

The background of the cover is a blue-toned image of a tablet displaying various digital icons. These icons include a bar chart, a lightbulb, a cloud, a globe, a Wi-Fi symbol, a house with a Wi-Fi symbol, a magnifying glass, a power button, and a gear. The overall theme is technology and digital communication.

Telkom

Integrated Report

for the year ended 31 March 2018

Telkom SA 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 Ltd
Standard Bank Centre
30 Baker Street, Rosebank, 2196

Board of directors
JA Mabuza (chairman),
SL Botha, GW Dempster, N Kapila,
I Kgaboesele, K Kweyama, KW Mzondeki,
F Petersen-Cook, RG Tomlinson,
L von Zeuner, Dr H Touré, D Mokgatle,
S Moloko, S Luthuli,
SN Maseko (group chief executive officer),
TBL Molefe (group chief financial officer -
appointed 01 July 2018)



Give us feedback

We welcome feedback on our reporting for the financial year ended 31 March 2018. Please send any suggestions for our integrated report 2019 to investor relations at telkomir@telkom.co.za

www.telkom.co.za

How to access our information:

Available online



Our online integrated report for the year ended 31 March 2018 in pdf format and interactive html format is available on Telkom's investor relations website www.telkom.co.za/ir

The following icons assist in navigation:



Refers the reader to other sections within the integrated report



Refers the reader to online information



Refers to King IV recommended disclosure. The number inside the icon refers to the King IV principle applied.



Icon indicates where non-financial information was externally assured



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01

An overview of our business

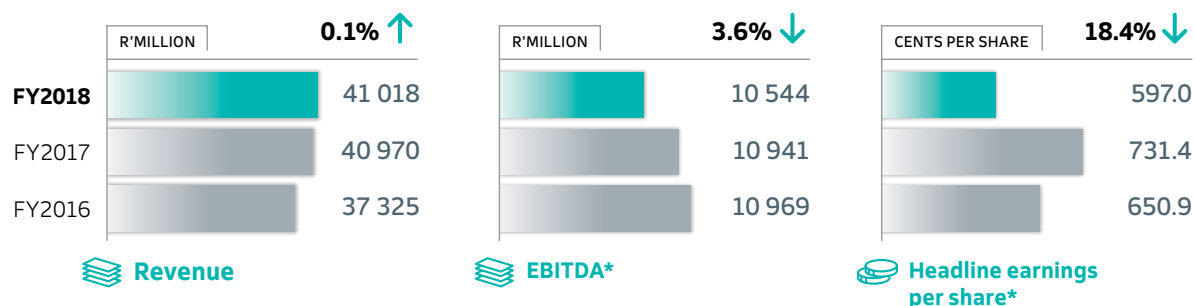
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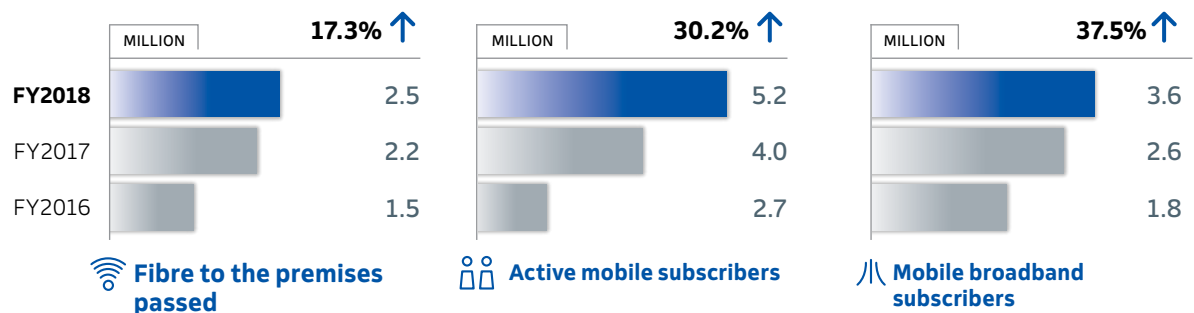
Integrated performance snapshot



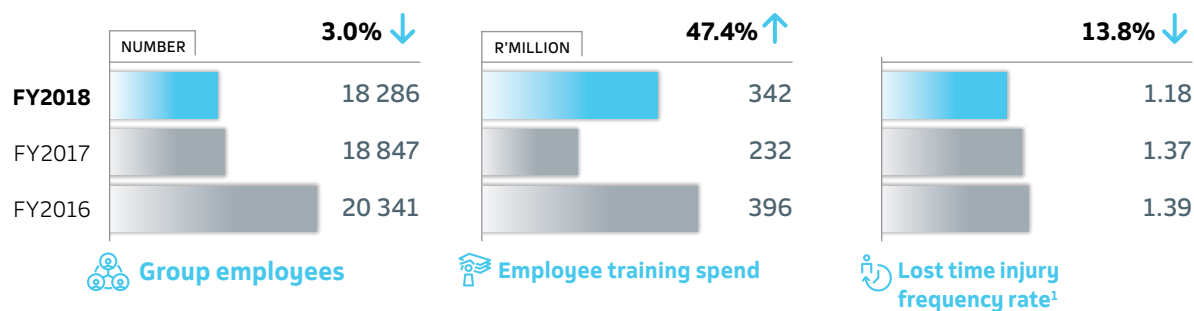
Financial capital



Productive capital

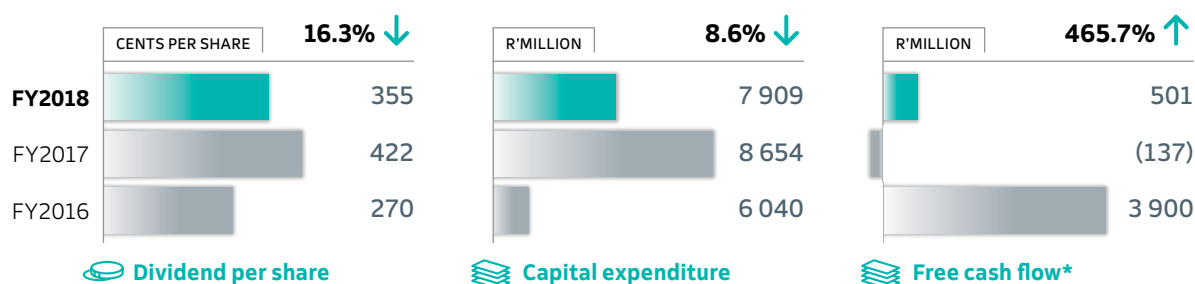


Human capital

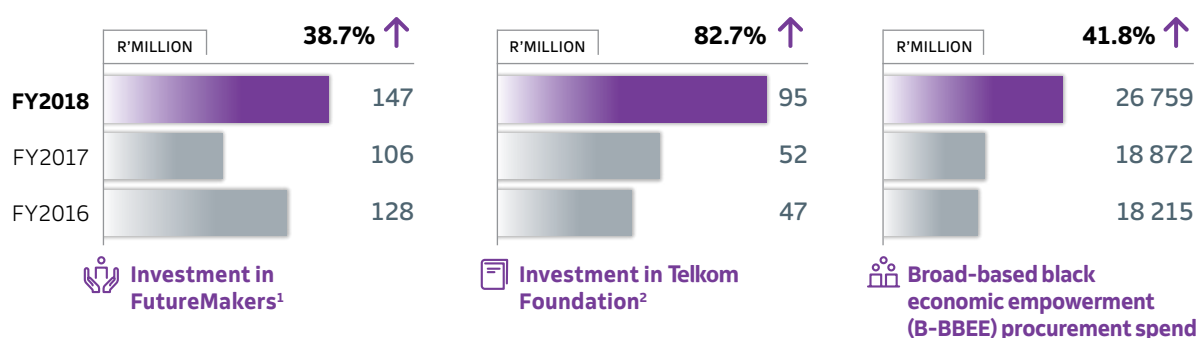


¹ Telkom company.

*The comparative information for the year ended 31 March 2017 was adjusted to exclude the impact of voluntary early retirement packages (VERPs) and voluntary severance packages (VSPs) of R66 million and the related tax impact of R13 million. FY2016 excludes the impact of VERPs and VSPs of R2 193 million and the related tax impact of R517 million.



Social and relationship capital

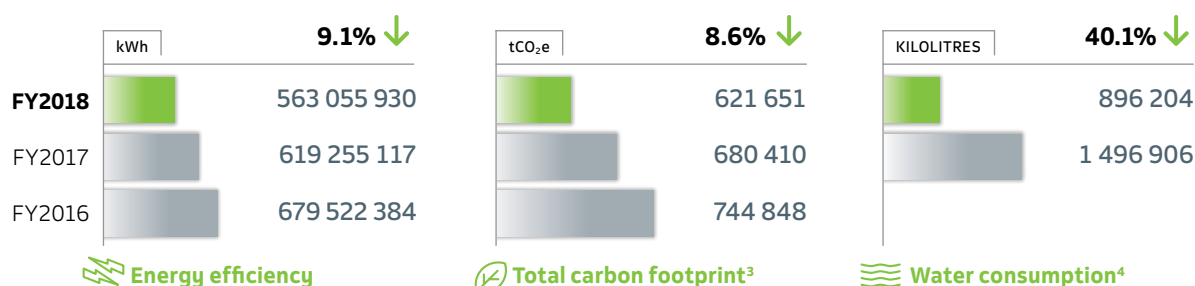


¹ Includes capital and operational expenditure.

² Yellow Pages is excluded.



Natural capital



³ Scope 1 and 2.

⁴ FY2016 not provided due to change in methodology.

Our report's basis of preparation

Telkom believes that complete and accurate information enables our stakeholders to make informed decisions. Our 2018 integrated report explains how we create value through our strategy, governance, performance and prospects.

Telkom SA SOC Ltd represents Telkom group, which comprises Telkom company (including the divisions Openserve and Telkom Consumer) and its subsidiaries, BCX, Gyro and Yellow Pages (known as Trudon). Refer to page 10 for our structure.

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

Considerations in preparing this report

We used the International Integrated Reporting Council's (IIRC) Integrated Reporting (<IR>) Framework and the Global Reporting Initiative's (GRI) Standards in compiling this report. As a listed company, we adhere to the JSE Listings Requirements and we are a constituent of the FTSE/JSE Responsible Investment Index. Telkom was included in the FTSE/JSE Responsible Investment Top 30 Index, ranked by the FTSE ESG rating.

This report shows the connection between our strategy, material themes, governance, performance and prospects. We report according to the six capitals to provide a balanced view of our value creation. We have renamed manufactured capital to productive capital.

We considered the guidelines of the King IV Report on Corporate Governance for South Africa, 2016 (King IV) while preparing our report. We have applied and explained the 16 relevant principles and demonstrated how we achieve governance outcomes. A King IV application report which sets out the principles and disclosure is available on the website (refer www.telkom.co.za/ir). King IV principle disclosures are indicated with this icon  throughout the report.

Reporting scope and boundary

This report covers the annual financial year ended 31 March 2018. Subsequent significant events up to the date of approval of the integrated report are also included. The report addresses our divisions, including Openserve and Telkom Consumer, and our subsidiaries, BCX, Gyro and Yellow Pages, unless otherwise stated.

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

Material themes determination process

To keep our report concise, we focus on material themes that substantively affect our ability to create value for our stakeholders over time. Refer to page 19 for our materiality determination process, and page 31 for our material themes.



Combined assurance

We follow a combined assurance approach (page 95), which integrates Telkom Audit Services (TAS), other independent assurers and risk management activities across the group. Our integrated report was reviewed and approved by the executive committee (exco), audit committee and the board of directors.

Ernst & Young (EY) is the external auditor who provided assurance over our consolidated annual financial statements and expressed an unmodified opinion (refer to page 10 of the consolidated annual financial statements) which is available online at www.telkom.co.za/ir.

IBIS ESG Assurance provided assurance over certain non-financial indicators in the report. Assured non-financial indicators are indicated with this icon . For the purpose of assuring non-financial indicators, Yellow Pages has been excluded on the basis of immateriality. The external assurance focused on the South African operations of Telkom company, Gyro and BCX.

The internal audit function assessed the completeness and accuracy of a sample of strategic, non-financial key performance indicators (KPIs) presented in the integrated report.

Reporting suite

Our reporting suite that is outlined in the table below can be found at www.telkom.co.za/ir. 

Report	Framework	Assurance provider
Integrated report, including the notice of annual general meeting	> IIRC <IR> Framework > GRI Standards > King IV > Companies Act of South Africa, 71 of 2008, as amended (Companies Act) > JSE Listings Requirements	> Management > Audit committee > Board > IBIS ESG Assurance > Internal audit
Consolidated annual financial statements	> International Financial Reporting Standards (IFRS) > Companies Act	> Management > Audit committee > Board > EY
Assurance statement	> AA1000AS Standard	> IBIS ESG Assurance
King IV application report	> King IV	> Management > Audit committee > Board
Annual results presentation	> Not applicable	> Management > Audit committee > Board
B-BBEE certificate	> Amended ICT sector codes	> BEE Online

Forward-looking statements

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

All statements, other than statements of historical facts, including, among others, statements regarding our convergence and other strategies, future financial position and plans, objectives, capital expenditures, projected costs, anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward-looking statements. Forward-looking statements can generally be identified by the use of words such as “may”, “will”, “should”, “expect”, “envisage”, “intend”, “plan”, “project”, “estimate”, “anticipate”, “believe”, “hope”, “can”, “is designed to” or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward looking. These forward-looking statements involve a number of known and

unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Factors that could cause our actual results or outcomes to differ materially from our expectations include, but are not limited to, those risks identified in Telkom's most recent integrated report, which is available on Telkom's website at www.telkom.co.za/ir. 

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

Our report's basis of preparation *continued*

Board approval

The board acknowledges its responsibility for the integrity of our integrated report. It 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 all matters material to its stakeholders' decision-making, and concluded that the information herein is in all material respects fairly presented in accordance with the IIRC <IR> Framework. The board approved the report on 5 July 2018.

Jabu Mabuza (chairman)	Khangisile Kweyama	Sello Moloko
Dolly Mokgatle	Kholeka Mzondeki	Sibusiso Luthuli
Fagmeedah Petersen-Cook	Louis von Zeuner	Sipho Maseko (group chief executive officer)
Graham Dempster	Navin Kapila	Tsholofelo Molefe (group chief financial officer)
Dr Hamadoun Touré	Rex Tomlinson	
Itumeleng Kgaboesele	Santie Botha	



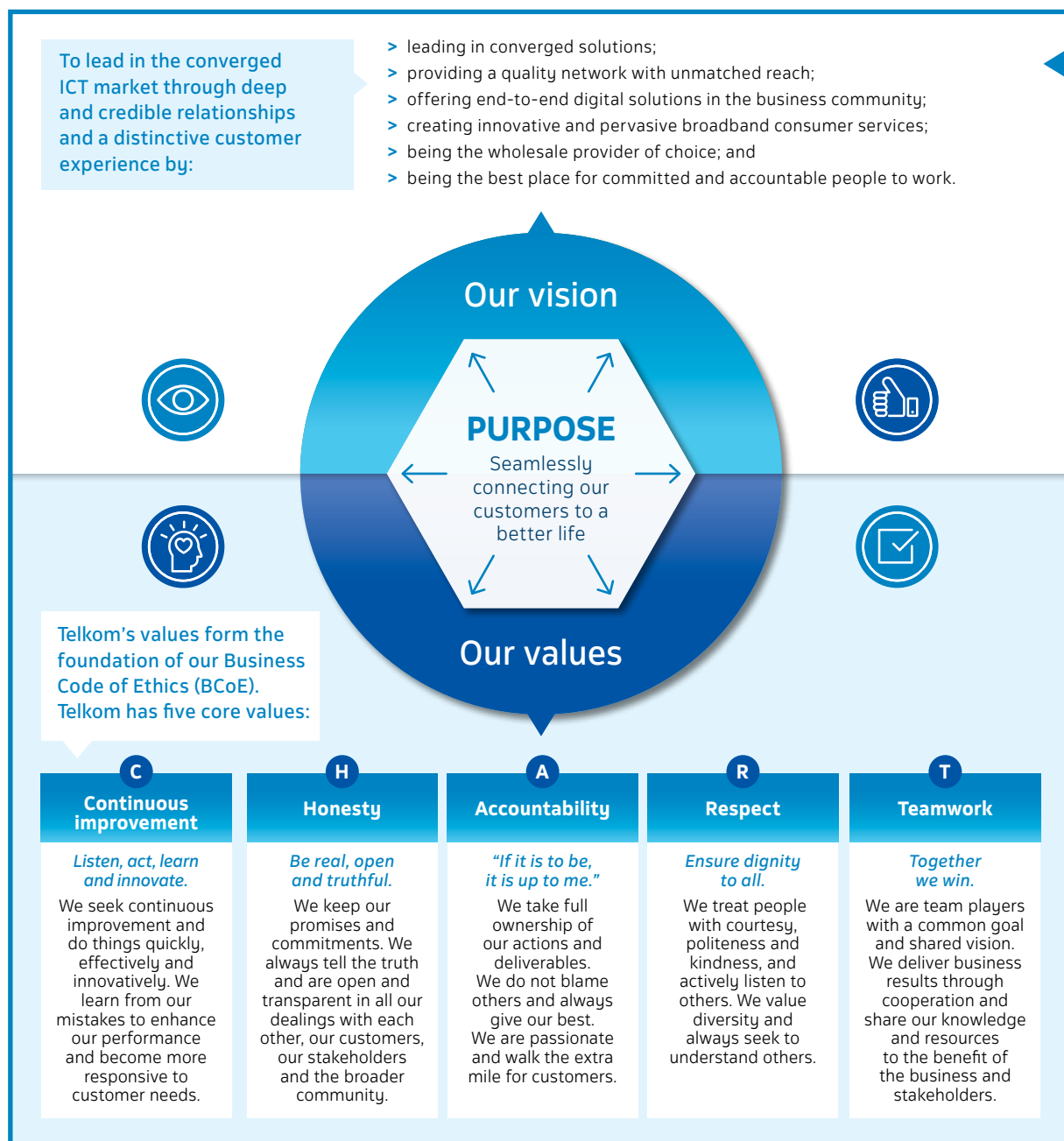
Who is Telkom?

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

BCX and Gyro are both wholly owned by the group. BCX is our leading technology company that provides ICT solutions. Gyro manages masts and towers, develops properties, and manages property services on behalf of the group.

One of Telkom's key objectives 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.

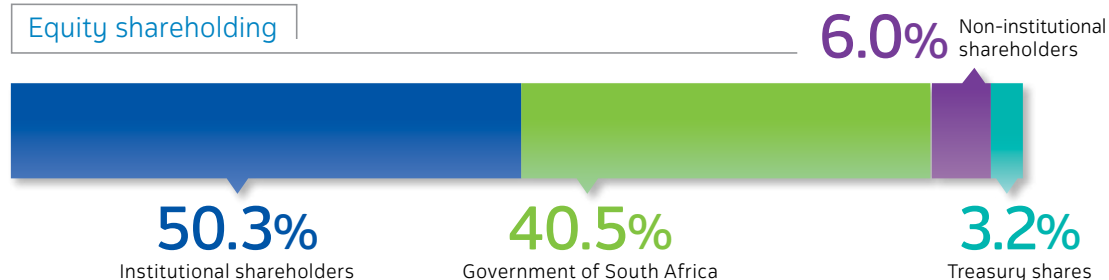
Telkom's purpose, vision and values



Shareholding as at 31 March 2018

Telkom is a JSE-listed company with the share code TKG. Our equity shareholding and debt holding information are provided below.

Equity shareholding



Debt holding information

Telkom credit ratings

	Moody's Investors Service (Moody's)	Standard & Poor's (S&P)
Issuer rating		
Long-term global scale	Baa3	BB+
Long-term national scale	Aa1.za	-
Outlook	Stable	Stable
Last review date	28/3/2018	18/4/2018

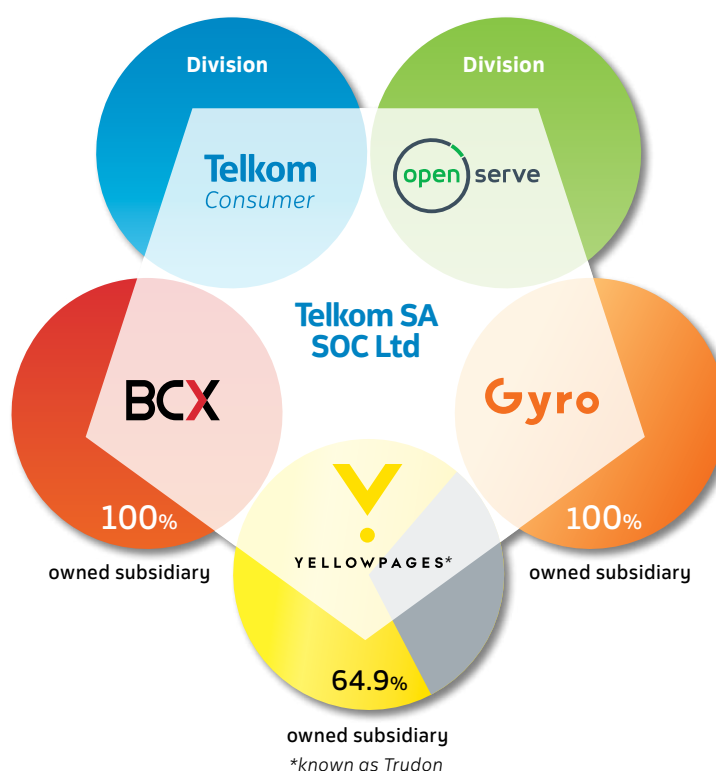
South African listed debt

Bonds			
Listed bonds	TL20	TL24	TL27*
	TL22	TL25	TL28*
	TL23	TL26	TL29*
Commercial paper	TLC04		
	TLC05		

* Issued in April 2018.

Telkom's operating structure

The organogram alongside sets out our operating structure. Further information on each division and subsidiary is provided on the pages that follow.



Telkom's business units

Business unit	Customer/market segmentation	Products and services	Differentiators
 Openserve is South Africa's leading wholesale infrastructure connectivity provider with the largest open-access network across South Africa.  Refer to page 55 for Openserve's performance.	Our open-access model allows us to provide broadband, enterprise, optical and carrier solutions to more than 400 wholesale clients across our defined segments: > Consumer > Enterprise > Carrier > Global	> Broadband solutions: Includes next generation access, across fibre and copper networks enabling high-speed internet connectivity > Optical and carrier solutions: Providing client-specific backhaul and managed connectivity, assuring world-class quality and reliability > Enterprise solutions: Enabling business-to-business connectivity, underpinned by our Ethernet-based products > Global: Interconnect-based services connecting South Africa to the world	> Our comprehensive internet protocol (IP) base network spans across core, aggregation and access, creating our next generation network (NGN) as a unique wholesale market differentiator > Largest wholesale open-access infrastructure connectivity provider in South Africa > The largest high-speed fixed-broadband connectivity provider across South Africa > Capacity to grow network infrastructure connectivity across enterprise carrier, consumer and global market segments > Deepest network, connectivity services and communication skills capacity > Extensive experience in network design and deployment
 Telkom Consumer offers fixed and mobile broadband, is an internet service provider and is a converged communications services provider.  Refer to page 57 for Telkom Consumer's performance.	Telkom Consumer and small business operates in the following segments: > Consumer mobile > Fixed-line residential > Small and medium-sized enterprises (SMEs) > Enterprise mobile Served by the following operating models: > Owned mobile network > Owned content platform > Owned internet service provider (ISP) > Fixed services provided on a reseller basis	> Broadband - Mobile - Fixed - Nomadic > Voice > Content > Gaming > SME ICT solutions	> Ability to provide services over a range of fixed and mobile technologies > Market-leading bundling capability across fixed and mobile, including content and gaming > Award-winning product innovation > Smart device-orientated network
 BCX is a leading technology company that provides ICT solutions and an integrated portfolio of technology solutions across South Africa.  Refer to page 59 for BCX's performance.	BCX customer segments consist of: > Large enterprise > Public sector > Medium enterprise We service sectors in the private sector such as retail, mining, banking and financial services as well as the public sector (state-owned companies (SOCs)).	Our diversified technology product portfolio provides a wide range of services including: > Solutions: Cloud computing, unified communications and collaboration, security, big data analytics and mobility > IT products: Enterprise and applications solutions, IT-managed services and infrastructure and cloud solutions > Telecommunication products and services: Business mobility, global services, broadband, internet and value-added services	> Our scale as part of the group strengthens our capability to provide end-to-end technology solutions > Market leader with strong presence in connectivity, end devices, applications and other IT services markets > Biggest data centre footprint in Africa > Industry-specific expertise > Strategic vendor relationships > Capability to develop customised applications

Business unit	Customer/market segmentation	Products and services	Differentiators
 Gyro was formed effective 1 April 2017, and is responsible for managing the masts and towers, property development and property management services on behalf of the group.  Refer to page 61 for Gyro's performance.	> Mobile network players > Wireless ISP > Broadband players > Public sector > All property segments	> Masts and towers: Co-location leases on existing and new towers > Property development: Including new developments, repurposing and refurbishing existing buildings > Property services: Real estate management services, development management, property management, space demand management and integrated facilities management	> Largest independent tower portfolio in the country > National footprint of property and towers > Neutral tower operator > Full turnkey value proposition with tailor-made client solutions > Capacity and readiness to become the preferred real estate solutions provider for non-mainstream large space users and real estate portfolio owners > Pursuing environmentally responsible technological solutions
 YELLOW PAGES Yellow Pages is a local advertising and marketing company that provides services and digital solutions to local businesses. Yellow Pages' business units operate in South Africa and Namibia.  Refer to page 63 for Yellow Pages' performance.	> SMEs > Public sector > Corporate	> Advertising > Digital and social media advertising, across a number of platforms, such as Google > E-commerce > Omni-channel offerings	> Large customer base > Solid experience in SME-specific solutions > Strong partnerships with many global players and over-the-top (OTT) partnerships, to bring unique products to market > Agile development capabilities within Connecto, our innovation and development hub

02

Value-creation

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How our leadership supports value-creation

Chairman's report

The board embraces the importance of good governance and King IV governance outcomes of ethical culture, good performance, effective control and legitimacy. Our application of King IV is detailed in the  report available on our website. Our corporate governance report on  page 86 demonstrates how we achieve the governance outcomes desired by King IV.

I am honoured to address our valued stakeholders through our 2018 integrated report.

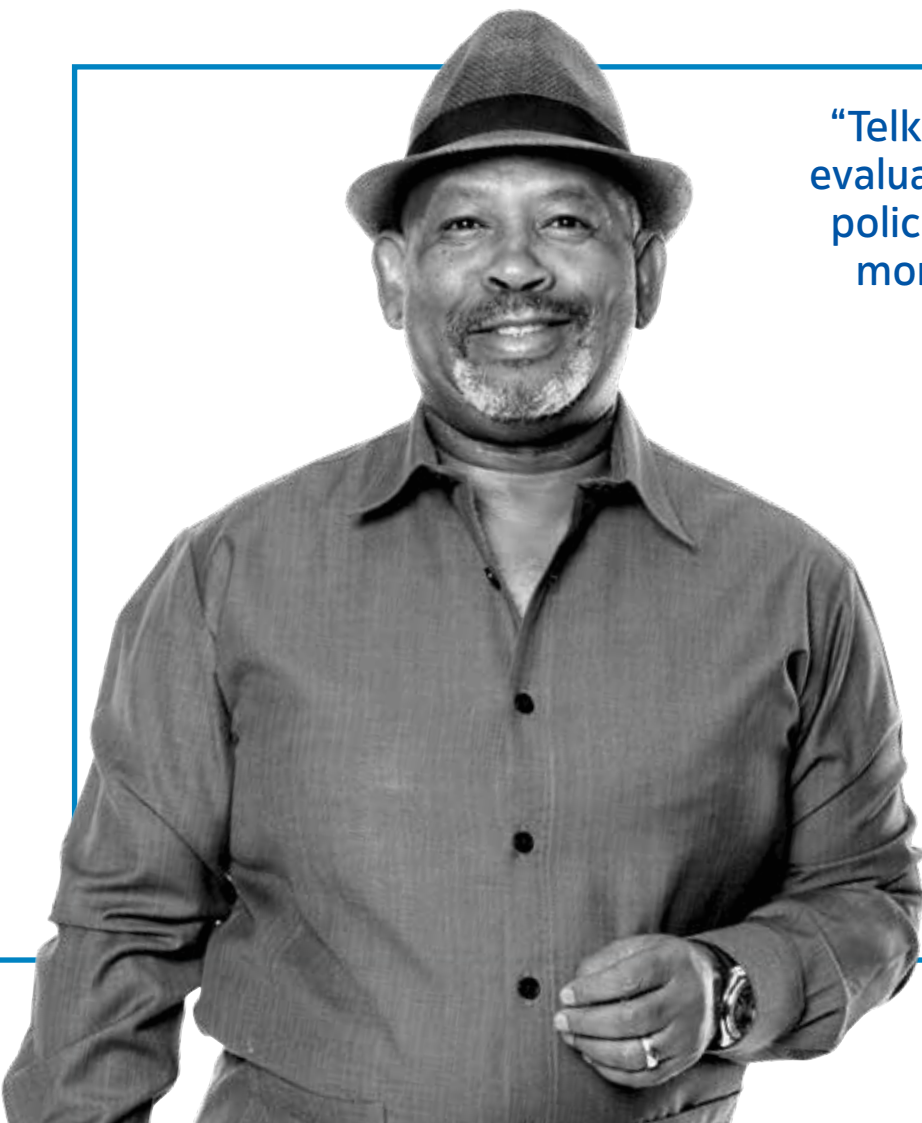
Operating environment

Macro-economic environment

Following political instability, policy uncertainty, weak economic growth, the deterioration of SOCs and the increasing budget deficit, South Africa's sovereign credit rating was downgraded to sub-investment grade by

global credit ratings agencies S&P and Fitch Ratings, and put on review by Moody's. This lowered business and consumer confidence, consequently lowering investments and decreasing spending.

We felt the impact in the ICT sector, as the private and public sectors respectively deferred and lowered their spend on ICT. This impacted Telkom's performance, particularly BCX, which serves all sectors of the economy.



"Telkom continues to evaluate the changing policy landscape and monitors legislative and regulatory changes to proactively mitigate risks, benefit from any opportunities and remain competitive."

Jabu Mabuza, Chairman

Chairman's report *continued*

In December 2017, the African National Congress elected a new party president, who became the country's president in February 2018. He presented the State of the Nation Address in the same month during which he reassured investors and provided clarity on government's plans to grow the economy and deal with corruption. Restoring SOCs' credibility and sustainability by eliminating irregular and excessive expenditures, evaluating their funding models and building the integrity of governance are a key focus. The national budget tabled in February 2018 showed the hallmarks of fiscal consolidation. Value added tax was increased for the first time in 23 years to plug the fiscal gap, while basic goods and services are under review to be zero-rated to protect the indigent.

These political developments, combined with more transparent and predictable policy, have improved the outlook of credit ratings agencies and thus that of potential investors. Moody's affirmed South Africa's investment-grade sovereign credit rating and revised its credit outlook from negative to stable in March 2018. Telkom's outlook was also revised in line with the sovereign outlook. S&P affirmed the sovereign ratings with a stable outlook.

In the financial year ahead, we see positive sentiments contributing to improved business confidence while acknowledging that actual investments will lag.

Regulatory environment

There is uncertainty around the policies for the ICT White Paper. The Independent Communications Authority of South Africa's (ICASA's) calls for transforming South Africa into an inclusive and innovative digital society. The goal is increased access to a wide range of affordable high-quality communication services. Movements such as *#datamustfall* have placed pressure on South African mobile network operators to reduce the cost to communicate. In August 2017, the Competition Commission launched an inquiry into communication services and pricing structure of the South African telecommunications market. Telkom has developed innovative products that offer data bundles at lower prices, with free voice and WhatsApp calling as well as uncapped and unlimited products. Unfortunately, regulatory uncertainty, among others, makes future operating conditions less predictable.

Telkom continues to evaluate the changing policy landscape and monitors legislative and regulatory changes to proactively mitigate risks, benefit from opportunities and remain competitive. To implement the ICT White Paper, existing legislation will need to be amended.

The Electronic Communications Act Amendment Bill aims to address supply-side challenges and mainly proposes legislation around the creation of a wholesale open access network and the assignment of spectrum, among others.

Strategy

The board sets the strategy and ensures good performance by measuring performance against agreed key metrics. Performance is managed through KPIs that drive high employee performance. Remuneration incentives are linked to the delivery of the strategic objectives.

Despite Telkom's performance being negatively impacted by the weak economic environment, we are pleased with two themes that came through our annual results, which attest to success of the strategy. The mobile business, which is a fourth player in the industry, is now a driver of growth in the group and the new generation revenue streams are offsetting the revenue decline from our traditional products and services. The investment in our mobile network is paying dividends with expected returns, while the returns in our fibre investment are expected over the medium- to long-term. We will continue to invest in our future growth, including but not limited to fibre, as this investment will ensure Telkom's sustainability and the relevance in future just as Telkom continues to benefit from the investment in copper more than 30 years later.

Transformation

Telkom views transformation as a catalyst to address South Africa's socio-economic challenges and the associated impacts on business. We aim for sustainable transformation and go beyond compliance to B-BBEE certification. We have initiated strategies and programmes to improve our B-BBEE certification level as it affects our ability to attract business. These include a transformation and compliance plan to address the three priority elements: implementation of aggressive Skills Development and Enterprise Supplier Development programmes; and applying the B-BBEE certification plan; and targets to individual teams to incentivise performance.

Given the importance of the B-BBEE certification level and BCX's ability to acquire and maintain business, BCX was rated independently. Based on the initiatives, the group rating improved from level 6 to level 4, and BCX was rated level 3. Refer to social and relationship capital on page 77 for further detail.



Board focus areas

The board remains focused on driving the Telkom strategy and ensuring that the appropriate operating model and resources are in place to meet current and future business requirements. The evolving operating model is designed to support the group strategy and improve Telkom's competitiveness by addressing our accountability, governance, and way of working. The board is continuously stretching, testing and monitoring management's thinking and rationale in developing this model, and the key focus this year has been the deeper operational separation of the business units.



Additional topics that were material in board discussions, and which are discussed in the report are:



The need to constantly invest in, and improve, customer experience



Size and scale of the mobile business



Capital investment and monitoring returns



B-BBEE certification level



BCX's performance and the portfolio review



Continuously seeking new opportunities through technology, investments, partnering and customer-centric service to remain competitive

Looking ahead

Looking ahead, South Africa looks set for a degree of economic recovery and improved investor and consumer confidence. The board will continue monitoring Telkom's competitiveness, by reviewing the strategy for relevance. We compete for the skills to create innovative products and for market share through these products. Our focus will remain on attracting and developing the skills needed to compete and ensuring that Telkom is an employer of choice. BCX will complete its business portfolio review and divest from non-core businesses, while growing new generation revenue streams.

New appointments

To improve the board's skills, knowledge and diversity, two independent non-executive directors were appointed during the financial year.

- > Sello Moloko is the executive chairman and co-founder of Thesele Group, a 100 percent black-owned diversified investment holding company. Mr Moloko has a wealth of business experience gained from a career of more than 25 years in financial services.
- > Dolly Mokgatle is currently an executive director for Peotona and the chairman of Total South Africa (Pty) Ltd. Her previous role as the chief executive officer (CEO) of Spoornet and other executive and board positions provide her with a wealth of experience in governance and leadership.

The following were appointed to the board after financial year.

- > Sibusiso Luthuli is a qualified chartered accountant, the former CEO and principal officer of the Eskom pension and provident fund and one of the founding members and deputy chairman of Batseta. He previously served as a non-executive director of Telkom, CEO of Ithala Bank Ltd and chairman of Cipla Medpro Pharmaceuticals Ltd. He serves as a non-executive director and chairman of the finance, risk and compliance committee of BCX. He has vast experience in auditing, accounting and business leadership.
- > Tsholofelo Molefe was appointed as the GCFO and an executive director, effective 01 July 2018. She is a qualified chartered accountant who joined Telkom on 01 July 2016 as deputy CFO. She was subsequently appointed to exco as chief risk and compliance officer on 01 April 2017. She was formerly a finance director at Eskom and served as a director at various subsidiaries of Eskom. Her experience includes various senior positions at Eskom, ABSA and Liberty among others. She is currently a board member of Yellow Pages (known as Trudon) and serves as an independent non-executive director of First Avenue Investment Management.

We welcome these appointments and the value they will bring to the board. For more information on the résumés of the new non-executives directors, refer to page 132.



External auditors

During the year, Telkom announced its intentions to procure the services of new auditors for the group. Following an extensive and robust process and in accordance with paragraph 3.75 of the JSE Listings Requirements, the board, through the audit committee, recommends the appointment of PricewaterhouseCoopers and SizweNtsalubaGobodo as Telkom's new joint external auditors for the financial year ending 31 March 2019 for approval by Telkom's shareholders at the forthcoming annual general meeting (AGM) to be held on 23 August 2018. The board would like to thank EY for the services that they have provided to the group during their tenure.

Refer to the report of the chairman of the audit committee in the annual financial statements, available online at www.telkom.co.za/ir for further details, on page 8.

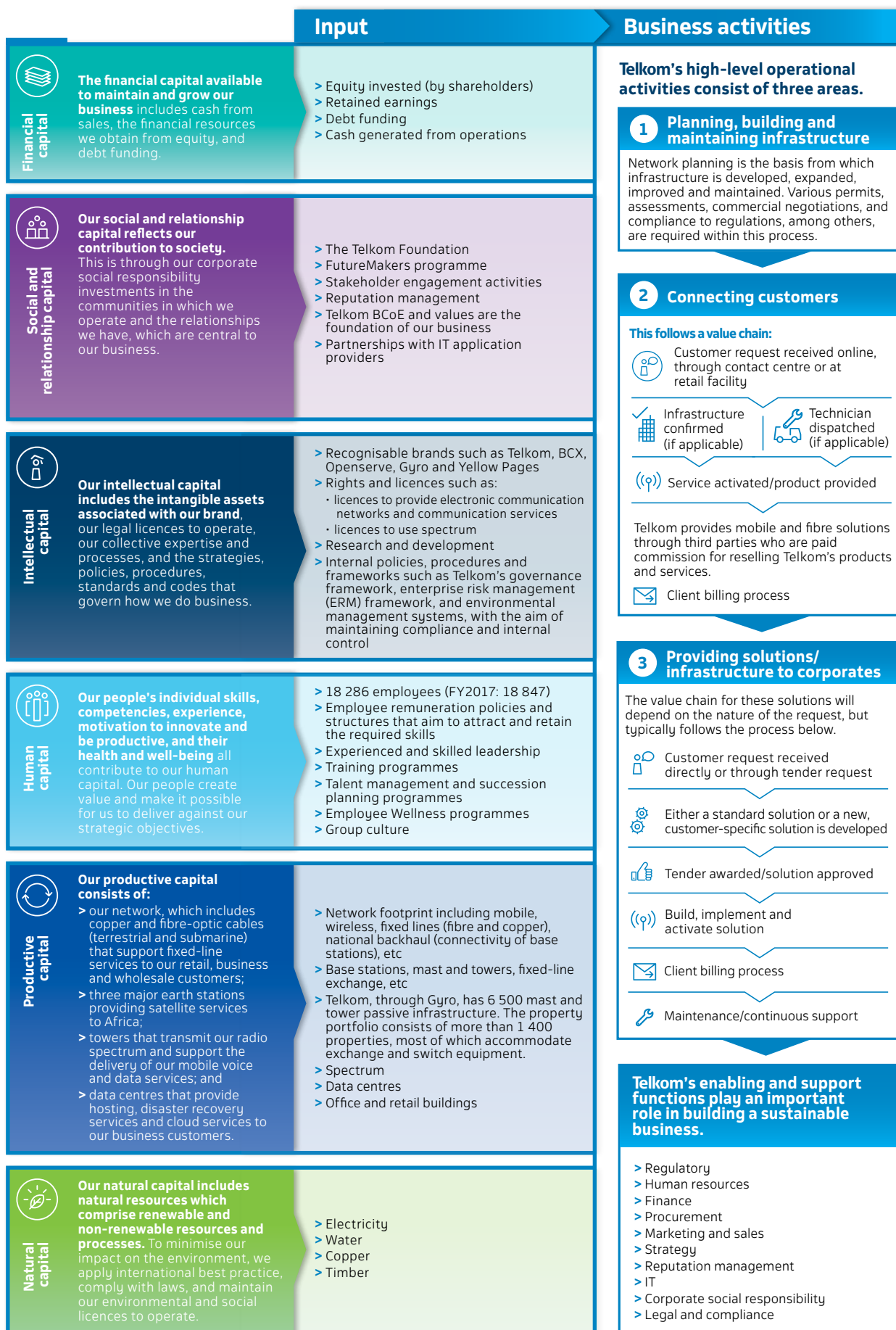


Appreciation

This has been a year of change and consolidation amid trying economic circumstances. I extend my appreciation to our board for your continued guidance, support and robust engagement. A special thanks to Itumeleng Kgaboesele who steps down from the board after seven years. Thank you to our management team and our employees for your hard work and commitment. My appreciation extends to our customers, service providers and shareholders, without whom we could not do business. I thank you for your continued support and look forward to strengthening our relationship into the future.

Jabu Mabuza
Chairman

Our business model



Outputs

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

1 Connectivity

Telkom supplies broadband (data) and narrow band (voice) connectivity to wholesalers, large companies and residential users through fixed-line (copper and fibre), mobile and wireless transmission.



2 Infrastructure

Gyro provides innovative property and tower solutions to Telkom and third-party clients.



3 Network elements

This allows wholesale customers to connect their own customers.



4 Converged ICT solutions

Provision of ICT products and solutions for our enterprise customers.



5 Electronic advertising and media

This includes the Yellow Pages, White Pages and advertisements.



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

	Openserve	Telkom Consumer	BCX	Gyro	Yellow Pages
Connectivity	●	●	●		
Infrastructure	●			●	
Network elements	●				
Converged ICT solutions		●	●		
Electronic advertising and media					●

Our most significant and environmentally impactful waste streams, internally and within the value chain, are cabling (copper and fibre-optic) and e-waste (batteries and electronic equipment), refer to page 83 for further details.



Outcomes

- > Operating profit of R4 939 million (FY2017: R5 280 million) of which R3 158 million (FY2017: R3 907 million) was retained for future growth (retained earnings)
- > Cash generated from operations of R10 171 million (FY2017: R8 910 million)
- > Annual dividend of 355 cents per share (FY2017: 422 cents per share)
- > Repayment of debt (R4 685 million) and interest paid (R731 million)



- > Education initiatives through the Telkom Foundation
 - R41 million invested (FY2017: R32 million)
 - 129 teachers trained (FY2017: 660 teachers)
- > Small business development through the FutureMakers programme
 - R147 million invested (FY2017: R106 million)
 - 43 black-owned businesses through our Independent Field Technician programme, which in turn created 679 technician jobs, since inception in 2016
 - 1 604 new jobs created
- > R26 759 million in procurement opportunities was accessed by black-owned small businesses



- > Telkom's improved ICT solutions give us the ability to provide converged solutions to customers and improve customer knowledge to upsell products and services
- > Compliance with licence requirements and other laws and regulations



- > 94 percent of senior roles with emergency succession coverage (FY2017: 96 percent)
- > R10 917 million (FY2017: R10 496 million) to employees in remuneration and benefits
- > Employee turnover rate of 6.47 percent (FY2017: 5.97 percent)
- > Bright Young Minds recruitment and Female Leadership Development programme (FLDP)
- > Investment in employee training and development



- > 30.2 percent increase in active mobile subscriber base to 5.2 million
- > 37.5 percent increase in mobile broadband subscribers to 3.6 million
- > Openserve has an open-access model which provides Telkom with a competitive advantage
- > Passed more than 2.5 million premises with fibre
- > 109 336 homes connected with fibre (connectivity rate: 30.7 percent)
- > 6 791 fibre to the base stations
- > 89 818 fibre to the business end points terminating
- > More than 157 400 kilometres of fibre deployed to date



- > Total carbon footprint decreased by 9 percent to 621 651 tCO₂e
- > 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

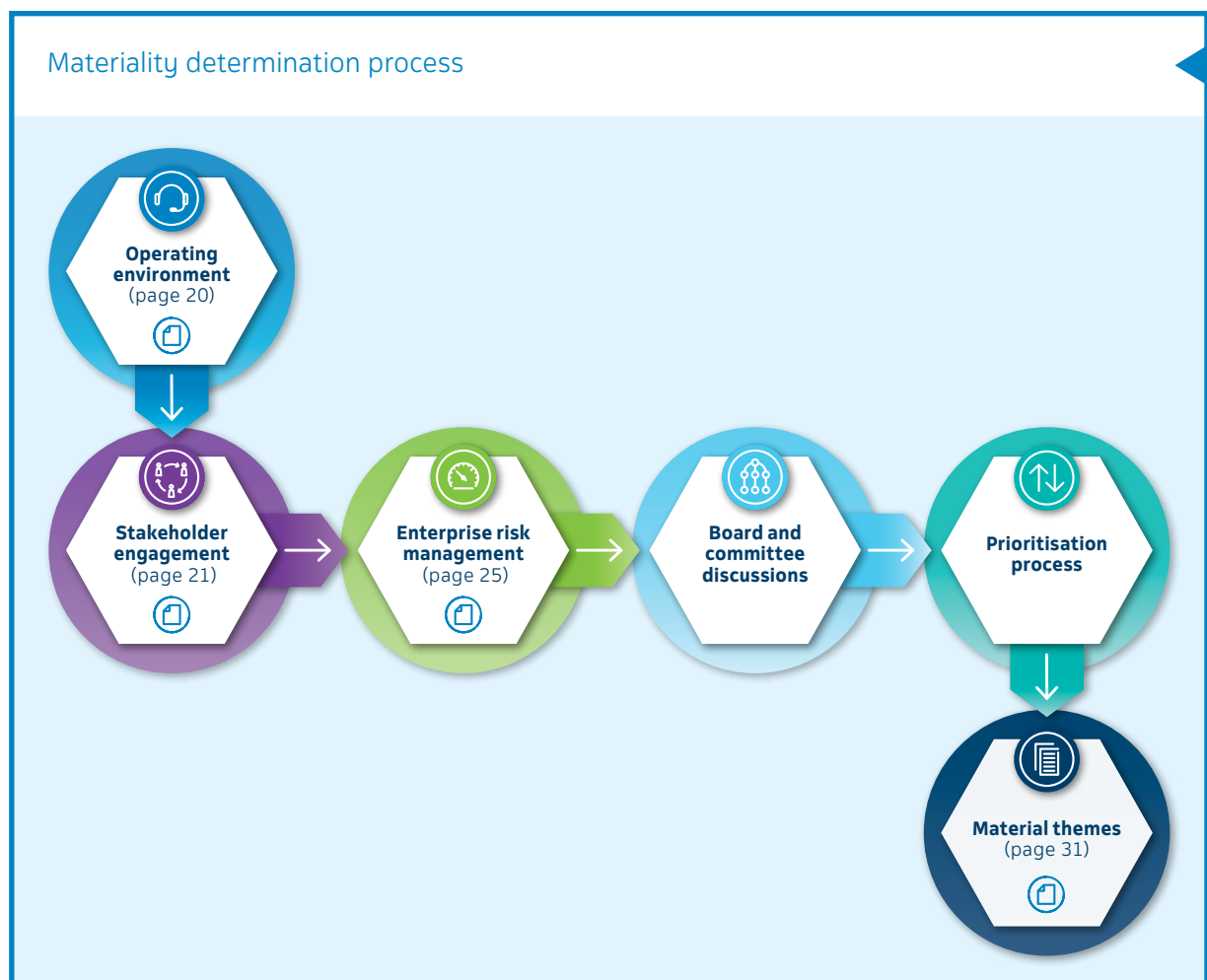
Materiality determination process

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



As part of our annual material themes determination process, we assimilate a set of material risks and opportunities by reviewing our business environment, enterprise risk management, stakeholder engagement and board and committee discussions. Management's materiality determination process and material themes were approved by exco and the audit committee.

Economic climate, cyber incidents and climate change were identified as new material themes. NGN and infrastructure have been merged with evolving technology and ICT market trends.



What is material in our value-creation process

Operating environment

Global and local ICT markets impact and shape our operating environment in unique ways. Our external environment presents risks and opportunities, and our strategy accounts for potential changes in these environments and the consequent impact on our business.

Telkom assesses the external market and changes in the external environment continuously while updating our strategies where necessary.

Key factors	Implications for our strategy
Economic and political environment We have had a challenging environment during the past 12 months resulting in wavering GDP growth, low business confidence and volatile local and global politics. Despite a weaker than expected quarter one GDP result this year, the prognosis for GDP growth in 2018 is still relatively positive, with economic consensus looking for an improvement on 2017 GDP. We are however, aware of the risks to GDP growth which are; an elevated oil price, tighter global liquidity conditions and the global trade turmoil that has already yielded in the depreciation of the rand. Despite the inflationary characteristics of these risks, we believe that the interest rate outlook for 2018 will remain stable.	Economic and policy uncertainty directly impact our customers and their spend on ICT. The group continues driving down the cost to communicate and providing customers with cost-efficient solutions. The group will continue with its internal cost optimisation programmes to ensure financial sustainability. Related material theme > Economic climate
ICT sector and technology The South African ICT market will continue expanding and having a material impact on the general economy, with the biggest growth expected to be in the broadband/data segment. Technology will continue to unlock value in the economy as it optimises processes and transforms industries. This is called the Fourth Industrial Revolution and includes, but is not limited to, artificial intelligence, automation, big data analytics, cloud storage and computing, the Internet of Things (IoT), and blockchain technology. In terms of specific ICT trends, various global and local factors are changing the future of ICT: > Technology Technology continues to provide “more for less” to end-users and to the industries supplying them (e.g. fifth generation (5G), network function virtualisation and software-defined network). > Broader ecosystem Global internet players are able to disrupt the telecommunications industry and reduce its profits (e.g. OTT, device original equipment manufacturers, content players, etc). > Telecommunication competition Different technologies are converging and changing the competition including fixed and mobile, in-market consolidation, expansion in ICT services, content, and financial technology. > Cybersecurity There is an increasing demand for cybersecurity (including network and mobile device) and data protection/privacy.	Telkom is well positioned to take advantage of the Fourth Industrial Revolution and the convergence of telecommunications, technology and media. Nevertheless, the group needs the right talent and must reskill employees where necessary to leverage the digital revolution. We are looking beyond traditional connectivity streams and investing in fast-growing services such as big data analytics and cybersecurity. Related material theme > Evolving technology and ICT market trends
Competition ICT is becoming more competitive with the rise of niche players and increased relevance of OTTs. Some segments are price sensitive and have low customer loyalty. Voice is eroding, and there is downward pressure on traditional connectivity revenues. While many of the traditional fixed players are looking to use wireless technologies, we also see the traditional mobile and wireless players going into fixed-line or fibre market segments.	Our mobile business will continue disrupting the market with data-led products and value enhancements. Our fixed-line business will expand uncapped data and unlimited voice product propositions to generate annuity revenue and offset voice revenue decline. Related material theme > Intense competitive landscape
Regulatory environment The regulatory environment in South Africa is rapidly changing following legislative changes such as the Electronic Communications Act Amendment Bill and the Competition Amendment Bill, as well as regulatory inquiries on the market structure in terms of communication services and their prices. The Electronic Communications Act Amendment Bill proposes legislation around the creation of the wireless open access network, wholesale open-access, rapid deployment of infrastructure, terms and conditions for licensees, universal service obligations and assigning spectrum.	Telkom continuously engages government and the various regulatory bodies constructively and responsibly. The group reviews its compliance with regulations and ensures that our operating model considers their requirements. Related material theme > Regulatory environment



What is material in our value-creation process

Stakeholder engagement

Various stakeholders are integral to Telkom's existence and our strategic objectives.

We balance our stakeholders' needs with our responsibility to provide reliable products, services, and information and communication networks. We do this by building relationships on universal stakeholder management principles including trust, respect, transparency and constructive engagement.

We engage stakeholders according to our stakeholder engagement framework and policy. Our Stakeholder Engagement programme identifies stakeholders, endeavours to understand their various challenges and expectations, and aligns these to Telkom's strategic and operational objectives and targets.

During the year, we focused on formalising our stakeholder engagement framework and holding regular feedback sessions with stakeholder owners and monitoring action plans to implementation. During the year, we:

- > updated our stakeholder engagement framework and policy, including approval by the exco and the social and ethics committee; and
- > developed a review process to monitor the implementation of stakeholder management response strategies throughout the group.

For the next financial year we will focus on customers and improve customer experience across the group. We are working towards improving all other stakeholder relationships across our stakeholder groups from being acceptable to strong.

Governance structure

Responsibility for stakeholder management flows from the board to management. Implementing our governance structure is essential to our stakeholder management objectives.

Level	How we work together to manage stakeholder relationships
Board of directors	The board drives the stakeholder engagement framework.
Social and ethics committee	The committee assists the board in fulfilling its responsibilities by ensuring that key stakeholder relationships are effectively managed and by approving the stakeholder engagement framework and policy.
Group chief executive officer	The GCEO ensures commitment to effective stakeholder management.
Executive committee	Critical stakeholder matters are built into the exco's meeting agenda. The stakeholder management profile is reviewed and discussed. Specific members are assigned to monitor specific stakeholder groups.
Social, ethics and sustainability council	We have recently re-established the council. The stakeholder matters and mitigation's are monitored, among other agenda items. The council will convene monthly going forward. The stakeholder matters and mitigations are monitored, among other agenda items.
Head of stakeholder engagement	Facilitates and monitors stakeholder management across all business units and implements the stakeholder management framework.
Management	Management is the ultimate owner of stakeholder management matters and is responsible for managing response strategies.



Effectiveness of stakeholder engagement

Properly assessing stakeholder relationships is critical to management. It allows management to prioritise resources. The effectiveness of stakeholder engagements and relations are assessed based on the table below. We have assessed our investor relationships as strong, and the remaining relationships as acceptable.

Relationship quality	Required response
 Weak stakeholder relationship	High level of intervention required
 Acceptable stakeholder relationship	Moderate level of intervention required
 Strong stakeholder relationship	Low level of intervention required, if any



What is material in our value-creation process

Stakeholder engagement *continued*

Stakeholders and importance to Telkom	Key concerns	Telkom's response	Corresponding material themes (page 31)
 Investor community <i>Includes equity and debt investors, strategic shareholders and sell-side analysts.</i> The investor community creates access to equity and debt markets and ultimately drives demand for Telkom shares, thereby impacting our market capitalisation.	> Telkom's ability to grow the business, and the drivers of future growth > Deceleration of the fixed business > High capital expenditure (capex) with no corresponding revenue growth and a negative free cash flow > Disappointing BCX performance since acquisition	> Group strategy geared for growth, refer to page 39. • The mobile business is a key driver of growth for the group. • New generation revenue streams growth, offsetting the decline in traditional revenue. > Recovery of fixed data revenue growth trajectory set to improve and managing the decline in fixed voice revenue. > Mobile and fibre remain key capex focus areas with significant investment, which will create sufficient capacity within our network for the expected surge in data demand and required return. We aim to fund capex through long-term debt as we move to an optimal capital structure. > BCX's performance was mainly negatively impacted by the weak economy and a decline in voice revenue. BCX was also unable to bid for tenders as it was constrained by its B-BBEE certification rating. The B-BBEE certification rating for BCX has improved to level 3. This will provide BCX with an opportunity to bid for tenders going forward.	> Economic climate > Evolving technology and ICT market trends
 Government and regulators <i>Including Parliament, the Department of Telecommunication and Postal Services (DTPS), the Department of Communications, Competition Commission and ICASA.</i> Government and regulators set policies, legislation and regulations that impact 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.	> Scarce resources (spectrum and fixed infrastructure) > Competition > B-BBEE certification compliance > Cost of communication	> We established Openserve as a division that provides wholesale services to telecommunication operators who require three tier infrastructure. > Introduction of innovative product offerings. > Focused group programmes that guide efforts to comply with the amended ICT sector codes. > Engagements with Competition Commission, ICASA and Parliament have highlighted need to focus on mobile services and Telkom's attempts to reduce the costs to communicate with innovative consumer products: FreeMe and Unlimited Home.	> Regulatory environment > Intense competitive landscape > B-BBEE certification transformation
 Customers Customers underpin our existence and drive our reputation and brand. They are the market for our products and services. Customers guide our product or service development in terms of new trends.	> Billing and credit refunds > Order installation; fault resolution times and system capabilities > Poor customer experience	> We redesigned our invoice layout for the NGN in the consumer environment to align with mobile billing, effective once customer migrates. Simplified and accelerated refunds through EFT, completing 90 percent within three days. > Migrating to a more advanced system it will improve customer experience through better order orchestration and visibility in the end-to-end order flow. > We re-set the programme which includes a number of interventions to improve BCX's customer experience, including the roll-out of BCX "go-to-market" business model that allocates resources based on the value of the customer. Enhanced focus placed on market segments (corporates, public sector and medium-sized businesses) to improve customer focus and insight. Creating Centres of Excellence (CoEs) to enable front-line employees to improve customer experience with better service delivery, innovative solutions and services.	> Customer expectation and experience

Stakeholders and importance to Telkom	Key concerns	Telkom's response	Corresponding material themes (page 31)
 Media The media has an influence on public perception and brand reputation.	> Access to significant information	> Group media policy is followed when handling information through mediated channels.	
 Suppliers Suppliers underpin our value chain and have a direct influence on our raw materials and other input costs. Suppliers' delivery impacts our ability to fulfil customer expectations.	> Supplier relationship management > Source-to-pay process	> The group stakeholder relationship management strategy ensures that the Supplier Relationship programme delivers value. The strategy will be aligned across divisions. > Source-to-pay process is finalised and linked to contract terms. Ariba, a procurement system, will enforce and support the process.	
 Communities Communities are our customers and our source of employees. They can be impacted by our operations.	> Socio-economic challenges > Creation of employment and business opportunities in communities	> The group, including the Telkom Foundation, works closely with communities to address socio-economic challenges, specifically in education and social development. > Telkom's Enterprise Supplier Development programme, FutureMakers, improves market access, drives ICT innovation and fosters inclusive participation of majority black-owned ICT businesses in the group's supply and value chain. Refer to social and relationship capital on page 77.	
 Organised labour Organised labour supports sound labour practices and assists in communicating labour-related matters. It is a strategic partner in shared value between the group and our employees. The relationship can influence the group's strategic plans through industrial action.	> Telkom's commitment to transformation, diversity, employment equity (EE) and skills development	> We re-established a national EE forum following numerous group changes over the past two years. We also established EE and skills development forums at a business unit level with an aim to consult all employees on aspects of EE and skills development implementation, and broad diversity within Telkom.	> B-BBEE certification transformation > People skills and expertise
 Employees Employees possess 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.	> Telkom's commitment to EE transformation progression including skills development opportunities	> Focused on an EE policy – implementing a strategy to transform all occupational levels. Refer to human capital on page 69. > Telkom's talent management framework, which we implemented two years ago, enables the business to identify key talent, providing sight of high-potential talent and talent risk areas across the group. Telkom has made a concerted effort to put the transformation agenda at the forefront of our people practices. Targeted talent acquisition has focused on attracting and acquiring talent to help address our transformational goals. Development initiatives and programmes are planned to drive the progression of our internal EE employees. Refer to human capital on page 69.	> B-BBEE certification transformation > People skills and expertise



What is material in our value-creation process

Enterprise risk management (ERM)

Risk management has always been fundamental to the group's strategy.

Recent internal changes to our operating model and the external environment have increased the expectations from risk management. The group's risk management approach is based on a board-approved enterprise-wide risk management methodology and philosophy to ensure adequate and effective risk management across the group.

In appreciating that success comes from creating a "risk aware" and "risk intelligent" organisation, without the right culture and leadership, Telkom could easily become risk averse and lose sight of opportunities that may exist in the market or take more risks than it can bear. The group recognises that to create a positive risk culture, it is important to have the right level of risk leadership and support. Our senior leadership (board, exco and senior management) takes overall ownership of risk management principles. The board is committed to align Telkom's risk management to good corporate governance and best practice standards, including the

Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework.

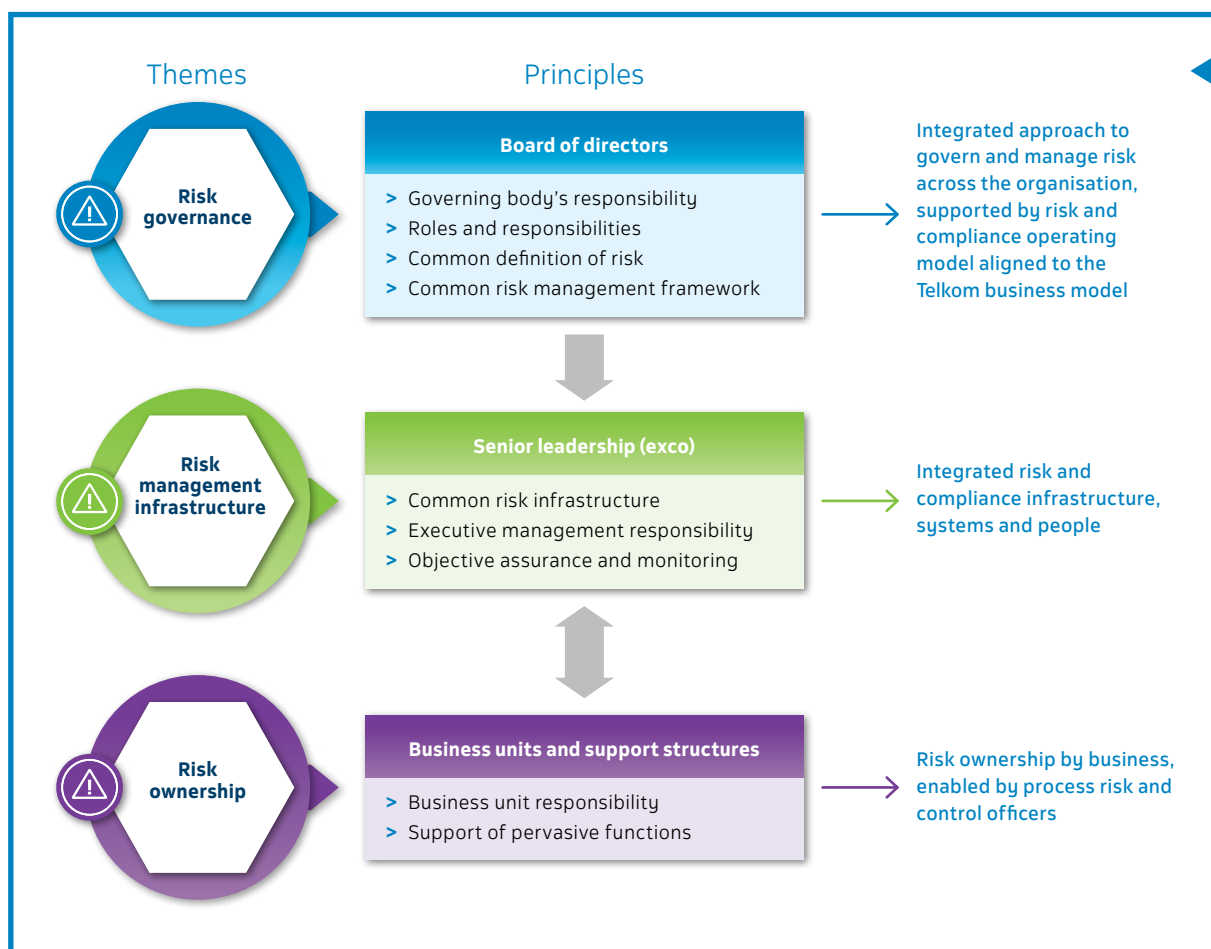
Our risk management framework defines the processes for effective risk-taking. We are redefining our risk appetite framework and tolerance levels in line with the new federated operating model.

ERM governance structures

The board is responsible for overseeing risk and compliance across the group. The board's committees monitor and advise it on matters related to risk and compliance to laws and regulations.

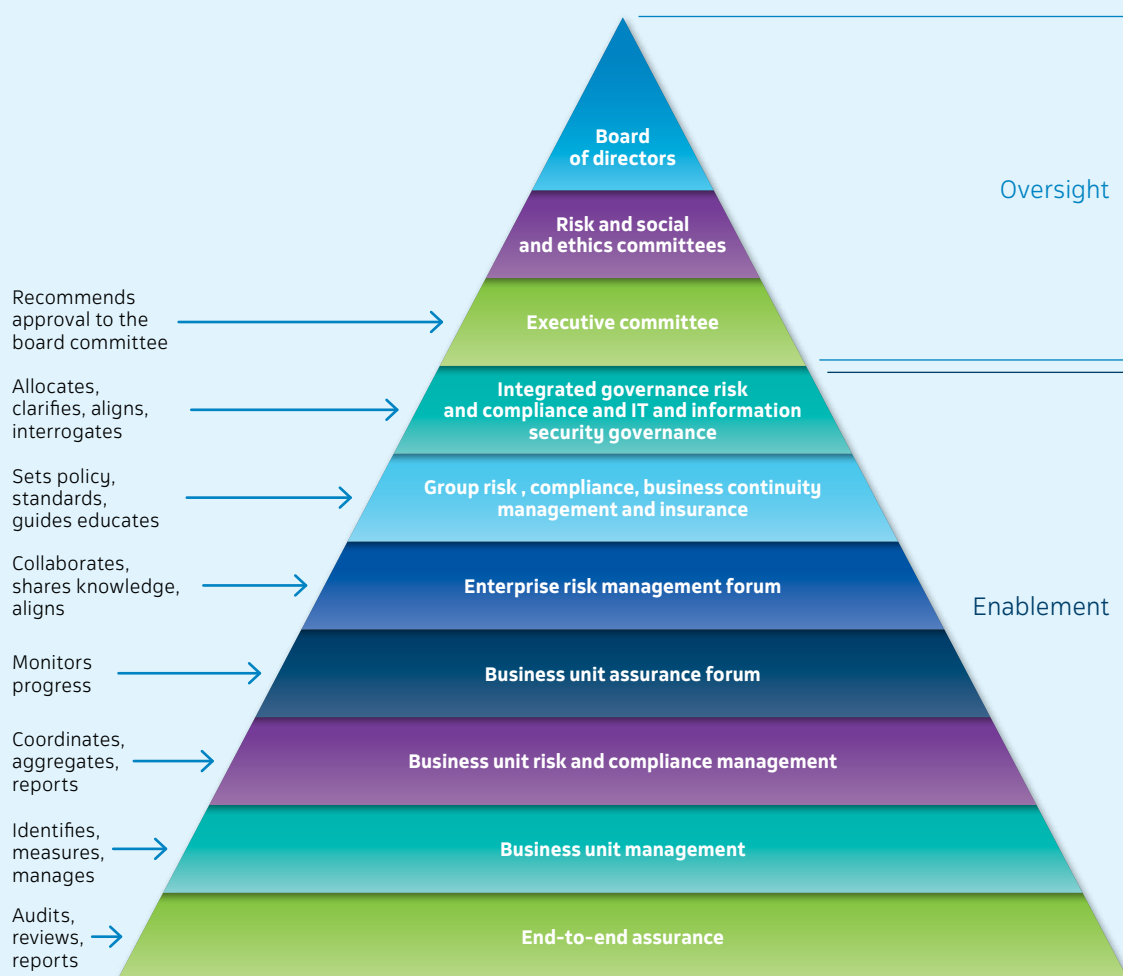
Our approach to risk and compliance governance

Our risk committee-approved ERM governance structure follows an integrated approach that takes into account nine principles of the Integrated Governance, Risk and Compliance (IGRC) framework for building a risk intelligent organisation.



Risk and compliance governance and operating model

Our hybrid risk and compliance operating model continues to work as previously reported. However, during the year under review Telkom added layers of governance to embed risk management across the group and ensure robust risk discussions. The IGRC, the IT and information security governance committee and ERM forum were introduced.



Corporate ERM continues to shape and safeguard with strong oversight and control at the Corporate centre.

The **business units** implement the ERM policy, standards and framework. They also implement and maintain the risk registers, identify mitigating controls, implement action plans and operationalise the business unit assurance forums. During ongoing risk analysis, each business unit consults ERM, who in turn produces a risk profile report, demonstrating the management of key risks and opportunities identified.

Each business unit has a **business unit assurance forum** to effect the ERM framework through effective risk management and combined assurance to optimise risk-taking.

The chief risk and compliance officer leads Telkom's risk community in the **ERM forum**, which was formed to share best practices and knowledge, and engage and monitor key risks and mitigating plans.

The **IGRC and IT and information security governance committees** conduct the final assessment of the risks and risk opportunities identified to be reported to the board and its committees.

All business units' **executive committees** are accountable for managing risks with the approved delegation of authority, within their respective areas of responsibility.



What is material in our value-creation process

ERM *continued*

ERM function

The corporate risk and compliance function develops strategy and frameworks, and sets guidelines and standards. It provides policy direction, assurance and advice, as well as training and monitoring. Business units implement the risk strategy and framework and monitor risk mitigation plans.



Our risk and compliance transformation journey

During the year, we embarked on a transformation journey to enhance our risk management approach and framework for the group. We appointed the chief risk and compliance officer who reports to the GCEO and the risk committee, and dedicated risk officers for each business unit. We have moved from a decentralised model to a hybrid operating model. This aligns with the group's new federated business model, and embeds a culture of risk management within the first line of defence, while providing oversight and control from the Corporate centre.

Progress made

The chief risk and compliance officer was appointed to strengthen Telkom's risk and compliance governance structures, processes and systems as well as build the necessary capability for proactive best-in-class risk management and value-added compliance. The group needed to reprioritise activities.

Below are some of this year's improvements as part of our journey towards a risk intelligent group:

- > We conducted a baseline assessment of our group-wide risk management maturity level across the group including a best practice analysis. Thereafter, we developed a robust risk and compliance transformation plan with five strategic pillars to deliver over a six- to twelve-month period.
- > We reorganised the ERM unit by creating the corporate ERM function as a CoE.
- > We appointed business unit risk officers to strengthen the group's risk management capabilities in line with best practice.
- > Our risk rating scale has been improved to prioritise strategic risks according to their impact on the group's overall strategic imperatives.
- > We reviewed the previously reported top priority risks to ensure they are aligned with Telkom's strategic intent. We categorised risks as external, strategic and business (preventable) risks.
- > We enhanced reporting and elevation of the top priority risks facing the group to the risk committee and the board.

Focus areas for FY2019



While developing our focus areas, we took account of best practice and the responsibilities of the risk committee. Refer to page 92 for the responsibilities of the risk committee. The ERM priorities will advance the maturity of the group's risk management capabilities and will also assist leadership to enhance and protect Telkom's value.

The focus areas for FY2019 include:

- > aligning frameworks across all disciplines, creating a common risk language;
- > refining and embedding the combined assurance model (refer to page 95);
- > revising the risk appetite and tolerance framework that is aligned to the strategy, value drivers and the new business model; and
- > deploying our technology-based risk assessment tool.



Our top priority risks

Telkom strives to maintain an appropriate balance between risk and reward. We recognise that certain risks are necessary for sustainable growth and returns, but we protect the group and our stakeholders against avoidable risks.



Top priority risks are those that, based on risk assessments, most significantly affect our ability to realise our strategic objectives. We have used a top-down and bottom-up approach in identifying risks affecting our business.

In analysing Telkom's top priority risks, management considered potential risks from decisions regarding, among others, products or services, customer expectations, economic factors, technological changes and competitor actions that might have an impact on the strategic intent.

Key changes

We previously reported 14 risks we saw as significant to our objectives. In FY2018, we began to re-evaluate risks to distinguish between external risks, strategic and preventable and we grouped our risks into themes.

The table below depicts changes during the year, including the grouping of some risks, and the renaming of others. Note that other risks reported in FY2017 are being dealt with at an operational level, i.e. business continuity.

FY2018	FY2017
 Competitive threats ←	> Revenue growth and profitability > Voice revenue decline > Vertically integrated operating model not sustainable
 Talent and skills ←	> Human capital health
 Possible changes in legislation and regulatory requirements ←	> Procurement and property management > Regulatory and compliance > Non-compliance with the Competition Commission Settlement Agreement
 Technology enablement ←	> Inefficient outdated IT systems
 Modernising and commercialising the network ←	> Network transformation



What is material in our value-creation process

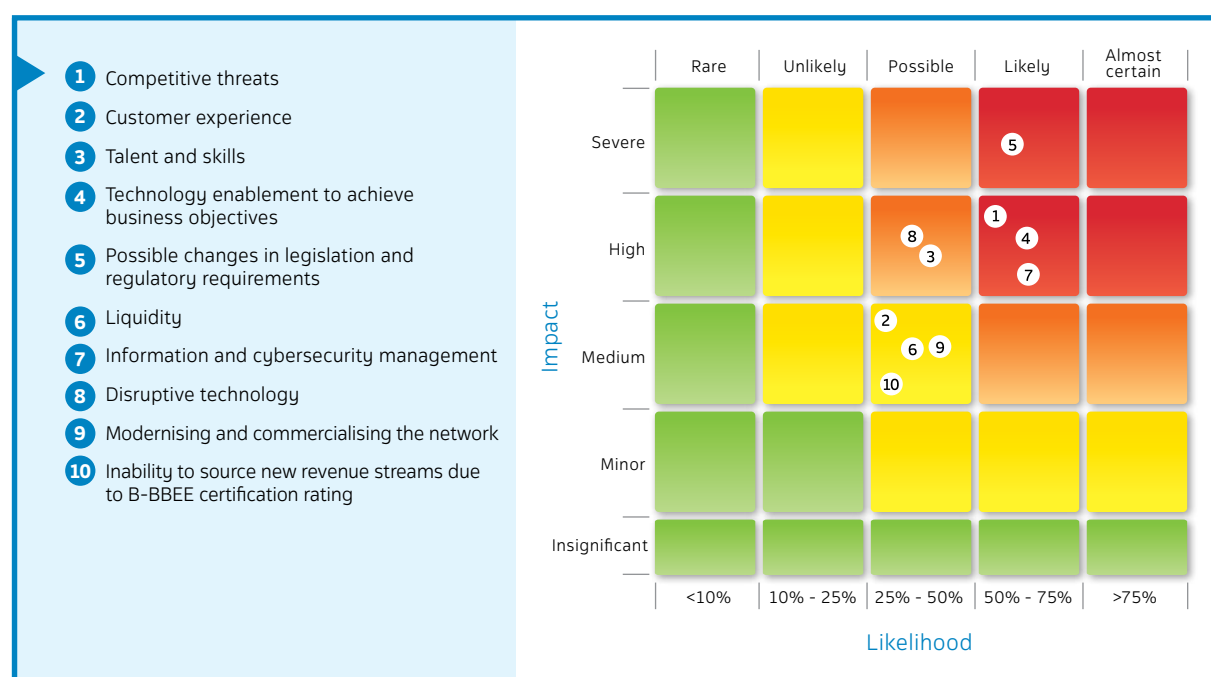
ERM *continued*

Priority risks and mitigating factors

Risk definition and impact	Mitigating factors	Related materiality theme
 Competitive threats Telkom operates in a technological and rapidly changing industry with pressure on pricing and product offerings to remain competitive in the markets we operate in. Failure to respond to these threats swiftly could negatively impact on market share, revenue growth and profit margins.	> Investing in advanced technologies > Continuously reviewing our go-to-market strategy to remain relevant > Continuously reviewing market performance to inform changes > Leveraging customer feedback through stakeholder management > Competitive/market intelligence	> Intense competitive landscape
 Customer experience Risk of compromised customer experiences as a result of long turnaround times in service offerings, unreliable networks and systems, and misunderstanding our customers' needs. This may hamper the group's ability to grow and maintain our customer base, and lose revenue.	> Frequently reviewing insights into targeted customer needs and expectations through the go-to-market strategy > Enhancing market research capabilities > Using big data analytics to review and understand customer trends and deliver the expected products or services > Investing in advanced technologies and retirement of legacy systems > Improving data/information security across the group > Actively managing customer retention strategies	> Customer expectation and experience
 Talent and skills Talent attraction and retention is at risk and skills for new solutions (IoT, cloud and cybersecurity) are scarce, due to competition. Having the right skills is fundamental to achieving our strategic objectives.	> Implement and monitor our talent management framework that supports Telkom's strategic intent > Established a data science academy and Digital Skills Training programme > Aligned career development plans to personal career aspirations and business needs > Developing and implementing succession plans for critical positions	> People skills and expertise
 Technology enablement to achieve business objectives Our IT solutions need to at minimum align to the pace of our customers' constantly changing needs. Ineffective system architecture and inefficient as well as costly legacy IT systems pose a risk to the new decentralised operating model.	> New technology strategies that support each business unit's strategic intent. The strategy considers disruptive technology opportunities > Continue to replace obsolete technology infrastructure with new cost-effective systems > Appointed new business unit chief information officers	> Evolving technology and ICT market trends
 Possible changes in legislation and regulatory requirements The risk of regulatory changes and developments within the ICT sector actively affect Telkom. Possible non-compliance with regulations could negatively impact Telkom. Unexpected changes in regulation may negatively affect our revenue growth, while possible non-compliance to regulations and laws could damage our reputation and incur penalties. Ultimately, our profit margins are placed at risk.	> Enhanced the compliance strategy across all disciplines > Continuous training and certification > Managing regulator relationships > Continuously monitoring legislation and regulations > Continuous regulatory risk assessments	> Regulatory environment
 Liquidity The pressure on revenue as a result of the tough economic environment and market conditions, as well as our intensive capital expenditure, puts liquidity under pressure. Although we foresee no immediate adverse impact, we closely monitor and continuously assess the risk. The group has a strong balance sheet, low gearing and adequate facilities.	> Managing and monitoring the group's overall short, medium and long-term financial position > Regularly monitor free cash flow including working capital optimisation through programmes > Resourcing related programmes and projects with dedicated and experienced resources to lead, support and facilitate change > Continuously reporting on the slippages/variances and associated plans > Identifying and delivering on new savings/income opportunities	> Economic climate

Risk definition and impact	Mitigating factors	Related materiality theme
 Information and cybersecurity management Although Telkom has processes, controls and a robust information security governance and assurance model, there are still certain malicious activities which pose a risk to the group. Ineffective management of cyber and information security could lead to reputational damage, loss of customers and consequently, revenue loss.	> Continuously monitoring the implementation of information governance principles across the group and monitoring information security > Continual information security risk assessments with mitigation plans > Educating and creating awareness across the group	> Cyber incidents
 Disruptive technology Keeping up with the pace of technology becomes a challenge as the world moves to a digital economy. Failure to act with speed and agility may lead to loss of market share and thus compromise our go-to-market strategy. Disruptive technology presents an opportunity to grow by implementing new revenue growth strategies in BCX.	> Developing a strategic response plan, including analysing the strengths of disruptive technology in the overall strategy > Resourcing the project appropriately to be able to deliver on the mandate > Appointed a chief digital officer to support the group's digital strategy	> Evolving technology and ICT market trends
 Modernising and commercialising the network The risk of delays in rolling out fibre and broadband services could compromise our ability to commercialise the network. This will have a negative impact on expected revenue growth.	> Streamlining supply chain processes and focused on-boarding of additional suppliers for all critical material requirements > Running a targeted marketing campaign > Re-aligning technicians' KPIs for more installations and higher-quality service	> Evolving technology and ICT market trends
 Inability to source new revenue due to B-BBEE certification rating The change in ICT sector codes which led to a deterioration in our B-BBEE certification level rating in FY2017, requiring us to make significant investments to improve our rating and protect current revenue and future revenue streams.	> Drafted and implemented a transformational and compliance plan to address the three priority elements > Implemented an aggressive Skills Development and Enterprise Supplier Development programme > Cascading the B-BBEE certification plan and targets down to an individual team level to incentivise performance	> Regulatory environment > B-BBEE certification transformation

The estimated likelihood and magnitude of the above risks are indicated on the heatmap.





What is material in our value-creation process

Material themes

Our material themes represent a prioritised view of our material matters as determined by the materiality determination process (page 19).

Material theme	Impacted by	Reference to further information
1 Regulatory environment Telkom operates in a highly regulated environment. Policy uncertainty surrounding both the ICT White Paper and ICASA's calls for increased access to a wide range of affordable, high-quality communication services, among others, makes the future less certain.	> Policy uncertainty and inconsistency > Misalignment between ICASA and DTPS regarding the allocation of spectrum > Continuously evolving regulations and legislation > International regulatory trends influencing local regulation, irrespective of the different operating context > Political environment > Resources required to implement new or changing regulations	> Operating environment, page 20.
2 Intense competitive landscape The competitive landscape has changed with OTT players and other non-traditional entrants disrupting the market and the convergence of telecommunications, technology, media and consumer electronics. This provides Telkom with collaboration opportunities with OTT players.	> New market entrants > Market consolidation > New lines of business and products	> Operating environment, page 20.
3 Customer expectation and experience Telkom's customers have growing expectations around quality, price and available products and services. Customer experience impacts Telkom's reputation and customer attraction and retention.	> Continuously changing product and service needs > Expectations of data security > Investment required to meet customer expectations > Service reliability and quality > Intense competitive landscape	> Productive capital, page 55.
4 Cyber incidents (new) Cyber attacks and data breaches have the potential to directly impact Telkom's service levels, leading to client dissatisfaction, reputational damage, business disruption and loss of revenue. This risk provides us with opportunities for new customer solutions.	> Cybersecurity > Business continuity plans	> Intellectual capital, page 65.

Material theme	Impacted by	Reference to further information
5  Economic climate (new) Local and international economies impact Telkom's ability to grow the business, the cost of doing business and customers' spending power.	> Muted South African economic performance > Political environment > Investor and business confidence > Socio-economic factors, such as high youth unemployment rate	> Operating environment, page 20. 
6  B-BBEE certification transformation Transformation is a social imperative for Telkom, and our B-BBEE certification rating significantly impacts the ability to attract business, especially for BCX.	> ICT sector codes > Opportunities for positive socio-economic impacts	> Chairman's report, page 14.  > Social and relationship capital, page 77. 
7  Climate change (new) To protect our business and the environment, Telkom needs to mitigate and adapt to climate change's impacts and use our resources responsibly.	> Business continuity plans > Western Cape drought	> Natural capital, page 81. 
8  People skills and expertise Telkom requires skilled employees in ICT, digital and other areas to develop products and solutions to generate future revenue.	> Talent attraction and retention > Gender equality and transformation targets > Competition for skills in a small market, and with non-traditional players > Premium paid for skills and experience > Scarcity of certain specialised, technical skills locally and globally > Fourth Industrial Revolution (future skills) > Skills development for Telkom, the industry and the country	> Human capital, page 69. 
9  Evolving technology and ICT market trends We need to remain abreast of advances in ICT and disruptive technology, and ensure long-term viability developing innovative products and services and enhancing our networks and infrastructure.	> The pace of technological change > NGN and infrastructure investment > Cost of new product and service development > Skilled employees to support product development and delivery	> Strategy, page 39.  > Operating environment, page 20. 

Our value-creation strategy

Group chief executive officer's (GCEO's) report

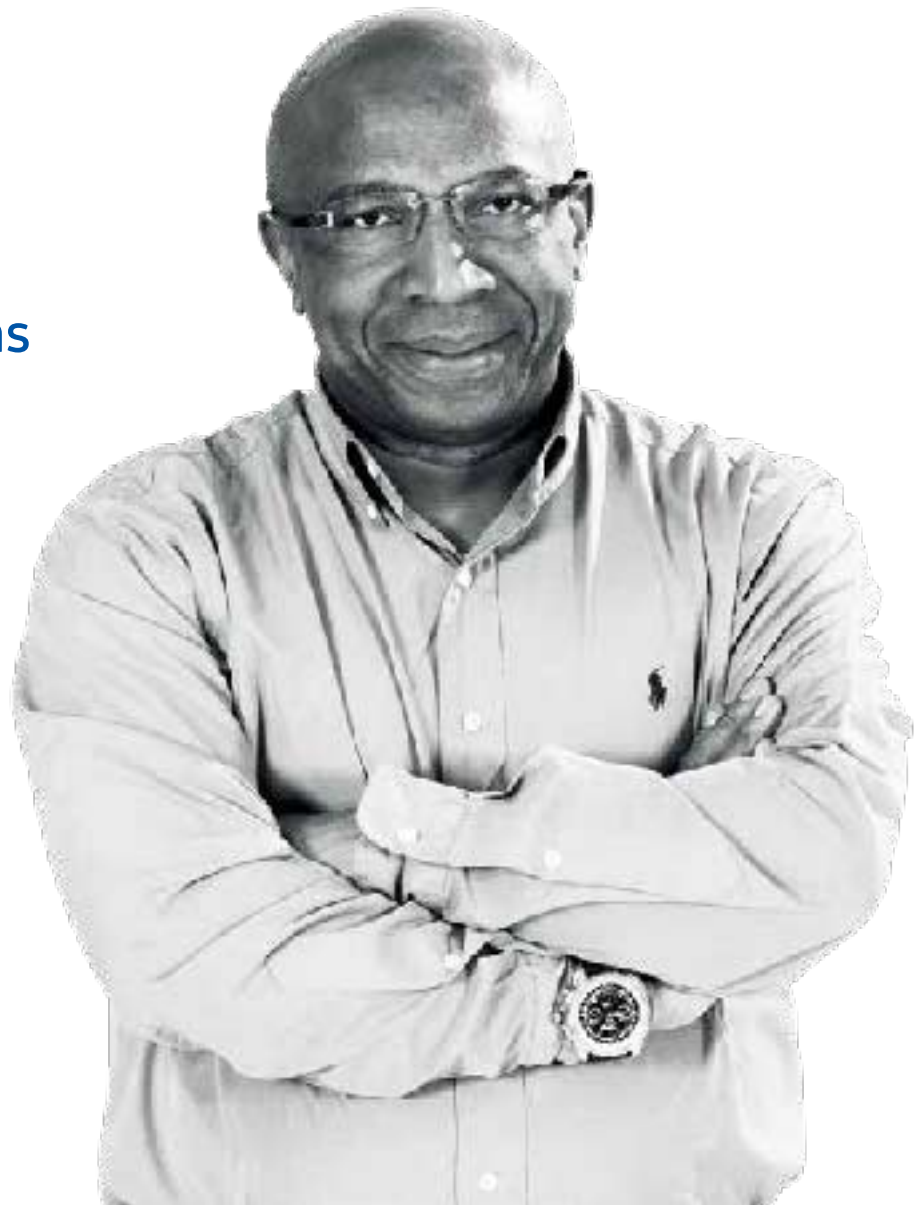
Telkom's purpose is to connect our customers, enabling their lives to be better. Every day we connect people, businesses, and families. Our focus is to ensure that the speed, cost, experience and efficiency of providing that connectivity continually improves.

This financial year marked the end of my fifth year at the helm of Telkom, and the end of the first chapter which focused on the stabilisation of the group and business transformation. Telkom has a new leadership team and is now entering the second chapter; premised on growth.

My key focus areas this year have been on recruiting the right talent to ensure that Telkom remains relevant in the long-term, articulating the Telkom vision, creating and maintaining alignment within the business, BCX business review process and managing the allocation of resources to ensure the preservation of shareholder value.

► “My key focus area this year has been on recruiting the right talent to ensure that Telkom remains relevant in the long-term”

Sipho Maseko, Group CEO



Regulatory environment

The industry is changing faster than the regulatory environment can keep up. The changes implore us to look forward, yet, as regulations and policies tend to be developed based on past events, we are faced with protocols that we feel do not support an evolving industry. The industry needs to proactively engage with policy makers and regulators to ensure we consider what future technology will do to the market construct, how customers consume ICT services and review outdated approaches to infrastructure, spectrum sharing and the cost to communicate.

As technology evolves and innovates, so too does cybercrime, an ever-present priority risk. We apply the learnings from local and global cyber incidents and ensure our systems can identify and repel them. Our cybersecurity team was strengthened to respond to the emerging challenges in this sphere, and is managed by our chief risk and compliance officer. We provide cybersecurity services to a range of customers, particularly BCX corporate customers. Our learnings from our own defences enable us to provide trusted solutions to customers.

Strategy – ensuring long-term sustainability in an evolving industry

The telecommunication and technology industries are changing at an unprecedented rate. This requires us to remain focused on external trends, employ and develop the right skills and talent, and focus our sights on the future, not only to stay relevant, but also to be leaders in our industry. Ensuring our long-term sustainability requires us to understand the mega trends in technologies and customers' expectations, and envision how consumers will use technology in future. Networks and platforms are becoming smarter, and customers expect services and solutions where they can do more for less. We are faced with the challenge of continuous investment to remain relevant and economically viable, while balancing customer expectations of lower prices.

Our capital allocation programme is structured to be scalable and flexible so we can invest in areas that will be material in the future. We are focusing on fibre, LTE, cloud, augmented reality, artificial intelligence and big data analytics. We appointed a chief digital officer, with an appropriately resourced team, to ensure we identify and leverage opportunities in this space.

Our operating model is designed to support our strategy execution. Through the process of decentralising our business units, we achieved transparency about individual business performance, contribution and the role the various business units play in the overall group performance.

We continue to decentralise our business units at a pace that is practical and appropriate to ensure we manage any emerging challenges that may adversely impact our performance.

BCX's legal integration with the enterprise business was completed in the prior year, providing BCX with greater access to top South African blue-chip ICT customers in the public and private sectors.

We have actively pursued cross-selling opportunities as avenues for future revenue growth. We focused on the business portfolio review of the 34 legal entities in BCX and the reorganisation of senior management. This included a number of key appointments in the sales and operations area to improve focus on service delivery. The business portfolio review is on track – South African subsidiaries integration into "One-BCX" is progressing according to plan, and is driving efficiencies within BCX.

For further detail on our group strategy, refer to page 39.



Our value-creation strategy

GCEO's report *continued*

Performance

The year was characterised by a tough economic environment, political uncertainty and intense competition as well as the consequent low business and consumer confidence. We felt the impact of the weak economic environment, as the private and public sectors deferred and lowered their ICT spend respectively. This impacted Telkom's performance, particularly in BCX, which serves the business sectors.

Group revenue was flat at R41 billion, supported by a 47.2 percent increase in mobile service revenue. The growth in the mobile business was underpinned by capital investment, extension of distribution channels, increased store footprint and innovative data-led products which resonated well with customers. Our mobile business is now a key driver of growth in the group, offsetting the decline in BCX and Openserve.

The pricing transformation journey that Openserve embarked on two years ago is starting to bear fruit with the rate of decline in their revenue slowing down. Despite the price reductions and ongoing voice revenue pressures, Openserve's overall revenue declined by only 2.9 percent while data traffic grew massively.

Voice is impacting our businesses across the group as a traditional technology – customers are migrating from circuit voice to voice over internet protocol (VoIP). We have implemented strategies to manage the decline in voice revenue while we migrate customers to VoIP and grow our new generation revenue streams. I am pleased that the new generation revenue streams, such as mobile and data, are now compensating for the decline in the traditional business.

Our focus going forward is to increase the contribution from the new generation revenue streams. Despite their lower margin compared to traditional revenue streams, the new generation revenue streams ensure Telkom's long-term sustainability.

We continue to invest in our network for future growth and invested R7.9 billion in capex, which is 19.3 percent of revenue, in line with our guidance. Mobile and fibre remain key capex focus areas, and we have good returns – mobile service revenue grew by 47.2 percent and our active fibre to the home connectivity rate increased to 30.7 percent (FY2017: 18.0 percent) within three years of deployment, which is in line with international trends.

We have been focusing on modernising the core and backhaul networks and, more recently, the access network. Our investment in packet optical transport network (POTN) establishes an IP-enabled optical transmission capability that can scale to meet the demands of the Fourth Industrial Revolution, catering for higher speeds, increased capacity requirements, lower latency requirements and digitalisation of the network fabric. Our core and backhaul networks are largely modernised, and we are completing the upgrade of our access network with multiple technologies as customers are becoming technology agnostic. It is imperative for us to continue to modernise our network and invest in key growth areas in line with our strategy.

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

Human capital and relationships

The group employs 18 286 people. We need to ensure we have the right people in the right positions to be responsive to our dynamic industry, provide seamless customer service and grow the business. Our talent management approach has become more disciplined, holistically looking at our people, their future and potential development. Our executive team annually reviews succession planning for critical roles, and 94 percent of all senior roles have succession plans.

We are driving an extensive external recruitment programme to employ young, talented individuals who embody the type of thinking, behaviours and values to drive the group forward. Refer to page 70 for some of our key talent and skills attraction initiatives, such as Future Minds, the Explore Data Science Academy and WeThinkCode. The group spent R342 million on employee training and development (FY2017: R232 million).

I have been actively focused on our transformation journey with our chief of human resources, engaging with our employees and potential candidates in different forums, articulating the Telkom vision and understanding the employee value proposition. We are focused on bringing in new talent and refreshing skills. We made a number of external appointments to the group's and BCX's excos. These individuals have a wealth of experience and the skills that will take Telkom forward. For further details on our group exco refer to page 88.

The nature of our work requires our employees to often travel by road. While we promote the highest levels of road safety awareness, I regret that we had four road-related fatalities, of which two fatalities were third-party related. I extend my condolences to the families and friends of our employees, Mr Human and Ms Banyana, as well as to the families and friends of the third-party fatalities.



To address the challenges that were experienced with motor vehicle-related safety incidents, the following mitigation measures were implemented:

- > instituted defensive driving for all high exposure drivers (technicians);
- > enforced consequence management for driver compliance to safety standards – using data from the vehicle tracking monitoring system to identify drivers who are non-compliant; and
- > instituted leadership visibility and accountability at all levels (holding managers accountable for improving safety performance).

Labour relations

Organised labour represents its various constituencies with vigour. We maintain a robust relationship and communicate transparently on Telkom's performance and the anticipated future company as well as the industry challenges.

The collaborative partnership agreement that was signed between Telkom company, Solidarity and SACU two years ago has come to an end.

Our value-creation strategy

GCEO's report *continued*

B-BBEE certification

Telkom has a beyond-compliance approach to B-BBEE certification, focusing on what is right for our business, and what will have the best impact on our suppliers, local industry and the economy. We select suppliers that are locally based to protect South African jobs and support economic growth. We strive to improve our workforce diversity and have various training and skills development initiatives in place.

The amended B-BBEE codes have changed the landscape with increased standards expected from us by our customers. As our B-BBEE certification level impacts the group's ability to attract business, especially for BCX, we have initiated strategies to improve the group's status:

- > We drafted a transformational and compliance plan to address the three priority elements.
- > We implemented aggressive Skills Development and Enterprise Supplier Development programmes.
- > We cascaded the B-BBEE plan and targets down to an individual team level to incentivise performance.

Through these efforts, our rating has improved from B-BBEE certification level 6 to level 4. BCX was rated level 3. This will improve BCX's ability to acquire and maintain business.

Corporate social responsibility

Telkom has, over the years, invested in youth development through a myriad of programmes. These range from educational support for high school learners, bursary programmes for further education and training, to learnerships, internships and supporting youth to start businesses. Our skills development includes the CoE Postgraduate programme, the internship programme and the Learnership for People with Disabilities programme.

The Telkom Foundation invests in education to deliver sustainable change. ICT is integral to the foundation's education strategy, and it empowers teachers and improves their capabilities. Post-matric, the Foundation works with our human resources department and other industry players to pool potential ICT learners for further development.

Telkom through its Foundation, invested just over R200 million over the past five years, to improve the quality of teaching and learning. This programme seeks to bridge the existing digital divide through the deployment of technology in partner schools.

The programme offers teacher development and support towards the integration of ICTs in the classroom, school leadership development targeted at principals of the partner schools and learner support in maths, science, technology and English to benefit over 3 000 learners from grades 8 to 12. This programme was rolled out in five Gauteng and two Eastern Cape schools. Each school has received an integrated ICT solution which includes teacher and learner devices, fast and reliable Telkom connectivity and education software with learner management capabilities. All teachers in these schools are provided with training and in-classroom support on the use of technology. Learners are also provided with supplementary tuition throughout the year. Over and above this, the programme also offers psycho-social support to learners and exposure to basic ICT skills. Telkom plans to inspire learners to consider careers in ICT especially given the demand supply skills gap in this sector.

Compliance FY2018

I can confirm that Telkom complied with the terms of the 2013 Competition Commission Settlement Agreement during 2018, as well as the behavioural conditions that were agreed to as part of the BCX and Telkom merger agreement.

Looking forward

Looking forward, we will continue focusing on our sustainable growth framework. We will continue to review our business portfolio and prioritise strategic initiatives accordingly. This includes reviewing our traditional network and IT systems, non-core assets and product portfolio.

Openserve will continue to review its network technology. We continue optimising our network footprint by analysing our current deployed network and upgrading or decommissioning components, and using alternative technology where deemed optimal.

BCX's business portfolio review will improve its quality of earnings and revenue mix. BCX will continue focusing on leading application and infrastructure service capabilities and investing in future growth areas, which include driving solutions and business outcomes for our customers.

Telkom Consumer will accelerate migration from traditional products. This product rationalisation will see our suite of Unlimited, FreeMe and Smart broadband products become the bedrock of our sales and marketing advances going forward.

Gyro will focus on commercialising the property portfolio, optimise and grow the masts and towers portfolio and enhance building efficiencies. These will diversify income streams through property development, masts and towers, and property management services.

We are redesigning our IT systems to drive and enable a lean business operating model and provide an automated business process. This IT redesign is premised on nimble architecture supporting an omni-channel service model. This will also incorporate a full digital channel element enabling e-commerce and self-service capabilities.

We intend to invest in a manner that enhances our long-term financial sustainability to continue building a platform for future growth. We allocate capital diligently, including measuring returns.

It is imperative to continue investing in key growth areas in line with our strategy to ensure that we do not compromise our medium-term prospects. Over the next three years to FY2021, our capital investment will be 16 to 20 percent of revenue focusing on key revenue growth areas such as mobile and fibre. The capex investment to date is already bearing fruit with the growth in our new generation revenue streams, such as mobile service revenue and fixed data revenue, offsetting the decline in traditional revenue, such as voice revenue. We expect our operating revenue to grow mid-single digit over the next three years as we continue to grow our mobile business, fixed data and other future revenue streams such as cloud computing, IoT, cybersecurity and big data analytics. We manage the decline in traditional revenue by proactively integrating customers from traditional to new generation revenue and partnering with OTT players to provide data-led solutions to our customers. It is imperative to migrate customers to new technologies to ensure the sustainability of our business. However, the migration is at lower margins. In some products and services, we need to grow volumes by 2 to 2.5 times to compensate for the variance in pricing. Despite the impact of the change in product mix, we expect our earnings before interest, tax, depreciation and amortisation (EBITDA) margin to be between 24 and 27 percent over the next three years, as we grow new generation revenue streams and continue to be cost efficient.

We continue driving the new operating model that provides greater business unit accountability for operational delivery and value contribution for the group as a whole, while ensuring strategic control from the Corporate centre. We are exploring the benefits of divisionalisation of our subsidiaries, such as a better commercialisation positioning of the group, to ensure better strategic alignment between the independent businesses, and to improve efficiencies across the group and preserve scale benefits. We have started the review process with the BCX group entities. The structure and timing of the possible divisionalisation is yet to be determined.



Appreciation

My sincere thanks to everyone that has contributed to the group over what has been a trying year. I thank exco for its commitment and energy. A special thanks to Deon Fredericks who has been our GCFO for the past four years. He will now assume the role of chief investment officer to focus on the execution of our investment strategy. I would like to express my heartfelt gratitude to Attila Vitai, Len de Villiers and Ian Russell who served in my leadership team over the past few years and contributed immensely in the turnaround of Telkom.

My appreciation extends to the board for providing clarity on areas of prioritisation and focus, and for their support.

To our employees, thank you for your contribution and dedication, without you we would not be able to deliver on our purpose.

I would also like to thank organised labour for all the constructive engagements that we had during the year.

To our customers, shareholders and other stakeholders, thank you for your continued support.

Sipho Maseko
Group chief executive officer



Our value-creation strategy

Our strategy review

We continuously review our strategy to ensure it is relevant in our changing operating environment.

Group strategy

The group strategy is actionable by our five key strategic objectives. These objectives are:

- 1 Be South Africa's number one digital transformation partner
- 2 Grow into South Africa's number-one broadband and data services business
- 3 Be the communications infrastructure provider of choice
- 4 Be the largest provider of data-driven digital marketing solutions for South African SMEs
- 5 Unlock value through commercialisation of the property portfolio

These strategic objectives must be delivered in an increasingly complex, challenging and changing external environment.

Our customers are at the heart of all we do, and this is reflected in our strategy. The five strategic objectives are supported by specific business unit and group enablers. These include our evolving operating model, people and organisational capabilities, a sustainable cost base, superior customer experience and a sustainable regulatory stance.

Operating model

Telkom's operating model separates businesses and improves our focus, accountability, and decision-making, as well as generating a real incentive to innovate, meaning we always put the customer first. The benefits include:

- > a clear sense of identity, mission and focus within each business unit;
- > clearer decision-making responsibilities facilitating action, allowing for faster solution delivery;
- > better aligning incentives to business unit goals, helping drive focus and teamwork; and
- > commercial sustainability will drive business units, fostering greater accountability and encouraging appropriate business behaviours.

To guarantee that we can deliver on our strategic initiatives, we have reviewed whether our operating model is fit-for-purpose and facilitates our strategies. The continuous review of our operating model ensures:

- > increased focus in each line of business;
- > leaner and more agile structures in our Corporate centre and in each of our business units;
- > clearer accountability and separate mandates for each business unit; and
- > more transparent financial and operational performance and capital and cost allocation.

The group will follow a measured and phased approach to the potential divisionalisation, starting in FY2019 after the implementation plans have been set out and agreed between all stakeholders. It is envisaged that this process will have a positive impact on the operational efficiency of the group as a whole.

Telkom's strategy



The above mentioned enablers are throughout the report.

Our value-creation strategy

Our strategy review *continued*

Business unit strategic focus

To support our group strategies, we have identified the key strategic focus areas for each business unit.

Business unit	Key strategic focus areas	Performance
	> Modernise the network	> 157 400 km of fibre deployed > 2.5 million premises passed • homes passed up 62.3 percent to 356 684 • fibre to the cabinet passed up 12.3 percent to 2.2 million
	> Commercialise the network	> Fixed line broadband consumption up 34.3 percent > FTTH connectivity rate of 30.7 percent > Fibre to the base station up 14.6 percent to 6 791 > Fibre to the business up 70.3 percent to 89 818 end points terminating
	> Transform service delivery	> 24 percent reduction in re-dispatch rate > 16 percent increase in interaction Net Promoter Score

Business unit	Key strategic focus areas	Performance
	> Mobile growth	> Service revenue growth of 47.2 percent > Active mobile subscribers growth of 30.2 percent to 5.2 million > Blended ARPU growth of 10.2 percent to R98.19 > Mobile broadband subscribers up 37.5 percent to 3.6 million
	> High-speed broadband growth	> High-speed broadband customers up 36.4 percent to 1.2 million* > Fixed broadband average revenue per user (ARPU) up 20.5 percent > 54.5 percent growth in uncapped products > 62 percent growth in data due to increased video usage and uncapped usage
	> Content and value-added services	> >200 thousand LIT music unique users > >160 thousand LIT video unique users > ~20 thousand LIT TV boxes in the market

* This includes LTE customers

Business unit	Key strategic focus areas	Performance
	> Cloud computing	> SAP HEC "Ready to deliver" certification achieved > Azure hyperscale cloud offering available > Cloud marketplace ready > Virtustream offering
	> Big data analytics	> BCX Insight business unit formed > Approach is to build and partner > Invested in the Explore Data Science Academy that will produce 100 data scientists from 2018
	> IoT	> BCX Smart business unit formed > Revenue of R150 million > 100 000 devices and sensors managed > Strategic partnerships to grow industrial IoT capability and offering
	> Cybersecurity	> BCX Secure business unit formed > Cybersecurity revenue up 48 percent to R150 million > Form strategic alliances with leading global players

Business unit	Key strategic focus areas	Performance
	> Commercialise the property portfolio	> 40 properties selected for phase 1 development pipeline > Commenced with town planning > Exploring project development funding options and strategic partnership opportunities
	> Optimise the mast and tower portfolio	> 6 500 towers across South Africa > 1 300 co-located towers > 1 000 towers prime for additional co-location
	> Enhance building operation efficiencies	> >1 400 properties under management > Utilities management, space utilisation efficiencies > Office consolidation to optimise occupancy costs

Business unit	Key strategic focus areas	Performance
	> Stabilise the business	> Started the journey to transform into a digital-focused business
	> Optimise and rationalise traditional costs	> Rationalised product offerings to focus on e-commerce marketplace offerings
	> Reposition, refresh and evolve the brand	> Rebranding Trudon to Yellow Pages
	> Rebuild iYP to create an e-marketplace	> Launched the new Yellow Pages app – 16 000 downloads since launch

03

Performance

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The condensed consolidated annual statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows is extracted from audited information, but is not itself audited. The annual financial statements were audited by EY who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the condensed financial information.

Financial capital

Group chief financial officer's (GCFO's) report

It is my pleasure to provide perspective to Telkom's performance for the financial year ended 31 March 2018. It has been a complex year, with many moving parts. The new world that we operate in continuously changes, with many challenges and learnings.

These challenges included a competitive environment combined with a challenging operating and economic landscape leading to severe pressure on revenue growth. This was further impacted by low consumer and business confidence. Notwithstanding these challenges, we experienced flat revenue growth. Additional cost initiatives were implemented early in the year to manage our margins. This also enabled us to make additional investments to support the impressive growth in mobile, as well as investing for the future. Overall, we had reasonable success for the year and as such, our results are credible under these circumstances.

Key indicators show:

- > impressive growth in the mobile business;
- > Telkom Consumer fixed business and Openserve revenue is starting to improve;
- > BCX revenue is significantly under pressure;
- > good cost control and focused capital investment; and
- > improved cash flow and a strong balance sheet.

► **"In a fast-changing business environment flexibility is everything, especially in a capital intensive industry with my focus being on creating financial certainty to operate in and invest for long-term sustainability."**

Deon Fredericks,
Group chief financial officer





Performance GCFO's report *continued*

Salient features

- > Group operating revenue was flat at R41 018 million
- > Mobile service revenue up 47.2 percent to R5 150 million
- > Group EBITDA down 3.6 percent to R10 544 million with an EBITDA margin of 25.7 percent
- > HEPS down 18.4 percent to 597.0 cents per share
- > Free cash flow up 465.7 percent to R501 million
- > Capex down 8.6 percent to R7 909 million
- > Annual dividend down 16.3 percent to 355 cents per share

Restructured and refocused business gaining traction

After a successful turnaround phase, the focus of the group has turned to long-term sustainability and future growth. Aligned to this, we have managed our business on a federated model promoting a commercial mindset.

Each division focuses on its market segments and resources are allocated based on our capital allocation framework. We intend optimising our real estate portfolio through Gyro.

We deploy capital investment according to our growth areas, for example fibre and mobile. We are pleased with the result of our mobile business, with a 47.2 percent growth in service revenue contributing to a R1 742 million EBITDA. We will continue our focus on our mobile service offerings.

Our fibre investment also saw a significant increase in homes passed with fibre of 62.3 percent and an increased connectivity rate from 18.5 percent to 30.7 percent. Our fibre investment remains a key focus as we equip ourselves for the Fourth Industrial Revolution.

BCX faced significant challenges as the weak economy led to deferred corporate ICT spend and reduced public sector spend, which hampered their performance.

Successfully grew new generation revenue streams

As the industry moves into the digital age, we face the challenge that the traditional voice revenue stream continues to be under pressure. The demand from our customers has shifted to newer technologies with lower-margin products, services and solutions. Our customers continuously require more value-add for less cost.

Under these challenging circumstances we have performed well. We managed to curb the deterioration in the traditional business. Our focused capital deployment in fibre and mobile has seen revenue growth in mobile and new data products offsetting the decline in the traditional business. This is in line with Telkom's long-term sustainability plan.

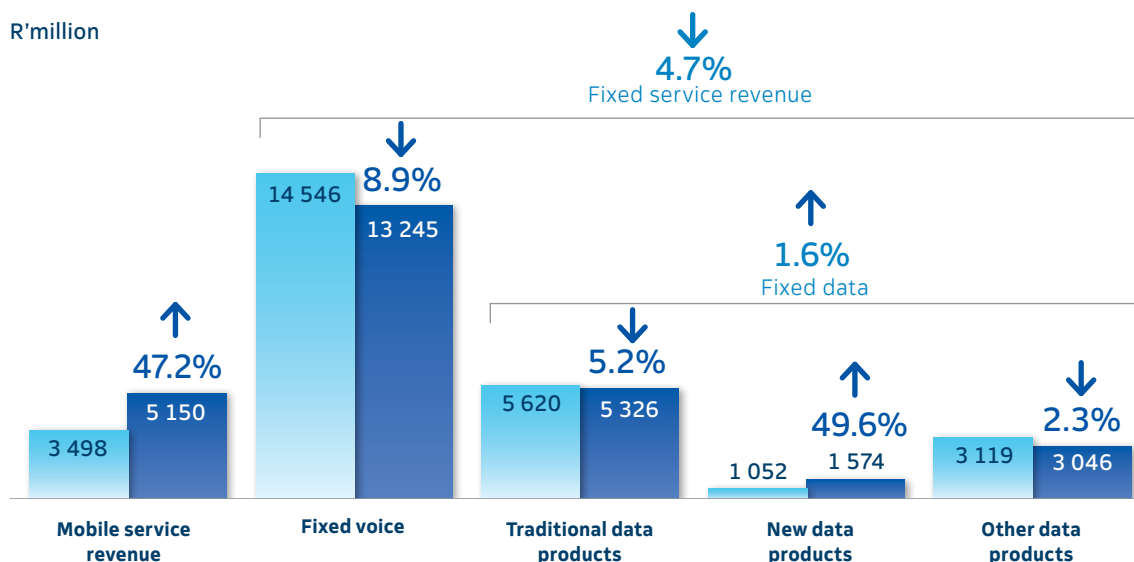
Our divisions have had mixed success as our focused Capital Investment programme gains traction, offsetting weaker business performance. This was brought about by the migration of our customers to newer, lower margin products as well as challenging economic and market conditions. This was supported by good volume growth.

Managing decline in fixed revenue streams

FY2018

FY2017

R'million



Strict operating cost discipline

Strict cost discipline saw a cost reduction of 1.2 percent in operating cost despite an average 6 percent increase in salaries. The result was an EBITDA of R10 544 million and an EBITDA margin of 25.7 percent. Going forward, our investment in newer technologies as well as OSS/BSS will continue as we address revenue growth and process cost efficiencies.

Free cash flow focus

The cost of access to financial capital has increased in line with macro-economic conditions and credit rating concerns. Our focus was therefore to maximise our internally generated free cash flow through the efficient allocation of capital, targeting our growth areas with a clear focus on working capital optimisation.

This focus was imperative given our increased capital intensity to 19.3 percent of revenue. We are pleased to report an improvement of adjusted free cash flow to R501 million year on year.

A continuous focus on free cash flow generation and working capital is a discipline driven through all divisions, as we aim to reduce our weighted cost of capital.

Maintaining a strong balance sheet

Our focus on internally generated free cash flow has paid-off, as we remain lowly geared at a net debt to EBITDA ratio of 0.6 times. This is despite a high capital intensity environment, a dividend of R2 190 million, a R760 million share repurchase and higher tax and interest payments of R731 million. For FY2018, we had cash and discretionary investments totaling R4 367 million.



Outlook

Our strong balance sheet and cash generating ability, and access to debt capital markets, creates a solid platform from which to execute our strategy.

In line with this strategy, we invest to ensure medium- to long-term returns for our shareholders. As our business is capital intensive, we have made significant investment in the past few years to position ourselves to capture the growth enabled by new technologies as well as to create sufficient capacity in our network for the expected surge in data.

This investment has also assisted with the migration and acceleration from traditional streams as the new generation revenue streams gain traction. As the business continues to stabilise, the operating environment improves and the return on our capital investment to the next generation network technologies bears fruit, we are now comfortable to provide medium-term guidance.

We will continue our accelerated capital investment programme embarked on in FY2018, with a focus on the growth areas of our business, mobile and fibre. We also intend on monetising our real estate portfolio. We will continue to deploy capital in a measured and responsible manner as guided by our capital allocation framework. The rapidly changing environment presents challenges and opportunities as we embrace the digital age. We believe that we are ideally positioned to take advantage of this opportunity.

We plan to grow revenue over this period at current margins with high capital intensity, to ensure we build on the early successes achieved in FY2018.

Our high capital intensity is expected to result in an increase in our net debt to EBITDA ratio as we gear up our balance sheet for the future, however our net debt to EBITDA ratio guidance remains at ≤1.

	Guidance FY2018	Actual FY2018	Guidance FY2019 – FY2021
Operating revenue	Flat	0.1%	Mid-single digit
EBITDA margin	23 - 25%	25.7%	24% - 27%
Capex to revenue	17 - 20%	19.3%	16% - 20%
Net debt to EBITDA	≤1	0.6	≤1

Note: Financial guidance excludes corporate actions.



Performance GCFO's report *continued*

In closing

The future will remain not only uncertain but full of challenges to navigate in pursuit of stakeholder wealth creation. We have transformed and restructured our business and have proven our ability to execute on our strategy. This ability will be bolstered by our federated model, strong balance sheet, capital investments and a competent and visionary leadership team, guided by the experienced leadership of our board.

Deon Fredericks

Group chief financial officer

Financial overview

Financial information summary

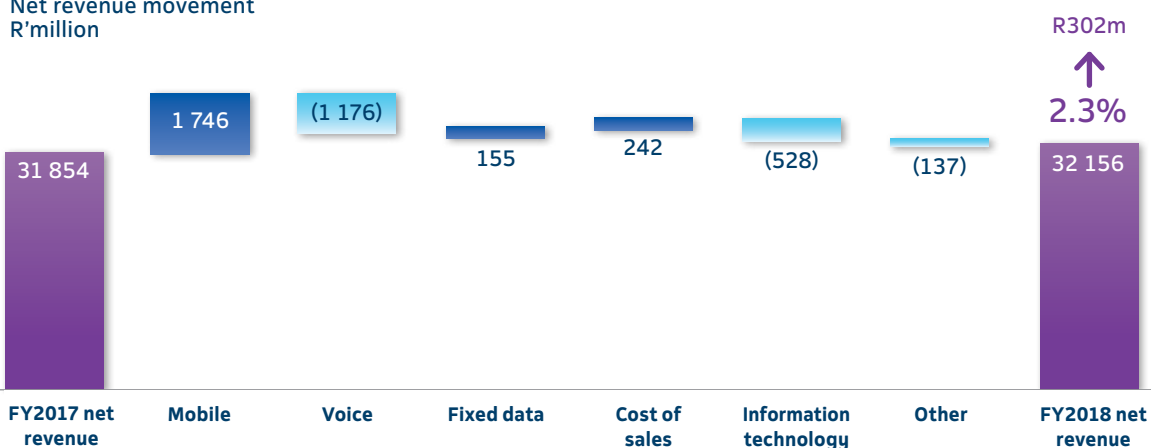
	31 March 2018 Rm	31 March 2017 Rm	%
Gross operating revenue	41 018	40 970	0.1
EBITDA	10 544	10 941	(3.6)
EBITDA margin (%)	25.7	26.7	(1.0)
EBIT	4 939	5 280	(6.5)
Profit after tax	3 158	3 907	(19.2)
Capital expenditure	7 909	8 654	8.6
Adjusted free cash flow	501	(137)	465.7
Net debt	6 741	5 020	(34.3)
Basic earnings per share (cents)	602.3	749.1	(19.6)
Headline earnings per share (cents)	597.0	731.4	(18.4)
EBIT margin (%)	12.0	12.9	
Effective tax rate (%)	26.4	15.2	
Capex to revenue (%)	19.3	21.1	
Net debt to EBITDA (times)	0.6	0.5	
Return on invested capital (%)	10.7	14.4	

Group revenue flat with new generation revenue streams growth offsetting the decline in traditional revenue

Group revenue was flat at R41 018 million supported by a 47.2 percent increase in mobile service revenue and 1.6 percent increase in fixed data following a period of decline in fixed data in the prior year. This was offset by a decline in fixed voice revenues. Fixed voice is a traditional technology that impacts our business across the group as we see customers migrating from circuit voice to VoIP. For the first time, our new generation revenue streams such as mobile and data, are compensating for the decline in the traditional business.

New revenue streams offset pressures in voice

Net revenue movement R'million

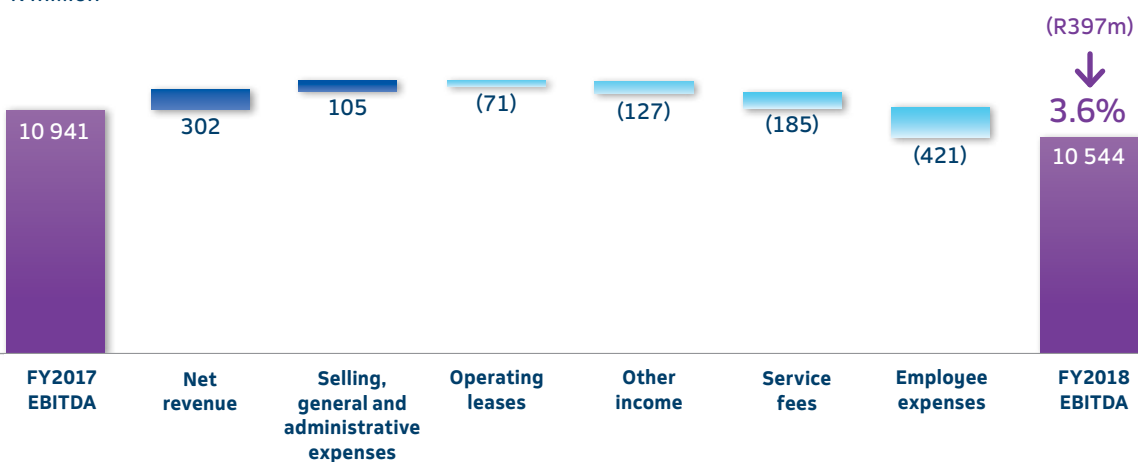


Group EBITDA declined on higher labour costs

Group EBITDA decreased 3.6 percent to R10 544 million with an EBITDA margin of 25.7 percent. Operating expenses increased 2.6 percent due to a 4.0 percent increase in employee expenses driven by an average salary increase of 6 percent and market-related 50th percentile salary adjustments. This was partly offset by a lower headcount. Service fees and operating leases increased 6.4 percent and 6.8 percent respectively mainly due to an increase in consultancy fees, facilities management and recovering costs relating to mobile masts. We will continue to exercise cost discipline and ensure that we keep our operating expenses growth below inflation.

EBITDA

EBITDA movement R'million





Performance Financial capital *continued*

Group HEPS declined on higher effective tax

Headline earnings per share (HEPS) decreased 18.4 percent to 597.0 cents per share mainly due to the higher effective tax rate of 26.4 percent (FY2017: 15.2 percent) and a decline in EBITDA of 3.6 percent. Basic earnings per share (BEPs) decreased 19.6 percent to 602.3 cents per share.

Group capital investment for future growth

Capex investment was lower than the prior year at R7 909 million, with capex to revenue of 19.3 percent in line with our guidance. Mobile and fibre remain key capex focus areas with good returns – mobile service revenue grew by 47.2 percent and we achieved an active connectivity rate of 30.7 percent within three years of deployment of fibre to the home, which is in line with international trends.

Group capital expenditure

	31 March 2018 Rm	31 March 2017 Rm	%
Fibre	2 112	2 392	(11.7)
Mobile	2 319	1 936	19.8
OSS/BSS programme	294	741	(60.3)
Network rehabilitation/sustainment	303	567	(46.6)
Service on demand	1 292	1 251	3.3
Core network	902	962	(6.2)
Other	131	349	(62.5)
Telkom	7 353	8 198	(10.3)
BCX	503	366	37.4
Other			
VS Gaming	8	7	14.3
Yellow Pages	16	9	77.8
Gyro	29	26	11.5
Capital expenditure included in PPE	7 909	8 606	(8.1)
Capital inventory	–	48	(100.0)
Total	7 909	8 654	(8.6)

Strong balance sheet to fund future growth

Despite the increase in net debt, including financial assets and liabilities, to R6 741 million from R5 020 million, we remain lowly geared with a net debt to EBITDA ratio of 0.6 times. The group cash balances improved to R2 698 million from R1 519 million in the prior year. The growth in borrowings is in line with our strategy to fund capital expenditure through long-term debt as we move to an optimal capital structure.

	31 March 2018 Rm	31 March 2017 Rm	%
Bank and cash balances	2 698	1 519	77.6
Current other financial assets	163	126	29.4
Non-current other financial assets	60	60	–
Current borrowings	(2 247)	(1 541)	(45.8)
Non-current borrowings	(7 165)	(4 744)	(51.0)
Current other financial liabilities	(250)	(440)	43.2
Net debt	(6 741)	(5 020)	34.3
Net debt to EBITDA (times)	0.6	0.5	0.1

Free cash flow recovered from a decline in the prior year

Adjusted free cash flow recovered from negative R137 million in the prior year to positive R501 million. The turnaround was due to a 14.2 percent increase in cash generated from operations, as we improved working capital management. In addition, the positive adjusted free cash flow benefited from a 8.3 percent reduction in capital spend year on year.

Adjusted free cash flow

	31 March 2018 Rm	31 March 2017 Rm	%
Cash generated from operations	10 171	8 910	14.2
Interest received	327	453	(27.8)
Finance charges paid	(731)	(469)	(55.9)
Taxation paid	(1 493)	(1 181)	(26.4)
Cash generated from operations before dividend paid	8 274	7 713	7.3
Cash paid for capital expenditure	(7 773)	(8 479)	(8.3)
Free cash flow	501	(766)	165.4
Add back: Package cost paid	–	629	(100.0)
Adjusted free cash flow	501	(137)	465.7



Performance Financial capital *continued*



The financial reports on pages 51 to 54 should be read in conjunction with the consolidated annual financial statements for the year ended 31 March 2018, available online at www.telkom.co.za/ir.

Condensed consolidated annual statement of profit and loss and other comprehensive income

	31 March 2018 Rm	31 March 2017 Rm
Operating revenue	41 018	40 970
Payments to other operators	2 606	2 618
Cost of sales	6 256	6 498
Net operating revenue	32 156	31 854
Other income	607	734
Operating expenses	22 219	21 713
Employee expenses	10 917	10 562
Selling, general and administrative expenses	7 132	7 237
Service fees	3 054	2 869
Operating leases	1 116	1 045
EBITDA	10 544	10 875
Depreciation of property, plant and equipment	4 780	4 752
Amortisation of intangible assets	778	766
Write-offs, impairment/(reversals) and losses of property, plant and equipment and intangible assets	47	143
Operating profit	4 939	5 214
Investment income and income from associates	203	219
Finance charges and fair value movements	851	888
Finance charges	893	618
Foreign exchange and fair value movements	(42)	270
Profit before taxation	4 291	4 545
Taxation	1 133	691
Profit for the year	3 158	3 854
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Exchange losses on translating foreign operations	(22)	(61)
Items that will not be reclassified to profit or loss		
Defined benefit plan actuarial losses*	(652)	(30)
Defined benefit plan asset ceiling limitation	–	(6)
Other comprehensive loss for the year, net of taxation	(674)	(97)
Total comprehensive income for the year	2 484	3 757
Profit attributable to:		
Owners of Telkom	3 052	3 797
Non-controlling interests	106	57
Profit for the year	3 158	3 854
Total comprehensive income attributable to:		
Owners of Telkom	2 378	3 700
Non-controlling interests	106	57
Total comprehensive income for the year	2 484	3 757
Basic earnings per share (cents)	602.3	738.8
Diluted earnings per share (cents)	589.7	724.1

* No deferred tax balance raised on the OCI movements due to the limitation of the Telkom deferred tax asset.

Condensed consolidated statement of financial position

	31 March 2018 Rm	31 March 2017 Rm
Assets		
Non-current assets	36 417	34 125
Property, plant and equipment	30 377	27 918
Intangible assets	4 492	4 720
Other investments	100	40
Employee benefits	627	635
Other financial assets	60	60
Finance lease receivables	262	310
Deferred taxation	499	442
Current assets	14 127	13 912
Inventories	1 435	1 384
Income tax receivable	54	9
Current portion of finance lease receivables	112	237
Trade and other receivables	8 126	8 156
Current portion of other financial assets	163	126
Current portion of other investments	1 509	2 388
Cash and cash equivalents	2 728	1 612
Assets of disposal groups classified as held for sale	–	12
Total assets	50 544	48 049
Equity and liabilities		
Equity attributable to owners of the parent	27 026	27 569
Share capital	5 050	5 208
Share-based compensation reserve	377	452
Non-distributable reserves	1 579	1 376
Retained earnings	20 020	20 533
Non-controlling interests	359	337
Total equity	27 385	27 906
Non-current liabilities	10 240	7 004
Interest-bearing debt	7 165	4 744
Employee related provisions	2 388	1 536
Non-employee related provisions	44	56
Deferred revenue	464	529
Deferred taxation	179	139
Current liabilities	12 919	13 139
Trade and other payables	6 878	7 516
Shareholders for dividend*	58	25
Current portion of interest-bearing debt	2 247	1 541
Current portion of employee related provisions	1 340	1 397
Current portion of non-employee related provisions	164	124
Current portion of deferred revenue	1 589	1 570
Income tax payable	363	433
Current portion of other financial liabilities	250	440
Credit facilities utilised	30	93
Total liabilities	23 159	20 143
Total equity and liabilities	50 544	48 049

* Includes dividend payable to non-controlling interest of Trudon.



Performance Financial capital *continued*

Condensed consolidated statement of changes in equity

	31 March 2018 Rm	31 March 2017 Rm
Balance at 1 April	27 906	26 365
Attributable to owners of Telkom	27 569	25 975
Non-controlling interests	337	390
Total comprehensive income for the year	2 484	3 757
Profit for the year	3 158	3 854
Other comprehensive losses	(674)	(97)
Exchange losses on translating foreign operations	(22)	(61)
Net defined benefit plan remeasurements	(652)	(36)
Dividend declared*	(2 223)	(2 202)
Disposal of non-controlling interest	(3)	(3)
Purchase of Telkom shares by subsidiaries	–	(28)
Increase in share-compensation reserve	29	201
Increase in subsidiaries share-compensation reserve	19	21
Shares repurchased and cancelled during the year	(759)	–
Increase in treasury shares	(68)	(205)
Balance at 31 March	27 385	27 906
Attributable to owners of Telkom	27 026	27 569
Non-controlling interests	359	337

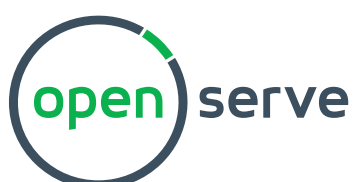
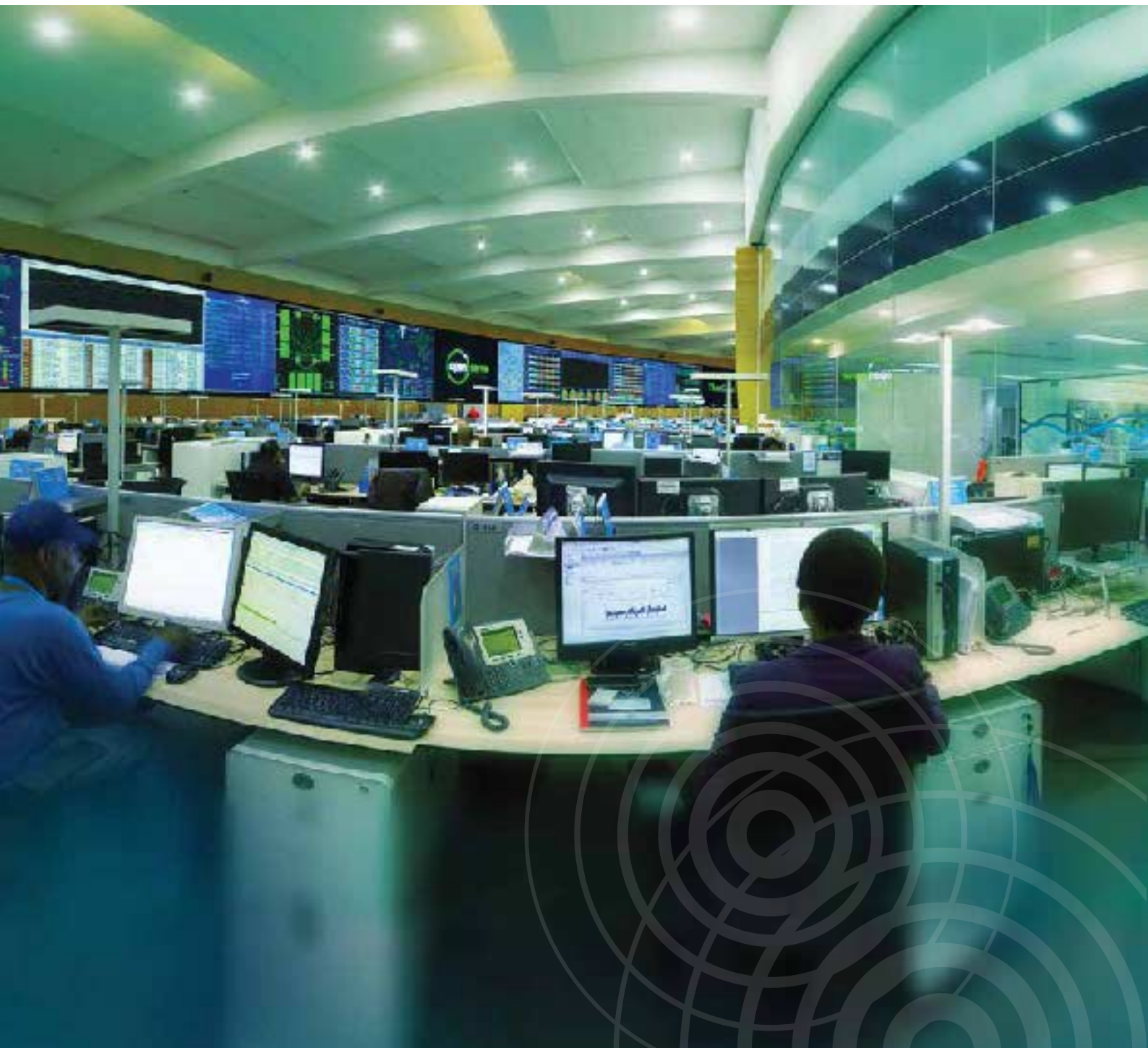
* Dividend declared includes dividend to the non-controlling interests of the Trudon Group and the BCX Group.

Condensed consolidated statement of cash flows

	31 March 2018 Rm	31 March 2017 Rm
Cash flows from operating activities	6 084	5 542
Cash receipts from customers	41 049	39 961
Cash paid to suppliers and employees	(30 878)	(31 051)
Cash generated from operations	10 171	8 910
Interest received	327	453
Finance charges paid	(731)	(469)
Taxation paid	(1 493)	(1 181)
Cash generated from operations before dividend paid	8 274	7 713
Dividend paid	(2 190)	(2 171)
Cash flows from investing activities	(6 634)	(6 637)
Proceeds on disposal of property, plant and equipment and intangible assets	82	230
Additions to assets for capital expansion	(7 773)	(8 479)
Decrease in repurchase agreements	–	1 634
Acquisition of subsidiary, net of cash acquired	–	(22)
Other financial assets realised – BCX	31	–
Investments made by FutureMakers	(24)	–
Proceeds upon realisation of Cell Captive assets	1 050	–
Cash flows from financing activities	1 729	69
Loans raised	7 680	2 431
Loans repaid	(4 685)	(1 539)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme	(68)	(234)
Shares repurchased and cancelled	(759)	–
Finance lease repaid	(18)	(43)
Settlement of derivative liabilities	(546)	(673)
Proceeds from derivatives	125	127
Net increase/(decrease) in cash and cash equivalents	1 179	(1 026)
Net cash and cash equivalents at the beginning of the year	1 519	2 542
Effect of foreign exchange rate gains on cash and cash equivalents	–	3
Net cash and cash equivalents at the end of the year	2 698	1 519



Performance **Productive capital**



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

The pricing transformation journey that Openserve embarked on two years ago is starting to bear fruit, with the rate of decline in revenue slowing down. Despite the price reductions and ongoing pressures in our voice revenue, our overall revenue declined by only 2.9 percent while data traffic grew massively in our network.

This supports our strategy to commercialise our network. The fibre revenue from the entire ecosystem (fibre to the home (FTTH), business, base stations, Megalines and Metro Ethernet) continues to grow.

However, the change in product mix from traditional to new technologies has lower margins, thereby driving us to grow our data volumes and the number of fibre lines to compensate for this change.

Revenue declined by 2.9 percent to R17 570 million, as we are making headway with our commercialisation strategy. This commercialisation is paying dividends in the fibre ecosystem with the fibre to the home connectivity rate accelerating to 30.7 percent within three years of deployment, compared to 18.0 percent in the prior year. The fibre-based Metro Ethernet customer lines cater to the growing demand for data in the enterprise market. We now have 89 818 end points terminating at businesses – a 70.3 percent increase from the prior year. Fibre to the base stations increased by 14.6 percent to 6 791 base stations.

EBITDA decreased 2.4 percent to R5 914 million on lower revenue, which was offset by a slight saving in operating expenditure due to improved efficiencies from transforming our network.

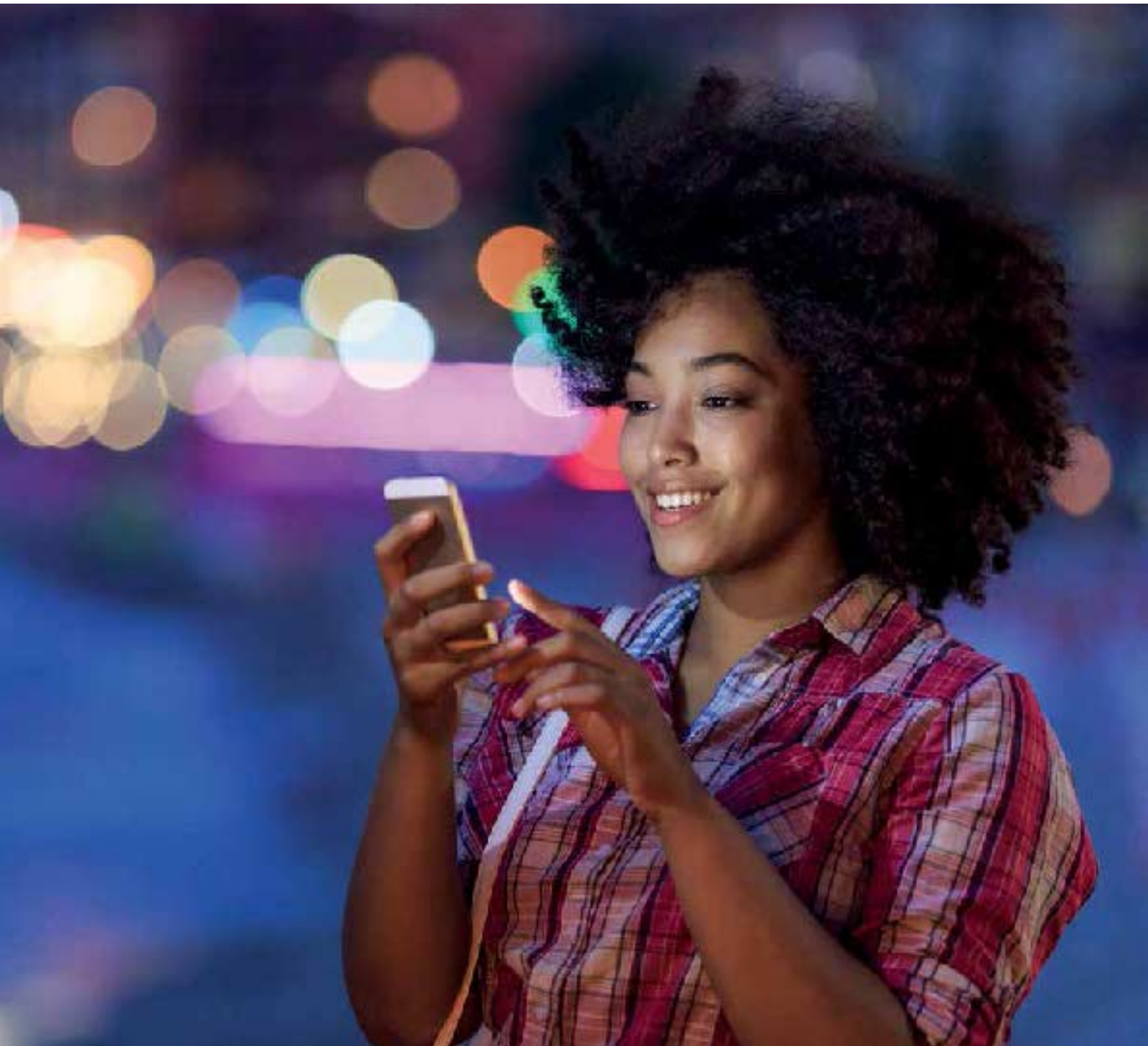
As part of our multifaceted strategy of modernising, commercialising and transforming our network, we invested R4 728 million to futureproof our core, transport and access footprint. Our investment in our last-mile access¹ enables us to provide broadband of up to 200 megabits per second (Mbps). Based on this network foundation, we increased our minimum fixed-line broadband connectivity speed to 4 and 10 Mbps where applicable. We did this as part of our continuous drive to stimulate the digital economy and enable high-speed internet access.

We have deployed more than 157 400 km of fibre nationally, connecting over 2.5 million premises – we are the leading provider of high-speed next generation broadband access. The investment in next generation access enabled us to provide high-speed access across our fibre and copper networks and continues to drive diverse long-term investment in broadband connectivity. Capital investment continues to underpin the data-driven ecosystem, focusing on operational efficiencies and growth areas which include Metro Ethernet, fibre to the home and POTN. POTN establishes an IP-enabled optical transmission capability that scales to meet the demands of the Fourth Industrial Revolution. It increases speed and capacity, lowers latency and digitalises the network fabric. POTN works across national and regional fibre routes, enabling the deployment of fibre-based access, enterprise and backhaul technologies, such as gigabit passive optical network for FTTH and Metro Ethernet, for enterprise and mobile backhaul. Our capital investment across core and aggregation will enable us to deploy one Tbps throughput within the next 18 to 24 months, creating a futureproof network that is ready for exponential growth in data consumption. Fibre deployment remains a key future enabler for end-user connections, as well as small cells in mobile networks.

¹ The technology that carries signals from our infrastructure over the final stretch to an endpoint.



Performance
Productive capital *continued*



Telkom
Consumer

Telkom Consumer offers fixed and mobile broadband, is an internet service provider and is a converged communications provider.

Telkom Consumer's performance was driven by the mobile business, which was underpinned by our capital investment in wireless network, extension of distribution channels, increased store footprint and innovative data-led products which resonated well with customers. Our mobile service revenue grew by approximately R1.7 billion.

The fixed business turnaround is progressing well following the launch of innovative fixed-broadband products (led by the Unlimited product suite as well as customer speed upgrade migrations) and content offerings, notwithstanding the continued

churn in the lower end of traditional products. The number of Consumer broadband subscribers stabilised in the last two months as the unlimited, uncapped products continue to gain traction.

Telkom Consumer's revenue grew 5.9 percent to R17 157 million, driven by a 47.2 percent growth in mobile service revenue, which was offset by a 6.5 percent decline in the fixed residential business. The impressive growth in the mobile business was supported by 30.2 percent growth to 5.2 million subscribers with the blended ARPU increasing by 10.2 percent to R98.19. Post-paid subscribers increased by 20.5 percent, adding more than 250 000 subscribers to reach 1.5 million subscribers. 30 percent of our post-paid subscribers have adopted the FreeMe product suite as their base plan, contributing to a 5.8 percent increase in post-paid ARPU to R191.90. Pre-paid subscribers increased 34.6 percent to 3.7 million, with the ARPU increasing by 21.4 percent to R59.62, benefiting from an expansion of our fixed wireless LTE smart offerings to the pre-paid segment. To achieve a quality service network offering and to broaden our coverage domain, we rolled out 988 integrated sites in FY2018. We now have 3 974 sites, of which 2 333 were upgraded to LTE sites to further drive our wireless nomadic broadband product, SmartBroadband.

Mobile data was a major contributor to revenue with a 56.3 percent growth, supported by 124 percent growth in data usage. The re-farming of our 1800 MHz spectrum is paying dividends with smartphone subscribers increasing by 43.9 percent to 2.8 million. Our nomadic wireless LTE smart broadband offerings continue to do well with an increase of 194 percent in LTE subscribers to over 500 000, driven by our popular "deal of the month", improved quality and the footprint expansion of our LTE network.

We are seeing significantly more fibre customers, albeit from a low base, driven by an increase in new-to-franchise businesses and the migration of DSL customers to fibre. We have also migrated a large portion of the fixed-broadband base to higher speeds of 10 Mbps – the base increased year on year by 25 percent. Our content offering LIT video, music on mobile and LIT TV streaming device for fixed-broadband is gaining momentum. Sales for FreeMe recurring data bundles have steadily increased since the introduction of LIT services on the 2 GB and higher services. We have strengthened our position in the content space by also offering a gaming option. We seek to stimulate broadband growth through the broadband services consumers need for video and entertainment. We drive broadband growth by offering online video games hardware, software and accessories. To expand into the gaming sphere, we have partnered with SuperSport, FIFA, Logitech and Orlando Pirates. We hosted the largest e-football festival in Africa and are the first to bring Comic Con to Africa.

Telkom Consumer's EBITDA loss improved by 54.9 percent against a backdrop of increasing overall revenue and an expanding mobile business. Our ongoing drive to realise operational efficiencies has begun to bear fruit. Our expenses reduced marginally by 0.2 percent year on year thanks to our focus on key metrics, build-up of distribution and network footprint and ancillary efficiency gains through driving scale. The mobile business continued on a positive trajectory with EBITDA (before transfer pricing) improving by 164 percent to approximately R1.7 billion.



Performance
Productive capital *continued*



BCX

BCX is a leading technology company that provides ICT solutions and an integrated portfolio of technology solutions across South Africa.

The weak economy led to deferred corporate ICT spend and reduced public sector spend, which hampered BCX's performance. BCX was also impacted by the decline in voice revenue, as enterprise customers migrated from circuit voice to VoIP, as well as pricing pressure.

Consequently, BCX remained commercially competitive to retain customers amid intense competition. Going forward, we expect the economy to recover but investment by customers to lag.

We have implemented strategies to manage the voice revenue decline while we migrate customers to VoIP and grow our new generation revenue streams.

Revenue declined 4.6 percent to R21 167 million, mainly due to the weak economy and the decline in voice revenue. BCX services all business sectors including key verticals, such as retail, mining, industrial, financial services and public sectors – all of which are under pressure from the stagnant economy. South Africa's improving sentiment has not yet seen an increase in spend in the ICT industry. However, the improving outlook bodes well for the future. We see enterprise customers migrate from circuit voice to VoIP and an intense competitive environment.

Our strategy is geared towards managing the decline in voice revenue, particularly from our top 100 customers, and towards selling end-to-end communications offerings while we focus on growing new generation revenue streams such as cloud computing; expanded analytics consulting and solutions services; and cybersecurity. We appointed a chief revenue officer and chief digital officer to drive new generation revenue opportunities and build digital consulting capabilities respectively.

BCX Insights is our platform to build our data science and analytical capabilities as well as actively engage with customers. We have begun rationalising and optimising the data centre estate to provide leading managed services and private and hybrid cloud solutions.

Within BCX Smart, we have begun to consolidate our products and skill sets in IoT and go-to-market with a clearer, multi-sector value proposition.

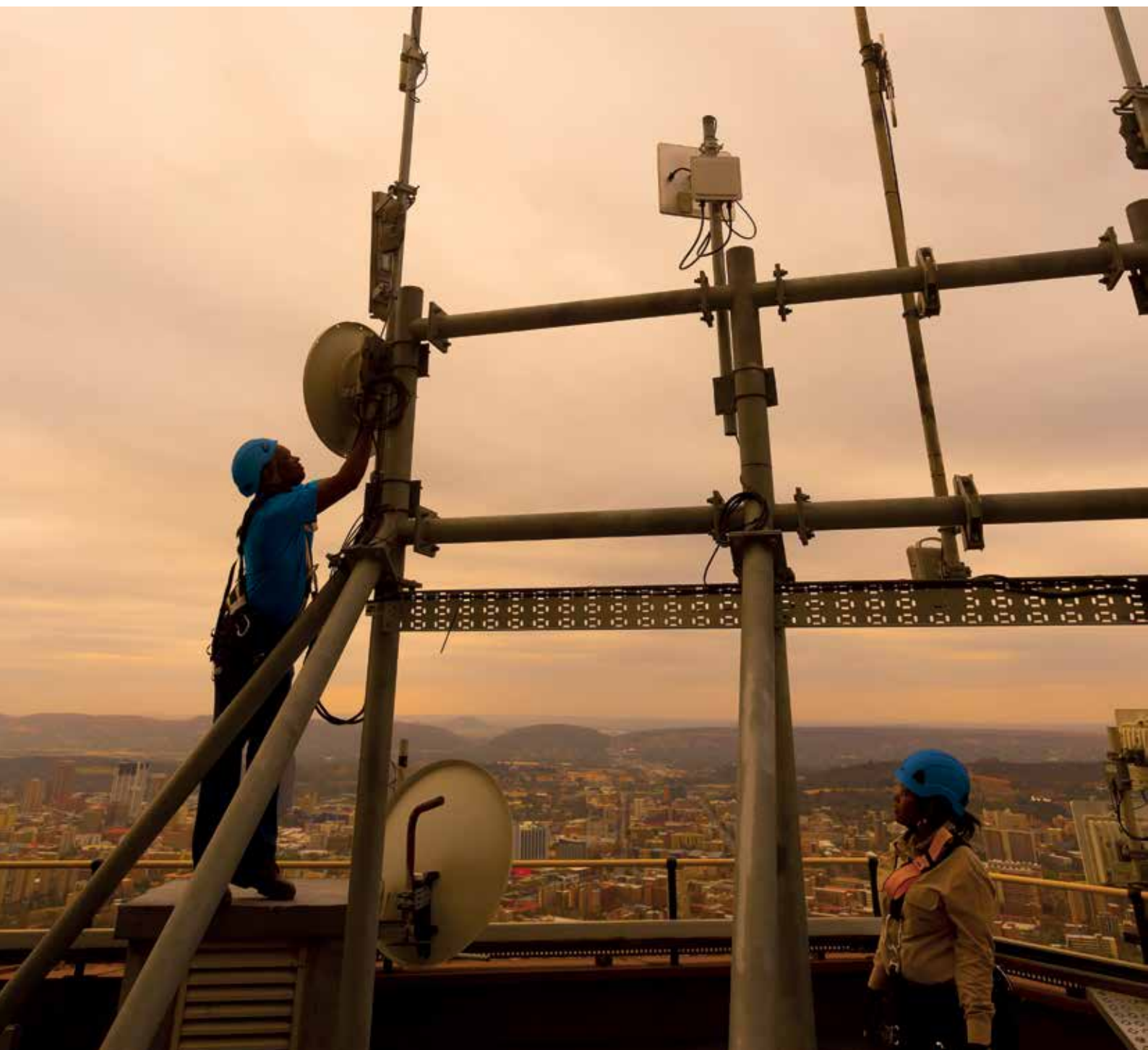
BCX Secure is a cybersecurity business that will form strategic alliances with leading global players, invest in automation and leverage artificial intelligence capabilities.

BCX's EBITDA declined by 8.1 percent with an EBITDA margin of 17.7 percent on lower revenue. BCX responded to the challenges with effective cost management which resulted in 4.1 percent savings in operating expenses. This is despite an increase in employee expense as we employ new skills and talent to drive BCX's growth. Some of the cost management initiatives included centralising the shared services function with optimised procurement processes, to take full advantage of the scale of BCX's operations.

BCX's legal integration with the enterprise business was completed in the prior year, providing BCX with greater access to South African blue-chip ICT consumers in the public and private sectors. We have actively pursued cross-selling opportunities as avenues for future revenue growth. We focused on the business portfolio review of the 34 legal entities in BCX and the reorganisation of senior management. This included a number of key appointments in the sales and operations area to improve focus on service delivery. The business portfolio review is on track – South African subsidiaries' integration into "One-BCX" is progressing according to plan, and is driving efficiencies within BCX.



Performance
Productive capital *continued*



Gyro

Gyro is responsible for managing the masts and towers, property development and property management services on behalf of the group.

Gyro was established on 1 April 2017 as a separate legal entity. A CEO was appointed to commercialise the property portfolio; extract value from excess building capacity; and diversify income streams through property development, masts and towers, and property management services.

Following the acquisition of approximately 6 500 masts and towers from Telkom, Gyro focused on developing a commercialisation plan to convert the portfolio to a real estate investment portfolio. This entailed leasing out space in the towers to generate annuity rental income. Approximately 1 300 or 20 percent of the masts and towers portfolio has multiple tenants (co-location), which represents an external revenue stream. During the year, we grew our co-location revenue from external customers by 9 percent to R539 million supported by a 9 percent growth in the number of external tenants to 2 581. The improvements were driven by proactive customer engagement, co-location process re-engineering and adhoc recovery of inactive, traditional requirement to create capacity to meet market demands.

We proactively engaged with key clients to discuss their future network requirements and market penetration plans. We established a New Build programme to increase the tower portfolio and will address new location demand. We are assessing the requirement for high-location densification to adequately service higher frequency (4G and 5G) networks. To this end, we will develop new build pipelines featuring small cell towers that will be closer to one another. This will enable us to service our clients more effectively and should enhance our competitiveness as the largest independent tower company in South Africa.

We will continue to explore and deploy the latest technology to reduce development cost and maximise our development yield while offering competitive rental levels to clients. Gyro manages Telkom's property portfolio, which consists of 1 440 properties, including exchange and switch, office, client service centre and centre for learning buildings as well as residential dwellings and land parcels. The main objective is to unlock value in the non-core properties and generate sustainable rental income, profit from development sale, and increase the net asset value of the portfolio.

We focused on redevelopment concepts and commenced with town planning activities for properties in the Gyro portfolio. We will continue development planning for the properties in the Gyro portfolio and non-core properties in the group portfolio that are in prime locations and are suitable for redevelopment. We will also focus on asset management strategies for each property to ensure that operating budgets are aligned with the investment strategy to optimise operating expenditure efficiency levels. We are exploring development funding options to maximise return on investment and minimise risks. We continue exploring strategic partnership opportunities with experienced developers while executing development projects in a socially responsible and environmentally sustainable manner.



Performance **Productive capital** *continued*



YELLOWPAGES

(known as Trudon)

Yellow Pages is a local advertising and marketing company that provides services and digital solutions to local businesses. Yellow Pages' business units operate in South Africa and Namibia.

As the world moves towards digital media, so has Yellow Pages. We are expanding our offerings beyond traditional print to digital listings, websites, social media advertising, digital agency services and e-commerce capabilities.

As the print business is under increasing pressure, we have actively started the journey to transform into a digital-focused business. The first step was rebranding Trudon to Yellow Pages. This allowed us to leverage the brand's proud heritage and strong reputation. The modernised Yellow Pages identity, which showcases our digital capabilities and agility in innovation, was launched in March 2018. The business continues offering a comprehensive range of advertising solutions for the SME business segment. Global trends indicate that online consumer purchases will increase. Therefore, Yellow Pages has begun developing propositions that will allow SMEs a cost-effective manner to engage with their customers online.

The traditional core product, comprising the Yellow and White Pages directories, was also enhanced to provide online omni-channel capabilities such as queues, quotations and bookings. When these are combined with the benefits of Yellow Pages, hyperlocal business data improves lead generation and lead closure for SMEs.

Continued focus on e-commerce marketplace platforms has led to the launch of the new Yellow Pages app, previously known as Yapp. The app incorporates chat functionality for instant communication between customer and service provider. The app's functionality was expanded to accommodate bookings, quotations and invoicing, thereby aligning it with the Yellow Pages desktop offerings. The uptake has been positive with approximately 16 000 downloads since the launch in February 2017.

Yellow Pages continues evaluating the ability of solutions deployed in the market to scale, given the rapid rate of change in the Wi-Fi market. We discontinued the Mobile Adxchange product and focused on e-commerce marketplace offerings. In line with e-commerce trends, the business moved away from cost comparison towards deals. Aligned to this, the "Big Deals" platform was launched in October 2017, providing consumers with access to discounted prices on a range of products, leveraging the cost effectiveness of online channels. This platform will also provide vendors with a platform to market distressed stock and will be a cornerstone for a loyalty programme.

OTT partnerships are key to providing our customers with best-in-class value-added services. We continue to be a premier SME Google partner, outlining our expertise in providing SMEs a variety of Google products and insights. The Insync digital presence management platform, which is powered by Yext, has more than 5 400 active customers since the launch in March 2017. Webcard, the affordable digital mobile website solution, which showcases our partnership with Web.com Group, has achieved over 6 300 webcards activations since the launch in August 2017. We are an exclusive partner for the Camilyo web development suite, which provides Yellow Pages the ability to rapidly deploy mobile optimised websites at scale.



Performance Intellectual capital

Through its information technology (IT) infrastructure and systems, Telkom delivers its services and products. Technology is increasingly important in the group's transformation, and it is critical to business operations.

IT governance

Telkom's IT governance is based on King IV principles, and we continue to apply the seven principles of good IT governance specified in King III. We developed scorecards populated with good IT governance principles for each business unit. The technology and information governance charter was incorporated into the risk committee's responsibilities (page 92).



Group IT

Acquiring BCX enabled us to migrate the group IT function to the business unit, consolidating the expertise and talent within one functional team. We have combined their skills to form a stronger, competent team.

BCX has consolidated its seven tier 3 and 4 data centres and operations with the seven data centres of Telkom. This will form the largest, most resilient data centre footprint in the country.

IT strategy

Business unit's CIOs established an IT strategic project priority plan, and aligned it to their business unit's strategy. Each project's business case is subject to rigorous review by a specialist team. If the project's costs are justified, it is submitted to the funding council for approval.

Simultaneously running traditional and new systems and platforms carries high costs and risk. Therefore, we have begun decommissioning traditional systems, and aligned to our IT strategy, we have a plan for each business unit. Traditional systems' retirement depends on the speed and efficacy with which state-of-the-art systems and solutions are developed and deployed.

We carefully consider our customers' perspective when setting targets to retire the traditional platforms and systems as we need to minimise the impact on customer experience. Over the next three years, we will retire most of the traditional systems and deploy new systems, which will reduce complexity and increase stability.

OSS/BSS platforms

Our business model has been decentralised into business units, following which, the IT model was redesigned.

The priority for each business unit's CIO is customer service and experience across delivery platforms, and automating back-office functions to improve efficiencies, reduce cycle time and costs, and eliminate manual activities wherever possible.

Our IT investment will enhance customer experience, across all touch points.

The NGN platform has been implemented for Telkom Consumer, and serves the retail market segment.

We continue improving response times in our stores and call centres. The NGN stack accommodates the full integration of order fulfilment, assurance and billing for fixed and mobile, and most customers have been migrated. We have considered the impact of a software-defined network and network field virtualisation on the business, which could further enhance customer experience, network performance and management.



Performance

Intellectual capital *continued*

Major IT and information projects

The top projects for each business unit have been defined and approved by their respective exco teams.

SAP HANA programme	At the Corporate centre, the SAP HANA programme was launched to provide the CFOs of the business units and their respective financial teams with real-time status and metrics for the business units financial performance. The project will consolidate various existing financial systems.
Workforce management	The implementation of workforce management in Openserve will provide enhanced capabilities to schedule appointments, and track and solve problems, as well as assist in problem-solving when with a customer. There will also be a point-of-presence capability, for example, ensuring the technician takes the correct spare parts for the job the first time around. Digitisation through an application will accelerate the technician's response time. For example, an on-site technician can send a picture of the problem to a remote digital technician, and together they can immediately resolve the issue.
Office 365	We are implementing Office 365, and will roll it out to each business unit. This will add new functions to the workforce and substantially increase the overall desktop and server security. We will use a hybrid model for the project, hosting some parts of the application at the premises and others in the cloud.
Customer service projects	We have launched customer service projects with a focus on the IT systems across the business units. We prioritise improving customer service response times and, to this end, we have optimised the number of screens used by client-facing employees. We launched projects to eliminate paper in our stores and to automate and digitise contracts, with an electronic signature for sign-off.
Geographic information system	We enhanced the geographic information system and rolled it out to our stores and call centres. Customers can use its global maps and geo-spatial data to see whether fibre and/or LTE services are available in their area, and to review asymmetrical digital subscriber line speeds.
Back-office automation projects	We are evaluating back-office automation projects for each business unit to improve efficiencies, reduce cycle time and costs, and eliminate manual activities wherever possible. Process re-engineering teams are working on the most critical processes in each of the business units with a key focus on costing, timing and improvements.

Cybersecurity

In today's business environment and operating landscape, there are many threats to business objectives, with cybercrime being one of the most disruptive. Telkom recognises legislation and regulations such as the Protection of Personal Information Act and the Payment Card Industry Data Security Standard, and has taken steps in mitigating potential risks.

Cybercrime poses risks to our systems, information and customers. We treat it as a significant risk area, and have mitigation plans in place. The plan protects against malware, ransomware, viruses and data theft through scams and phishing attacks.

Telkom operates in a mature and compliant International Standards Organisation, ISO 27001, information security management system environment. This function is overseen by a dedicated information security governance team at the Corporate centre. The team identifies and manages threats and risks. Information security strategies, policies, standards and assurance processes required to maintain a secure business environment are communicated to all business units through the relevant governance structures.

Through our Information Security Management programme, Telkom is implementing several information security and cybersecurity systems for appropriate and effective detection, prevention and protection against various cyberattacks and cybercrime. Cybersecurity incident detection and response capability is crucial to our cyber strategy. We will also establish a cyber and information security assurance capability to monitor the effectiveness of the information security management initiatives.

Employees are vital to cybersecurity. Telkom has rolled out a continual Information Security Awareness programme to all its employees and third parties. This equips all levels of business with the necessary cyber awareness and ensures that employees and third parties understand their roles in cybersecurity.

Cyberthreats and active cyberattacks require continual action and awareness, internally and from our customers.

Through BCX, Telkom announced key partnerships with internationally accredited cybersecurity practitioners. These partnerships will extend our own effective technology, processes and protection to our customers to improve their business environments.

Looking forward

Telkom's IT focus will be on comprehensive digital platforms. This three-year journey will allow us to engage with our customers and suppliers, as well as transact with them seamlessly through, for example, self-service or social media. On this journey, we will automate back-office processes and eliminate mundane and repetitive tasks, which will ensure timeous start-to-finish processes.

Digitisation will continue to be a top-of-mind priority for the business units. Telkom will deliver on IT priorities through the three components of technology, processes and people.

Intervention and the future state of business will depend on how well these three components work together, building new products and services with fast and robust delivery to our customers.

Cybersecurity focus areas include three key elements for successful future integration:

- > completing the Information Security Management programme initiatives so that planned security processes, people and technologies are fully operational;
- > deploying cybersecurity incident detection and response capability to better detect and deflect active cyberattacks; and
- > delivering a cyber and information security assurance capability to effectively monitor Telkom's cybersecurity operational environment.



Performance

Human capital

A skilled, motivated, culturally diverse and productive workforce is fundamental to our strategy.

Our key talent imperatives include understanding our current talent and gaps therein, and recognising necessary human capital investments.

Telkom has embedded a clear talent framework that informs talent decisions across the business. To compete in a rapidly changing sector, we offer a motivating and inclusive workplace that recognises, develops and retains talent, and promotes well-being.

Our group workforce profile

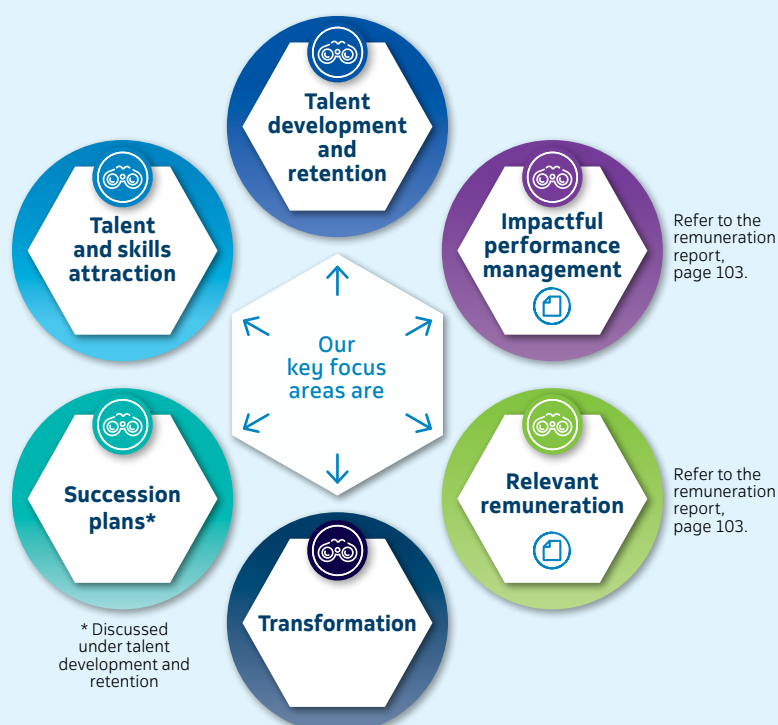
Our strategic workforce plan, according to which we allocate resources and manage the workforce, is reviewed and updated annually.

Indicator	FY2018	FY2017
Permanent employees	18 286	18 847
Permanent employees – male (%)	68	68
Permanent employees – female (%)	32	32
Black South African (permanent employees) (%)	64	64
White South African (permanent employees) (%)	34	34
Non-South African (permanent employees) (%)	2	2
Employee voluntary turnover (%)	6.47	5.97

The 3 percent decrease in the permanent workforce of the group was primarily due to voluntary resignations and retirements.

Human capital management strategy

Our human capital management strategy guides our focus areas. Telkom's human resource management aligns with international best practice, upholding critical principles such as those in the United Nations (UN) Universal Declarations of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, which form part of our commitments as a signatory to the United Nations Global Compact. The manner in which we deliver on our strategy is guided by our capability and talent management.





Talent and skills attraction

Over the past few years, Telkom has invested in attracting, developing and employing young talent. We now have a steady flow of young talent entering the group through a range of programmes, including the following:

Future Minds	This talent acquisition and development programme focuses on recruiting and developing young people (mainly graduates) for an accelerated one-year learning programme. Our executives and/or exco members mentor these youths to develop a pipeline of innovative and entrepreneurial future leaders to support, assist with and implement strategic initiatives in the group. Six graduates from the initial programme, Bright Young Minds, are permanently employed; and six Future Minds graduates are being placed in permanent positions. Investment in the programme thus far is R3.9 million (FY2017: R2.7 million).
Explore Data Science Academy	BCX was the founding sponsor of the Cape Town-based Explore Data Science Academy – believed to be the first institution in the country focused on data science. Its objective is to alleviate South Africa's shortage of data scientists. BCX has funded 100 learnerships (the entire initial student intake) for this SETA-accredited one-year Data Science programme. The curriculum covers the foundations of data science and equips students with practical, on-the-job training to solve a range of practical problems.
CITi-X	BCX partnered with the Cape Innovation and Technology Initiative (CITi) to create CITi-X – a bespoke programme similar to the Explore Data Science Academy. CITi-X was designed to address BCX's critical skills requirements. Graduates are equipped with technical and interpersonal skills. As of March 2018, the initiative has enrolled 250 unemployed youth. They are receiving training in either software programming or infrastructure technical disciplines while being guided on specific critical skills including geomatics, artificial intelligence, operations technology, cybersecurity or financial technology.
BCX and National Libraries of South Africa (NLSA)	BCX and NLSA partnered to stimulate youth skills development at local and provincial levels. The NLSA is funded by the Bill and Melinda Gates foundation with \$10 million for three years through the Mzansi online project. The funding is aimed at developing ICT infrastructure in over 600 rural libraries in South Africa. Training during the pilot included soft skills development and digital skills such as end-user computing, server infrastructure and software development. All learners who successfully complete the programme will acquire a Microsoft systems engineer (MCSE) qualification. This programme will enlarge the pool of skilled and hands-on individuals from which BCX and the industry can source.
WeThinkCode (WTC)	Of the 200 Telkom-sponsored WTC students from the previous year, Telkom has employed 56 as interns across various business units. Interns gain software engineering-related workplace experience. In addition to the R20 million previously invested by Telkom, BCX has invested a further R20 million, which will fund 133 new students.



Talent development and retention Talent management framework

We implemented a robust talent management framework two years ago. The framework enables Telkom to identify critical skills and key talent across the various business units. It reveals high-potential talent and talent risk areas across the group. This allows for proactive talent planning with proper and thoughtful investment in key and critical talent.

The talent framework was rolled out to all business unit leadership teams and their direct reports. As such, we gained a clear view of 807 executive leadership in the business. In total, 275 (34 percent) female leaders formed part of the talent mapping process, of whom 98 were identified as future leaders.

The framework has further assisted in mitigating of talent risk by:

- > safeguarding senior leadership roles through succession pipelines, including the identifying emergency replacements per role;
- > providing insight into risk and impact of loss of key talent;
- > identifying next-up development moves for identified successors and top talent;
- > ascertaining action plans for critical roles per business unit; and
- > industriously managing misaligned talent.

In total, 94 percent of all senior roles have succession plans with, at a minimum, emergency cover along with successors who range in readiness levels (from ready now to long-term successors). Our succession plans are reviewed and updated bi-annually to remain relevant. This process has highlighted that, although we have sufficient emergency cover and long-term successors, we lack sufficient successors who are ready now. In the new financial year, we will invest in the development of our long-term successors to fast-track their readiness for progression.



Performance

Human capital *continued*

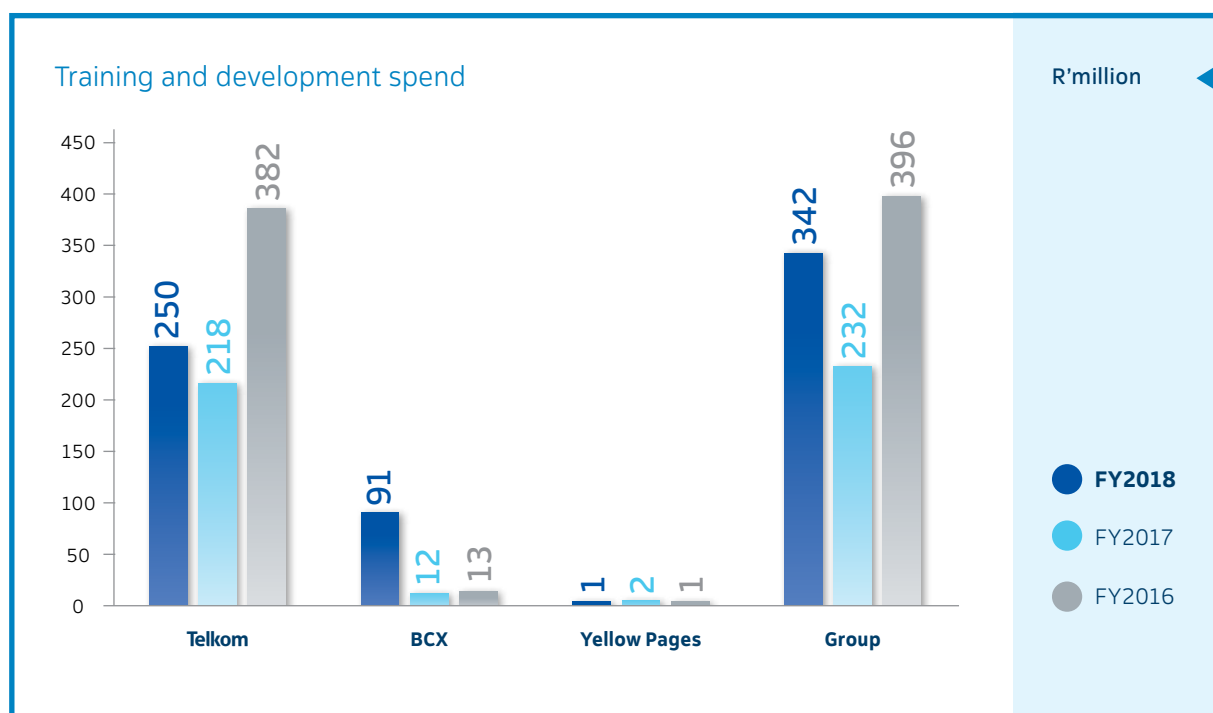
The talent management framework enables actionable career development plans aligned to personal aspirations and business needs. Authentic talent conversations between leaders and their direct managers inform the individual's career and development plans, forming an integral part of investing in, and retaining our key talent.

To develop and retain the best talent, we have established:

- > a clear talent rhythm across the business – ensuring regular talent review discussions in a coordinated manner, rolling up to the group exco;
- > a commitment to invest in high-potential, diverse talent to develop and prepare talent for their future leadership roles; and
- > a centralised view of talent to drive its mobility within the group – with the aim of ensuring the best deployment of talent across the group and fast-tracking individual development in line with business needs.

Employee training and development

We invested R342 million on employee training and development, with each employee receiving an average of 17 hours of training. The increase in training and development spend followed BCX taking a far more strategic approach to stimulate digital skills in the economy, not only for our own growth, but also for customers and suppliers. To this extent, investments were made towards a portfolio of critical ICT skills which the industry will require over the medium to long-term. In particular, the investment focused on coding and data science skills, as well as building new skill streams in the following five technologies: geomatics, artificial intelligence, operations technology, cybersecurity and fintech.



Internships and learnerships

Our internship and learnership programmes develop skills in critical areas of the ICT industry and give learners valuable work experience. In total, 703 black learners (56 percent females and 44 percent males), of whom 91 were learners with disability, were enrolled in various internship and learnership programmes. Our learners work closely with our employees. We provide them with a monthly stipend and valuable experiences, such as professional networking opportunities and career development guidance.

We commenced a pilot project in partnership with Cape University of Technology (CPUT), involving nine learners. As part of their Work Integrated Learning programme for engineering students, Telkom group provides students with opportunities to apply their skills. CPUT pays the monthly allowance and ensures that learners' tasks performed are aligned to the subjects pursued. Upon completion of this programme, learners would have complied with the requirements of the qualification and will be awarded the qualification in accordance with the institution's qualification rules.

Female Leadership Development programme (FLDP)

Telkom group strives to make a difference by identifying and developing high-potential female leaders. The FLDP continues to yield results in this regard. The two-year programme identifies, grows and develops high-potential female leaders across the business, to build an internal female leadership pipeline.

The first FLDP started in 2015 and was completed in June 2017 with 50 females participating. The second FLDP programme commenced in May 2017, and will run to April 2019. A total of 275 applications were received from across the group. The selection process included psychometric assessments and video submissions. There were 33 females that entered the FLDP 2017 programme.

The objectives of the programme are to:

- > build business knowledge by creating trans-disciplinary/multi-skilled leaders;
- > create talent pools by identifying and growing high-potential talent in middle management as an input into the succession pipeline;
- > develop socially intelligent and accountable brand ambassadors through mentoring and coaching to foster self-confidence;
- > accelerate development through skills transfer and creating pockets of excellence; and
- > motivate, engage and retain key talent by enabling work-life integration, and exposing them to alternative career paths.

The programme has pushed delegates to apply for more senior positions and, as a by-product, has seen the development of Telkom brand ambassadors who are confident in promoting themselves, their work and their divisions and who strive to put the customer first.

The programme has been successful with the following highlights, but not limited to:

- > 42 percent of participants from the first group have been promoted (FY2015 – FY2017);
- > Six promotions (18 percent) within eight months of the FLDP 2017 (FY2017 – FY2019);
- > Significant personal growth – receiving feedback that the programme has been “life changing”; and
- > “Pay it forward” concept has been implemented – the FLDP alumni are now mentoring the FLDP 2017 group.



Performance

Human capital *continued*



Transformation

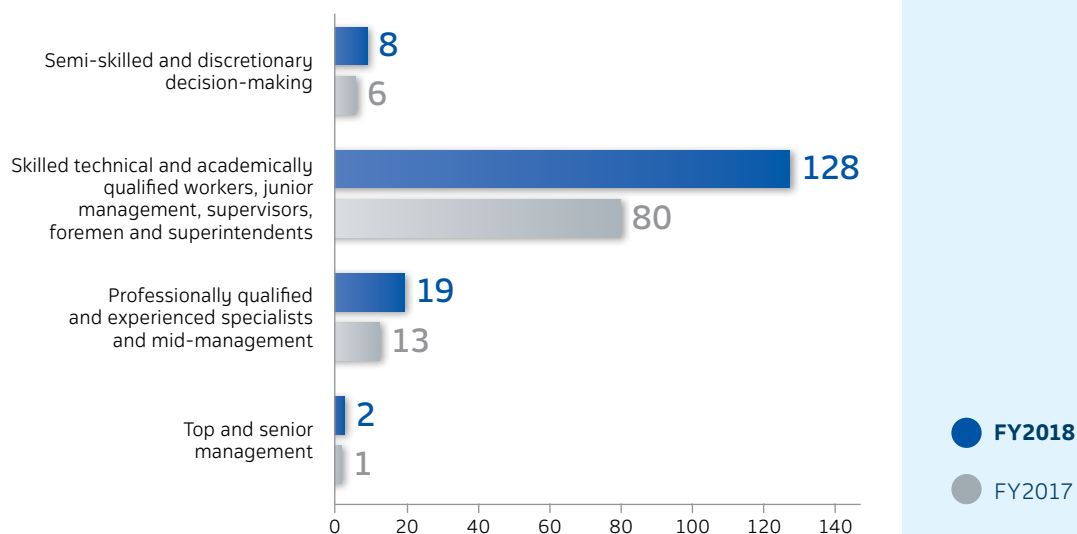
Telkom group is committed to transforming its workforce to reflect the diversity of the country; the annual external recruitment figures attest to this. In total over the past year, 72 percent of the 911 externally recruited employees, and 70 percent of internal promotions are black. At senior management level (executive and group/managing executive leadership levels), 78 percent of external hires are black.

Unfortunately, our 5 percent external recruitment rate means that our transformation efforts are yet to make a visible difference to overall EE across the group. We have recruited 347 females (38 percent of the total external recruitments) into the group, and 36 percent of promotions were females.

We recognise that we still have a long way to go to redress the gender imbalance, and are making every effort to do so in recruitment and development. The FLDP was specifically crafted to address the issue, and it assists in improving gender recruitment. For more information on the FLDP, see page 72.



Occupational level breakdown of physically challenged employees



The group employs 157 physically challenged people (FY2017: 100). The 57 percent increase is due to more employees declaring a disability, and the recruitment of more physically challenged people.

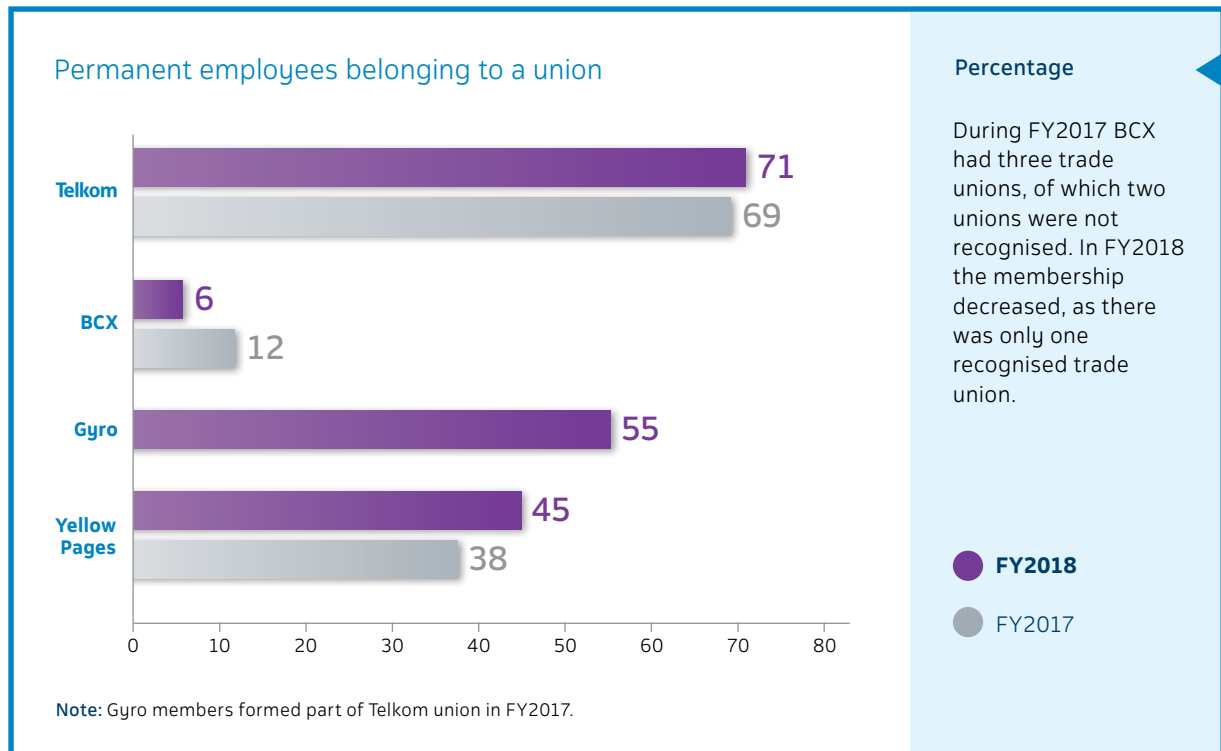
Organised labour

Telkom's employee relations division maintains strong relationships with organised labour. We have processes for open and effective communication with the unions, and had no labour-related strikes during the year. The rights to freedom of association and collective bargaining were upheld across the group.

The current collaborative partnership agreement that was signed between Telkom company, Solidarity and South African Communication Union (SACU) two years ago, has come to an end in June 2018. The agreement addressed wage increases, aligning salaries to 50th percentile and other terms and conditions of employment.

Telkom restructured its operations in line with the prevailing conditions, and deemed it necessary to visit the existing collective bargaining and organisational arrangements by proposing a uniform 30 percent recognition threshold.

With the newly proposed 30 percent recognition threshold, SACU and Solidarity failed to meet the requirement, while Communications Workers Union (CWU) met the required threshold. CWU and SACU subsequently formed an alliance, and Solidarity has since been derecognised within Telkom.





Performance

Human capital *continued*

Occupational health and safety (OHS)

Telkom is committed to providing a safe working environment and promoting the health and well-being of its employees. In managing health and safety, we comply with all legislation and strive to prevent foreseeable risks and hazards to our employees, customers and suppliers as a result of our work practices.

Health and wellness form part of our employee value proposition. We have a responsibility to ensure the health and safety of our contractors and customers.

To comply with the Occupational Health and Safety Act, 85 of 1993, and other applicable laws, our OHS is guided by a health, safety and environment (HSE) strategy, as well as policies and a health and safety system. Management is supported by health and safety committees and representatives. The social and ethics committee oversees safety, health and wellness, but ultimate accountability rests with the board.

Telkom has developed an OHS reporting, classification and investigation matrix that applies across the group to standardise safety performance data, including alignment to international reporting standards, such as the GRI. Using the matrix, we systematically manage injury on duty, improve internal incident reporting and have root cause analysis for critical incidents. Improvements include working on an online system to report, track and monitor incidents, and we are planning the training and roll out of a new incident management system.

The group safety, health and environment (SHE) division strategically manages safety, health and wellness. The HSE strategy is implemented by operational-level SHE teams, supported by the group.

Occupational safety

Over the last year Telkom focused on reducing the number of safety incidents by facilitating early injury management and early return to work, as well as creating and improving safety awareness and mitigating prevalent causes of injury on duty.

Historically, Telkom's focus on health and safety has been regarding compliance, audits and medical surveillance. While we succeeded in those areas, we have also begun a drive to move beyond compliance, and embed health and safety within our culture.

One of our key focus areas was to strengthen our relationships with our contractors by holding contractor safety stand-downs in all regions. As part of rolling out the improved safety awareness, Telkom kick-started the contractor stand-down in Gauteng central and north eastern region wherein 14 companies were represented. The engagement clarified the key safety performance indicators, operational safety standards and the contractor safety performance management, and aligned these to the group's safety goals. The initiative will be rolled out to the other regions in FY2019.

The "Partnering for a safer tomorrow" contractor safety stand-down was implemented in November 2017, fostering safety partnerships with our contractors and promoting safe behaviour.

Telkom regularly monitors contractors on-site, to ensure that they are following the safe and orderly working methods and procedures. Safety spot-checks and safety audits for high-risk contractors were performed, and the outcomes were communicated with contractors to implement corrective action where required. To date, 3 109 audits have been conducted and there is continuous engagement with high-risk contractors. The OHS regional consultants and contractor representatives have been critical in continuous safety stakeholder engagement and contractor monitoring.

Regrettably, Telkom company had four fatalities (two third-party fatalities and two employee fatalities) due to motor vehicle accidents. Despite the unfortunate events, the group's safety performance has improved, demonstrated by a 26 percent reduction in lost time/days away from work and a 29 percent reduction in total recordable injuries.

		Telkom company	BCX
Fatalities	FY2018	2	0
	FY2017	0	0
Total recordable injury frequency rate (TRIFR)	FY2018	1.39	0.22
	FY2017	1.68	0.22
Lost time injury frequency rate (LTIFR)	FY2018	1.18	0.08
	FY2017	1.37	0.12



Our LTIFR target for FY2018 was 1.10 and the TRIFR target was 1.34. This was based on a 20 percent reduction of incidents from the previous financial year. We intend to further improve this.

Due to the nature of BCX's and Yellow Pages' operations, we have identified no significant health and safety risks; and the business units recorded limited and no injuries, respectively. BCX's injuries were due to lifting, carrying and motion incidents. Employees have been trained to address these risks.

Although Telkom company has made significant strides in reducing recordable injuries on duty, we need to better address the most prevalent causes. We analysed the root causes for the work-at-height incidents, and will enact measures to mitigate gravity incidents.

The health and wellness service provider analysed the baseline data in existing data sources, and Telkom company conducted OHS job simulation in various work environments to establish all significant health and safety hazards. We are reviewing the current controls to align with the recommendations. The exercise has strengthened medical surveillance, and improved medical battery assessment, to align to best practices. We rolled out a programme aimed at legislative compliance, across business units, where medical assessments are mandatory. This has improved the uptake of our Medical Surveillance programme.

Openserve endeavoured to improve vehicle safety by identifying highly exposed drivers and applying a vehicle tracking system to track driver behavior and coach them where required. An advanced driver training programme for technicians was also implemented.

Through our annual risk assessment, we have identified the high-risk areas as:

- > Gravity incidents – slips, trips and falls
- > Motion incidents – lifting and pushing
- > Motor vehicle accidents
- > Biological – bites, stings, etc
- > Robberies and assault

HIV statistics	FY2018	FY2017
Number of people who participated in HIV testing	876	365
Number of people who tested positive for HIV	4	10
Number of people who started antiretroviral treatment within the year	30	28
Number of people on the Telkom Treatment programme	399	257
HIV tested prevalence rate	0.46%	2.74%

Note: The above demonstrates the HIV statistics for Telkom and includes ex-Telkom employees who now work for BCX, but excludes Yellow Pages and BCX employees.



Looking forward

Talent management

Talent management will continue to closely align with our business strategy, helping attract and develop the right talent to deliver on our objectives.

Wellness

We will align employee wellness strategies, interventions and providers across the group, to ensure maximum benefit and value.

Of the 158 recordable injuries (medical treatment cases, lost time injuries and fatalities), 31 percent was due to gravity incidents, and 33 percent was due to motion incidents.

Occupational health

Occupational health is managed through the Industrial Hygiene Monitoring programme and a risk-based Medical Surveillance programme. As part of continual improvement, Telkom rolled out a national Occupational Medical Screening programme, and introduced active case management to effectively manage and rehabilitate all medically unfit employees for early return to work. This process enabled us to manage employees' potential primary health risks before they culminate in ill-health and absences.

Wellness

We adopted a holistic approach to wellness through an integrated, accessible and flexible Employee Wellness programme to manage workforce risks. ICAS, a health and wellness service provider, has been appointed. Telkom and ICAS have developed and implemented the following:

- > **Employee Wellness programme:** A series of preventative/proactive interventions that promote a healthy lifestyle. It is aimed at improving the overall health and general well-being (work fitness) of employees.
- > **Employee Assistance Services:** This voluntary programme offers sponsored face-to-face and/or telephonic counselling, 24 hours a day in the employee's language of choice. It is designed to assist employees in identifying and resolving psycho-social problems before they unduly impact their health, well-being and job performance.
- > **Disease management (previously known as Thuso Wellness programme):** This programme continues to offer employees and their families wellness screening, including HIV and TB, and enables subsequent counselling, support and treatment.

We will also implement an Executive Employee Wellness programme aligned with the broader Talent Management programme to grow resilience against and manage any wellness risks associated with our current and future leaders.

OHS

Telkom, its board and management strive towards achieving a safe working environment, and to have every employee, service provider, contractor, supplier and visitor to Telkom facilities believe that achieving zero safety incidents is possible. This vision requires a step-change in our safety culture and behaviour.



Performance

Social and relationship capital

Our social and relationship capital reflects our contribution to society. This is through our corporate social investments (CSI) responsibilities which contributes to the long-term sustainability of the communities in which we operate and the relationships we have, which are central to our business.

Transformation and B-BBEE

The group is firmly committed to B-BBEE in South Africa and believes that meaningful participation by black people in the mainstream economy is essential to sustaining South Africa's economic and democratic structures. Telkom views transformation as a catalyst to address South Africa's socio-economic challenges and its associated impact on business. Our approach to B-BBEE certification is based on sustainable transformation that goes beyond compliance.

Telkom's B-BBEE certification rating also impacts the group's ability to attract business. We have initiated strategies and programmes to improve the B-BBEE certification status of the group. These include a transformational and compliance plan to address the priority elements; the implementation of an aggressive Skills Development and Enterprise Supplier Development programme; and the cascading down of the B-BBEE certification plan and targets to an individual team level to incentivise performance.

Given the importance of the B-BBEE certification rating in BCX's ability to attract and maintain business, it was rated independently. BCX established a social impact office to execute its social commitment to the market and its employees. The objective is to position BCX as a digitally, economically and socially active member of society. In this inaugural year, BCX established a cohesive social impact strategy that adequately drives this agenda. It established a B-BBEE certification unit within the social impact office. Efforts in this space ensure BCX's dedicated compliance to business transformation is in accordance with the stipulated guidelines.

Through the group's commitment to B-BBEE certification, Telkom's rating has improved from level 6 to level 4, and BCX was rated level 3.

Ownership

As a JSE-listed company, Telkom's diversified shareholding structure consists of individuals, government, local and international companies and mandated investment funds (refer to page 124 and 125; and page 100 of the consolidated annual financial statements available online at www.telkom.co.za/ir).

With the current shareholding structure, Telkom has a total black ownership of 24.42 percent (FY2017: 14.33 percent).

Improvement in the black shareholding percentage is due to the continuation of the employee forfeitable share plan (FSP), which was introduced in 2013. The employee FSP allows Telkom employees to become shareholders, and acquire dividends and voting rights at the company's AGM.

When calculating the black ownership annually, we conduct an analysis using the independent expert person's report on mandated investments. Telkom will continue to investigate other sustainable options for implementation to improve the current black and black women ownership percentage.

Management control

Telkom is steadily progressing towards targets for both the national economically active population and internal EE as set out in the EE plan. The expiration of the previous EE plan allowed Telkom to conduct a deep analysis into its policies and procedures to identify barriers to diversity and inclusion. It also conducted an online survey to determine what employees perceive as barriers to EE. The business units have incorporated measures and strategies to eliminate those barriers into its EE plans, and these plans were consolidated into a Telkom company EE plan.

Individual business unit forums ensure accountability for the numerical targets and the qualitative affirmative action measures set in the Telkom company EE plan, as well as individual business units' EE plans. These business unit forums will be instrumental in cascading the overall EE plan and assisting the national Telkom company EE and skills development forum with implementing any plans in the business units.

Skills development

Over the years, Telkom has invested in youth development through a myriad of programmes ranging from educational support for high school learners, bursary programmes for further education and training, learnerships, internships as well as support for young entrepreneurs.

Skills development programmes

Centre of Excellence Postgraduate programme

Telkom company contributed R8.2 million to a Centre of Excellence Postgraduate programme covering South Africa's universities. The programme allows young graduates to perform research in a world-class environment, and develop much-needed ICT skills. Through the programme, approximately 240 full-time postgraduate students study towards an MSc or PhD qualification each year.

In addition, Telkom spent R1.2 million in FY2018 on postgraduate bursaries for 12 learners who will be absorbed into Telkom's workforce at the end of their studies.

Internship programmes

Telkom company is running several internship programmes which span across the business such as IT, marketing, finance, law and human resources. The programmes give on-the-job experience to graduates with an NQF 5 and higher qualification, making them more employable. Most of the programmes last one year and, to date, 350 youth have benefited from these initiatives, at a cost of R25.3 million.

Learnership for People with Disabilities programme

Telkom company offers learnerships to 203 learners with disabilities who will receive level NQF 3 qualifications by an accredited provider over 12 months. This learnership will create a pipeline for people with disabilities to be absorbed in the various business units, and will cost Telkom R14.5 million.

For more information on skills development, refer to human capital on page 69. 

Enterprise and supplier development (ESD)

ESD is an important part of our social commitment. Through FutureMakers, launched in May 2015, we have invested over R381 million (R250 million capex and R131 million operational expenditure) in the programme, and support the ESD drive in the ICT sector. The programme specifically supports small black-owned enterprises with a focus on channel development, supply chain development and technology innovation.

FutureFund

Since the inception of FutureFund in 2015, R250 million was invested as capital into the Future Makers investment fund, which focuses on providing seed, early stage and commercial finance to qualifying black-owned and black women-owned enterprises.

In FY2018, R47 million was incurred towards providing non-financial support such as connectivity, office space, gap analysis services, business strategy development, mentorship, business training and auditing services. More than 2 500 small businesses have benefited from the non-financial support with 1 604 direct jobs created.

Channel development

Telkom group invested into the Telkom Channel Partner programme to penetrate and diversify the market including township and peri-urban areas where it is imperative to develop black-owned channel partners. The programme is aimed at:

- > Development and support of high-performing sales force distributor enterprises to drive product and services sales for Telkom Consumer and Openserve.
- > Creation of job opportunities for the unemployed youth in townships and rural areas through the employment of sales agents.
- > Developing of a black-owned airtime vending platform. It facilitates the selling of Telkom airtime, and enables black dealers to access the airtime vending platform to sell Telkom airtime and data, with a full commission benefit.



Performance

Social and relationship capital *continued*

Supplier development

Telkom's supplier development is geared to transform the group's supply chain. It aims to increase the number of black suppliers, increase spend on black-owned and black women-owned suppliers, and develop their operational and financial capabilities. Access to procurement, finance, connectivity and business training is provided.

Technology innovation

This programme supports digitally innovative black start-ups and existing businesses to generate ideas, develop and commercialise their business solutions. It aims to support them to develop their innovative solutions, while BCX will commercialise these solutions. The programme supports them from ideation, incubation, acceleration to commercialisation. A new Tshimologong hub in Braamfontein was launched in October 2017, under the BCX banner.

Three hubs were financially supported (Bandwidth Barn in Cape Town, Propella in Port Elizabeth and Tshimologong in Johannesburg). In all, 1 300 technology entrepreneurs are supported by the hubs with various support instruments including virtual and physical business incubation, business development support, hot desks, technology events and connectivity and market linkages.

The I'M IN Tech Accelerator programme was launched in 2017 with a R16.2 million investment. This is a preinvestment readiness programme that believes in making a sustainable impact on the entrepreneurial ecosystem. Early stage entrepreneurs with an exceptional business concept and market-viable product or service are invited to present their innovative ideas to a group of high net-worth individuals. To date, R5 million has been allocated and has benefited 17 black-owned technology enterprises with financial and non-financial support to accelerate their business growth and advance their business solutions.

The Technvst commercialisation programme was launched in April 2017 in partnership with Microsoft, Technology Innovation Agency and Identity Development Fund. The focus of the programme is to prepare and develop qualifying small South African technology companies through funding, business development support, market access and acceleration functions, that include general business incubation, technical support as well as software tools and products. It supports 19 black-owned enterprises with financial and non-financial support to commercialise their business.

Socio-economic development

As part of socio-economic development, Telkom Foundation manages Telkom's and BCX's CSI initiatives. The Foundation is committed to helping disadvantaged communities through structured programmes. It promotes and embeds a culture of giving across the group through its programmes and employee voluntarism. The Telkom and BCX Foundation strategy, along with Yellow Pages' CSI policy, guides investment. The strategy is aligned to technology-blended support, employee volunteering programmes and partnerships.

Telkom Foundation invests in education to deliver sustainable change. ICT is integral to the Foundation's education strategy, and it empowers teachers and improves their capabilities. The Foundation works with our human resources department and other industry players to pool potential ICT learners for further development.

	Technology-blended support	> The Foundation supports just under 3 000 learners and over 100 teachers through its comprehensive five-year High School Support programme which started in 2017. The programme also targets school leadership, i.e. school principals, ICT champions, parents and broader communities. > Five high schools are in Tshwane and two in Port Elizabeth. Each of the partner schools receive hardware and software, content, reliable connectivity, teacher development and support. > The Foundation is working with grade 8 and 9 learners through a technology-blended supplementary teaching programme to improve their performance in mathematics, science, technology and English, and help them access tertiary ICT studies. > Teachers receive ICT training and support to develop their ICT skills and improve their teaching and learning. In all, 60 teachers have received training in ICT skills, and each school has been assigned a technical intern to support the ICT Development programme. > The School Leadership Support programme uses the communities of practice approach to facilitate support while at the same time encouraging shared insights. To date, nine sessions have been held in year one, with 80 percent attendance.
	Other programmes	> The Employee Volunteering programme galvanises Telkom employees to support the Foundation's strategy, and it creates platforms for employees to make meaningful and structured contributions in communities. Telkom employees contributed 3 840 hours to programmes such as reading and ICT literacy, and cybersafety workshops.
	Partnerships	> The Foundation continued its long-standing partnership with Childline and Lifeline to give toll-free access to their clients, giving over 100 000 children and adults access to personal attention from trained personnel to address their crises. The partnership with LoveLife Trust provided training to over 5 000 youth in ICT literacy across six provinces. > The Foundation also partnered with Microsoft in its App Factory programme to train 20 youth to become competent programmers.
	Yellow Pages' CSI	> Yellow Pages' five-year High School scholarship programme ended at the end of 2017, which supported a total of 16 learners in grade 9 and 11. Seven learners who have been on our five-year scholarship programme recently matriculated. This is the second group of learners Yellow Pages CSI has sponsored. A total of 17 learners to date have recently matriculated through the programme. > In partnership with the Student Sponsorship programme, Yellow Pages CSI awarded scholarships to previously disadvantaged learners with good academic results that enabled them to attend some of Gauteng and Eastern Cape's best high schools. > Of the seven Yellow Pages sponsored learners who wrote grade 12 examinations (three are yet to write IB exam at the American International School Johannesburg due to Northern Hemisphere academic year), seven learners obtained university entrance passes and are studying towards university degrees this year.

Looking forward

The programmes' sustainability is crucial to success. To this end, all the programmes initiated during the financial year will continue to run for the next two years, while other programmes and initiatives are being put in place to ensure long-term sustainability.

Our key focus is education with integrated social development and employee volunteering. Telkom Foundation will continue to work with government, non-profit organisations and corporate partners to support schools in two provinces, namely Eastern Cape and Gauteng. The programme is aimed at bringing about systemic change through professional teacher development and support, school leadership development and learner supplementary tuition.





Performance

Natural capital

Telkom is committed to minimising its carbon footprint by proactively addressing the environmental impacts.

Telkom's environmental impact categorises us as a medium-to-low-risk organisation. However, advancing communication technology is likely to increase our energy demands. We are progressively improving how we measure and manage our carbon emissions, energy consumption, water use, waste and impact on biodiversity.

Accountability, management, compliance and regulations



Our approach to environmental management is based on international best practice, legal compliance and maintaining our environmental and social licence to operate. It is guided by our environmental and climate change policy statements, which are available at www.telkom.co.za/ir/Sustainability/Sustainability.html

As a medium-to-low-risk organisation, our carbon tax liability is relatively low. We have actively followed developments on the impending carbon tax legislation. Telkom is proud to support better disclosure of climate-related risks and opportunities.

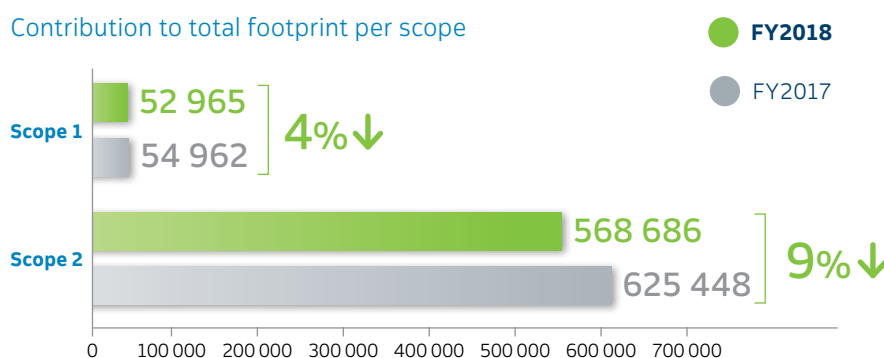
Group carbon footprint		Total scope 1	Total scope 2
Unit of measurement		tCO ₂ e	tCO ₂ e
Telkom (Pty) Ltd	FY2018	52 638	543 291
	FY2017	54 366	596 677
	Variance %	(2)	(9)
BCX¹	FY2018	265	25 103
	FY2017	588	28 483
	Variance %	(55)	(12)
YELLOW PAGES	FY2018	62	292
	FY2017	8	287
	Variance %	675	2
Telkom	FY2018	52 965	568 686
	FY2017	54 962	625 448
	Variance %	(4)	(9)

Note: Scope 1 includes refrigerant gases, diesel from fleet vehicles and diesel procured. Scope 2 includes electricity.

¹ BCX data excludes all BCX international operations as well as other South African operations such as CEB, USC, Accsys and Intergr8.



Contribution to total footprint per scope



tCO₂e

The 9 percent decrease in scope 2 carbon emission is primarily attributable to the implementation of 82 smart meters at our top 50 consuming sites, resulting in more reliable data, and improved calculation methodologies.

Contributing factors to the scope 2 emissions reduction, but not limited to:

- > Lighting is controlled by occupancy sensors. Manual switches are placed in each cellular office and meeting room to allow occupants to control the level of electrical lighting.
- > The building management system monitors and controls heating, ventilation and air conditioning equipment and records energy and water consumption with a built-in mechanism to detect wastage in these systems.
- > Hot water is generated through heat pumps.
- > The glass is selected to maximise the use of natural light, reducing the need for artificial light and as a result, the energy demand for lighting, while ensuring reduced heat gain from direct sunlight.
- > Blinds are provided on all facades on each floor. Users have the opportunity to manually operate each set of blinds in every office. Blinds reduce heat and glare ingress into the building thereby reducing the load on air conditioning and preventing occupant discomfort.

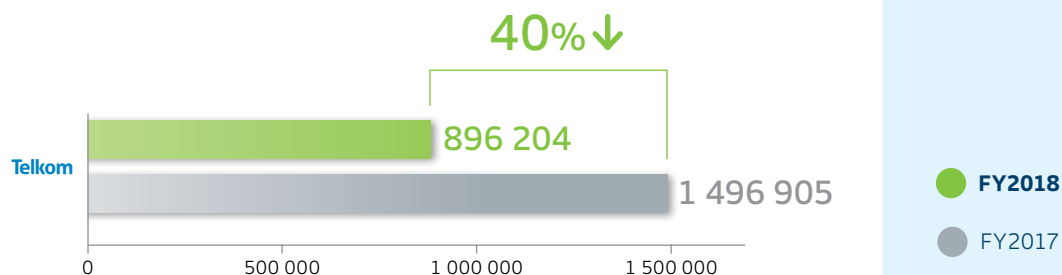
Water consumption

Telkom is not categorised as a water-intensive business, as we use water for low impact activities such as cooling, drinking, catering, landscaping and hygiene. Telkom's water consumption data covers owned buildings.

At the Telkom Corporate centre, we use the Eco product under the lawns to save water. It maintains its ability to absorb and release water over a period of several years. A test was done after 40 days without irrigation. The sandy soil contained one litre of water, whereas, the soil treated with Stockosorb, a man-made water absorbing polymer that is designed to improve the capacity of soil to retain water and plant nutrients, contained one litre of water after 80 days. The soil moisture potential is kept for a longer period of time (twice as long) at a higher level, and therefore the irrigation frequency can be reduced by up to 50 percent.



Total water consumption for Telkom company, BCX¹ and Yellow Pages



¹ BCX data excludes all BCX international operations as well as other South African operations such as CEB, USC, Accsys and Intergr8.

Telkom's water consumption, which covers owned buildings, decreased by 40 percent year on year mainly attributable to repaired water leaks and buildings that were decommissioned. We have measures in place to avoid water leaks. We will also implement water flow logging at our top 100 water-consuming sites, commencing in Cape Town, due to the water challenges experienced during the year. In addition, water-efficient sanitary fixtures have been installed within the buildings. New installed water flow restrictors saved approximately 20 percent of the normal flow rate.



Performance

Natural capital *continued*

Climate change

Climate change risks are complex, as they include operational risks such as business continuity, employee health and safety, environmental aspects, regulatory aspects and community needs. To protect our business, the environment, and our communities, we need to mitigate and adapt to climate change impacts.

Drought in the Western Cape

The World Economic Forum has identified a global water crisis as the top risk facing humanity for the next decade. South Africa is facing an overwhelming water crisis, with the Western Cape being the worst hit and declared a disaster zone by the government.

Telkom has partnered with multi-disciplinary water-saving strategy forums in Cape Town. Our group-wide water crisis management steering committee and multi-business unit work streams are developing

and implementing strategies to curb excessive water consumption, and ensure we are adequately prepared for any possible outcome of the water crisis.

Ongoing strategic monitoring and targeting of water consumption

- > Metering and data management strategy
- > Introduced water pressure flow adjustments
- > Effected water usage reductions in the air conditioning systems
- > Awareness and behavioural change initiatives
- > Tracking water and environmental regulatory frameworks to ensure compliance and risk mitigation

Our employees remain our priority, and all initiatives to mitigate the water scarcity are in accordance with legislation and health and safety standards.

Waste management

By responsibly disposing of waste, we can significantly minimise our impact on the environment. Telkom promotes recycling and resource efficiency. Based on our operations our most significant and environmentally impactful waste streams, internally and within the value chain, are cabling (copper and fibre optic) and e-waste. 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.

Waste stream	FY2018 Tonnes	FY2017 Tonnes
Copper	2 207	2 035
Optic fibre	434	398
Batteries	239	502
E-waste	70	202
Total	2 950	3 137

Sindawonye Green Projects, a social upliftment project, disposes of our e-waste and cabling. They process cabling using environmentally and socially responsible techniques – they do not chemically destroy or burn waste. Fibre-optic cable is recycled through the Thembani Eagle Hout Integrated Project. This labour-intensive project employs members of a rural Eastern Cape community.

Our aim is to reduce waste sent to landfill by identifying waste streams that can be reused and recycled. Initiatives under development include the installation of division recycle bins. This will provide for separation of wet waste from domestic waste and pre-sorting for recycling purposes.

Telkom has recycling facilities and a “no bin at desk” policy. The group as a whole uses paper-saving copiers with printing time limits to prevent excessive printing.

Our garden waste is used in compost and resold to garden product manufacturers.

Biodiversity

Telkom is aware that our network can impact biodiversity, and we instil duty to care in the people responsible for our existing network and new infrastructure roll-outs. We comply with the National Environmental Management Act, the National Biodiversity Act, the National Water Act and other relevant environmental legislation and regulations.

Energy usage

During FY2018 our efforts to reduce our greenhouse gas intensity included the following:

Telkom Park	Telkom continues to invest in renewable and sustainable forms of natural resources management. We have fitted lights with energy-efficient motion sensors at the PV solar car park that automatically switches on when there is motion at night. Our 3 MW grid-tied solar photovoltaic (PV) plant has generated over 3,75 MW since inception in July 2016. At Corporate centre, we offer employees and visitors an electric vehicle charging facility with six charge points for all types of electric vehicles. The facility promotes good sustainability practices and enhances the group brand as a socially and environmentally responsible entity.
BCX offices	BCX moved to a more environmentally responsible office in July 2017. The building design has been rated 4 star by the Green Building Council certified by the Green Building Council South Africa.

Looking forward

Our focus area for FY2018 was to refine our sustainability strategy to include more of our subsidiaries. However this has not been fully realised. It has become apparent that business units have varying degrees of understanding around data-gathering metrics. Therefore, we shifted our focus to developing a sustainability reporting guideline document, which we distributed to the business units. As an implementation resource document, this guideline will ensure consistent data gathering. Knowledge of the guideline will be required when capturing data on the Hyperion Financial Management system. Use of this tool allows the group to move beyond compliance, thereby embedding sustainability and future-looking value creation in the business.

Transparency and accountability

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FTSE4Good

FTSE/JSE RI
TOP 30

FTSE Russel (the trading name of FTSE International and Frank Russel Company) **confirms that Telkom SA SOC Ltd has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series.** Created by the global index provider FTSE Russel, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

Transparency and accountability

Corporate governance report

The group embraces the importance of a well-governed company as an environment conducive for an ethical culture, effective control, good performance and legitimacy while reducing the likelihood of fraud and breaches of authority.

The board mindfully applied the principles of King IV and acknowledges that the development and improvement of our governance processes and mechanisms is a journey. The aim is to continuously entrench a governance culture across the group that builds a sustainable business and creates value for our shareholders, with due regard to the legitimate needs and interests of all other stakeholders.

The board is comfortable that the group applied the principles of good governance, adhered to the JSE Listings Requirements and complied with the Companies Act of South Africa, 71 of 2008, as amended (Companies Act) and other relevant laws and legalisation. Our integrated report aims to demonstrate our governance culture and practices which yield the four governance outcomes echoed in King IV.



Governance framework

The board approved an updated governance framework, which articulates the approach to relationships and exercise of power within the group. A robust process to review the governance model was followed. We reviewed our governance documents and processes, and engaged with various key stakeholders within the group. This process, which took into account best governance practices, design principles and our operating model, informed the final governance framework.

Our governance framework applies to companies within the group where Telkom is the sole or majority shareholder.

In terms of our governance framework, Telkom has the overall responsibility in terms of reporting to group investors and stakeholders on matters concerning Telkom and/or any of its subsidiaries. The role played by Telkom as a shareholder is that of setting the objective of the subsidiaries through the subsidiary memorandum of incorporation (MOI). This is done to ensure that the strategic objectives for which the subsidiary is created are realised, and to optimise the performance of the subsidiary for the benefit of the group.

Each subsidiary within the group is a separate legal entity with separate legislative requirements that it needs to fulfil and comply with independent of the holding company. It is the intention of Telkom to preserve the autonomy of its subsidiaries while balancing it with the need for adequate oversight. However, the group philosophy, policy guidance and direction are set at group level.



Corporate governance report

Leadership

The board is our focal point and custodian of governance. Our directors possess and continually cultivate integrity, competence, responsibility, accountability, independence, fairness and transparency, to enable Telkom's value creation. They are further guided by the policies that shape our culture, ethics and values.

Independent non-executive directors

01 | JA Mabuza (60)

Appointed: 09/11/2012

Principal skills:
Business leadership

Other directorships:
Eskom, ABInBev Africa

02 | D Mokgatle (61)

Appointed: 20/03/2018

Principal skills:
Legal, business leadership

Other directorships:
Total South Africa,
Kumba Iron Ore, Bidcorp

03 | F Petersen-Cook (42)

Appointed: 10/12/2012

Principal skills:
Corporate finance, actuarial,
risk management, investment
management, governance

Other directorships:
Absa Financial Services, Kalafong
Tertiary Hospital

04 | GW Dempster (63)

Appointed: 03/12/2014

Principal skills:
Business leadership, strategy,
mergers and acquisitions, people
development

Other directorships:
Sanlam Capital, Sun International

05 | Dr H Touré (63)

Appointed: 19/10/2016

Principal skills:
Telecom engineering, telecom
regulation, e-strategies

Other directorships:
Inmarsat (London)

06 | I Kgaboesele (46)

Appointed:
01/07/2011

Principal skills:
Finance, auditing and accounting,
corporate finance, strategy

Other directorships:
Sphere Holdings, Old Mutual Ltd

07 | K Kweyama (53)

Appointed: 10/12/2012

Principal skills:
Commercial expertise, integrated
reporting, business leadership,
human capital management,
governance

Other directorships:
SABC, Brand SA, Steinhoff
International

08 | KW Mzondeki (50)

Appointed: 09/11/2012

Principal skills:
Auditing and accounting,
corporate finance, mergers and
acquisitions, strategy, integrated
reporting

Other directorships:
Aveng, Yellow Pages

09 | LL von Zeuner (56)

Appointed: 10/12/2012

Principal skills:
Finance, mergers and
acquisitions, risk, commercial
expertise

Other directorships:
MMI Group, African Bank,
Transnet

10 | N Kapila (64)

Appointed: 26/02/2011

Principal skills:
Telecommunications,
legal, regulatory, governance

Other directorships:
ITU (Switzerland)

11 | RG Tomlinson (55)

Appointed: 03/12/2014

Principal skills:
Business leadership, strategy,
remuneration

Other directorships:
International Player Management

12 | SL Botha (53)

Appointed: 10/12/2012

Principal skills:
Business leadership, mergers
and acquisitions, integrated
reporting, remuneration, strategy
and marketing

Other directorships:
Liberty Holdings, Famous Brands,
Curro Holdings

13 | S Moloko (52)

Appointed: 20/03/2018

Principal skills:
Investment management,
business leadership

Other directorships:
Thesele Group

NEW APPOINTMENT POST YEAR-END



14 | S Luthuli (45)

Appointed: 25/05/2018

Principal skills:
Auditing and accounting,
investments, business leadership

Other directorships:
BCX, Batseta



Executive directors

15/A | SN Maseko (49)

Group chief executive officer

Appointed: 01/04/2013

Principal skills:
Business strategy and execution, telecommunications, business leadership, regulatory and policy

Other directorships:
BMW, Gyro Group, BCX

16/B | DJ Fredericks (57)

Group chief financial officer

Appointed: 15/09/2014

Principal skills:
Corporate finance, auditing and accounting, telecommunications

Other directorships:
BCX, Gyro Group

Stepped down: 30/06/2018

17/C | T Molefe (49)

Group chief financial officer

Appointed: 01/07/2018

Chief risk and compliance officer

Appointed: 01/04/2017

Principal skills:
Auditing and accounting, financial, strategy and risk management

Other directorships:
Yellow Pages, First Avenue Investment Management

Exco

MEMBERS DURING FY2018

D | A Samuels (52)

Chief executive officer, Openserve

Appointed: 13/02/2014

Principal skills:
Telecommunications, business leadership

E | A Vitai (63)

Chief executive officer, Telkom Consumer

Appointed: 01/11/2012

Principal skills:
Finance, business leadership, telecommunications

Exited: 31/03/2018

F | L de Villiers (62)

Chief information officer

Appointed: 01/12/2013

Principal skills:
Strategic planning, corporate governance, business leadership, information technology management, CIO mentorship coach

Exited: 31/03/2018

G | M Lekota (47)

Chief human resources officer

Appointed: 01/03/2017

Principal skills:
HR strategy architect, business leadership

H | T Seopa (53)

Chief executive officer, Yellow Pages

Appointed: 01/08/2002

Principal skills:
Business leadership
Exited: 31/10/2017

I | L Maloba (44)

Chief executive officer, Gyro

Appointed: 13/11/2017

Principal skills:
Business leadership, business strategy, real estate investment management

J | I Russell (47)

Chief executive officer, BCX

Appointed: 01/05/2017

Principal skills:
Business leadership
Resigned: 31/05/2018

The board's profiles are available at
www.telkom-reports.co.za/reports/ar-2018/leadership.php



NEW APPOINTMENTS POST YEAR-END



K | L Siyo (40)

Chief executive officer, Yellow Pages

Appointed: 01/05/2018

Principal skills:
Business leadership, sales and marketing, strategy, financial management, digital transformation, e-commerce



L | S Taukobong (48)

Chief executive officer, Telkom Consumer

Appointed: 01/06/2018

Principal skills:
Marketing, customer operations, mergers and acquisitions, business leadership



M | J Bogoshi (52)

Chief executive officer, BCX

Appointed: 01/06/2018

Principal skills:
ICT specialist, strategy, sales, mergers and acquisitions, business leadership

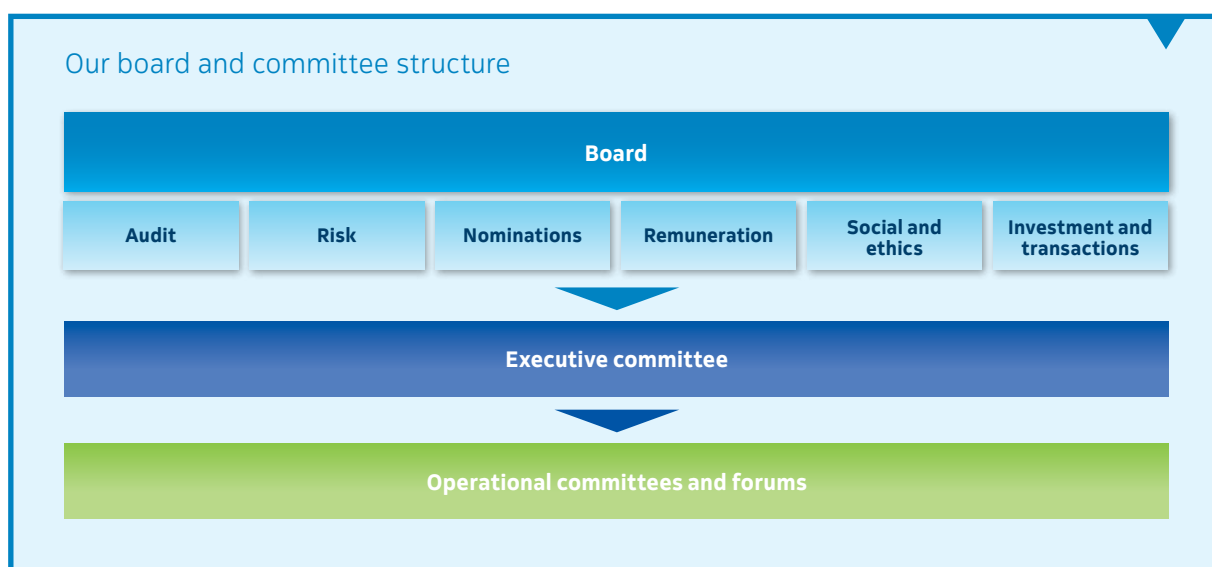


Corporate governance report

Governance structures

The board has delegated some of its functions to formally constituted committees, for execution.

The board respects its ultimate responsibility for the group, and recognises that delegating functions does not reduce the directors' individual and collective responsibilities. Each member exercises due care and judgement in accordance with their statutory and fiduciary duties.



The board



The board operates in accordance with a well-defined board charter, which is available online at www.telkom.co.za/ir. The charter defines the board's roles and responsibilities as well as requirements for its composition and meeting procedures. An annual work plan guides the board in addressing all the required matters within the year.

In fulfilling its duties, the board is further guided by the company's MOI, the Companies Act, King IV, JSE Listings Requirements and all other relevant legislation. The group has codes and policies governing directors' conduct and management of conflicts of interests. It is according to such codes and policies that our directors are held accountable for effective and ethical leadership.

The board is satisfied that it has discharged its duties in accordance with its charter for FY2018. Some of the board's key focus areas were, among others, approving the group's governance framework, improving customer experience, exploring innovative ways to improve performance and ensuring King IV compliance.

In FY2019, the board will ensure management adequately implements the governance framework across the group, thereby enhancing effective control and ensuring that the group is aligned from a governance perspective. It will also continue the focus of customer service to improve the overall customer experience as our customers are the base of our company. In light of the revenue pressures facing the group, there will be more focus on increasing new generation revenue streams.

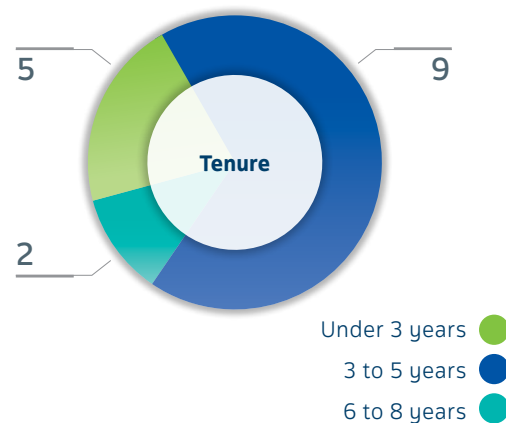
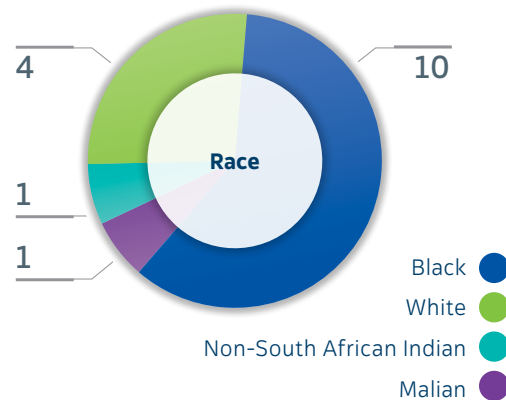
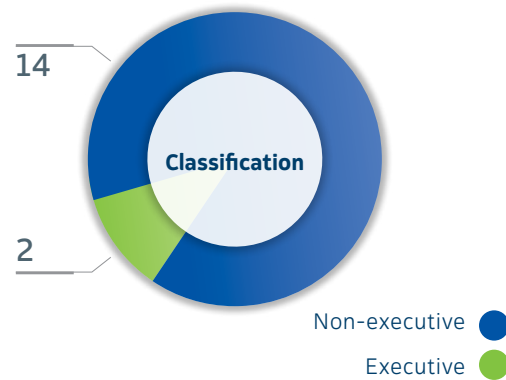
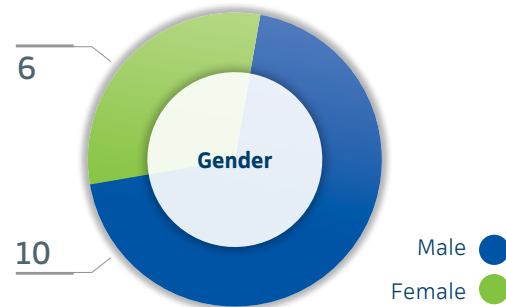


Composition of the board

As per the provisions of the MOI, the board comprises 14 non-executive and two executive directors, and is led and presided over by an independent chairman. All the non-executive directors are classified as independent. The nominations committee annually reviews the board's composition to ensure that it reflects the appropriate mix of knowledge, skills, experience, diversity and independence. The board is satisfied that its composition reflects these metrics appropriately.

The GCEO is mandated with formulating the strategy for board approval, and then implementing it with the assistance of the exco. He is the direct liaison between the board and management. The responsibility for the day-to-day running of the business emanates from this strategy. The GCEO reports to the board on the matters within the ambit of the exco.

The board has an approved diversity policy, which articulates the board's commitment to diversity, particularly gender and race. Although no targets have been set, the board prioritises diversity and the perspectives it brings. The board's commitment to diversity extends beyond the boardroom. For example, Telkom's FLDP programme mentors women for leadership roles. Refer to page 72 for more information.



Corporate governance report

Governance structures *continued*



Board committees

Each committee is constituted in accordance with the provisions of the Companies Act, King IV and the JSE Listings Requirements and taking into account additional criteria agreed to by the board. In constituting the committees, the board gives due regard to cross-membership within the committees. This ensures committees collaborate and complement each other's work.

The group company secretary supports the board and the committees. Each committee has approved terms of reference that stipulate its roles and responsibilities. These terms of reference are reviewed annually by the board.

Each committee's terms of reference is available online at www.telkom.co.za/ir.



Committee meetings are scheduled before board meetings so their chairmen can provide feedback and for consideration recommendations or raise concerns to the board. Through a board-approved process, each committee has authority to secure the services of professional advisors and subject matter experts to assist them as they execute their duties.

All the board committees are satisfied that they have discharged their duties in accordance with their terms of reference during FY2018.

Below is a table of the board and each committee's meeting attendance.

Director	Board	Audit committee	Risk committee	Nominations committee	Remuneration committee	Social and ethics committee	Investment and transactions committee
Independent non-executive directors							
JA Mabuza (chairman)	5/5			2/2	4/4		
N Kapila	5/5		4/4			4/4	6/6
I Kgaboesele	5/5	7/7	4/4				
KW Mzondeki	5/5	7/7			4/4		6/6
SL Botha	5/5			2/2	4/4		
L von Zeuner	5/5	7/7	4/4			4/4	
K Kweyama	5/5			2/2		3/4	
F Petersen-Cook	5/5		4/4				6/6
RG Tomlinson	4/5	7/7					6/6
GW Dempster	5/5		4/4				6/6
Dr H Touré ¹	4/5		1/4				2/6
D Mokgatle ²	–						
S Moloko ²	–						
S Luthuli ³	–						
Executive directors							
SN Maseko	5/5	7/7	4/4	2/2	4/4	4/4	6/6
DJ Fredericks ⁴	5/5	7/7	4/4	–	4/4	4/4	6/6
TBL Molefe ⁵	–	–	–	–	–	–	–

¹ During the year Dr Touré was selected as a Presidential candidate for Mali, which has greatly affected his availability.

² Appointed 20 March 2018.

³ Appointed 25 May 2018.

⁴ Stepped down 30 June 2018.

⁵ Appointed 1 July 2018.

Audit committee

The mandate of the audit committee is in terms of the provisions of the Companies Act and its terms of reference. It nominates auditors for appointment as auditors of the company, determines the fees to be paid, terms of engagement, nature and extent of the non-audit services and ensures that such appointment is in line with the Companies Act. The audit committee has a statutory obligation to report to shareholders on how the committee has carried out its obligations.

The audit committee comprises four independent non-executive directors. The chairman of the committee is appointed annually by the board in accordance with our MOI. The GCEO, GCFO, chief risk and compliance officer, group executive: internal audit and the senior partners in charge of the external audit attend these meetings. The chairman of the risk committee is an ex-officio member of the audit committee. The board is satisfied that the audit committee meets the statutory requirements for its composition.

The internal control environment of Yellow Pages has been a focal area for the audit committee in the wake of extensive business transformation. A task team was appointed to oversee the implementation of processes and system improvements to strengthen the control environment. As part of our endeavours to strengthen the control environment, we:

- > appointed a chief risk and compliance officer responsible for group oversight;
- > reviewed the mandate and role of internal audit as a centralised group audit function;
- > are continually reviewing the internal controls and the IT environment for adequacy; and
- > have ensured that all agreements which were entered into fraudulently were cancelled, and legal proceedings to recover funds are in process.

Under the guidance of the audit committee, a policy for inter-company processes was implemented, together with a processes and procedures document. The CFOs of subsidiaries were requested to sign service level agreements as a sign of commitment to the policy, processes and procedures. The audit committee continues to monitor the internal control environment for adequacy. One of the focus areas for the audit committee was strengthening the internal control environment for the group, particularly Yellow Pages, and improving on inter-company processes.

For more details on the activities of the audit committee, refer to the audit committee report on page 8 in the annual financial statements, available online at www.telkom.co.za/ir.



Remuneration committee

The remuneration committee is mandated with assisting the board with recommendations on policies and processes regarding the appointment, development and succession of group senior executives as well as recommending the remuneration of the non-executive directors and senior executives. It ensures that the company's remuneration philosophy and policy are competitive and meet best practice standards, in support of the group's strategic objectives.

The committee comprises three independent non-executive directors. The GCEO, chief of human resources and group executive: remuneration attend the meetings by invitation.

The remuneration policy was reviewed and updated to include the process to be followed should Telkom receive less than a 75 percent vote of the shareholders on its remuneration policy and implementation plan. Refer to the remuneration report on page 103.



Risk committee

The risk committee assists the board with risk management by ensuring that the company has implemented an effective policy and plan for risk management that will enhance its ability to achieve its strategic objectives.

The committee comprises five non-executive directors. The GCEO, GCFO, chief risk and compliance officer, senior audit partners in charge of the external audit, risk owners, group executive of internal audit and the executive of enterprise risk management attend the committee meetings by invitation. The chairman of the audit committee and the chairman of the investment and transaction committee are ex-officio members of the risk committee.

During the year under review, the committee's focus was on reviewing all risks identified by management to ensure that adequate mitigations were in place and that there was an appropriate balance between risks taken and the expected benefits to be derived. The risk committee also took time to interrogate the regulatory landscape and its impact on business sustainability, as well as ensuring that all relevant legislation and applicable laws are complied with.

In light of the board's increased obligations regarding the management and oversight of information and technology as echoed in King IV, and given the increase in cyberattacks and threats, the risk committee is devoting more attention to this aspect. The terms of reference were updated to articulate the increased responsibility. The technology and information governance charter was approved as part of the committee's responsibilities for the oversight of technology and information. Refer to page 65 for technology and information governance, and page 25 for ERM.



Corporate governance report

Governance structures *continued*

Nominations committee

The nominations committee (nomco) is responsible for reviewing and making recommendations on the board composition. This includes all aspects of diversity including academic qualification, technical expertise, industry knowledge, experience, business acumen, race and gender as well as the balance between executive, non-executive and independent non-executive members. It ensures that there is a balance of power within the board and its structures.

The committee works with the remuneration committee to formulate succession plans for senior executives and critical roles within the group. A board-approved diversity policy guides the nomco in nominating candidates for the board.

The nomco facilitates the evaluation of the board, individual directors and board committees. It comprises three non-executive directors. The GCEO attends by invitation.

Having considered the board composition and required skills, the nomco initiated a process to appoint additional directors. The appointment process is articulated in the nomco's terms of reference. Key elements in determining whether additional members were required were:

- > the principal skills of each director;
- > the combined skill set of the board;
- > diversity considerations which included gender, race and background;
- > the number of directors that were nearing nine years tenure; and
- > the skill set required to meet the strategy and vision of the group.

The committee determined that three more directors would be required. The nomco recommended the appointment of Dolly Mokgatle, Sello Moloko and Sibusiso Luthuli to the board. Dolly and Sello were appointed on 20 March 2018 and Sibusiso was appointed on 25 May 2018. The three directors will be up for election at the AGM in August 2018.

Investment and transactions committee

The investment and transactions committee ensures that all investments or business disposal decisions are aligned to the group's strategy, gearing and risk appetite. It reviews and recommends:

- > all significant capital investment; and
- > contracts to be entered into by the group which require board approval in line with the delegation of authority.

The committee monitors the performance of investments against original investment criteria and pre-investment assumptions, and contracts against the contract terms and conditions.

The committee comprises seven members. The GCEO is a member of this committee and the GCFO attends by invitation.

The committee considered the implications of government selling its Telkom shares, following an announcement to this effect by the former minister of finance. Discussions were also held on the ICT White Paper, spectrum auction and the associated implications for Telkom.

Social and ethics committee

The social and ethics committee monitors the company's activities regarding legislation and codes of best practice. In executing its duties, the committee takes cognisance of the UN Global Compact Principles, Organization for Economic Cooperation and Development recommendations, the Employment Equity Act and the B-BBEE Certification Act.

The committee adheres to the specific requirements of Regulation 43 in the Companies Act that requires it to monitor matters relating to social and economic development, good corporate citizenship, environmental, health and safety concerns, consumer relations and labour and employment. This committee is further mandated with overseeing the implementation of company ethics.

The committee comprises three non-executive directors. The GCEO, GCFO, chief of human resources and chief risk and compliance officer attend the meetings by invitation.

Refer to page 91 for further detail. 

Corporate governance report

Specific governance processes

Director rotation

In accordance with the MOI, every year, a third of directors retires by rotation. After taking due consideration of the performance and contribution of the board members, the nomco recommended to the board, Rex Tomlinson, Graham Dempster and Navin Kapila, who were retiring by rotation, for re-election by the shareholders as indicated in the notice of the AGM on page 126. Mr Kgaboesele, who was also due for retirement and eligible for re-election did not offer himself for re-election and will be retiring at the AGM.



Evaluation of the board and its committees

To establish and improve the operating effectiveness of the board and its committees, evaluations are performed biennially. The interval provides sufficient time to address any concerns and areas of improvement established or expressly stated in the results of the evaluations.

The most recent evaluation was internal, formal, and performed in February 2018. The results were tabled at the nomco in March 2018, and these informed the review of board and committee compositions and the board and committee areas of improvement.

One of the key matters emanating from the results of the evaluation was that although there had been much focus on internal controls, there are further improvements to be made, given the change in the operating model and its impact on the control environment processes. The audit committee would continue to devote time on this as a focus area in FY2019.

The board is satisfied that the evaluation process is improving its performance and effectiveness.

GCFO evaluation

The audit committee is mandated with reviewing the experience of the GCFO annually. The audit committee reviewed Deon Fredericks and satisfied itself of the appropriateness of the expertise and experience of the GCFO. Deon Fredericks ceased to be the GCFO, with effect from 30 June 2018 and he assumed the role of chief investment officer.



Group company secretary evaluation

The group company secretary, Ephy Motlhamme, is suitably qualified and supports the board by advising the members not only on the directors' statutory duties under the law, disclosure obligations and Listing Requirements, but also in respect of corporate governance requirements, practices and effective board processes. She maintains an arm's-length relationship with the directors and is accessible to each of them for support and guidance. She reports functionally to the board chairman and administratively to the GCEO. The group company secretary oversees governance in all the subsidiaries.

The board is confident that she has an arm's-length relationship with the board, individual directors and the executive team. Further, the board is satisfied that she is sufficiently qualified, competent and experienced to perform the role of Telkom's group company secretary.



Delegation of authority

Responsibilities or authority is assigned through the delegation of authority framework. Each board in the group approves its company's delegation of authority. However, there is group-wide alignment of these documents to ensure that delegated authority levels flow through the proper governance channels. Amendments to these documents are reviewed and approved by the board.

Delegation occurs at board level with delegation to committees, between the group and its subsidiaries, and within the company. Any person to whom responsibility is assigned and authority delegated is held accountable for the proper performance of the assigned responsibility and for proper exercise of the delegated authority.

A significant effort has gone into aligning the delegation of authority for Telkom and its subsidiaries. The delegation of authority framework for the group are continuously reviewed and updated as circumstances change to ensure relevance, applicability and group-wide alignment.

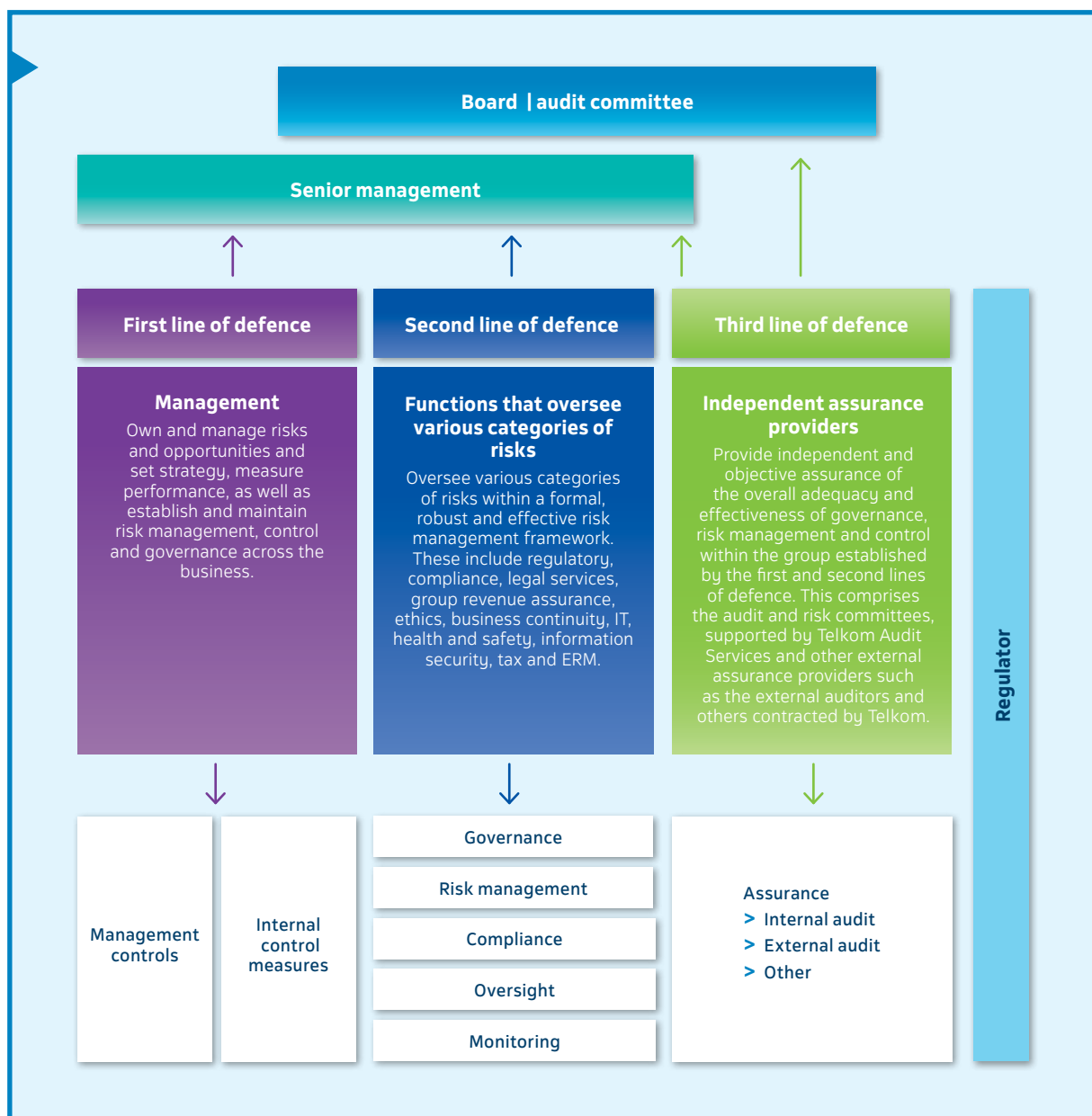
The board believes that the arrangements for delegation of authority are effective and adequate.



Corporate governance report

Combined assurance

Telkom follows a combined assurance approach, which integrates assurance and risk management activities. Telkom has three lines of defence aimed at improving and monitoring risk management, control and governance across the business. The regulators (ICASA, Competition Commission) may from time to time institute reviews to gain assurance that Telkom complied with regulation and applicable laws. Such reviews may be considered as an additional defense for the board. This framework is outlined as follows:



The audit and risk committees oversee the implementation of the combined assurance model, combining, coordinating and aligning assurance activities across the various lines of defence. They oversee that the scope of combined assurance is informed by the risks and opportunities that materially affect the ability of the group to create value.

Telkom Audit Services (TAS) gives effect to combined assurance through coordinating its work with that of the other assurance providers, including the external auditors, to ensure that Telkom's significant risks are adequately addressed. Telkom will continue its practical approach to combined assurance with a key focus on embedding assurance activities across all lines of defence.

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.

It provides assurance to the group's stakeholders by:

- > 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; and
- > providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.

TAS governs itself by adhering to the Institute of Internal Auditors' mandatory guidance, the code of ethics, and the International Standards for the Professional Practice of Internal Auditing.

TAS follows a risk-based approach in developing an annual audit coverage plan which is reviewed and approved by the audit committee. TAS regularly revises its audit plan to keep it relevant and aligned with key business priorities in a changing business and risk environment. TAS engages with other assurance providers while developing the annual audit plan.

TAS functionally reports to the audit committee and administratively to the chief risk and compliance officer. The group executive: internal audit attends the audit, risk and exco meetings by invitation. This organisational structure promotes the independence of internal audit and allows it to form its judgements objectively.

TAS is subjected to an external quality assurance review at least once every five years, the results of which are communicated to the audit committee. The quality of audit services delivered to Telkom and its subsidiaries is underwritten by the fact that TAS achieved a "generally conforms" rating to the International Internal Audit Standards as per the external quality review conducted by the Institute of Internal Auditors in FY2017. TAS conducts ongoing self-assessments as prescribed by the TAS' Quality Assurance programme.



Corporate governance report

Culture, ethics and values

The board leads the group ethically and effectively by providing guidance on ethical behaviour and ethical principles.

The “tone at the top” emanates from the premise that ethics is what you do when no-one is looking, and that ethical behaviour is the cornerstone of a well-governed entity. The board leads by example, and the right culture and ethical conduct cascade throughout the group.

Several processes and policies encourage and foster behaviours that support our culture, ethics and values which, in turn, support the purpose and vision of the group. Through these, Telkom holds its directors, employees and other stakeholders to account.



Telkom Business Code of Ethics (BCoE)

The Telkom BCoE requires the board and all employees to promote ethical behaviour, and ensures that everyone is clear on the expectation of individual conduct as well as interaction with fellow employees, stakeholders and the public in general. It is available online at www.telkom.co.za/about_us/humancapital/values/code-of-ethics.shtml.

Directors' appointment letters obligate them to adhere to the BCoE. Employees are required to confirm this commitment annually by completing an electronic annual declaration which is captured on the SAP system.

Electronic compliance to the Telkom BCoE as captured on our SAP system, was 93 percent (FY2017: 95 percent). Furthermore, the ethics office manages ethics, including monthly induction sessions with new employees. This is aimed at ensuring every new employee is aware of the ethical culture and values that he/she must subscribe to as a Telkom employee. The ethics office provides guidance and advice on ethical dilemmas telephonically or through the ethics mailbox. Guidance around declarations for work outside scope of duties and conflict of interests has been provided.

To support the Telkom BCoE, the following supplementary policies guide employees on how to conduct themselves:

- > Conflict of interest policy
- > Gift and entertainment policy
- > Share dealing policy
- > Prevention of fraud and corruption policy
- > Whistle-blowing policy
- > Prohibition against sexual harassment policy
- > Prohibition against discrimination policy

The ethics office reviews compliance with the Telkom BCoE and supplementary policies across the group as part of the annual policy compliance reviews. Management is held accountable for taking the necessary corrective actions.

The key focus area for FY2018 was a group ethics effectiveness review to identify any areas of improvement. The review included:

- > codes of ethics and supplementary policies;
- > group processes for compliance thereto;
- > if an ethics function exists in each division; and
- > the existence of a whistle-blowing line to report unethical behaviour.

The outcome of the review indicated that all divisions had codes of ethics, compliance processes, an ethics function or office as well as a whistle-blowing line.

Areas for improvement identified were electronic systems for compliance to be implemented in some subsidiaries and improvement of the ethics function. Going forward, we will focus on aligning ethics management and policies within the group and improving on areas where gaps were identified in the assessment.

The ethics office will continue to improve on the communication and enforcement of the internal declaration process and system for employees involved in evaluating tenders. It will also continue to focus on creating awareness through articles on ethics and ethical principles.

Another planned initiative is to re-establish the social, ethics and sustainability council. The structure was a subcommittee of the exco that dealt with ethical, governance, human resource and sustainability matters. The council was inactive due to the changes in the operating model.

Policies to guide employees

Conflict of interest policy	The conflict of interest policy applies to directors and employees. Directors and employees should ensure that real or perceived conflicts are adequately disclosed and managed. The interests of the company should take precedence over personal or professional interests, and our directors and employees are required to declare any conflict of interest timeously. We have arrangements to manage conflicts of interest. Every year, board members submit a general declaration of interests. At all board, committee and exco meetings of the company and its divisions, members are requested to declare any interests that they may have on any items tabled for discussion to manage such conflicts accordingly. Employees are required to confirm whether or not they have any interests to declare. This is captured electronically on the system and records of such declarations kept. The management for disclosures in respect of conflict of interests is extended to suppliers. We have a process to establish or monitor associations between suppliers and employees. This process is overseen by the Telkom risk management and forensic departments.
Gift and entertainment policy	Telkom recognises that employees may be required to accept and/or offer gifts and business courtesies as a means of gratitude or cultural diplomacy. The gift and entertainment policy provides the principles to avoid any impropriety in the acceptance, receipt and/or offering of business courtesies. Every received gift must be electronically declared on the system. If the value is up to R200 the line manager is notified and no approval is required, gifts above R200 require the employee's line manager to respond. The policy is being reviewed and will be submitted to the social and ethics committee for consideration.
Share dealing policy	Our share dealing policy is informed mainly by the Financial Markets Act and the JSE Listings Requirements. Every director and employee is obliged to adhere to this policy. Trading company securities is forbidden during closed and prohibited periods, or where one is in possession of price-sensitive information. Regardless of whether or not the company is in a closed or prohibited period, all directors, executive employees and certain employees in the finance function require clearance from the group company secretary's office to deal in securities. The board agreed that the closed period for all directors and exco members starts five days prior to the actual closed period start date and ends five days after the end of such period. The group company secretary's office notifies the company of closed and prohibited periods to prevent any pleas of ignorance.
Prevention of fraud and corruption policy	Telkom has a zero-tolerance policy regarding unethical behaviour, fraud and/or corrupt activities, and every employee has the duty to disclose any fraudulent or unethical conduct that they become aware of.
Sexual harassment and discrimination policy	It aims to ensure a productive and pleasant working environment characterised by mutual respect. Sexual harassment or discrimination is not tolerated, condoned, or allowed at any level.
Procurement policy	Telkom, through its procurement department and as part of monitoring conflict of interests, manages supplier risk vetting during on-boarding (the selection and purchasing process), as well as with supplier risk monitoring during the supply chain operations process to ensure all business activities with suppliers are based on ethical business practices.

Corporate governance report

Culture, ethics and values *continued*

Combating fraud and corruption

Fraud risk assessments are performed for each business unit and cover all types of fraud risks and violations of the Telkom BCoE. Management assists with the relevant controls to mitigate the risks. An ethics survey is conducted every two years; the previous survey was done in 2016, and the outcomes informed the development of further interventions. This is supported by Telkom's prevention of fraud and corruption policy, whistle-blowing policy and our independent crime hotline – Telkom Crime Hotline.

Telkom Crime Hotline

Telkom Crime Hotline is independently managed and available 24 hours a day. Callers may remain anonymous, and receive reference numbers so their incidents can be followed up on. Independent, fair and objective investigations are conducted on all reported and detected cases of fraud, theft, corruption and unethical conduct.

All our employees and contractors are required to report any suspected breaches of the Telkom BCoE, or fraudulent and corrupt activities. The hotline and internal reporting received 1 463 incidents and investigated 230 incidents. 70 percent of investigated complaints/reports were found to be without merit.

The majority of incidents relate to cable theft, subscription fraud, violation of the Telkom BCoE and supplementary policies including abuse of company resources, fraud and theft. These were dealt with according to our disciplinary policy and the Telkom BCoE. The actions ranged from written warnings to dismissal and arrests in cases of cable theft.

We have various initiatives to raise awareness of our whistle-blowing line and address issues as they arise.

BCX's zero-tolerance approach to unethical practices

During January 2018, BCX launched a campaign to raise awareness of the anonymous tip-off mechanism (whistle-blowing) administered by an independent third party. It is a confidential service whereby anyone within the BCX value chain (employees, customers and suppliers) is able to report workplace dishonesty, unethical and inappropriate behaviour. As the tip-off is independently managed, it ensures whistle-blower confidentiality. All whistle-blowers remain anonymous unless they specifically request otherwise.

In FY2018 the BCX CEO addressed the burning issue of "the truth about corporate governance" through a group broadcast. The communication cited recent corporate scandals, their adverse impact on the economy and the market and public confidence in business. It set a clear tone of zero tolerance for unethical practices from the top.



Corporate governance report

Compliance

Telkom's board delegated the group compliance responsibility to the risk and compliance function, which is replicated in the business units.

The ERM framework forms the basis of the compliance methodology and compliance risk registers exist for all relevant legislation across the group.

Our risk and compliance operating model has been enhanced to support our federated business model. During the year, Telkom added layers of governance to embed risk and compliance management across the group and ensure robust compliance discussions. The integrated governance risk and compliance committee as well as the IT and information security governance committee were introduced as executive management subcommittees.

Aligned with the group's operating model, corporate compliance performs the full compliance function for the Corporate centre and provides support, guidance and oversight to the business units and subsidiaries with a reporting line to the risk committee. Refer to



ERM on page 25 for more details on the operating model and governance structures.

During the year, we embarked on a transformation journey to enhance our risk and compliance management approach for the group.

Compliance during the reporting period was achieved through processes which identified the applicable requirements (as per laws, regulations and codes), assessed the state of compliance and assessed the risks and potential costs of non-compliance. Focus areas included, among others, the following:

- > Implementation of compliance processes across the group to ensure there is consistency and monitoring
- > Clearly documented risk management plans for new and amended legislation and regulations
- > Continuous monitoring of control self-assessment on key legislation and improving controls
- > Rolled out training across the group (i.e. Protection of Personal Information Act, Consumer Protection Act (CPA), Competition Act), and monitor and report to the relevant structures
- > Continuous ongoing monitoring of changes in regulatory landscape and alerting line management accordingly
- > Continuous risk-based analysis of compliance for continuous improvement

The complex and fluid compliance environment, along with the changes in the operating model, required Telkom to implement a multi-faceted approach, including implementing the following activities:

- > Although there is still reliance on the Corporate centre to provide guidance and support, some business units have been empowered to enable them to monitor their compliance risk management plans.
- > There were structures constituted to ensure that the culture of compliance is embedded across the group. This is achieved through each business units assurance forum led by the CFO and the ERM forum led by the chief risk and compliance officer.
- > Effectiveness assessments are conducted by our assurance structures (i.e. internal audit) and reports addressed to mitigate the risks.
- > The risk committee, audit committee and social and ethics committees of the board also ensure oversight and monitoring of the group's compliance activities on a regular basis at each meeting.

Our priorities will advance the maturity of the group's compliance management capabilities. It will also assist in ensuring that the group compliance is managed in a comprehensive manner. Our focus areas for FY2019 include:

- > strengthening the compliance function under the Corporate CoE in line with the revised operating model;
- > aligning frameworks across all disciplines;
- > continuing to embed compliance culture and implement measures to support the culture;
- > undertaking continuous improvement with reporting of non-compliance matters; and
- > developing and providing decision support framework for consistent compliance risk-taking/avoidance decisions.

Telkom had no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.

Telkom has not had any inspections from the environmental regulators, and no notices of violation or citations were received.



Corporate governance report

The social and ethics committee chairman's report

In accordance with the committee's mandate as stipulated in the Companies Act 71 of 2008, as amended, the social and ethics committee (SEC) monitors the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice within its sphere of influence, with regard to sustained:

- > Social and economic development
- > Responsible corporate citizenship
- > The environment, health and public safety
- > Consumer relationships
- > Labour and employment
- > Ethical conduct and leadership
- > Stakeholder engagement

The SEC met four times to consider matters within the committee mandate. The members comprise three directors, Khanyisile Kweyama, the chairman, Louis Von Zeuner, who is also the chairman of the risk committee, thereby ensuring that matters raised as an ethical risk are brought to the attention of the risk committee, and Navin Kapila. Refer to page 91 for meeting attendance.



The following matters were considered during the reporting period:

Ethics management

The board has a mandate to lead Telkom ethically and effectively. The SEC assists the board in discharging this duty. While we appreciate that ethical values go beyond mere application of policies, implementing policies that govern ethical behaviour and culture ensures that everyone is aware of the standards of behaviour expected from each individual. To this end, the SEC ensures that the company has a code of ethics in place that provides this guidance and direction to govern the ethics of the company.

The committee mandated the review of the Telkom BCoE and supplementary policies to ensure alignment within the group. The committee also reviewed the compliance statistics on the BCoE, the gift register and the conflict of interests declared.

In FY2019, we will be focusing on group-wide alignment of policies and principles that promote an ethical culture. One such policy that we will be looking to align throughout the group is the gift policy.

Further, we will be focusing on monitoring communication, awareness and training initiatives which will be tailored for the various divisions and subsidiaries.

Stakeholder management

The stakeholder engagement framework and policy were updated, and approved by the exco and the SEC. We developed an effective review process to monitor the implementation of stakeholder management response strategies throughout the group, and we continue to measure the effectiveness of the engagements with our stakeholders.

We will be increasing our focus on customers as our primary stakeholder, as we improve customer experience across the group.

Consumer relationships

The committee acknowledges the importance of good consumer relationships, and therefore various customer compliance initiatives were introduced. Customers were also accommodated with credit rehabilitation by downgrading their service to a more affordable option so as to adhere to the National Credit Act.

Customer treatment and customer experience include continuous monitoring and evaluation; as well as various initiatives such as education on how to derive more value from projects, to improve processes.

As a company, we strive to reduce the digital divide. The #datamustfall campaign resulted in zero-rated fees for universities and further education and training sites.

From the nature of the complaints received for matters reported to the Consumer Commission in terms of the CPA, as at the date of approval of this report, Telkom was not in breach of the CPA. The bulk of the complaints were attributable to poor internal administrative process and billing systems. This will also form part of our on-going focus areas for improving customer experience.

Good corporate citizenship

This consist of reducing corruption, developing communities and participating in sponsorships as well as donations. In line with our mandate to monitor the initiatives for reducing corruption, the quarterly reports from the forensic department were reviewed. Future focus areas would be to evaluate the impact of the fibre roll out on theft and vandalism statistics.

Amid the triple burden of poverty, unemployment and inequality, the Telkom Foundation has recommitted itself to supporting South Africa's youth, by reinvesting in improving the quality of learning and teaching. The Foundation spends 70 percent, R41 million of its allocated R58 million, on education. It is the view of the Foundation that investing in education will not only contribute to addressing South Africa's socio-economic challenges, but also bring about meaningful and impactful change in under privileged communities. The sponsorship properties portfolio was reviewed to determine the value and relevance, in line with the company model. For further details refer to the social and relationship capital on page 77.



Environment, health and safety

The committee reviewed reports provided on the Safety Awareness programme and the "Safety starts with me" awareness campaign that was launched in FY2018. The Employee Wellness programme historically focused mainly on Thuso, which had been successful in implementing HIV interventions and programmes. Future focus will be on absenteeism, injury on duty and the prevention and tracking of the disease. Driver safety was tracked through the vehicle tracking management system in order to analyse driver behavior and to provide advanced driver training where required.

Labour and employment

The company saw a noticeable improvement in the working relationship and a maturing engagement approach between the company and organised labour, which was in line with the collaborative partnership agreement that was signed between the parties.

The company also complied fully with the requirements of the Basic Conditions of Employment Act in relation to all statutory requirements.

B-BBEE scorecards

A decision was made to manage business units on separate scorecards and initiate periodic assessments, with a review of the scorecards at the end of 2017 to determine which business units would be rated as separate entities and which ones would be rated as part of the Telkom rating. In order to manage this process effectively business unit scorecards have been developed and discussed with the business units to gain buy-in and assign accountabilities. Quarterly performance reviews highlighting gaps against required performance levels were conducted and exco wil agree on interventions to drive the delivery required. A reporting tool was implemented to monitor our performance against our strategy.

Business unit EE plans have been concluded. A forum to monitor the skills development spend gap is being considered for establishment.

Enterprise development

The FutureMakers programme was launched in May 2015, 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. FutureMakers has enabled the development and growth of qualifying black-owned businesses in the ICT sector by providing financial and non-financial support. In turn, these businesses drive job creation. For more detail around the initiatives please refer to the online CSR report.



As at the end of December 2017 the fund had invested in 53 black-owned businesses, of which 67 percent were female-owned and 13 percent youth-owned. A total of 783 jobs were created by invested black-owned businesses.

BCX implemented initiatives such as the managing of three innovation hubs which incubate black-owned technology businesses that develop technology solutions. A subcontractor programme was designed and the on-boarding of 300 black-owned ICT businesses to this programme is in progress. A national innovation programme was developed to assist black-owned technology businesses to establish business solutions in partnership with Microsoft. A technology commercialisation programme called Technvst was piloted. The I'M IN Tech Accelerator programme was launched.

BCX took a more strategic approach to stimulate digital skills in the economy, not only for its own growth, but also for its customers and suppliers. To this end, investments were made towards a portfolio of critical ICT skills which the industry will require over the medium to long term. In particular, the investment focused on coding and data science skills, as well as building new skill streams in the following five technologies; geomatics, artificial intelligence, operations technology, cybersecurity and fintech.

Best practice

The committee took into consideration the requirements of the FTSE Russell/JSE that measure the environmental, social and governance themes of an organisation. The group publicly discloses its economic, environmental and social impacts and hence its value creation over the short, medium and long-term. Disclosure transparency is done within globally accepted standards. Telkom group aligns measurement of its sustainability impact against the 2016 GRI standards and the UN Sustainable Development Goals. Annual feedback from the FTSE Russell and the carbon disclosure project platforms are used for benchmarking global best practice and ongoing improvement in the manner in which that material topics and impact are managed.

Khangisile Kwegama

Chairman of the social and ethics committee



Transparency and accountability

Remuneration report

This report summarises Telkom's remuneration philosophy and policy for non-executive directors, executive directors and prescribed officers. It details the policy's implementation for the financial year ended 31 March 2018.

The remuneration committee chairman's report

Dear shareholder,

The group remuneration committee (remco) aligns our reward practices with shareholder interests and employee performance to maximise shareholder value, while complying with relevant legislation and King IV requirements.

The remco remains mindful of the remuneration trends in the trading environment, carefully considers all business challenges and financial sustainability and applies the talent management framework to identify and develop talent within the group. It sets remuneration levels within the context of overall group performance.

We progressively enhance our disclosure to adhere to King IV and to remunerate fairly and responsibly. Fair and responsible remuneration is defined as rewarding employees competitively, and equally for doing substantially the same work, within the same range in accordance with the Labour Relations Act.

In total, 96.43 percent of shareholders voted in favour of the remuneration policies tabled at the 2017 AGM.

Policy changes, key decisions and executive changes

The remco approved the following policy changes during the year:

1. The short-term incentive (STI) plan for FY2018
 - > Financial performance is measured on a group level (group financial performance), and not only at company level.
 - > Due to the changes, integration and consolidation process of financial results at group level, the 25 percent interim payment has been withdrawn.
 - > No STI is payable if group targets are not achieved, irrespective of Telkom/business unit/subsidiary performance.
2. Long-term incentive plan (LTIP) – 2017 vesting conditions
 - > Simplified performance conditions with an emphasise on financial measurements to improve shareholder value.



The remco took the following key decisions during the year:

- > The committee approved a talent management framework to identify and develop talent within the group. Key top-performing employees were identified, and they are being mentored to achieve their maximum potential.
- > The remco and nomco considered the succession of the GCEO and executive management. All executive positions were mapped and potential successors have been identified for each position. The committee drives talent management within the group, and has a clear succession plan at all times.
- > The committee approved salary increases and adjustments for executives, senior management, management and bargaining unit employees.
- > The remco approved STIs for executives, senior management and other employees, and 14th cheque for bargaining unit employees.

- > The committee evaluated and approved the vesting conditions for FY2013 and FY2014 for the LTIP and FY2014 for employees share ownership plan (ESOP).
- > The remco set performance conditions for the FY2018 STI plan and vesting conditions for FY2017 LTIP and ESOP share awards.

Key executive changes during the year:

We made a number of key executive changes. For details refer to page 88.



Please note that the remuneration report relates to FY2018. It does not take into account changes after year end.

Remco objectives for FY2018/9

Objective	Approach
Review the remuneration policy to fully align with the group strategy	Align remuneration, STI and LTI framework across the group, taking into account feedback of shareholders and King IV practices.
STI plan to recognise business unit performance within the group framework	Reward performing divisions within context of the group performance.
Retention of top talent and critical skill specialists	Increase employee ownership through additional restricted share awards which will be forfeitable. This will enhance our ability to retain top talent, scarce and critical skills specialists.
Focus on harmonising certain benefits which might be beneficial for the entire group and all employees such as a single retirement fund	We will investigate the feasibility of all subsidiaries becoming participating employers in the Telkom retirement fund. This will result in one fund for the entire group with the alignment of retirement benefits for all employees. Gyro is already a participating employer in the Telkom retirement fund, and BCX partially due to s197 transfer of ex-Telkom employees to BCX in FY2016 and FY2017.

In closing

As required by the Companies Act and recommended by King IV, the following resolutions will be tabled for shareholder voting at the AGM, details of which can be found in the AGM notice on page 124:



- > Binding vote on non-executive directors' fees
- > Advisory vote on the remuneration policy and implementation report

I would like to thank my fellow remco colleagues for your valuable contribution during the year. I look forward to your continued support and commitment.

Santie Botha

Chairman of the remuneration committee

Remuneration report

Remuneration committee

Role of remco and terms of reference

The remco sets the group's remuneration policy on behalf of the board. It oversees total remuneration for executive directors and senior executives; monitors the execution of the remuneration policy for the group 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 executive directors and senior executives.
- > Determining the total individual remuneration package of executive directors, including guaranteed package, benefits in kind, STI payments and share options. This includes annual performance appraisals of senior executives conducted by the GCEO. It further includes reviewing their guaranteed packages based on the extent to which senior executives have met their performance targets, goals and objectives.
- > Approving the annual guaranteed package increases for all other management and bargaining unit employees.
- > Conducting the annual performance review of the GCEO.
- > Determining targets for performance-related incentive schemes implemented in the group.
- > Seeking board and shareholder approval for any substantial changes in the remuneration policy.
- > Seeking board and shareholder approval for any LTIP 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 the employee and the company.
- > Reviewing succession plans of executive directors and senior executives and ensuring a total group succession process is in place.
- > Ensuring regular dialogue with shareholders to create and maintain a mutual understanding of the meaning of performance and value creation, to properly evaluate the remuneration policy.
- > Engaging shareholders on the remuneration report when the remuneration policy or implementation report or both are voted against by 25 percent or more of the voting rights exercised.

Remco composition

The remco comprises 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)
- > NM Lekota (chief of human resources)
- > DJ Fredericks (GCFO)
- > JC Smit (group executive: total remuneration and performance management)



Refer to page 91 for the members of committees and meeting attendance.

This report is divided into two sections:

- > **Section 1**, the remuneration philosophy, policy and framework, provides an overview of the group's remuneration principles and policies for executive and non-executive directors, prescribed officers, and the exco members.
- > **Section 2**, the implementation report, discloses actual payments, accruals and awards for FY2018.

Remuneration report

Section 1: Remuneration philosophy, policy and framework

Remuneration philosophy and policy

The Telkom remuneration strategy is designed to attract, motivate and retain high-calibre talent, 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, it is increasingly challenging to retain experienced executive leadership, and to attract the necessary talent required for the new and growing areas of our business. Meeting challenges requires a competitive and attractive remuneration offering.

To ensure we remunerate employees competitively, we use market and industry benchmarks. These benchmarks determine appropriate market-related offerings that are higher than the minimum prescribed wages.

Telkom recognises “equal pay for work of equal economic value”, and strives to remunerate employees doing 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 due to restructuring without a concomitant reduction in remuneration
- > Individual's lack of relevant skill for a particular job level
- > Any other non-discriminatory differentiator

Remuneration objectives

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

- > Promote sustainable value creation through transparent alignment with agreed group strategy
- > Ensure proper risk management processes and ensure that remuneration is appropriately aligned with short and long-term performance
- > Ensure all employees are remunerated competitively relative to industry benchmarks, provided with appropriate incentives to encourage performance, and rewarded for their individual contributions to the group's success
- > 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:

- > Motivate and reinforce superior performance
- > Encourage the development of organisational, team and individual performance
- > Develop the competencies for future business needs
- > Employees should share in the success of the group
- > Aim to get the appropriate remuneration mix to ensure Telkom achieves its strategic objectives
- > Be fair and non-discriminatory

The remco believes that the objectives outlined in the remuneration policy have been met, and that all decisions complied with the policy.

Remuneration report

Section 1: Remuneration philosophy, policy and framework *continued*

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 overpaying.

We follow a holistic, balanced approach across the following remuneration elements, as set out below.

Element	Guaranteed package (GP)	STI	LTI
Context	GPs are influenced by the scope of the role and the knowledge, skills and experience required for the position. The packages reflect the market median which is determined through external market research.	The STI rewards management employees who meet their annual performance targets. The level of achievement determines the payment against each weighted group performance measure. The STI plan is aligned with shareholder expectations.	Telkom's share incentive plans are structured to optimise the group's overall position, while providing benefits that will assist the group to attract, retain and incentivise executives and top talented employees. The plan is designed to align management and shareholder interests, and grow shareholder value. The objectives are to motivate long-term sustainable performance, and retain business-critical and top talented employees.
Type	Fixed	Variable	Variable
Participants and composition of pay	All eligible employees in the group GPs comprise a basic pensionable salary, retirement provision and flexible benefits, that include a non-pensionable allowance and a motor allowance where applicable.	All eligible employees in the group STIs comprise a cash payment that is payable after finalisation of audited financial results. Bargaining unit employees 14th cheque – payable if the employees meet individual performance outputs.	All eligible employees in the group 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 group's pre-determined performance levels. > LTIP: senior leadership, M3 to M0 employees > ESOP: middle management and bargaining unit employees, A to M4/S4
Desired outcome	To offer competitive market-related GPs to attract, retain and motivate talented and high-performing employees.	Reward employees for achieving annual performance targets.	Motivate long-term sustainable growth, and align management's and shareholders' interests by issuing forfeitable shares.
Consequences	No increases are awarded to management employees who do not meet individual performance outputs.	No bonuses are payable to employees who do not meet individual performance outputs.	> No shares are awarded to employees who do not meet individual performance outputs. > No shares will vest if performance conditions are not met. > Shareholder requirement – it is expected of employees, M3 and higher levels, to purchase total number of shares equal to 15 percent of guaranteed package over a three-year period.

Note: These structures will be phased in until all employees in the group are remunerated according to group performance in terms of STI and LTI.

GPs

GPs are aligned throughout the group with no significant disparities. Benefits and service conditions are similar within the group. Therefore, there is no immediate need to align benefits.

The GPs consist of a basic pensionable salary, retirement provision and flexible benefits. Flexible benefits includes the following:

- > Company contributions to retirement
- > Other flexible benefits:
 - Travel allowance
 - Non-pensionable allowance
 - Company contribution to medical aid
 - Management provident fund

Employees are not entitled to annual GP increases. Annual increases are subject to industry market conditions, employee performance, internal equity, strategic investments and the group's overall financial

position, financial performance and affordability. 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 regulations. 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 group's job evaluation system, which correlates with the Paterson Job Grading System. Telkom, has implemented a uniform hierarchical structure, with both the STI and LTI framework for all divisions.

Hierarchical level of leadership Telkom grade

Hierarchical level	Level of leadership	Telkom grade
Group chief executive officer	Executive committee	M0
Chief executive officers/chief officers	Executive committee	M1
Group/managing executive	Executive leadership	M2
Executives	Executive leadership	M3
Senior manager/manager	Management	M4/5
Operations manager/supervisor	Junior management	M6
Support staff/technician/specialist	Operational – bargaining unit	OP1/2/A

Remuneration report

Section 1: Remuneration philosophy, policy and framework *continued*

Executive committee

GPs are in line with similar roles in the comparable market analysis 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. GPs are reviewed against individual performance, and set against market median. The average guaranteed package increase was 6 percent (FY2017: 0 percent).

Executive and management employees

GPs for management levels are reviewed annually as part of the group's overall remuneration review process, and are assessed against individual performance. The average guaranteed package increase was 6 percent (FY2017: 0 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 30 June 2018. As part of this agreement, a 6 percent salary increase was implemented based on market functional areas' 50th percentile (FY2017: 0 percent).

Performance Pays was introduced for bargaining unit employees in FY2017, to focus on customer satisfaction, fault rate improvement, productivity and quality. Performance metrics are designed with a direct and clear line of sight for day-to-day activities and deliverables.

We have not reached maturity on Performance Pays as yet. Often performance is impacted by external factors such as system downtime, and we are still in process to refine the real impact thereof on productivity and pay-outs. In areas where the output is not unit based, it is not always easily quantifiable. Therefore, we will find a better balance on the contribution of the individual in terms of the value chain impact to ensure the efforts in the vertical responsibility translate to customer and/or profit impact.

Benchmarking

Executive remuneration is benchmarked by independent remuneration consultants, data provided in national executive remuneration surveys, and information disclosed in the integrated reports of JSE-listed companies.

The remco ensures an appropriate peer group review is conducted to retain the integrity and appropriateness of the benchmark data. Executive pay is benchmarked annually.

Performance management

Performance culture and systems are critical enablers to executing business strategies, by creating a performance culture and transparency within our performance management system.

Performance management principles are:

- > Develop employees through real-time coaching and feedback, through an integrated talent management approach
- > Identify what "great" looks like and how to assess it
- > Promote effective performance management behaviours
- > Fit for purpose
- > Embrace simplicity and transparency

We focus on defining KPIs for the GCEO, GCFO, business unit CEOs and their direct reports including for frontline employees.

Overall performance management process

The principles for KPI design and cascading include:

- > **Strategic:**
KPIs must be aligned with the group strategy and financial objectives, and must contain a mix of customer, financial, operational and people metrics.
- > **Focused:**
Individuals' KPIs are limited to between four and six, spread across categories. There should be at least one or two relevant shared/team KPIs (for example, Telkom Consumer EBITDA).
- > **Practical:**
Employees must be able to directly influence their KPIs (other than group/business unit KPIs).



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 group's strategic objectives and operational goals.

The following key performance areas were contracted with the GCEO:

Weighting %	Category	Key metrics	Measurement
40	Financial	> Gross revenue > EBITDA – Rand value (total group) > HEPS > Return on invested capital	> Percent improvement > Percent improvement > Year on year growth in HEPS > Percent return
25	Executing key strategic milestones	> Review group structure – operating model > Establish separate business unit for Small to medium business segment > B-BBEE ownership diversification > Improve the B-BBEE certification rating of the group	> Review of the operating model including to leverage group synergies > Creating more accountability within the business unit environments > Hold business units and subsidiaries directly accountable for performance and contribution to the group > Integrate fragmented SMB segment for the group to maximise participation in SMB growth and profit pool > Diversify Telkom ownership to include HDIs > Improve B-BBEE certification rating from level 6 to level 5
20	Customer experience	> Orange Index	> Improvement of composite score
15	People goals (leadership and employees)	> Talent management > Succession of the GCEO and executive management > Identified top talent and critical skills	> All executive positions to be mapped > Identified successors for each position > Retention of top talent/critical skill specialists

GCFO

The following key performance areas were contracted with the GCFO:

Weighting %	Category	Key metrics	Measurement
40	Financial	> EBITDA margin > Capex to revenue > Net debt to EBITDA	> As per guidance (23 - 25 percent) > As per guidance (17 - 20 percent) > As per guidance (≤1)
25	Executing key strategic milestones	> Implement SAP HANA programme > Process optimisation > Integration: alignment of systems and processes > Capital investment: ensure investments optimise long-term shareholder returns > Liquidity and funding > New group financial operating model > Address control environment weaknesses > Shareholder relationship	> Project deliverables > BSS/OSS transformation > Capital allocation framework > Cash framework > Finance transformation > Internal and external audit feedback > Investor relations feedback
20	Customer experience	> Orange Index	> Improvement of composite score
15	People goals (leadership and employees)	> Talent management and succession planning > Performance management > Collective performance: financial measures for STI plan and financial vesting conditions for LTIP	> Number of employees identified as key top-performing individuals > Number of executive positions mapped and successors identified aligned with talent management framework > Identify group financial KPIs to be cascaded > Remco and board approval

Remuneration report

Section 1: Remuneration philosophy, policy and framework *continued*

STI

The STI rewards management employees who meet annual performance targets. The level of achievement determines payment against each weighted group performance measure. The STI plan is designed and aligned with shareholder expectations.

STI plan changes

The board approved the changes to the FY2018 STI plan for eligible management employees, including aligning the STI plan with group performance, and not just company performance, and removing the interim 25 percent payment. The new STI plan is based on overall group results and applies to all Telkom management employees.

The FY2018 plan was approved with the following clearly defined principles:

> Group financial triggers and allocation:

- **Triggers:** EBITDA and PAT must be achieved on group level to trigger any STI payment
- **Allocation:** The STI pool will be determined by the achievement of the following targets (each of which has a 33 percent weighting):

- Group EBITDA before STI
- Group PAT before STI
- Group cash from operating activities (before dividend paid and capex)

> STI pay-out mechanism

- Group STI pool is set at 7.9 percent of the group PAT before STI payment
- Group STI pool set at 100 percent of budgeted target (R359 million after tax)

Target	Achievement %	Pay-out of STI pool %
Less than hurdle rate	<95	0
Hurdle rate	95	95
Target	100	100
Stretch	110	110
Maximum cap	120	120

The overall group performance will be measured at group, subsidiary, business unit and divisional level as indicated below.

	Telkom/Corporate centre/business unit/subsidiaries	Exco	Total (%)
Financial: EBITDA, PAT and group cash from operating activities (before dividend paid and capex)	10 percent group	80 percent group financials	20
Business unit/subsidiaries/Corporate centre/group EBITDA and PAT	60 percent business unit/subsidiaries income statement		80
Divisional/team (%)	30	20	
Total (%)	100	100	100

The remco annually recommends the STI plan's rules, targets and measurements to the board for approval, subject to the actual audited group performance.

Eligible bargaining unit employees have Performance Pays and 14th cheque payment instead of an STI plan. Employees who perform at or above a three performance rating, which indicates that deliverables for the year have been achieved, will receive a 14th cheque. The 14th cheque is calculated based on an individual's total package value, subject to the group meeting its financial performance targets.

STI plan awarded for FY2018

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. FY2018 group STI targets and achievements are shown below.

Performance criteria	Weighting %	Baseline FY2017 R'million	Target FY2018 R'million	Actual achievement R'million	Achievement %
Group EBITDA before STI	33	11 361	11 433	10 862	95
Group PAT before STI	33	4 204	3 254	3 396	104
Group cash from operating activities (before dividend paid and capex)	33	7 713	8 667	8 274	95
Group STI pool		486	359	362	

LTIP

Overview

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 group's pre-determined performance levels.

From the grant date, the employee has shareholder rights to receive dividend rights and voting rights.

The Telkom LTIP is an FSP, which has two components:

- > LTIP component (senior leadership, M3 to M0)
- > ESOP component (middle management and bargaining unit, A to M/S4)

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: LTIP (%)

Award (M3 – M0)	2016	2017	2018	2019	2020	2021	2022	Total
2013	50	30	20					100
2014		50	30	20				100
2015			50	30	20			100
2016				50	30	20		100
2017					50	30	20	100
Total	50	80	100	100	100	50	20	

Vesting period: ESOP (%)

Award (A – M4)	2016	2017	2018	2019	2020	Total
2013	100					100
2014		100				100
2015			100			100
2016				100		100
2017					100	100
Total	100	100	100	100	100	

The following table indicates the percentage target achievement to determine the number of shares to vest.

	Target achievement %	Share vesting %
Target	100	100
Hurdle	90	50
Less than hurdle rate	< 90	0

The table below sets out the threshold sliding scale:

Achievement %	90	91	92	93	94	95	96	97	98	99	100
Vesting %	50	55	60	65	70	75	80	85	90	95	100

Remuneration report

Section 1: Remuneration philosophy, policy and framework *continued*

FY2018 share award – awarded in June 2017

The following performance conditions were set for the vesting of the FY2018 share awards:

Category	Performance condition	Weight %	Target				
			FY2018	FY2019	FY2020	FY2021	FY2022
Financial	Total shareholder return (TSR)	50	Risk-free* + 4%	Risk-free* + 4%	Risk-free* + 4%	Risk-free* + 4%	Risk-free* + 4%
	HEPS	25	As per the business plan				
	Return on invested capital	25	As per the business plan				

* Government bond (R203) with a three-year term to maturity to correspond with term of vesting. A risk-free rate of 7.4 percent plus 4 percent equates to CPI plus 5.74 percent (real return).

- > **TSR:** Combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage
- > **HEPS:** The weighted average number of shares outstanding excludes treasury shares
- > **Return on invested capital:** Invested capital is the book value of fixed assets plus current assets less current liabilities less cash

Total number of shares issued up to 31 March 2018

Year awarded	FY2014	FY2015	FY2016	FY2017	FY2018
Date awarded	November 2013	April 2015	June 2015	June 2016	June 2017
Total number of shares available	26 039 195	23 469 057	20 695 819	21 080 842	17 007 878
Total number of shares awarded	(6 559 290)	(4 685 734)	(4 733 159)*	(4 886 209)	(5 444 803)
Sub-total	19 479 905	18 783 323	15 962 660	16 194 633	11 563 075
Forfeited shares	3 989 152	1 912 496	1 408 056	813 245	412 135
Shares purchased			3 710 126		1 300 561
Remaining shares available	23 469 057	20 695 819	21 080 842	17 007 878	11 975 210

* Restated due to reinstatement.

Vesting of the 2017 share (shares awarded in 2013 and 2014): LTIP – 2017 vesting (shares awarded in 2013) – 30 percent vesting subject to free cash flow (FCF)

Year	FCF target R'million	FCF achievement R'million	Achievement %	Weighting %	Vesting %	Vesting %
						Remco discretion
FY2014	120	120	100	25	25	25
FY2015	901	1 332	100	25	25	25
FY2016	2 958	2 212	75	25	0	12.50*
FY2017	4 021	(862)	0	25	0	12.50*
Total					50	75
					(15 of 30)	(22.5 of 30)

* As a result of the overall business performance and PAT overachievement, remco applied discretion (25 percent).

Vesting of the 2017 share (shares awarded in 2013 and 2014): LTIP 2017 – vesting shares awarded in 2014 – 50 percent vesting subject to the following performance conditions.

Category	Performance condition	Weighting %	Target – Rand value			Achievement %
			FY2015	FY2016	FY2017	
Financial 70%	TSR	20	Risk-free* + 4% (R19.91)	Risk-free* + 4% (R21.88)	Risk-free* + 4% (R24.0)	20
	Overall achievement		R79.2 (396%)	R57.57 (263%)	R75.03 (312%)	
	HEPS	30	419 cps	333 cps	526 cps	30
	Overall achievement		607 cps (144%)	330 cps (100%)	729.8 cps (138%)	
	FCF	10	R901m	R2 958m	R4 021m	3.33
	Overall achievement		R1 332m (140%) 3.33%	R2 212m (74.7%) (0)	(R862) (0%) (0)	
	Return on invested capital (%)	10	8.30	9.80	12.10	10
	Overall achievement (%)		12.2 (146)	9.6 (98)	14.5 (119)	
Operational 30%	Customer first	15	59.9	61.7	63.4	13.8
	Customer loyalty measure (CLM) – Telkom overall quality (revenue weighted composite score) baseline 58.6 (FY2015)		Actual: 58.7	Actual: 55.5	Actual: 56.7	
			Achievement: % 98	Achievement: % 89.95	Achievement: % 89.43	
	Overall achievement		92%			
	Customer experience	15	Composite score: 1	Composite score: 1	Composite score: 1	14.7
	TSA 100 index		Threshold: 0.90	Threshold: 0.90	Threshold: 0.90	
			Composite score: 0.98	Composite score: 0.99	Composite score: 0.96	
	Assurance index		Actual: 0.96	Actual: 0.93	Actual: 0.87	
	Fulfilment index		Actual: 0.99	Actual: 1.05	Actual: 1.05	
	Overall achievement		100	98%		
FCF – remco discretion						3.3
Total vesting						95.1

* Risk-free rate – government bond (R203) with a three-year term to maturity to correspond with term of vesting. A risk-free rate of 7.4 percent plus 4 percent equates to CPI plus 5.74 percent (real return).

ESOP – 2017 vesting (shares awarded in 2014): 100 percent of forfeitable share will vest in year three based on achievement of the following performance conditions.

Category	Performance condition	Weighting %	Target			Achievement %
			FY2015	FY2016	FY2017	
Operational 100%	CLM – Telkom overall quality (revenue weighted composite score) baseline 58.6 (FY2015)	50	Target: 59.9	Target: 61.7	Target: 63.4	46
			Actual: 58.7	Actual: 55.5	Actual: 56.7	
			Achievement: 98%	Achievement: 89.95%	Achievement: 89.43%	
	Overall achievement		92%			46
	Customer experience	50	Composite score: 1	Composite score: 1	Composite score: 1	
	TSA 100 index		Threshold: 0.90	Threshold: 0.90	Threshold: 0.90	
			Composite score: 0.98	Composite score: 0.99	Composite score: 0.96	
	Assurance index		Actual: 0.96	Actual: 0.93	Actual: 0.87	
	Fulfilment index		Actual: 0.99	Actual: 1.05	Actual: 1.05	
	Overall achievement		98%			49
Overall vesting		100				95

Summary of 2017 vesting (shares awarded in 2013 and 2014)

A total of 2 065 873 forfeitable shares vested on 5 June 2017 at a share price of R78.76 each:

- 100 percent vesting of additional performance shares awarded in 2015 and 2016 in respect of the GCEO – 57 916 shares
- LTIP – 75 percent of the 30 percent forfeitable shares awarded in 2013 for qualifying employees (M3 to M0) – 215 116 shares

- LTIP – 75 percent of the 50 percent forfeitable shares awarded in 2014 for qualifying employees (M3 to M0) – 503 823 shares
- ESOP – 75 percent of the 100 percent of forfeitable shares awarded in 2014 for qualifying employees on senior management and lower levels (M4 to A) based on the achievement of performance conditions – 1 289 018 shares

Remuneration report

Section 1: Remuneration philosophy, policy and framework *continued*

Employment contracts



GCEO

Sipho Maseko was appointed on 1 April 2013. He is a full-time employee with a three-month notice of termination period. He may be required to work notice, be placed on garden leave or, if not required to work, full notice may be paid in lieu of notice period on duty. There are no other obligations in executive employment contracts that could give rise to payments on termination of employment or office. Refer to the corporate governance report on page 86 for the GCEO's other directorship.



Other prescribed officers

Employment contracts exist which require three months' notice of termination by the employee and the company. Employees may be required to work notice, be placed on garden leave or, if not required to work, full notice may be paid in lieu of notice period on duty.

Employees must be in service on 31 March to qualify for STI payments subject to individual and group performance. No STI is payable in cases of dismissals. Pro rata payments only apply to new appointees for the number of months in service during the financial year. Employees must be in service on the vesting date of shares to qualify for any vesting.

Good leavers will receive pro rata share vesting for the number of months employed during the vesting period on duty.

There are no other obligations in executive employment contracts which could give rise to payments on termination of employment or office.

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 prescribed officers are employed on a full-time employment contract except for LM de Villiers and A Vitai, who exited the group on 31 March 2018.

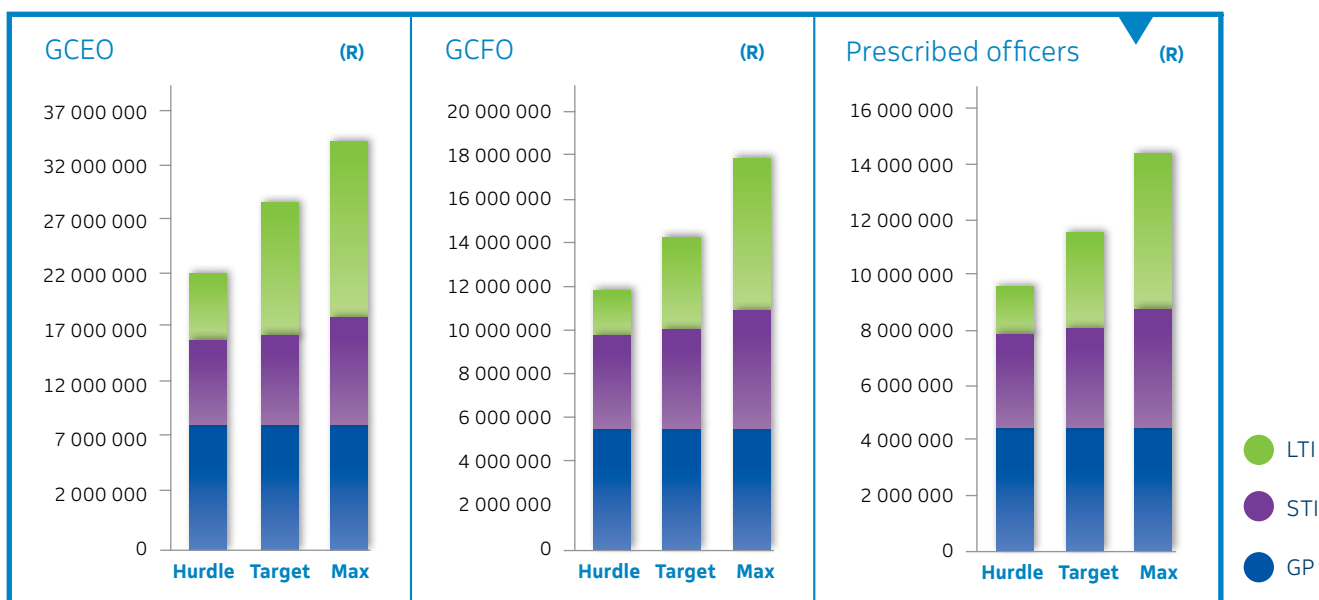
External directorships

Executive directors are allowed to hold one external directorship in any company following board approval. All compensation earned from external directorships will accrue to Telkom. The board may decline external directorships as it may deem appropriate. Refer to page 88 for external directorships.



Section 2: Implementation report

The implementation report highlights the outcomes of the implementation of the approved remuneration policy. The potential consequences of the remuneration policy on the total remuneration for executive directors and prescribed officers are illustrated below, hurdle rate, on target earnings and maximum cap. Actual remuneration in the year under review is also included. More details are reflected in the implementation report.



The aggregate remuneration and benefits paid and STI approved in respect of the 2018 financial year.

FY2018 emoluments per executive director

	GP* R	STI R	Fringe and other benefits R	LTI (vested shares) R	Total FY2018 R	Pension TRF 13%** R
Executive directors						
SN Maseko	8 050 000	7 580 163	11 997	11 551 650	27 193 810	901 600
DJ Fredericks	5 565 000	4 123 055	11 997	3 888 066	13 588 118	593 299
Total	13 615 000	11 703 218	23 994	15 439 716	40 781 928	1 494 829

* Guaranteed package includes basic salary, company contribution toward TRF and flexible allowance.

** Company pension contribution.

The aggregate remuneration and benefits paid and STI approved in respect of the 2017 financial year.

FY2017 emoluments per executive director

	GP* R	STI R	Fringe and other benefits R	LTI (vested shares) R	Total FY2017 R	Pension TRF 13%** R
Executive directors						
SN Maseko	7 441 200	8 813 911	11 997	9 637 818	25 904 926	833 414
DJ Fredericks	5 250 000	4 365 753	11 997	3 857 167	13 484 917	559 650
Total	12 691 200	13 179 664	23 994	13 494 985	39 389 843	1 393 064

* Guaranteed package includes basic salary, company contribution toward TRF and flexible allowance.

** Company pension contribution.

Prescribed officers' remuneration (excluding executive directors)

The aggregate remuneration, benefits paid and STIs approved for FY2018 are set out in the table below.

FY2018 emoluments per prescribed officer

Company	GP* R	STI R	Fringe and other benefits** R	LTI (vested shares) R	Total R	Pension – TRF13%*** R
BC Armstrong ^{1,3}	1 250 336	–	4 736 586	7 581 727	13 568 649	79 771
LM de Villiers ^{1,4}	3 387 101	2 295 218	1 424 527	7 182 060	14 288 906	460 646
NM Lekota	3 392 000	2 640 079	–	–	6 032 079	356 160
LTS Maloba ²	1 354 703	686 560	–	–	2 041 263	115 513
TBL Molefe ²	4 085 000	3 142 969	–	–	7 227 969	308 009
IM Russell	5 000 000	0	11 997	2 461 014	7 473 011	390 000
AN Samuels	5 000 000	3 816 500	11 997	1 643 012	10 471 509	377 000
A Vitai ^{1,5}	6 004 900	4 634 525	3 209 501	10 454 219	24 303 145	–
I Mophatlane ^{1,3}	2 100 082	–	8 231 682	8 610 684	18 942 448	105 004
T Seopa ^{1,3}	2 018 441	–	3 791 836	3 020 953	8 831 230	152 190
Total	33 592 563	17 215 851	21 418 126	40 953 669	113 180 209	2 344 293

* GP includes basic salary, company contribution towards TRF and flexible allowance.

** Fringe and other benefits includes motor car insurance, relocation benefit, separation package, notional completion bonus and leave payments.

*** Company pension contribution.

¹ Exited as prescribed officer: BC Armstrong - 30 June 2017; LM de Villiers - 31 March 2018; A Vitai - 31 March 2018; I Mophatlane - 31 July 2017; STM Seopa - 31 October 2017.

² Appointed as prescribed officer: LTS Maloba - 13 November 2017; TBL Molefe - 1 April 2017.

³ Separation and leave pay included in fringe and other benefits for BC Armstrong; I Mophatlane; and T Seopa.

⁴ Notional completion bonus and leave pay included in fringe and other benefits for LM de Villiers.

⁵ Notional completion bonus, relocation benefits and leave pay included in fringe and other benefits for A Vitai.

Remuneration report

Section 2: Implementation report *continued*

FY2017 emoluments per prescribed officer

Company	GP* R	STI R	Fringe and other benefits** R	LTI (vested shares)	Total R	Pension – TRF13%*** R
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
NM Lekota	266 667	179 207	–	–	445 874	28 000
IM Russell	4 153 353	4 103 244	11 997	1 236 249	9 504 843	323 961
AN Samuels	4 500 000	4 433 738	11 997	–	8 945 735	339 300
A Vitai	5 830 000	5 777 314	11 997	–	11 619 311	–
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
J Henning ¹	1 900 000	594 660	96 371	921 224	3 512 255	172 841
Total	34 204 824	27 360 136	676 265	6 803 736	69 071 961	2 137 686

* Guaranteed package includes basic salary, company contribution towards TRF and flexible allowance.

** Fringe and other benefits includes motor car insurance and company car benefit.

*** Company pension contribution.

¹ Stepped down following merger of enterprise with BCX.



Executives and prescribed officers' emoluments are set out in the annual financial statements in note 38, which is available online at www.telkom.co.za/ir.

Executive management

	GP* R	STI R	LTI R	Fringe and other benefits** R	Total FY2018 R	Total FY2017 R
Executive management team	94 479 605	50 852 470	15 961 070	3 530 462	164 823 607	200 794 593
Number of employees					44	47

* Guaranteed package includes basic salary, company contribution towards TRF and flexible allowance.

** Fringe and other benefits includes motor car insurance, separation package, and leave payments.

Non-executive directors' fees

The group benefits from active non-executive directors who not only attend meetings, but actively contribute to the success of our business. Therefore, non-executive directors receive an annual retainer plus meeting attendance fees. They do not receive short or long-term incentives. Telkom's MOI states that shareholders must approve these fees at the AGM. The current fee level was approved at the AGM on 24 August 2017.

	2018 R	2017 R
Chairman of the board	1 325 000	1 250 000
Non-executive director of the board	387 960	366 000
International board member	535 732	505 408
Audit committee chairman	281 037	220 600
Audit committee member	147 321	134 900
Risk, remuneration and social and ethics committee chairman	212 000	200 000
Risk, remuneration and social and ethics committee member	127 200	120 000
Nominations committee chairman	141 033	133 050
Nominations committee member	95 400	90 000
Investment and transactions committee chairman	146 426	138 138
Investment and transactions committee member	95 400	90 000

Committee	Scheduled meetings	Fee per meeting	Special meetings	Fee per committee meeting
Board	5	Annual retainer	1	Chairman: R24 804 Member: R18 550
Audit	5	Chairman: R70 259 Member: R36 830	1	
Risk	4	Chairman: R53 000 Member: R31 800	0	
Remuneration	4	Chairman: R53 000 Member: R31 800	1	
Nominations	3	Chairman: R47 011 Member: R31 800	0	
Investment and transactions	3	Chairman: R48 808 Member: R31 800	2	
Social, ethics and sustainability	4	Chairman: R53 000 Member: R31 800	0	

Board members do not receive fees for voluntarily attending a committee meeting of which they are not members.

All fees are paid proportionally to the period in which office is held. Non-executives' emoluments are set out in the annual financial statements in note 38, which is available online at www.telkom.co.za/ir.



Beneficial shareholding

Directors' shareholding as at 31 March 2018

Director's interest and prescribed officers	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
Executive				
SN Maseko	52 520	-	-	-
DJ Fredericks	48 711	534	-	-
Total	101 231	534	-	-
Non-executive				
JA Mabuza	26 000			
I Kgaboesele	12 000			
KW Mzondeki	748			
Total	38 748	-	-	-

The beneficial interest of one of our executive directors, DJ Fredericks has increased from 48 978 to 49 245 due to indirect shareholding acquired.

The beneficial interest of one of our non-executive directors, KW Mzondeki has increased from 267 to 748 due to purchase of shares.

Subsequent to 31 March 2018, the indirect beneficial shareholding of DJ Fredericks has reduced by 267 shares. Other than this change there has been no change to directors' shareholding between 31 March 2018 and the date of the approval of the integrated report.

Directors' shareholding as at 31 March 2017

Director's interest and prescribed officers	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
Executive				
SN Maseko	52 520	-	-	-
DJ Fredericks	48 711	267	-	-
Total	101 231	267	-	-
Non-executive				
JA Mabuza	26 000	-	-	-
I Kgaboesele	12 000	-	-	-
KW Mzondeki	267	-	-	-
Total	38 267	-	-	-

Remuneration report

Section 2: Implementation report *continued*

Share awards (LTIP)

	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	Shares forfeited	Closing number
SN Maseko										
FSP	2013	163 866	23.80	3 900 011	81 933	06/06/2016	59.63	4 885 665	-	32 773
					36 870	05/06/2017	78.76	2 903 881	12 290	
ASA	2013	54 622	23.80	1 300 004	54 622	06/06/2016	59.63	3 257 110	-	-
FSP	2014	138 352	76.11	10 529 971	51 882	05/06/2017	78.76	4 086 226	17 294	69 176
FSP	2015	150 428	74.20	11 161 758	-	-	-	-	-	150 428
Performance shares	2015	50 143	74.20	3 720 611	25 072	06/06/2016	59.63	1 495 043	-	-
					25 071	05/06/2017	78.76	1 974 592	-	
FSP	2016	197 066	56.64	11 161 818	-	-	-	-	-	197 066
Performance shares	2016	65 689	56.64	3 720 625	32 845	05/06/2017	78.76	2 586 872	-	32 844
FSP	2017	161 366	74.83	12 075 018	-	-	-	-	-	161 366
ASA	2017	53 789	74.83	4 025 031	-	-	-	-	-	53 789
Total		1 035 321		61 594 845	308 295			21 189 390	29 584	697 442
DJ Fredericks										
FSP	2013	74 898	23.80	1 782 572	37 449	06/06/2016	59.63	2 233 084	-	14 980
					16 852	05/06/2017	78.76	1 327 264	5 617	
ASA	2013	27 236	23.80	648 217	27 236	06/06/2016	59.63	1 624 083	-	-
FSP	2014	86 705	76.11	6 599 118	32 514	05/06/2017	78.76	2 560 803	10 839	43 352
FSP	2015	53 066	74.20	3 937 497	-	-	-	-	-	53 066
FSP	2016	69 043	57.03	3 937 522	-	-	-	-	-	69 043
FSP	2017	55 776	74.83	4 173 718	-	-	-	-	-	55 776
ASA	2017	92 961	74.83	6 956 272	-	-	-	-	-	92 961
Total		459 685		28 034 916	114 051			7 745 233	16 456	329 178
IM Russell										
FSP	2013	24 005	30.35	728 552	12 003	06/06/2016	59.63	715 739	-	4 800
					5 401	05/06/2017	78.76	425 383	1 801	
ASA	2013	8 729	30.35	264 925	8 729	06/06/2016	59.63	520 510	-	-
FSP	2014	68 922	76.11	5 245 653	25 846	05/06/2017	78.76	2 035 631	8 615	34 461
FSP	2015	41 981	74.20	3 114 990	-	-	-	-	-	41 981
FSP	2016	54 621	57.03	3 115 036	-	-	-	-	-	54 621
FSP	2017	46 105	74.83	3 450 037	-	-	-	-	-	46 105
ASA	2017	76 841	74.83	5 750 012	-	-	-	-	-	76 841
Total		321 204		21 669 205	51 979			3 697 263	10 416	258 809
AN Samuels										
FSP	2014	55 629	76.11	4 233 923	20 861	05/06/2017	78.76	1 643 012	6 954	27 814
FSP	2015	40 431	74.20	2 999 980	-	-	-	-	-	40 431
FSP	2016	59 179	57.03	3 374 978	-	-	-	-	-	59 179
FSP	2017	50 114	74.83	3 750 031	-	-	-	-	-	50 114
ASA	2017	83 523	74.83	6 250 026	-	-	-	-	-	83 523
Total		288 876		20 608 938	20 861			1 643 012	6 954	261 061
NM Lekota										
FSP	2016	21 042	57.03	1 200 025	-	-	-	-	-	21 042
FSP	2017	33 997	74.83	2 543 996	-	-	-	-	-	33 997
ASA	2017	33 997	74.83	2 543 996	-	-	-	-	-	33 997
Total		89 036		6 288 016	-			-	-	89 036

	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	Shares forfeited	Closing number
TBL Molefe										
FSP	2017	40 943	74.83	3 063 765	–		–	–	–	40 943
ASA	2017	68 238	74.83	5 106 250	–		–	–	–	68 238
Total		109 181		8 170 014						109 181
BC Armstrong										
FSP	2013	15 126	23.80	359 999	7 563	06/06/2016	59.63	450 982	–	–
					3 403	05/06/2017	78.76	268 020	1 135	
					2 411	30/06/2017	61.48	148 228	614	
ASA	2013	9 832	23.80	234 002	9 832	06/06/2016	59.63	586 282	–	–
FSP	2014	82 717	76.11	6 295 591	31 019	05/06/2017	78.76	2 443 056	10 340	–
					26 374	30/06/2017	61.48	1 621 474	14 984	
FSP	2015	50 553	74.20	3 751 033	29 499	30/06/2017	61.48	1 813 599	21 053	–
FSP	2016	65 773	57.03	3 751 034	19 818	30/06/2017	61.48	1 218 411	45 955	–
FSP	2017	50 127	74.83	3 751 003	1 121	30/06/2017	61.48	68 919	49 006	–
Total		274 128		18 142 661	131 040			8 618 971	143 087	–
LM de Villiers										
FSP	2013	70 603	23.80	1 680 351	35 302	06/06/2016	59.63	2 105 058	–	–
					15 886	31/03/2018	52.58	835 286	5 295	
					13 597	31/03/2018	52.58	714 930	523	
ASA	2013	25 674	23.80	611 041	25 674	06/06/2016	59.63	1 530 941	–	–
FSP	2014	54 569	76.11	4 153 247	20 463	31/03/2018	52.58	1 075 945	6 822	–
					23 283	31/03/2018	52.58	1 224 220	4 001	
FSP	2015	33 239	74.20	2 466 334	26 389	31/03/2018	52.58	1 387 534	6 850	–
FSP	2016	43 246	57.03	2 466 319	21 316	31/03/2018	52.58	1 120 795	21 930	–
FSP	2017	33 948	74.83	2 540 329	7 172	31/03/2018	52.58	377 104	26 776	–
ASA	2017	33 948	74.83	2 540 329	8 487	31/03/2018	52.58	446 246	25 461	–
Total		295 227		16 457 950	197 569			10 818 059	97 658	–
A Vitai										
FSP	2014	95 374	76.11	7 258 915	35 765	31/03/2018	52.58	1 880 524	11 922	–
					40 691	31/03/2018	52.58	2 139 533	6 996	
FSP	2015	58 929	74.20	4 372 532	46 786	31/03/2018	52.58	2 460 008	12 143	–
FSP	2016	76 670	57.03	4 372 490	37 792	31/03/2018	52.58	1 987 103	38 878	–
FSP	2017	60 185	74.83	4 503 644	12 714	31/03/2018	52.58	668 502	47 471	–
ASA	2017	100 309	74.83	7 506 122	25 077	31/03/2018	52.58	1 318 549	75 232	–
Total		391 467		28 013 703	198 825			10 454 219	192 642	–
LTS Maloba										
LTIP	2017	–	–	–	–		–	–	–	–
Total		–		–	–				–	–
I Mophatlane										
LTIP	2016	255 384	65.34	16 686 791	63 846	05/06/2017	78.76	5 028 511	–	–
					55 068	31/07/2017	65.05	3 582 173	136 470	
Total		255 384		16 686 791	118 914			8 610 684	136 470	–
T Seopa										
LTIP	2016	147 805	70.23	10 380 345	59 491	31/10/2017	50.78	3 020 953	88 314	–
Total		147 805		10 380 345	59 491			3 020 953	88 314	–

Details of full share award history since date of appointment within Telkom.

05

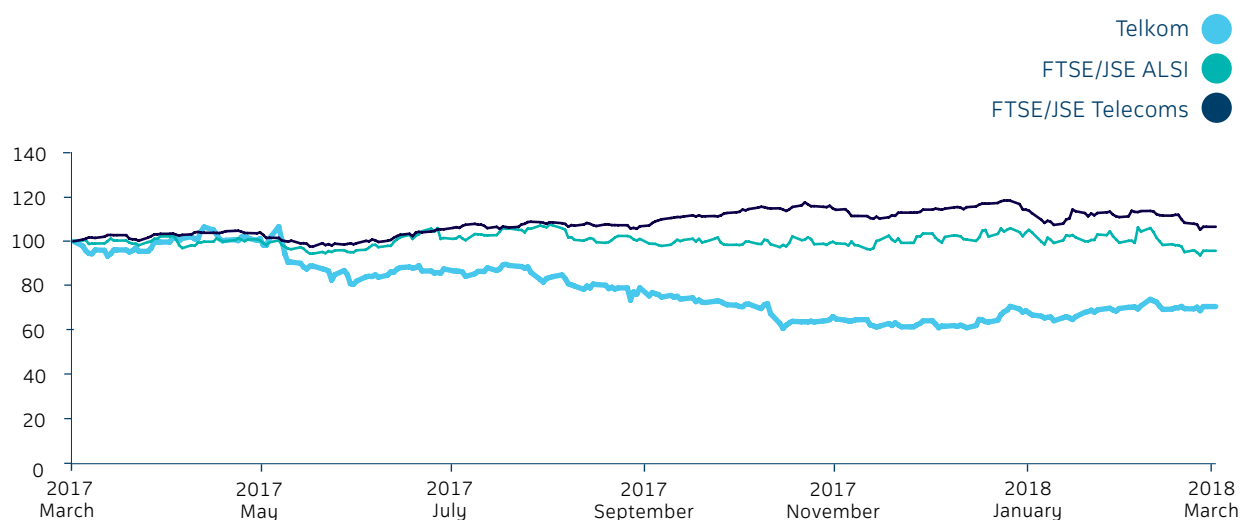
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Share and shareholder information

as at 31 March 2018

Telkom's share price performance versus the FTSE/JSE Telecoms Index and the JSE All Share Index (rebased to 100)



Institutional shareholding - free float



South Africa	42%*
United States of America	36%
United Kingdom	12%
Europe	5%
Rest of world	5%

* This excludes government.



Value	28%
Index	23%
Growth	18%
GARP	18%
Other	8%
Hedge	5%

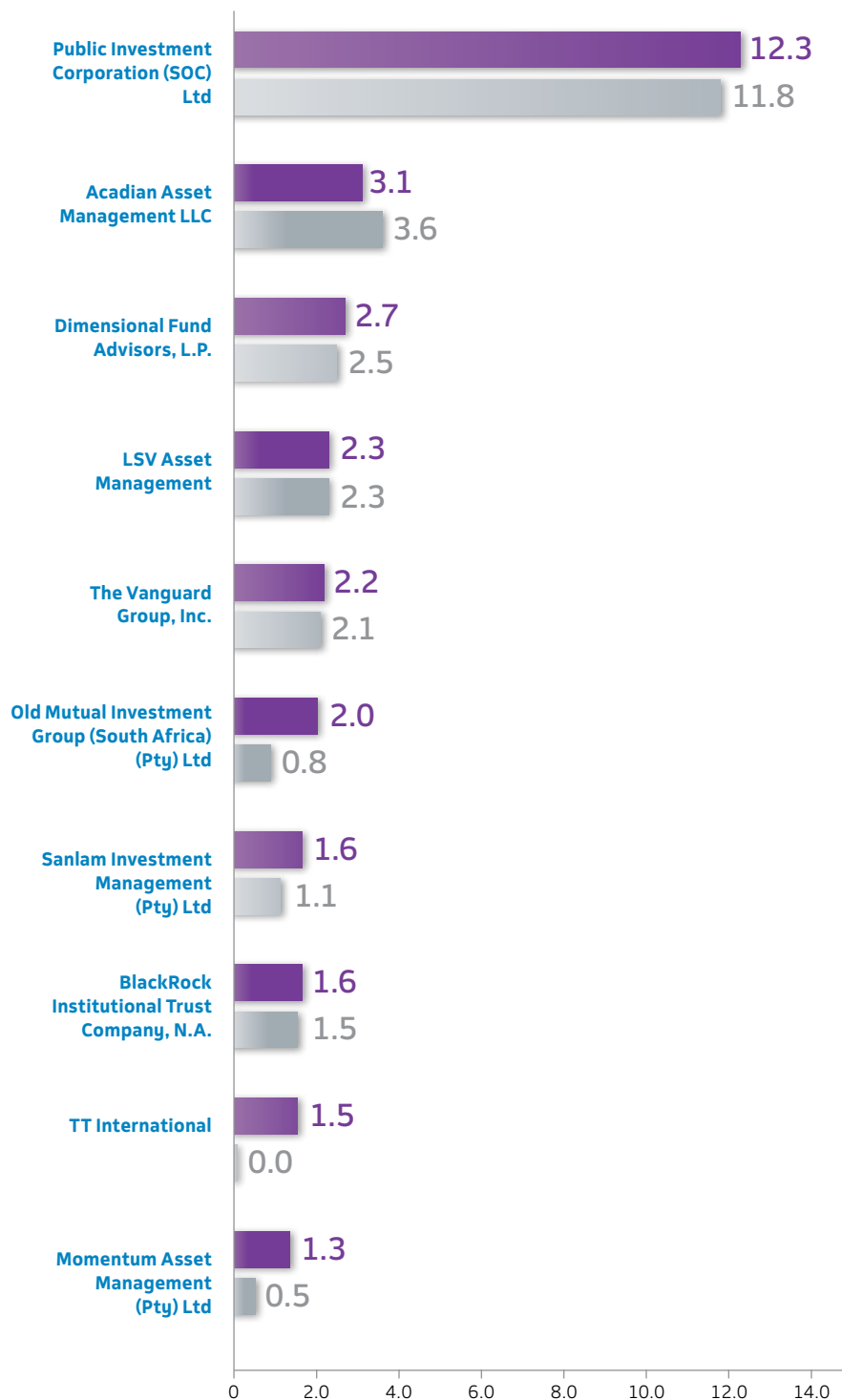
Note: This excludes PIC as it has multiple investment styles.

Share and shareholder information

as at 31 March 2018 *continued*

Telkom's top 10 institutional shareholders as at 31 March 2018

Percentage



● FY2018

● FY2017

Notice of annual general meeting

Telkom SA SOC Ltd

(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 26th annual general meeting of the shareholders (annual general meeting or AGM) will be held at BCX, Multi Purpose Room, 1021 Lenchen Avenue North, Centurion, 0157 at 10:00 (South African time), on Thursday, 23 August 2018.

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:

- present to the shareholders the audited consolidated annual financial statements of the company and its subsidiaries for the year ended 31 March 2018, a condensed consolidated set of which is set out on pages 51 to 54 of the integrated report to which this notice of AGM is attached, and a copy of which is otherwise available on the Company's website: www.telkom.co.za/ir
- present to the shareholders a report of the audit committee on matters which are within the mandate of that committee;
- present to the shareholders a report of the social and ethics committee on matters which are within the mandate of that committee;
- consider all and any matters of or relating to the company which may lawfully be considered and dealt with at the AGM; and
- 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, 20 July 2018

Last day to trade to participate in and vote at the AGM

Tuesday, 14 August 2018

Record date to be recorded in the shareholders' register to participate in and vote at the AGM
Friday, 17 August 2018

Last day to lodge forms of proxy by 10:00 on
Tuesday, 21 August 2018

AGM held at 10:00 on
Thursday, 23 August 2018

Results of AGM released on SENS on
Thursday, 23 August 2018

Notice of annual general meeting *continued*

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; and
 - 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 depository 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, 21 August 2018, 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 transfer secretaries at 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 on page 136.
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 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 company secretary by not later than Tuesday, 21 August 2018. The company secretary will, by way of email, provide information enabling participation to those shareholders who have made application. Voting will not be possible through 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.



Ordinary resolutions

Ordinary Resolutions Numbers 1.1 to 1.3 – Election of directors

Resolved that the following directors, who were appointed by the board to serve as directors after the last annual general meeting of the company, shall retire from office at the AGM and, being eligible and having offered themselves for election, each by way of separate resolution be and are hereby elected as directors of the company.

- 1.1 Mr S Moloko
- 1.2 Ms D Mokgatle
- 1.3 Mr S Luthuli

Explanatory notes in respect of Ordinary Resolution Numbers 1.1 to 1.3

Based on the recommendations of the nominations committee, which conducted formal assessments of Mr S Moloko, Ms D Mokgatle and Mr S Luthuli, the board of directors recommends their election as independent non-executive directors of the company. Mr S Moloko, Ms D Mokgatle and Mr S Luthuli's profiles appear on pages 132 to 133.

Ordinary Resolutions Numbers 2.1 to 2.3 – 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 directors of the company with immediate effect:

- 2.1 Mr N Kapila
- 2.2 Mr R Tomlinson
- 2.3 Mr G Dempster

Shareholders are advised that Mr I Kgaboesele who is eligible but has not offered himself up for re-election, will retire at this AGM.

Explanatory notes in respect of Ordinary Resolutions Numbers 2.1 to 2.3

Ordinary Resolutions Numbers 2.1 to 2.3 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 on page 87 of the integrated report.

Ordinary Resolutions Numbers 3.1 to 3.5 – 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 AGM of the Company:

- 3.1 Ms K Mzondeki
- 3.2 Mr L Von Zeuner
- 3.3 Mr S Luthuli
- 3.4 Mr G Dempster
- 3.5 Mr R Tomlinson

Mr S Luthuli will be appointed, subject to his election as a director pursuant to Ordinary Resolution Number 1.3 Mr R Tomlinson and Mr G Dempster will be appointed subject to their re-election as directors pursuant to Ordinary Resolutions Numbers 2.2 and 2.3 respectively.

The profiles of the directors who are standing for election to the audit committee are set out on page 87 of the integrated report.

Explanatory notes in respect of Ordinary Resolutions Numbers 3.1 to 3.5

In terms of the Companies Act, the audit committee is a statutory committee elected by the shareholders at each AGM. 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 – Appointment of PricewaterhouseCoopers and SizweNtsalubaGobodo as joint external auditors of the company

Resolved that PricewaterhouseCoopers and SizweNtsalubaGobodo, each by way of separate resolution, be appointed as the joint independent registered auditors of the Company from the conclusion of the AGM until the conclusion of the next AGM of the Company.

- 4.1 PricewaterhouseCoopers as the independent external auditor, represented by Mr S Dikana as the individual designated auditor responsible for the audit.
- 4.2 SizweNtsalubaGobodo as the independent external auditor, represented by Mr S Lokhat as the individual designated auditor responsible for the audit.

Notice of annual general meeting *continued*

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, PricewaterhouseCoopers and SizweNtsalubaGobodo are recommended by the audit committee to be appointed as joint auditors for the financial year ending 31 March 2019 and until the conclusion of the next AGM of the company.

Ordinary Resolutions Numbers 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 JSE 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 AGM 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 SA SOC Ltd 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 JSE 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 JSE 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 SA SOC Ltd employee forfeitable share plan.

Ordinary Resolutions Numbers 6.1 to 6.2 – Non-binding advisory endorsement of the Telkom SA SOC Ltd remuneration policy and implementation report for the payment of remuneration for the 2018 financial year

Resolved that the shareholders hereby endorse, each by way of a separate non-binding advisory vote, the following:

- 6.1 Company's remuneration policy as set out in the remuneration report contained in the integrated report on page 106. 
- 6.2 The implementation report as set out in the remuneration report contained in the integrated report on page 115. 

Explanatory notes for the non-binding advisory endorsement of the remuneration policy and implementation report

In terms of principle 14 of King IV, the Company's remuneration policy and implementation report should be tabled for separate non-binding advisory votes at the AGM. The essence of this vote is to enable the Shareholders to express their non-binding views on the remuneration policies adopted and implementation thereof.

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 JSE Listings Requirements, provided that:

- > the general authority granted to the directors shall be valid only until the company's next AGM 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 five (5) 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 JSE 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, provided 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
- > should the company and/or any subsidiary cumulatively repurchase and/or acquire, as the case may be, 3% of the initial number of the company's ordinary shares in terms of this general authority and for each 3% 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 JSE Listings Requirements.

Any decision by the directors, after considering the effect of a repurchase, of up to 10% 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.

The directors of Telkom, after considering the effect of the maximum potential repurchase, are of the opinion that for a period of 12 months after the passing of this resolution:

- > the company will, in the ordinary course of business, be able to pay its debts;
- > the assets of the company will be in excess of its liabilities;

- > the share capital and reserves of the company will be adequate for ordinary business purposes; and
- > the working capital of the company will be adequate for ordinary business purposes.

The following additional information, which appears in Telkom's integrated report, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

- > The major shareholders on page 123; and
- > The share capital of the company on page 52.



Directors' responsibility statement:

The directors, whose names appear on page 7 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to these resolutions and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this special resolution contains all required information.



Material changes:

There have been no material changes in the affairs or financial position of the company since the end of the financial year ended 31 March 2018 and the date of this notice of AGM.

Litigation statement:

Telkom is in the middle of proceedings on a matter with SARS relating to an assessment on the tax treatment of the loss that arose in prior years on the sale of foreign subsidiaries. Refer to note 20 in the notes to the annual financial statements. Other than as disclosed in the annual financial statements, Telkom is not aware of any other matter that may materially affect its financial position.

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 AGM is due to expire at this AGM, 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

Notice of annual general meeting *continued*

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 SA SOC Ltd 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 JSE 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 AGM and shall not extend beyond 15 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 JSE 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% of the company's number of ordinary shares in issue as at the date of the notice of AGM, net of treasury shares, being 25 557 012 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 subdivision 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 JSE Listings Requirements, in particular section 5.52 of the JSE 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 with effect from 23 August 2018:

Determination and approval of the remuneration of non-executive directors (excluding VAT).

	Annual retainer fee	Meeting attendance fee	Special meeting attendance fee
Telkom SA SOC Ltd board	Amount	Amount	Amount
Chairperson	1 364 750	–	25 500
Ordinary board member	400 000	–	19 100
International board member	551 800	–	19 100
Special sub-committee		19 100	
Audit committee			
Chairman		72 500	
Member		38 000	
Risk committee			
Chairman		53 050	
Member		31 800	
Social and ethics committee			
Chairman		54 500	
Member		32 750	
Nominations committee			
Chairman		48 333	
Member		32 733	
Remuneration committee			
Chairman		54 500	
Member		32 750	
Investment and transactions committee			
Chairman		50 267	
Member		32 733	

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 ending 31 March 2018 and is of the view that, in the best interest of the Company, the fees for the non-executive directors be increased 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.

Notice of annual general meeting *continued*

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 desirable 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 SA SOC LTD

E Motlhamme
Group company secretary
Date: 5 July 2018

Registered office

61 Oak Avenue
Highveld
Centurion
0157
South Africa
(Private Bag X881, Pretoria, 0001)

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
South Africa
(PO Box 61051, Marshalltown, 2107)

Curriculum vitae of directors standing for election

Dolly Mokgatle

Ms Dolly Mokgatle is currently an executive director for Peotona Group Holdings Pty Ltd and was previously the chief executive officer of Spoornet. She is currently the chairman of Total South Africa Pty Ltd and has previously chaired the boards of Zurich Insurance Company SA and Electricity Distribution Industry Holdings Company. She was the deputy chairman at NERSA and she serves as a non-executive director of Kumba Iron Ore Company, Bidcorp and has been a non-executive director of several large and listed companies including Wiphold, Thebe Investment Corporation, SASFIN Bank and SASAFIN Holdings. She has acquired experience in various senior executive positions at Eskom between 1991 and 2003.

Experience

Company	Position	Period
Peotona	Executive director	2005 – current
Spoornet	Chief executive officer	2003 – 2005
Eskom	Managing director: transmission	2000 – 2003
	Executive director: corporate affairs	1997 – 1999
	Executive director: growth & development	1996
	Senior general manager: growth & development	1995 – 1996
	Acting legal manager Senior legal advisor, Chief legal advisor	1995 1991 – 1995
Black Lawyers Association	Litigation officer	1987 – 1990
Cheadle Thompson And Haysom	Professional assistant	1985 – 1987
University of Witwatersrand	Article clerk/candidate attorney	1982 – 1984
University of Witwatersrand	Student research assistant	1978 – 1979

Major accomplishments

Eskom Distributor Award, Eskom Legal Manager's Award, Eskom Chairman's Award, first black female non-technical engineering person to be appointed executive director of a technical group, recipient of the technology for women in business award by Minister of Minerals and Energy Affairs, finalist in the South African Business Woman of the Year Award, Black Business Quarterly Businesswoman of the Year, French National Order of Merit, by Mrs Elisabeth Barbier, Ambassador of France to South Africa.

Education

BProc (1979), University of the North; LLB (1985), University of Witwatersrand; Higher Diploma in Tax Law (1991), University of Witwatersrand.

Sello Moloko

Mr Sello Moloko is the executive chairman and co-founder of Thesele Group, a wholly black-owned diversified investment holding company. Sello has a wealth of business experience gained over more than twenty-five years with an established career in financial services (investment management and employee benefits). He is the independent non-executive chairman of Sibanye-Stillwater Ltd and General Reinsurance Africa. He is the former CEO of Old Mutual Asset Managers and former deputy CEO of Capital Alliance Asset Managers. He has previously served on several boards of listed companies including Alexander Forbes Group Holdings Ltd (as non-executive chairman), Gold Fields Ltd, Makalani Holdings Ltd, Acucap Properties Ltd and Sycom Property Fund.

Experience

Company	Position	Period
Thesele Group	Co-founder and executive chairman	2004 – current
Alexander Forbes Equity Holdings	Executive chairman	2007 – 2013
Old Mutual Asset Managers	CEO, executive director, portfolio manager	1999 – 2004
Brait Asset Managers	Investment analyst/ portfolio managers/ deputy CEO	1996 – 1999
Alexander Forbes, Southern Life and Old Mutual	Actuarial consultant, actuarial technician	1989 – 1995
Sekano Ntoane High School	Educator (mathematics)	1983 – 1983

Major accomplishments

Third World Scholarship recipient from the University of Leicester, EOC and BP Southern Africa scholarship from the University of Cape Town.

Education

Advanced Management Program, (2003), The Wharton School, University of Pennsylvania; Post Graduate Certificate in Education (1989), University Of Leicester; Bsc with Honours (1988), University Of Leicester.

Curriculum vitae of directors standing for election *continued*

Sibusiso Luthuli

Mr Sibusiso Luthuli, a qualified chartered accountant, is the former chief executive and principal officer of the Eskom Pension and Provident Fund, a position he held for eight years, during which time he transformed the fund to be more member-centric and efficient, by replacing all archaic IT systems with more modern and automated systems. During his tenure at the fund, assets under management grew from R56 billion to more than R140 billion making the fund one of the largest by asset size in South Africa. He is one of the founding members and Deputy Chairman of Batseta, an organisation for pension fund fiduciaries. Sibusiso was previously a non-executive director of Telkom and has previously served as CEO of Ithala Bank Ltd, director of Cerebos Salt Ltd and chairman of Cipla Medpro Pharmaceuticals Ltd.

Currently he serves as a BCX non-executive director and chairman of the finance, risk and compliance committee and deputy chairman of Batseta.

Experience

Company	Position	Period
Eskom Pension and Provident Fund	Chief executive and principal officer	2010 – 2018
Ithala Bank Ltd	CEO Finance director	2004 – 2009 2004
BOE Corporate and Nedbank	Manager	2000 – 2003
Cipla	Chairman	2003 – 2013

Major accomplishments

One of the founding members of Batseta, a pension funds industry organisation. Successful negotiation and conclusion of major transactions (in excess of R10 billion in value) to maximise shareholder value (disposal of Pareto and disposal of Cipla).

Education

BCom (ACC), (1995), University of Zululand;
Dip(ACC), (1996), University of Durban Westville;
CA(SA), 2000

Form of proxy for annual general meeting

Telkom SA SOC Ltd

(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 BCX, Multi Purpose Room, 1021 Lenchen Avenue North, Centurion, 0157 on Thursday, 23 August 2018 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 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 BCX, Multi Purpose Room, 1021 Lenchen Avenue North, Centurion, 0157 on Thursday, 23 August 2018 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 1.1	Election of Mr S Moloko as a director			
Ordinary Resolution Number 1.2	Election of Ms D Mokgatle as a director			
Ordinary Resolution Number 1.3	Election of Mr S Luthuli as a director			
Ordinary Resolution Number 2.1	Re-election of Mr N Kapila as a director			
Ordinary Resolution Number 2.2	Re-election of Mr R Tomlinson as a director			
Ordinary Resolution Number 2.3	Re-election of Mr G Dempster as a director			
Ordinary Resolution Number 3.1	Election of Ms K Mzondeki as a member of the Audit Committee			
Ordinary Resolution Number 3.2	Election of Mr L Von Zeuner as a member of the Audit Committee			
Ordinary Resolution Number 3.3	Election of Mr S Luthuli as a member of the Audit Committee subject to his election as a director pursuant to ordinary resolution number 1.3			
Ordinary Resolution Number 3.4	Election of Mr G Dempster as a member of the Audit Committee subject to his re-election as a director pursuant to ordinary resolution number 2.3			
Ordinary Resolution Number 3.5	Election of Mr R Tomlinson as a member of the Audit Committee subject to his re-election as a director pursuant to ordinary resolution number 2.2			
Ordinary Resolution Number 4.1	Appointment of PricewaterhouseCoopers as a joint auditor of the Company			
Ordinary Resolution Number 4.2	Appointment of SizweNtsalubaGobodo as a joint auditor 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 6.1	Approval of the remuneration policy			
Ordinary Resolution Number 6.2	Approval of the implementation report			
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 refer to the notes on the next page.

Unless otherwise directed the proxy will vote as he/she thinks fit.

Signed at _____ this _____ day of _____ 2018

Signature of shareholder _____

assisted by (where applicable) _____

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 transfer secretaries at 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.
- 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

Notes to proxy *continued*

- 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 provides 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.

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, 21 August 2018. 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 transfer secretaries at 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)

Acronyms

4G	fourth generation
5G	fifth generation
AGM	annual general meeting
ASA	additional share awards
B-BBEE	broad-based black economic empowerment
BCoE	Business Code of Ethics
BSS	business support system
capex	capital expenditure
CEO	chief executive officer
CFO	chief financial officer
CoE	centre of excellence
CPA	Consumer Protection Act
CPI	consumer price index
CSI	corporate social investment
CSR	corporate social responsibility
EBITDA	earnings before interest, taxes, 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
GCEO	group chief executive officer
GCFD	group chief financial officer
GDP	gross domestic product

HEPS	headline earnings per share
ICASA	Independent Communications Authority of South Africa
ICT	information and communications technology
IGRC	integrated governance, risk and compliance
IoT	internet of things
IIRC	International Integrated Reporting Council
IT	information technology
IP	internet protocol
JSE	Johannesburg Stock Exchange
KPI	key performance indicator
LTE	long-term evolution
LTi	long-term incentive
LTIP	long-term incentive plan
MOI	memorandum of incorporation
NGN	next generation network
nomco	nominations committee
OHS	occupational health and safety
OSS	operations support system
PAT	profit after tax
POTN	packet optical transport network
remco	remuneration committee
SME	small and medium-sized enterprises
STI	short-term incentive
TAS	Telkom Audit Services
TSR	total shareholder return
VoIP	voice over internet protocol
WTC	WeThinkCode

Administration

Company registration number

1991/005476/30

Head office

61 Oak Avenue
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Centurion, 0157
South Africa

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Private Bag X881
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Transfer secretaries

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