to the remuneration policy.

18 Trade and other payables	2017 Rm	2016 Rm
Trade and other payables	**7 516**	7 134
Trade payables	**3 870**	3 872
Finance cost accrued	**60**	54
Accruals and other payables	**3 586**	3 208

Accruals and other payables mainly represent amounts payable for goods received net of value added tax, obligations and licence fees.

Included in the current and prior year balance is the refund from SARS of R854 million including interest. Refer to note 20.

19 Commitments	2017 Rm	2016 Rm
Capital commitments authorised	**8 158**	6 574
Commitments against authorised capital expenditure	**6 594**	3 388
Authorised capital expenditure not yet contracted	**1 564**	3 186

Capital commitments are largely attributable to purchases of property, plant and equipment and software.
Management expects these commitments to be financed from internally generated cash and other borrowings.

20 Contingencies

Contingent liabilities
Matters before ICASA
End-User and Service Charter Regulations
Based on ICASA's Complaints and Compliance Committee (CCC) ruling in the prior period, Telkom has initiated administrative review proceedings seeking to set aside the applicability of the Regulations in issue. The review application is in process and no hearing date has been allocated as yet. In the interim, however, ICASA promulgated the Amended End-User and Subscriber Charter Regulations on 1 April 2016, in terms of which the fault clearance measurement for fixed services was amended to 90% fault clearance within five days, instead of three days. Telkom is in the process of assessing the impact of the amended Regulations going forward.

High Court
Radio Surveillance Security Services Proprietary Limited (RSSS)
In December 2011, RSSS issued a summons against Telkom for the sum of R216 million. Telkom is defending the matter and has filed a plea and a counterclaim for R22 million. No contract was concluded with RSSS, no purchase orders were issued and no quotations were accepted by Telkom. The trial which was initially heard in May 2016 has been re-enrolled for hearing in late August 2017.

Phutuma Networks Proprietary Limited (Phutuma)
In August 2009 Phutuma served summons on Telkom, claiming damages to the amount of R5.5 billion arising from the cancellation of a tender published by Telkom in November 2007. The High Court granted absolution from the instance, in Telkom's favour. The Supreme Court of Appeal (SCA) had initially dismissed Phutuma's application for leave to appeal in October 2014. In November 2014, the SCA rescinded its order granted in October 2014. In early 2015, the SCA referred the appeal back to the North Gauteng High Court. The appeal, which was heard in September 2016, was upheld. A request has been made for the re-enrolment of the matter for trial. We are awaiting a court date.

Other
Section 197: Labour Relations Act
Telkom invoked a process in terms of Section 197 of the Labour Relations Act, to outsource certain service functions, in Telkom, as going concerns. Section 197 (8) states that Telkom and the new employers are jointly and severally liable to any employee who was transferred and becomes entitled to receive payment as a result of the employee's dismissal for reasons relating to the new employer's operational requirements or liquidation. Telkom will be held liable for a period of 12 months after the date of transfer, which may result in an onerous obligation.

Contingent asset
Tax matters
As noted in the 2015 consolidated annual financial statements, the tax treatment of the loss that arose in 2012 and 2014 financial years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. A tax refund received during prior periods, relating to the 2012 sale, is contingent and will only be recognised once the matter has been resolved with SARS.

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

21 Related parties	2017 Rm	2016 Rm
Details of material transactions and balances with related parties were as follows:		
With shareholders:		
Government of South Africa*		
Related party balances		
Finance lease receivable	180	272
Trade receivables	692	562
Provision for doubtful debt	(147)	(67)
Related party transactions		
Revenue	(3 927)	(3 699)
Individually significant revenue**	(1 376)	(1 282)
Department of Correctional Services	(85)	(78)
Department of Justice	(107)	(104)
South African National Defence Force	(70)	(66)
South African Police Services	(586)	(577)
S.I.T.A. Proprietary Limited	(214)	(201)
Ekurhuleni Metropolitan Council	(77)	(57)
Department of Internal Affairs	(52)	(53)
*Eastern Cape Department of Health****	(52)	(49)
Department of Agriculture	(54)	(33)
*Province of KZN Health Service****	(79)	(64)
Collectively significant revenue**	(2 551)	(2 418)

* *Comparatives are restated.*
** *The nature of the individually and collectively significant revenue consists mostly of data revenue.*
*** *Individually significant from the current year.*

At 31 March 2017, the Government of South Africa held 39.3% (2016: 39.3%) of Telkom's shares, and has the ability to exercise significant influence, and the Public Investment Corporation held 11.9% (2016: 11.4%) of Telkom's shares.

21 Related parties – continued	2017 Rm	2016 Rm
With entities under common control:		
Major public entities		
Related party balances		
Trade receivables	40	130
Trade payables	(21)	(5)
Related party transactions		
Revenue	(291)	(394)
Expenses	236	226
Individually significant expenses	236	207
South African Post Office	63	52
Eskom	173	155
Collectively significant expenses	–	19
Rent received	(35)	(28)
Individually significant rent received:		
South African Post Office	(26)	(25)
Collectively significant rent received	(9)	(3)
Rent paid	25	10
Individually significant rent paid: *South African Post Office*	20	5
Collectively significant rent paid	5	5
Key management personnel compensation:		
(Including directors and prescribed officers' emoluments)		
Related party transactions		
Short-term employee benefits	262	308
Post-employment benefits	13	17
Termination benefits	19	14
Equity compensation benefits	17	14

Terms and conditions of transactions with related parties
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.

Notes to the condensed consolidated annual financial statements – continued

for the year ended 31 March 2017

22 Significant events

Results of the Telkom Annual General Meeting regarding directors' re-appointments
On 24 August 2016, all board members who were up for re-election were re-elected as per the Annual General Meeting ordinary resolutions.

Dividends
The Telkom board declared an ordinary dividend of 270 cents per share on 6 June 2016 payable on 4 July 2016 to shareholders registered on 1 July 2016.

The Telkom board declared an interim dividend of 131.23874 cents per share on 11 November 2016 which was payable on 5 December 2016 to shareholders registered on 2 December 2016.

Employee Share Plan
During April 2016, Telkom purchased 3 710 126 shares from the market through Rossal, a wholly owned subsidiary for the purposes of the employee share plan.

Telkom Enterprise and Business Connexion (BCX) Integration
On 6 June 2016, Telkom announced its intention to integrate Telkom Enterprise into BCX. BCX operates as the Business to Business arm of the larger Telkom group. As from November 2016, the Telkom Enterprise business has been integrated into BCX. The integration enables the Telkom group to offer Enterprise solutions beyond connectivity and to strengthen Telkom's leadership in the Enterprise market.

Allocation of shares in terms of the Telkom Employee Share Plan
On 3 June 2016, the board approved the fourth allocation of shares to employees in terms of its Employee Share Plan. The number of shares that vests will depend on the extent to which the performance conditions are met at the end of the applicable vesting period.

Vesting and sale of shares
In terms of the Telkom Share Plan 161 627 and 64 685 shares vested to Sipho Maseko and Deon Fredericks respectively. On 4 July 2016, Sipho Maseko disposed of 145 907 shares. On 5 July 2016, Sipho Maseko and Deon Fredericks disposed of 15 720 and 25 581 shares respectively.

Appointment of non-executive director
Telkom has announced on 20 October 2016 that Dr Hamadoun Touré has been appointed to the board of directors as a non-executive director with effect from 19 October 2016.

Resignation of non-executive director
Telkom announced on 3 November 2016 that Ms Nunu Ntshingila (Njeke) had informed the board of her resignation as director with effect from 3 November 2016.

23 Events after the reporting date

Dividends
The Telkom board declared an ordinary dividend of 290.75253 cents per share on 5 June 2017 payable on 3 July 2017 to shareholders registered on 30 June 2017.

Resignation of non-executive director
Telkom announced on 11 May 2017 that Ms Thembisa Skweyiya (Dingaan) had informed the board of her resignation as director effective from 10 May 2017.

Establishment of Gyro group
Telkom South Africa SOC Limited (Telkom) and Gyro group are entering into a sale of business for shares transaction in terms of which Telkom is selling its Masts and Towers (M&T) business to an existing subsidiary, Swiftnet, and 40 properties to a newly established wholly owned subsidiary, Gyro.

The M&T business will be sold as a going concern. Included in the M&T business are contracts, licences, M&T fixed assets and free right of use on Intellectual Property (IP), all of which is currently used by the M&T business. The 40 properties consist of technical, commercial and industrial properties owned by Telkom.

The sale is part of the Telkom's endeavour to unlock value in its property and M&T portfolios and the sale will be effective from the date of transfer of the properties.

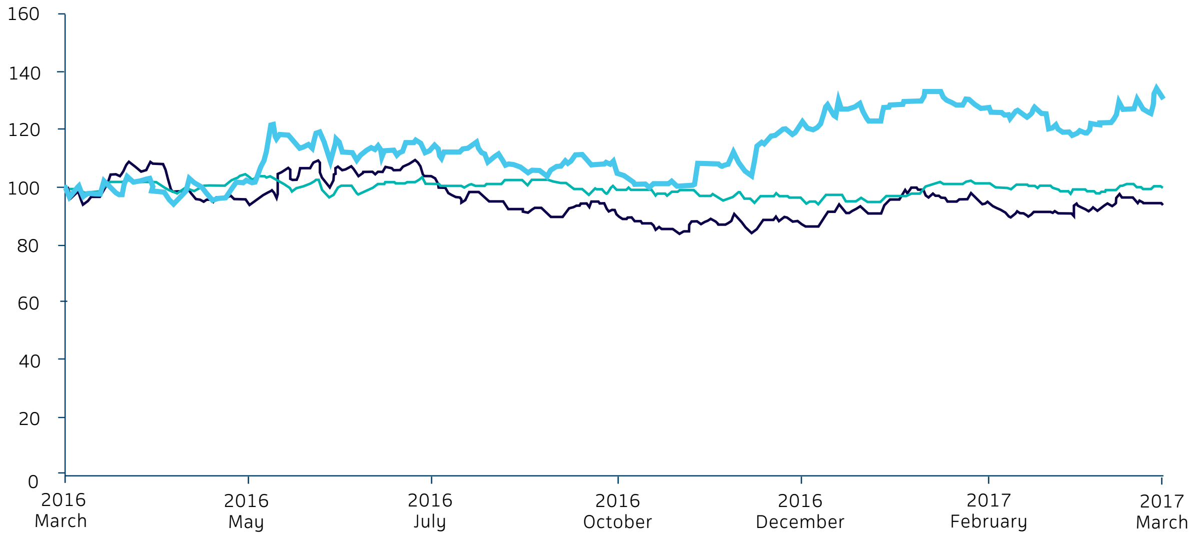
Other matters
The directors are not aware of any other matters or circumstance since the financial year ended 31 March 2017 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the group and the results of its operations.

06

Appendices

Share and shareholder information as at 31 March 2017

Telkom's share price performance versus the FTSE/JSE Telecom Index and the JSE All Share Index (rebased to 100)

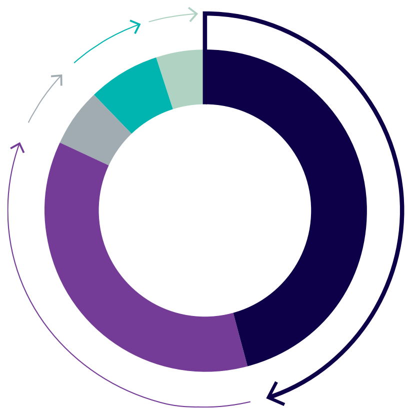


Telkom

FTSE/JSE ALSI

FTSE/JSE Telecom

Institutional shareholding by geography

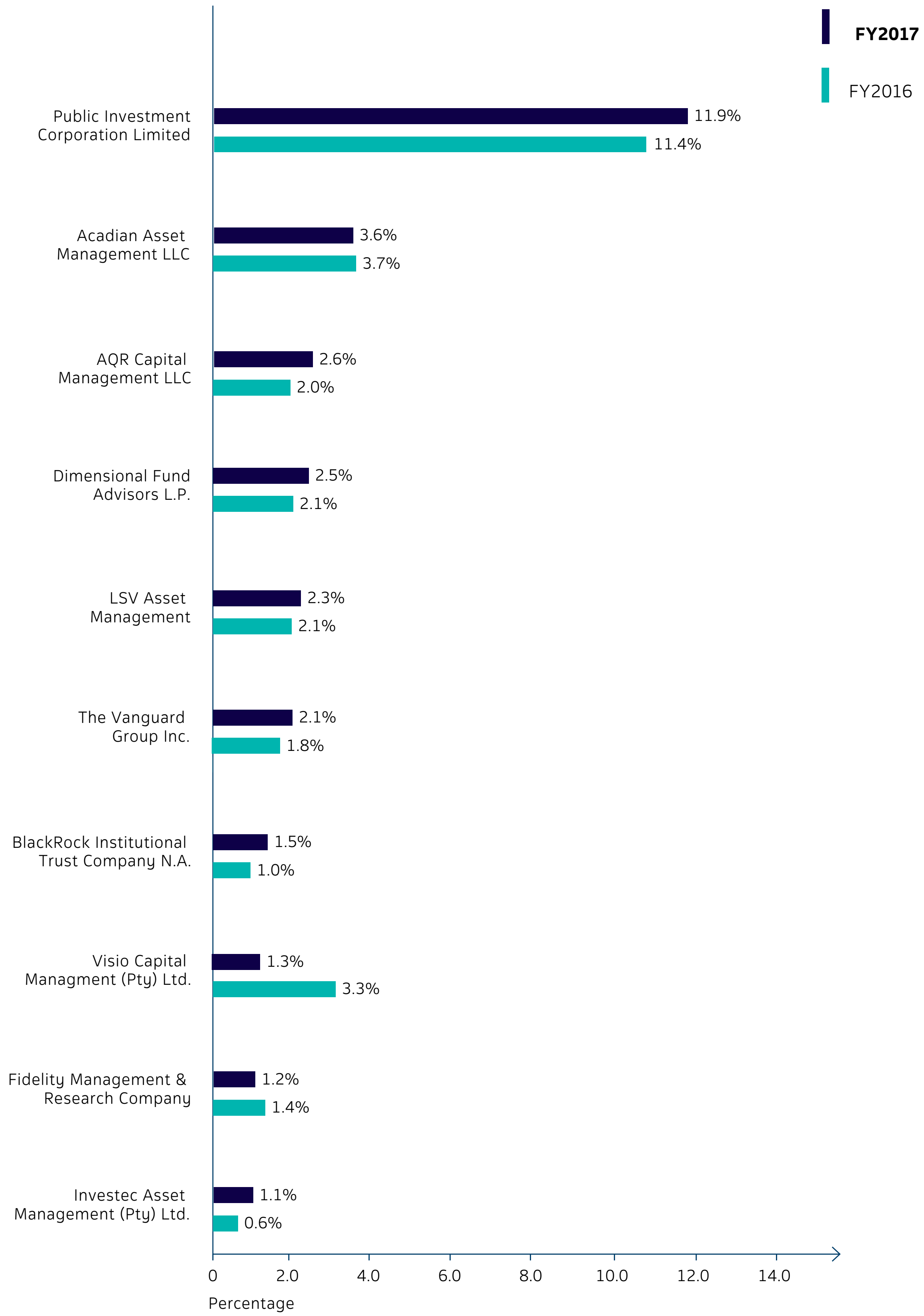


- 46% United States of America
- 36% South Africa
- 7% Europe
- 6% United Kingdom
- 5% Rest of the world

Institutional shareholding by investment style

- 26% Other
- 22% Value
- 17% Growth
- 17% Index
- 9% Hedge
- 9% GARP

Telkom's top 10 institutional shareholders as at 31 March 2017



Notice of annual general meeting

Telkom South Africa SOC Limited
(Incorporated in the
Republic of South Africa)
(Registration number 1991/005476/30)
(JSE share code: TKG)
ISIN: ZAE000044897)
(Telkom or the company)

Notice is hereby given to the shareholders of the company (shareholders) that the 25th annual general meeting of the shareholders (annual general meeting or AGM) will be held at Telkom Park, The Nexus Building, 91 Oak Avenue, Highveld, Centurion, in the Wistaria Auditorium (ground floor) at 10:00 (South African time), on Thursday, 24 August 2017.

To ensure that registration procedures are completed by 10:00, please register for the AGM from 09:00. Please note that, before any person may attend or participate at the AGM, that person must present reasonably satisfactory identification and the person presiding at the AGM must be reasonably satisfied that the right of the person to attend, participate and vote at the AGM, either as a shareholder (or a shareholder's representative) or as a proxy for a shareholder, has been reasonably verified. Acceptable forms of identification include a valid identity document, driver's licence or passport.

The purpose of the AGM is to:

(a) present to the shareholders the audited consolidated annual financial statements of the company and its subsidiaries for the year ended 31 March 2017, a complete set of the condensed consolidated annual financial statements is set out on pages 130 to 155 of the integrated report to which this notice of AGM is attached and a copy of the full annual financial statements is available on the company's website: **www.telkom.co.za/ir**

130
155

(b) present to the shareholders a report of the audit committee on matters which are within the mandate of that committee;

(c) present to the shareholders a report of the social and ethics committee on matters which are within the mandate of that committee;

(d) consider all and any matters of or relating to the company which may lawfully be considered and dealt with at the AGM;

(e) consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions of the shareholders of the company set out hereunder.

Important dates to note

Record date for receipt of notice of this AGM
Friday, 21 July 2017

Last day to trade to participate in and vote at the AGM
Tuesday, 15 August 2017

Record date to be recorded in the shareholders' register to participate in and vote at the AGM
Friday, 18 August 2017

Last day to lodge forms of proxy by 10:00 on
Tuesday, 22 August 2017

AGM held at 10:00 on
Thursday, 24 August 2017

Results of AGM released on SENS on
Thursday, 24 August 2017

Voting and proxies at the AGM

1. All shareholders are entitled to attend and speak at the AGM or any cancellation, postponement or adjournment thereof. All holders of ordinary shares will be entitled to vote on each resolution proposed to be passed at the AGM or any cancellation, postponement or adjournment thereof.
2. A shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who will not be a shareholder/s) to attend, participate in and vote at the AGM in place of that shareholder.
3. The attached form of proxy is to be completed only by those shareholders who:
   3.1 hold shares in certificated form;
   3.2 are recorded on the subregister in dematerialised electronic form with 'own name' registration.
4. All other beneficial owners of shares who have dematerialised their shares through a central securities depositary participant ("CSDP") or broker, and wish to attend the AGM, must instruct their CSDP or broker to provide them with the necessary letter of representation, or must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and their CSDP or broker. Those shareholders must NOT use the attached form of proxy.
5. It is requested that all completed forms of proxy be returned to the company such that they are received by no later than 10:00 on Tuesday, 22 August 2017, at the office of the company's share registrars in South Africa. Any forms of proxy not lodged by this time may be handed to the chairperson of the AGM immediately prior to the proxy exercising any rights of the shareholder at the AGM.
6. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend, speak and vote in person at the AGM should that shareholder decide to do so. A summary of shareholders' rights in respect of proxy appointments as contained in section 58 of the Companies Act is set out at the end of this notice.
7. On a poll, every person entitled to vote shall have one vote for every ordinary share held. On a show of hands, each person entitled to vote shall have one vote, irrespective of the number of ordinary shares held.
8. All ordinary resolutions required to be passed at the AGM shall be passed by a majority of more than 50% of the voting rights exercised on each such resolution.
9. All special resolutions required to be passed at the AGM shall be passed by a majority of at least 75% of the voting rights exercised on each such resolution.
10. Electronic participation in the AGM. The company intends to offer shareholders reasonable access through electronic facilities to participate in the AGM by means of a conference call facility. Shareholders will be able to listen to the proceedings and raise questions should they wish to do so and are invited to indicate their intention to make use of this facility by applying in writing (including details as to how the shareholder representative can be contacted) to the group company secretary at the address set out on the last page of this notice of AGM. The completed application is to be received by the group company secretary by not later than Tuesday, 22 August 2017. The group company secretary will, by way of email, provide information enabling participation to those shareholders who have made application. Voting will not be possible via the electronic facility and shareholders wishing to exercise their voting rights at the AGM are required to be represented at the meeting either in person, by proxy or by letter of representation, as provided for in this notice of AGM.

    The cost of the conference call facility will be for the account of the company. The cost of each shareholder's and each proxy's telephone calls will be for their own account.

Notice of Annual General Meeting

Ordinary resolutions:

Ordinary resolution number 1 – Election of director

Resolved that Dr Hamadoun Touré, who was appointed by the board to serve as a director after the last annual general meeting of the company, shall retire from office at the AGM and, being eligible and having offered himself for election, be and is hereby elected as a director of the company.

Explanatory notes in respect of ordinary resolution number 1

Based on the recommendations of the nominations committee, the board of directors recommends his election as an independent non-executive director of the company. Dr Hamadoun Touré's profile appears on page 33 of the integrated annual report.

Ordinary resolutions numbers 2.1 to 2.4 – Re-election of Directors

Resolved that the following directors shall retire from office at the AGM and, being eligible and having offered themselves for re-election, each by way of separate resolution, be re-elected as a director of the company with immediate effect:

2.1 Ms SL Botha
2.2 Ms K Kweyama
2.3 Ms F Petersen-Lurie
2.4 Mr LL von Zeuner

Explanatory notes in respect of ordinary resolutions numbers 2.1 to 2.4

Ordinary resolutions numbers 2.1 to 2.4 are proposed for re-election of directors of the company. The re-elections will be conducted by way of a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy.

The board recommends to the shareholders the re-election of the aforementioned directors. The profiles of the directors standing for re-election appear at pages 32 to 33 of the integrated report.

Ordinary resolutions numbers 3.1 to 3.4 – election of audit committee members

Resolved that the following independent non-executive directors, each by way of separate resolution, be and are hereby elected as members of the company's audit committee from the conclusion of the AGM until the next annual general meeting of the company:

3.1 Mr I Kgaboesele
3.2 Ms KW Mzondeki
3.3 Mr LL von Zeuner
3.4 Mr RG Tomlinson

Mr LL von Zeuner will be appointed, subject to his re-election as a director pursuant to ordinary resolution number 2.4.

The profiles of the directors who are standing for election to the audit committee are set out in pages 32 to 33 of the integrated annual report.

Explanatory notes in respect of ordinary resolutions numbers 3.1 to 3.4

In terms of the Companies Act, the audit committee is a statutory committee elected by the shareholders at each annual general meeting. In terms of the Regulation 43 of the Companies Regulations, at least one-third of the members of a company's audit committee at any particular time must have academic qualifications or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. The company has established an audit committee which fulfils the functions of an audit committee as contemplated in the Companies Act and the persons nominated to be appointed to the company's audit committee were nominated having considered the requirements of the Companies Act and Companies Regulations referred to herein.

Ordinary resolutions numbers 4.1 and 4.2 – Reappointment of Ernst & Young Inc and Nkonki Inc. as auditors of the company

Resolved that Ernst & Young and Nkonki, each by way of separate resolution, be reappointed as the independent registered auditors of the company from the conclusion of the AGM until the conclusion of the next annual general meeting of the company.

4.1 Ernst & Young Inc (with Ms Delanie Lamprecht as the individual designated auditor responsible for the audit)
4.2 Nkonki Inc (with Mr Brian Mungofa as the individual designated auditor responsible for the audit)

Explanatory notes in respect of ordinary resolutions numbers 4.1 and 4.2

In compliance with section 90 read with section 92 (3) of the Companies Act, Ernst & Young Inc and Nkonki Inc are recommended by the Audit Committee to be re-appointed as joint auditors for the financial year ending 31 March 2018 and until the conclusion of the next annual general meeting of the company.

Ordinary resolution number 5 – General authority for directors to allot and issue and/or grant options over ordinary shares

Resolved that, subject to the memorandum of incorporation, the Companies Act and the Listings Requirements, the unissued ordinary shares in the share capital of the company be and are hereby placed under the control of the directors of the company who are authorised to allot, issue and/or grant options over such ordinary shares at their discretion, subject to the following:

> This authority shall only be valid until the next annual general meeting of the company but shall not endure beyond 15 months from the date of this AGM.

> Ordinary shares issued in terms of this authority shall not exceed 5% of the number of ordinary shares in issue as at the date of passing this resolution.

> The number of shares to be issued in terms of this resolution shall not include any shares that may be issued by the company to employees participating in the Telkom South Africa SOC Limited Employee Forfeitable Share Plan.

Explanatory notes in respect of ordinary resolution number 5

In terms of clause 9.3 of the memorandum of incorporation, the shareholders may authorise the directors to issue unissued shares or grant options over them as the directors may think fit (with the effect that any pre-emptive rights that shareholders hold may be waived), subject to the approval of JSE, the provisions of the Listings Requirements and the Companies Act. The directors wish to be granted authority to allot and issue up to a maximum of 5% of the number of ordinary shares in issue as at the date of passing of this resolution in their discretion, subject to the provisions of the memorandum of incorporation, the Companies Act and the Listings Requirements. The number of shares to be issued in terms of ordinary resolution number 5 shall not include any shares that may be issued by the company to participating employees in the Telkom South Africa SOC Limited Employee Forfeitable Share Plan.

Ordinary resolution number 6 – Non-binding advisory endorsement of the Telkom South Africa SOC Limited remuneration policy

Resolved that the shareholders hereby endorse, through a non-binding advisory vote, the company's remuneration policy as set out in the remuneration report contained in the integrated annual report on page 107.

Explanatory notes in respect of approval of the remuneration policy and implementation report

In terms of King III, the company's remuneration policy should be tabled for a separate non-binding advisory vote at the AGM. The essence of this vote is to enable the shareholders to express their views on the remuneration policies adopted in regard to the remuneration of executive management, but will not be binding on the company.

Special resolutions:

Special resolution number 1 – General authority to repurchase shares

Resolved that, pursuant to the memorandum of incorporation, the company and any of its subsidiaries be and are hereby authorised by way of a general approval to purchase or repurchase, as the case may be, and from time to time, ordinary shares issued by the company from any person, upon such terms and conditions and in such number as the directors of the company or subsidiary may determine, but in accordance with and subject to the provisions of the memorandum of incorporation, the Companies Act and the Listings Requirements, provided that:

> the general authority granted to the directors shall be valid only until the company's next annual general meeting and shall not extend beyond 15 months from the date on which this resolution is passed;

> any general purchase by the company or any subsidiary of its ordinary shares in issue shall not in aggregate in any one financial year exceed 10% of the company's issued ordinary share capital at the time that the authority is granted;

> no acquisition may be made at a price more than 10% above the weighted average of the market value of the ordinary share for the 5 (five) business days immediately preceding the date of such acquisition;

> the repurchase of the ordinary shares is effected through the order book operated by JSE trading system and done without any prior understanding or arrangement between the company or any subsidiary and the counter party (reported trades are prohibited);

> the company may only appoint one agent at any point in time to effect any repurchase(s) on the company's behalf;

> the repurchase of shares by the company and/or any of its subsidiaries may not be effected during a prohibited period as defined in the Listings Requirements unless the company has in place a repurchase programme where the dates and quantities of securities to be traded during the period are fixed, i.e. not subject to variation, and has been submitted to the JSE in writing prior to the commencement of the prohibited period. The issuer must instruct an independent third party, which makes its investment decisions in relation to the issuer's securities independently of, and uninfluenced by, the issuer, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;

> The board resolves to authorise the repurchase, that the company and its subsidiaries have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Telkom group;

> the general authority may be varied or revoked by special resolution of the shareholders prior to the next annual general meeting of the company; and

Notice of annual general meeting – continued

> should the company and/or any subsidiary cumulatively repurchase and/or acquire, as the case may be, 3% (three percent) of the initial number of the company's ordinary shares in terms of this general authority and for each 3% (three percent) in aggregate of the initial number of that class repurchased and/or acquired, as the case may be, thereafter in terms of this general authority, an announcement shall be made in terms of the Listings Requirements.

Any decision by the directors, after considering the effect of a repurchase, of up to 10% (ten percent) of the company's issued ordinary shares, to use the general authority to repurchase shares of the company, will be taken with regard to the prevailing market conditions and other factors.

Explanatory notes in respect of special resolution number 1
This special resolution is proposed to allow the company and/or its subsidiaries by way of a general authority to repurchase and/or acquire shares issued by the company.

The existing general authority for the company and/or a subsidiary thereof to repurchase or purchase, as the case may be, shares in the company, granted by shareholders at the previous annual general meeting is due to expire at this annual general meeting, unless renewed.

The directors have no specific intention, at present, for the company or its subsidiaries to repurchase any of the company's shares but are of the opinion that it would be in the best interests of the company to extend such general authority and thereby allow the company or any subsidiary of the company to be in a position to repurchase or purchase, as the case may be, the shares issued by the company through the order book of the JSE, should an opportunity present itself where the market conditions and price justify such action. The general authority is also required to enable the company to perform its settlement obligations to employees participating in the Telkom South Africa SOC Limited Employee Forfeitable Share Plan.

Special resolution number 2 – General authority for directors to issue shares for cash
Resolved that, subject to the passing of ordinary resolution number 5 and the provisions of the Companies Act and the Listings Requirements, the directors be and are hereby authorised by way of a general authority, to allot and issue ordinary shares in the share capital of the company for cash, on such terms and conditions as they deem fit, subject to the following conditions:

> The general authority granted to the directors shall be valid only until the company's next annual general meeting and shall not extend beyond 15 (fifteen) months from the date on which this resolution is passed.

> The equity securities must be issued only to persons qualifying as public shareholders, as defined in the Listings Requirements, and not to related parties (unless the JSE agrees otherwise).

> The equity securities which are the subject of general issues for cash:
- may not exceed 5% (five percent) of the company's number of ordinary shares in issue as at the date of the notice of AGM, net of treasury shares, being 25 484 292 ordinary shares
- any ordinary shares issued under this authority must be deducted from the number of ordinary shares set out above
- in the event of a sub-division or consolidation of issued ordinary shares during the period of this authority, the existing authority must be adjusted accordingly to represent the same allocation ratio

> The maximum discount at which equity securities may be issued is 10% (ten percent) of the weighted average traded price on the JSE of such equity securities measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the securities. The JSE should be consulted for a ruling if the company's securities have not traded in such 30 (thirty) business day period

Explanatory notes in respect of special resolution number 2
The directors wish to be granted authority to allot and issue the ordinary shares of the company that they would be authorised by ordinary resolution number 5 to issue as they in their discretion think fit, for cash from time to time, subject to the provisions of the memorandum of incorporation, the Companies Act and the Listings Requirements, in particular section 5.52 of the Listings Requirements. The ordinary shares capable of being issued for cash under this authority effectively represent 5% (five percent) of the number of ordinary shares in issue as at the date of this notice of AGM, which is significantly lower than the maximum 15% (fifteen percent) permitted in terms of the JSE Listings Requirements.

The directors consider it beneficial to obtain the authority to enable the company to take advantage of any business opportunity that may arise in future.

Special resolution number 3 – Remuneration of non-executive directors
Resolved that the remuneration of the non-executive directors of the company for their services as directors of the company be as set out below, effective from 24 August 2017:

Determination and approval of the remuneration of non-executive directors

	Annual retainer fee	Meeting attendance fee	Special meeting attendance fee
Telkom South Africa SOC Limited board	Amount	Amount	Amount
Chairperson	1 325 000	–	24 804
Ordinary board member	387 960	–	18 550
International board member	535 732	–	18 550
Special sub-committee			18 550
Audit committee			
Chairman		70 259.25	24 804
Member		36 830.25	18 550
Risk committee			
Chairman		53 000	24 804
Member		31 800	18 550
Social and ethics committee			
Chairman		53 000	24 804
Member		31 800	18 550
Nominations committee			
Chairman		47 011	24 804
Member		31 800	18 550
Remuneration committee			
Chairman		53 000	24 804
Member		31 800	18 550
Investment and transactions committee			
Chairman		48 808.67	24 804
Member		31 800	18 550

Notice of annual general meeting – continued

Explanatory notes in respect of special resolution number 3
In terms of sections 66(8) and (9) of the Companies Act, remuneration may only be paid to directors for their service as directors in accordance with a special resolution approved by shareholders within the previous two years and if not prohibited in terms of a company's memorandum of incorporation. The remuneration of directors for their services is determined from time to time by the directors, taking into account the recommendations of the remuneration committee. Directors shall also be paid travelling, subsistence and other expenses properly incurred by them in the execution of their duties, including attendance of meetings of directors and of committees of directors authorised or ratified by directors.

The Board has considered the remuneration paid to the non-executive directors for the year ended 31 March 2017 and is of the view that, in the best interest of the company, there should be an increase to the remuneration as tabled above.

Special Resolution number 4 – General authority to provide financial assistance
Resolved that, the board be and is hereby authorised to cause the company, subject to compliance with the requirements of the memorandum of Incorporation and the Companies Act, to provide direct or indirect financial assistance as contemplated in sections 44 and 45 of the Companies Act, including by way of a loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the company for any purpose or in connection with any matter, including, but not limited to, the subscription of any option, or any securities issued or to be issued by the company or a related or inter-related company or entity, or for the purchase of any securities of the company or a related or inter-related company or entity, for such amounts and on such terms as the board may determine in its discretion. This authority shall continue until the forthcoming annual general meeting of the company

Explanatory notes in respect of special resolution number 4
The board wishes to have the ability to provide financial assistance (by way of loan, guarantee, the provision of security or otherwise), if necessary, to related or inter-related companies and entities. Furthermore, it may be necessary or desirous for Telkom to provide financial assistance to related or inter-related companies and entities to subscribe for options or securities or purchase securities of Telkom or another company related or inter-related to it. Under sections 44 and/or 45 of the Companies Act, Telkom will however require the special resolution referred to above to be adopted. In the circumstances and in order to, inter alia, ensure that Telkom's subsidiaries and other related or inter-related companies and entities have access to financing and/or financial backing from Telkom , it is necessary to obtain the approval of shareholders, as set out in special resolution number 4.

By order of the board
TELKOM South Africa SOC LIMITED
E Motlhamme
Group company secretary
Date 3 July 2017

Registered office
61 Oak Avenue
Highveld
Centurion
0157
South Africa
(Private Bag X881, Pretoria 0001)

Transfer secretaries
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
South Africa
(PO Box 61051, Marshalltown 2107)

Form of proxy for annual general meeting

Telkom South Africa SOC Limited
(Incorporated in the Republic of South Africa)
(Registration number 1991/005476/30)
(JSE share code: TKG)
ISIN: ZAE000044897)
(Telkom or the company)

(For completion by certificated shareholders and own-name dematerialised shareholders. Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote and speak at the annual general meeting in his stead. Such proxy/ies need not be a shareholder/s of Telkom.)

For use at the annual general meeting of shareholders of Telkom to be held at Telkom Park, The Nexus Building, 91 Oak Avenue, Highveld, Centurion in the Wistaria Auditorium (ground floor) on Thursday, 24 August 2017 at 10:00

A dematerialised shareholder who is not an "own-name" registered shareholder, must inform its/his/her Central Securities Depository Participant (CSDP) or broker of its/his/her intention to attend the annual general meeting and request its/his/her CSDP or broker to issue it/him/her with the necessary documentation to attend the annual general meeting in person and vote or provide their CSDP or broker with its/his/her voting instructions should it/he/she not wish to attend the Annual general meeting in person. A dematerialised shareholder who is not an "own-name" registered shareholder should not use this form of proxy, but must contact its/his/her CSDP or broker as the company will take no responsibility for shareholders who do not contact their CSDP or brokers timeously.

I/We ____________________ (name in BLOCK LETTERS)

Of ____________________ (address in BLOCK LETTERS)

____

____

____

Being the holders of ________ ordinary shares in the capital of the company,

do hereby appoint: ____________________

of ____________________

or failing him/her ____________________

of ____________________

or ____________________

or failing him/her, the chairman of the annual general meeting as my/our proxy to represent me/us at the annual general meeting to be held at Telkom Park, The Nexus Building, 91 Oak Avenue, Highveld, Centurion in the Wistaria Auditorium (ground floor) on Thursday, 24 August 2017 at 10:00 or at any adjournment thereof, for purposes of considering and if deemed fit, passing with or without modification, the resolutions to be proposed thereat and at each adjournment, as follows:

Form of proxy for annual general meeting – continued

Resolution	For	Against	Abstain
Ordinary resolutions			
Ordinary resolution number 1: Election of Dr H Touré as a director			
Ordinary resolution number 2.1: Re-election of Ms SL Botha as a director			
Ordinary resolution number 2.2: Re-election of Ms K Kweyama as a director			
Ordinary resolution number 2.3: Re-election of Ms F Petersen-Lurie as a director			
Ordinary resolution number 2.4: Re-election of Mr LL von Zeuner as a director			
Ordinary resolution number3.1: Election of Mr I Kgaboesele as a member of the audit committee			
Ordinary resolution number 3.2: Election of Ms KW Mzondeki as a member of the audit committee			
Ordinary resolution number 3.3: Election of Mr LL von Zeuner as a member of the audit committee subject to his re-election as a director pursuant to ordinary resolution number 2.4			
Ordinary resolution number 3.4: Election of Mr RG Tomlinson as a member of the audit committee			
Ordinary resolution number 4.1: Re-appointment of Ernst & Young Inc. as auditors of the company			
Ordinary resolution number 4.2: Re-appointment of Nkonki Inc as auditors of the company			
Ordinary resolution number 5: General authority for directors to allot and issue and/or grant options over ordinary shares.			
Ordinary resolution number 6: Endorsement of the remuneration policy			
Special resolutions			
Special resolution number 1: General authority to repurchase shares			
Special resolution number 2: General authority for directors to issue shares for cash.			
Special resolution number 3: Remuneration of non-executive directors			
Special resolution number 4: General authority to provide financial assistance			

and generally to act as my/our proxy at the said Annual General Meeting.

(Please indicate with an "x", in the applicable spaces, how you wish your votes to be cast.)
Please read the notes on the reverse side hereof.
Unless otherwise directed the proxy will vote as he/she thinks fit.

Signed at ______________________ this _____ day of ______________ 2017

Signature of shareholder ______________________

assisted by (where applicable) ______________________

Form of proxy for annual general meeting – continued

Summary of applicable rights established in section 58 of the Companies Act, 2008, as amended (the Act)

For purposes of this summary, the term "shareholder" shall have the meaning ascribed thereto in section 57(1) of the Act.

1. At any time, a shareholder of a company is entitled to appoint any individual, including an individual who is not a shareholder of that company, as a proxy to participate in, speak and vote at a shareholders meeting on behalf of the shareholder.
2. A proxy appointment must be in writing, dated and signed by the relevant shareholder.
3. Except to the extent that the memorandum of Incorporation of a company provides otherwise:

3.1.a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder; and

3.2.a copy of the instrument appointing a proxy must be delivered to the relevant company, or to any other person on behalf of the relevant company, before the proxy exercises any rights of the shareholder at a shareholders meeting.

4. Irrespective of the form of instrument used to appoint a proxy:

4.1.the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company; and

4.2.should the instrument used to appoint a proxy be revocable, a shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the relevant company.

5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date:

5.1.stated in the revocation instrument, if any; or

5.2.upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Act.

6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Act or the relevant company's memorandum of incorporation to be delivered by such company to the shareholder must be delivered by such company to:

6.1. the shareholder, or

6.2. the proxy or proxies if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so.

7. A proxy is entitled to exercise, or abstain from exercising, any voting right of the relevant shareholder without direction, except to the extent that the memorandum of incorporation of the relevant company or the instrument appointing the proxy provide otherwise.
8. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy, or supplies a form of instrument for appointing a proxy:

8.1.such invitation must be sent to every shareholder who is entitled to receive notice of the meeting at which the proxy is intended to be exercised;

8.2. the company must not require that the proxy appointment be made irrevocable; and

8.3 the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Act.

Notes to proxy

1. A certificated shareholder and an "own name" registered dematerialised shareholder may insert the name of a proxy or the names of proxies of the certificated shareholder's/ "own name" registered dematerialised shareholder's choice in the space provided, with or without deleting the chairman of the annual general meeting. The person whose name stands first on the form of proxy and who is present at the annual general meeting shall be entitled to act as proxy to the exclusion of the persons whose names follow.
2. Instructions to the proxy have to be indicated by the insertion of the relevant number of votes exercisable in the appropriate box provided. Failure to comply with this shall be deemed to authorise the chairman of the annual general meeting, if the chairman is the authorised proxy, to vote in favour of the resolutions at the annual general meeting or the appointed proxy to vote or to abstain from voting at the annual general meeting, as he/she deems fit in respect of all the appointer's votes exercisable thereat, or the appointed proxy to vote or to abstain from voting at the Annual General Meeting, as he/she deems fit in respect of all the appointer's votes exercisable by that proxy.
3. The total number of votes for or against the resolutions and in respect of which any abstention is recorded may not exceed the total number of votes to which the person entitled to vote granting the proxy is entitled.
4. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity has to be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
5. The chairman of the annual general meeting may reject or accept any form of proxy that is completed and/or received, other than in compliance with these notes.
6. Any alterations or corrections to this form of proxy shall be initialled by the signatory (ies).
7. The completion and lodging of this form of proxy shall not preclude the relevant person entitled to vote from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such person wish to do so.
8. Where there are joint holders of shares:

a. any one holder may sign this form of proxy; and

b. the vote of the senior shareholder (for that purpose, seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.

9. A minor must be assisted by his/her parent or legal guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
10. A proxy may not delegate his/her authority to act on behalf of the shareholder to another person.

It is requested that forms of proxy be lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers,15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) to be received by no later than 10:00 on Tuesday, 22 August 2017. If forms of proxy are not received by the transfer secretaries by the relevant time, they will nevertheless be entitled to be lodged immediately prior to the commencement of the annual general meeting in accordance with the instructions therein, with the chairperson of the annual general meeting (and are requested to be so lodged at least by 09:30, which is 30 minutes prior to the time appointed for commencement of the annual general meeting).

Registered office
61 Oak Avenue
Highveld
Centurion
0157
South Africa
(Private Bag X881, Pretoria 0001)

Transfer secretaries
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
South Africa
(PO Box 61051, Marshalltown, 2107)

Chairman of the annual general meeting ______________________

Administration

Company registration number
1991/005476/30

Head office
61 Oak Avenue
Highveld
Centurion 0157
South Africa

Postal address
Telkom South Africa SOC Limited
Private Bag X881
Pretoria 0001

Telkom register helpline
0861 100 948

Group company secretary
Ephy Motlhamme
Tel: +27 12 311 3911

United States ADR depository
The Bank of New York Mellon
Shareholder Relations Department
PO Box 11258
New York
NV 10286-1258
Tel: +1 888 643 4269
shareowner-svcs@bankkofny.com

Auditors
Ernst & Young Inc
102 Rivonia Road
Sandton 2146
Tel: +27 11 772 3000
Fax: +27 11 772 4000

Nkonki Inc
Nkonki House 1
1 Simba Road
Sunninghill
Johannesburg
Tel: +27 11 517 3000

Transfer agents
Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107

Business call centre
10217

Investor Relations
Babalwa George
Tel: +27 12 311 8675
telkomir@telkom.co.za

Produced by Green Grass Design and Greymatter & Finch

Telkom