CONTENTS

About this report 1
Group strategy, mission, vision, values 2
The Telkom Group 3

01 OVERVIEW
Social and Ethics Committee Chairman statement 7
Group CEO statement 9
Our sustainability performance at a glance 11

02 OUR MANAGEMENT APPROACH
Governance and management for sustainable development 15
Identifying our material sustainability issues 16

03 MATERIAL ISSUES PERFORMANCE REVIEW
Promoting ethical conduct and anti-corruption 19
Human capital developing our people 21
Promoting employee safety, health and wellbeing 26
Broad-based black economic empowerment 30
Procurement and supply chain 32
Product and service responsibility 34
Investing in society 38
Managing environmental impact 40
United Nations Global Compact table 45
GRI table 47
ABOUT THIS REPORT

The Telkom Sustainability Report 2014 provides a review of the Telkom Group’s sustainability performance for the period 1 April 2013 to 31 March 2014. It aims to give an overview of the progress we have achieved during the year, as well as our challenges and objectives going forward, and our approach to embedding sustainability in business practice.

The report is aimed at stakeholders who have an interest in the sustainability of Telkom, including government, our employees, investors and customers. It focuses on our most material sustainability issues – those that could affect the achievement of our business strategy and that are of significant interest to our stakeholders.

The report includes data and information for Telkom SA SOC Limited unless otherwise stated. Our report has been guided by the King Code of Governance for South Africa, 2009 (Kng III), the G3.1 Guidelines of the Global Reporting Initiative (GRI) and the principles of the United Nations Global Compact (UNGC). Telkom’s stakeholder engagement practices during the 2014 financial year were informed by the AA1000 Stakeholder Engagement Standard and adhered to the AccountAbility principles of inclusivity, materiality and responsiveness.

Telkom’s reporting on carbon emissions applies the standards of the Carbon Disclosure Project (CDP).

Selected data in this report has been independently assured by CA Governance. We have increased the number of sustainable development reporting indicators assured on an annual basis, from four in 2011 to seven in 2014.

This sustainability report should be read in conjunction with the Telkom 2014 Integrated Report (IR), which details the Group’s financial statements and provides an overview of material information relating to the Group’s strategy, governance practices and performance for the year under review, as well as the Group’s prospects for the next financial year. The IR is available for viewing or downloading from the Company’s website at www.telkom.co.za.

“It is a pleasure to present this report outlining Telkom’s sustainability journey: the progress we have made, the challenges we have overcome, and the next steps we will be taking.”

Ouma Rasethaba
Head of Sustainability
GROUP STRATEGY
MISSION, VISION, VALUES

MISSION
Seamlessly connecting South Africans to a better life.

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

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

OUR VALUES
Continuous improvement – Listen, act, learn, innovate.
Honesty – Be real, be open, be truthful.
Accountability – If it’s to be, it’s up to me.
Respect – Ensure dignity to all. Protect the environment.
Teamwork – Together we win.

BUSINESS STRATEGIC FOCUS AREAS
• Building a solutions-based business through vertical industry clusters.
• Offering converged solutions, leveraging off fixed-line, mobile and data centre services capabilities.
• Transforming our sales force.
• Moving into adjacent markets to benefit from other profit pools.
• Consolidating product suite and focus on fibre and high bandwidth products.
• Implementing focused approach to network build and service offering to satisfy customer needs.
The Convergence Strategy triggered a change in the way Telkom is managed from a financial reporting perspective as it is now managed as a single business, based on a common network, providing a complete service to various types of customers. In order to meet the needs of their different customer profiles, Telkom markets products based on the service lines listed below.

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

- **Trudon (Pty) Limited** (64.9% owned) (revenue contribution R1 112 million) provides yellow and white page directory services, an electronic directory service, 10118 “The Talking Yellow Pages” and an online web directory service.

- **Swiftnet (Pty) Limited** (wholly-owned subsidiary) (revenue contribution: R92 million) provides a suite of services including traditional connectivity services for point of sale, managed SIM services and customised wireless and wired Virtual Private Network Services.

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

Social and Ethics Committee Chairman statement 7
Group CEO statement 9
Our sustainability performance at a glance 11
The 2014 financial year was a very important period for Telkom as we began implementing our business turnaround strategy. We have also made significant progress in the social, ethics and sustainability arena. We do however recognise that a great deal remains to be done in order for us to continue playing our part in ensuring the long-term success of the Company.

Membership
The following are members of the committee
- Dr C Fynn (Chairman)
- Ms K Kweyama
- Mr L Maasdorp
- Ms F Petersen
- Mr L von Zeuner

Resignations
Mr J Molobela resigned 27 September 2013.

In addition the GCEO, the Chief Financial Officer, Chief of Human Resources, Chief of Regulatory and Corporate Affairs and Head of Foundation are permanent invitees to meetings.

Role of the committee
Telkom constituted its Social and Ethics Committee in order to fulfil its Companies’ Act obligations.

The committee’s work is governed by Board approved Terms of Reference (reviewed at least annually). These terms set out the mandate of the committee, its roles and responsibilities as well as its authority.

The Terms of Reference are underpinned by an Annual Work plan which is designed to ensure that all the matters falling within the committee’s remit are timeously and appropriately dealt with.

The committee is responsible for:
- Drawing matters within its mandate to the attention of the Board.
- Reporting to Shareholders at the annual general meeting.
- Monitoring activities with due regard to legislation, other legal requirements and the appropriate codes of best practice.
- Ensuring compliance to all matters that fall within its Terms of Reference.
The committee has grouped its functions (as defined by the Companies Act), into four broad categories, with the noted sub-categories, being:

1. Workplace (employment equity, decent work, employee safety and health, education of employees).
3. Social (community development, donations and sponsorships, corruption prevention, public health and safety, consumer relationships).
4. Natural environment (environmental impact).

Some of the highlights from these areas are outlined below:

**Sustainability performance highlights**

- We agreed a positive settlement with the Competition Commission and addressed various remaining concerns that they had expressed.
- We have made progress in implementing our transformation and diversity targets. Positive gains have been made in addressing inequalities and discrepancies in remuneration, as well as in ensuring a transformed environment.
- As evidenced by our annual customer surveys, we have made progress in improving the customer experience although there are areas of improvements that we are working on.
- We are implementing organisational redesign initiatives to streamline our workforce, flatten the organisational structure, reduce bureaucracy and bring us closer to the customer.
- Through our energy efficiency initiatives, we have once again reduced our energy use and carbon footprint.
- An independent whistle-blowing policy and crime hotline is in place, for reporting on matters relating to unethical behaviour, fraud, theft and corruption. Independent, fair and objective investigations are conducted on all reported and detected cases of fraud, theft, corruption and unethical conduct.
- We are pleased to report zero work-related fatalities during the period under review. There was also an encouraging decrease in the number of injuries on duty.

**TRAINING AND DEVELOPMENT**

To strengthen our compliance efforts in ethics we agreed on and are ensuring adherence to ethics-oriented initiatives. We are also providing ongoing training.

During the period under review the committee noted its obligation with regard to each of the following areas:

- The United Nations Global Compact Principles.
- The OECD recommendations regarding corruption.
- The Social and Ethics’ requirements as per regulation 43 of the new Companies’ Act.
- The Consumer protection legislation.

We continue to improve our capabilities in and oversight of the above areas and, Telkom will ensure that we will continue receiving training in the noted focus areas.

**GOING FORWARD**

The Committee recognises that social, ethics and sustainability performance can only improve if material indicators are identified, measured, monitored, reported and managed. As such, a major focus going forward will be quarterly monitoring of the performance of each of the four areas (Workplace, Marketplace, Social, and Natural environment) against their individually determined targets and criteria.

**CONCLUSION**

The Committee is satisfied that the Group has discharged its responsibilities in respect of the requirements of the Act, the Company’s Memorandum of Incorporation, its Terms of Reference and other relevant requirements.

Dr CA Fynn

Chairman of the Social and Ethics Committee

12 June 2014
GROUP CEO
STATEMENT

In this first year of implementing our business turnaround strategy, we have made valuable progress in promoting sustainability. This was achieved under challenging circumstances and we recognise that there is still much that needs to be done.

SUSTAINABILITY PERFORMANCE HIGHLIGHTS

A particular highlight is the continuing improvement in our safety performance. This year we achieved our goal of zero work-related fatalities and saw an encouraging decline in the number of injuries incurred on duty. Ensuring the safety of our employees and promoting their health and wellbeing, is an ongoing priority.

Other positive developments I’d like to mention in particular, relate to managing ethical business practices, cost reduction, human capital and competitiveness.

- We have established a Social, Ethics and Sustainability Council to ensure the integration of sustainability issues into the Company and to promote the sustainability agenda through recommendations to the Board and Board Committees.
- As part of our strategy turnaround plan we are implementing organisational redesign initiatives to streamline our workforce, flatten the organisational structure, reduce bureaucracy and bring us closer to the customer. As part of the restructuring, we have made new appointments to the executive leadership team, who bring significant experience and positive new energy.
- In our drive for enhanced efficiency we have made valuable initial progress in reducing the costs of our workforce, our goods and services and our procurement activities.
- We have also made progress in implementing our transformation and diversity targets. Positive gains have been made in addressing inequalities and discrepancies in remuneration, as well as in ensuring a transformed environment.
- Rebuilding customer loyalty is a strong strategic focus. Our annual customer surveys suggest that we are making some progress in improving the customer experience, but much remains to be done. This remains one of our biggest challenges and also one of the greatest opportunities for us to grow the company.
- We have developed a stakeholder management policy that affirms the importance of engaging with a diverse range of stakeholders as a critical means

“It is a pleasure to share my reflections on Telkom’s sustainable development performance this year and to provide an outlook for the years ahead.”
of achieving long-term business objectives. We have worked hard and been successful in fostering a stronger relationship with government and regulators.

- We have resolved all the past Competition Commission complaints and have been working well with the Commission in implementing the settlement agreement.
- To increase our competitiveness, we undertook a R12 billion non-cash impairment of our legacy assets, and have managed our post-retirement medical aid liabilities.

CHALLENGES AND OPPORTUNITIES FACING THE GROUP

External challenges facing the business include the risk that rising energy costs present to Telkom’s operating costs due to our network’s dependency on energy sources. The government’s proposed introduction of a carbon tax poses risks to operating costs, yet also presents opportunities to transform our network. We have managed to quantify the anticipated carbon tax impact for Telkom.

There have been some significant developments in the regulatory and policy environment, most notably on mobile termination rates (MTR) and local loop unbundling (LLU), which present potential challenges. We have clearly communicated our positions on recent policy issues and continue to engage constructively with regulator.

We are in an unprecedented period of digital innovation, and operating in an increasingly competitive and rapidly changing sector. With fixed moving to mobile, traditional voice moving to data, and individual services moving to converged services, to succeed we will need to revisit our traditional business model, and change our products and services portfolio. We also need to deliver these products and services with a level of excellence that earns our customers’ trust and their recommendations. Our new growth strategy recognises the need to transform our traditional business model and seeks to address the key drivers that we believe have contributed to what have been some very difficult years for the company.

To deliver on our turnaround strategy it is critical that we are able to attract and retain the best talent. We are working hard on building an appropriate pipeline of skills. In addition to supporting graduate training programmes at different universities around the country, we have also embarked on an ambitious internal programme to retrain staff on our new generation network technology.

EMBEDDING SUSTAINABILITY INTO BUSINESS PRACTICE

We continue to make strides in raising levels of understanding across the organisation that promoting sustainable business practices presents opportunities to enhance the overall performance of the organisation. The sustainability governance structures were established last year are fully functional, incorporating identified objectives, key performance indicators and in most cases documented targets.

Continuous engagements with the established governance structures and regular reporting will assist in further embedding sustainability into our core business practices. Each person in the organisation needs to understand and integrate our sustainability vision into day-to-day activities. Key performance indicators will be identified for each sustainability focus area and measured and monitored throughout the reporting cycle.

As part of ongoing efforts to improve our stakeholder engagement practices, we have renewed our affiliation with the National Business Initiative (NBI) and will continuously engage in the forums and events hosted by the NBI to ensure that Telkom is informed about key developments in the sustainability space. Through the NBI we have continued to benchmark our performance against the 10 principles of the United Nations Global Compact (UNGC). We conducted a thorough gap analysis and self-assessment of our adherence to these principles and our Social and Ethics Committee will monitor the Company’s standing in relation to these, as well as legislation and other codes.

GOING FORWARD

During the next financial year we will review our sustainability strategy and corporate citizenship policy and revise these as necessary to align with the Telkom turnaround strategy.

Other sustainability goals for the year ahead include putting energy efficiency targets in place, and conducting fraud risk assessments in our remaining business units. To advance our reporting standards, we will undertake a gap analysis and incorporate GRI G4 reporting guidelines into the performance measurement of the company in the 2015 reporting cycle. We will continue to assess the implications of the UNGC, with the goal of becoming UNGC signatories in 2015.

CONCLUSION

Managing Telkom’s material sustainability issues is critical to delivering on our business strategy. We are confident that our new strategic direction will deliver the change that our stakeholders are seeking: a stabilisation in our financial performance and a repositioning of the company to achieve commercial sustainability, while fulfilling our role in transforming the South African economy.

Sipho Maseko
Group Chief Executive Officer

12 June 2014
## OUR SUSTAINABILITY PERFORMANCE AT A GLANCE

The data in this table only applies to Telkom SA SOC Limited.

<table>
<thead>
<tr>
<th>Material sustainability focus area</th>
<th>Sustainability performance summary</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical conduct and anti-corruption</td>
<td>Completed fraud risk assessments</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Developing our people</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Minimising fraud and corruption</td>
<td>Total headcount</td>
<td>20 939</td>
<td>21 209</td>
<td>19 197</td>
</tr>
<tr>
<td>• Ensuring legislative compliance</td>
<td>Employee turnover (%)</td>
<td>2.3</td>
<td>2.8</td>
<td>2.1</td>
</tr>
<tr>
<td>• Corporate culture and group values</td>
<td>Black representation in senior management (%)</td>
<td>53</td>
<td>53</td>
<td>50</td>
</tr>
<tr>
<td>• Investing in skills development that keep pace with technological evolution</td>
<td>Women representation in senior management (%)</td>
<td>25</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>• Minimising fraud and corruption</td>
<td>Investment in learning and development (Rm)</td>
<td>245</td>
<td>255</td>
<td>301</td>
</tr>
<tr>
<td>• Ensuring legislative compliance</td>
<td>Total training days</td>
<td>101 628</td>
<td>122 129</td>
<td>99 439</td>
</tr>
<tr>
<td>Occupational health and safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Optimising employee safety and wellbeing</td>
<td>Work-related fatalities</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>• Ensuring full legal compliance</td>
<td>Number of injuries</td>
<td>770</td>
<td>694</td>
<td>512</td>
</tr>
<tr>
<td>• Managing non-ionising electromagnetic radiation exposure</td>
<td>Number of occupational diseases</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>• Optimising employee safety and wellbeing</td>
<td>Lost days (days)</td>
<td>7 204</td>
<td>6 767</td>
<td>5 667</td>
</tr>
<tr>
<td>• Ensuring full legal compliance</td>
<td>Absenteeism rate (days)</td>
<td>136 749</td>
<td>137 702</td>
<td>136 048</td>
</tr>
<tr>
<td>Broad-based black economic empowerment (B-BBEE)</td>
<td>Ownership (score out of 20)</td>
<td>5,39</td>
<td>4,64</td>
<td>8,93</td>
</tr>
<tr>
<td>• Transformation of the ICT Sector, the Telkom Group and the economy</td>
<td>Management control (score out of 10)</td>
<td>10,83</td>
<td>11,00</td>
<td>10,00</td>
</tr>
<tr>
<td>• Changes in the legislative framework</td>
<td>Employment equity (score out of 10)</td>
<td>10,18</td>
<td>5,81</td>
<td>5,29</td>
</tr>
<tr>
<td>Procurement and supply chain</td>
<td>Skills development (score out of 17)</td>
<td>10,40</td>
<td>8,08</td>
<td>7,82</td>
</tr>
<tr>
<td>• Promoting local economic transformation</td>
<td>Preferential procurement (score out of 20)</td>
<td>19,79</td>
<td>24,46</td>
<td>24,68</td>
</tr>
<tr>
<td>• Job creation</td>
<td>Enterprise development (score out of 11)</td>
<td>15,00</td>
<td>11,00</td>
<td>11,00</td>
</tr>
<tr>
<td>• Cost containment</td>
<td>Socio-economic development (score out of 12)</td>
<td>5,00</td>
<td>12,00</td>
<td>12,00</td>
</tr>
<tr>
<td>• Promote local economic growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product and service responsibility</td>
<td>Procurement spend (Rb)</td>
<td>21,2</td>
<td>19,8</td>
<td>21,1</td>
</tr>
<tr>
<td>• Defending profitable revenue though customer retention and loyalty, improved customer experience and service quality</td>
<td>Local procurement percentage</td>
<td>82,33</td>
<td>82,79</td>
<td>75,87</td>
</tr>
<tr>
<td>• Managing customer churn</td>
<td>Procurement from black-owned suppliers (Rm)</td>
<td>3 763</td>
<td>4 489</td>
<td>4 307</td>
</tr>
<tr>
<td>• Innovative products and service offerings</td>
<td>Procurement from black women-owned suppliers (Rm)</td>
<td>653</td>
<td>906</td>
<td>869</td>
</tr>
<tr>
<td>• Providing cost effective technologies with minimal environmental impact</td>
<td>Black-owned enterprise development beneficiaries</td>
<td>76</td>
<td>119</td>
<td>105</td>
</tr>
<tr>
<td>• Broadband growth and rollout</td>
<td>Overall service quality (%)</td>
<td>48</td>
<td>51</td>
<td>59</td>
</tr>
<tr>
<td>Investing in society</td>
<td>Corporate social investment expenditure (Rm)</td>
<td>30</td>
<td>42</td>
<td>45</td>
</tr>
<tr>
<td>• Enhancing value added to all stakeholders</td>
<td>Percentage of black beneficiaries (%)</td>
<td>&gt;90</td>
<td>&gt;90</td>
<td>&gt;90</td>
</tr>
<tr>
<td>• Improve and empower communities</td>
<td>Number of employee volunteers</td>
<td>1 628</td>
<td>1 800</td>
<td>2 008</td>
</tr>
<tr>
<td>Environmental management</td>
<td>Electricity consumption (mWh)*</td>
<td>672 654</td>
<td>662 086</td>
<td>656 669</td>
</tr>
<tr>
<td>• Energy use</td>
<td>Carbon emissions (tonnes)*</td>
<td>774 201</td>
<td>762 429</td>
<td>739 976</td>
</tr>
<tr>
<td>• Climate change and carbon footprint</td>
<td>Recycled copper (tonnes)</td>
<td>1 279</td>
<td>1 231</td>
<td>1 241</td>
</tr>
<tr>
<td>• Integrated waste management</td>
<td>Recycled optic fibre (tonnes)</td>
<td>251</td>
<td>281</td>
<td>333</td>
</tr>
</tbody>
</table>

* This data includes subsidiaries.
OUR MANAGEMENT APPROACH

Governance and management for sustainability development  15
Identify our material sustainability issues  16
Telkom is committed to doing its business in a responsible and ethical manner. We have a well-defined set of policies, standards and management systems aimed at embedding sustainability principles within our business activities and managing the risks and opportunities associated with sustainable development.

Corporate governance is at the core of the Board’s approach to ensuring a sustainable future for the Company and its stakeholders, the protection of shareholders’ funds and the creation and enhancement of shareholder value. In pursuing this objective, we have committed to the highest standards of governance and we strive to embed a culture that values and rewards exemplary ethical standards, personal and corporate integrity, as well as respect for others.

Telkom good citizenship business principles guide our approach to business integrity, safety, health and the environment, human rights, and community development.

Empowerment and sustainability division
Responsibility for managing and embedding sustainability requirements into our business processes and decision-making rests with Telkom’s Empowerment and Sustainability (E&S) team that forms part of our Enterprise Risk Management (ERM) business unit. Sustainability considerations are incorporated into strategic planning and due diligence processes for mergers and acquisitions, as well as business-improvement processes and reviews at operations.

The E&S division assists operations in promoting responsible corporate citizenship and delivering on the Group strategy and long-term sustainable performance; by providing:
- Expert advice on sustainability and the integration of sustainability management structures into the business planning and decision-making processes of the business units
- Advice on compliance with relevant legislation
- Internal education and awareness of sustainability issues and the associated risks and opportunities for the organisation
- Assistance in determining Telkom’s material issues

Sustainability working groups
Telkom has working groups that are responsible for managing sustainability reporting as well as for developing and implementing a sustainability strategy for the Company. These working groups provide a platform for strategic communication with business units and foster a culture of sustainability innovation and dialogue to advance the implementation of sustainability objectives.

Governance structures
In line with the requirements of the Companies Act and King III, the Board established a Social and Ethics Committee to actively manage social and environmental sustainability. Through this committee, the Board is responsible for ensuring that sustainability within Telkom is managed effectively.

During the reporting cycle, Telkom established a Social, Ethics and Sustainability Council, chaired by the Head of Sustainability, to ensure the integration of sustainability issues into the company and to promote the sustainability agenda through recommendations to the Board and Board committees.

Telkom is committed to ensuring that its policies and practices in the critical areas of financial reporting, sustainability reporting, remuneration reporting and general corporate governance meet high levels of disclosure and compliance. A full review of our governance structures, policies and practices is provided in our integrated report (IR).
To deliver successfully on our business strategy, we need to identify and respond to the material risks and opportunities that impact our business. Our material sustainability focus areas relate to those sustainability-related issues where we are seen to have a particular societal impact, as well as those issues that substantively influence the assessments and decisions of key stakeholders.

We have identified the following specific material sustainability focus areas:
- Promoting ethical conduct and anti-corruption
- Human capital: Developing our people
- Promoting employee safety, health and wellbeing
- Broad-based black economic empowerment (B-BBEE)
- Procurement and supply chain
- Product and service responsibility
- Investing in society
- Environmental management

**OUR REVIEW PROCESS**

Our material sustainability focus areas were identified on the basis of an internal assessment of our material risks and opportunities in the context of the Group strategy, as well as a review of the interests and expectations of our stakeholders. In developing an understanding of our most material issues, we take account of the following internal and external sources:

**Internal**
- Significant risks that could affect our success as identified through our enterprise-wide risk management process (briefly described below)
- Opportunities for promoting sustainable development through Telkom’s core business
- The views, expectations, interests and concerns of our internal and external stakeholders, identified through our stakeholder management processes (briefly described below)
- The findings and recommendations of our external assurance providers and internal auditors
- The strategic focus areas of the Group strategy
- Telkom’s values, policies, strategies, systems and objectives

**External**
- Challenges and emerging issues for the telecoms sector
- A review and benchmark of the material issues reported by other companies in the telecommunications sector
- Relevant legislation and regulation, principles and protocols, including, but not limited to: B-BBEE, the UN Global Compact principles, the Montreal Protocol, the National Waste Management Act and the National Air Quality Act.
- Advice received through external experts regarding sustainable development
- Media coverage and market reports on the Company

The process of identifying and prioritising our material sustainability issues drew on the materiality guidance provided by the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC).

Our methodical materiality assessment process helps us to improve our management efforts and report effectively. We regularly review the effectiveness of our materiality process and undertake a formal risk materiality assessment on a quarterly basis for a dedicated risk management council, the Telkom Executive Risk Management Council (TERMC) and for Executive Committee on a monthly basis for approval.

We measure and monitor our performance in each material sustainability focus area against an internally developed scorecard, and report to Executive Committee and the Social and Ethics Committee on a quarterly basis.

A brief summary of our quantitative performance in each of the sustainability focus areas is provided in the table earlier in this report (page 11). A review of our management approach and performance in each focus area is provided in the performance review section of this report that follows.

**RISK MANAGEMENT**

Telkom’s risk management system is an integral part of management’s approach to delivering business objectives and is a systematic process designed to identify, assess, treat, manage and communicate risks. Risks are recorded in regularly updated risk registers operating at all levels of the organisation and are continuously reviewed and monitored. Development and deployment of the process is the responsibility of a dedicated Enterprise Risk Management (ERM) team. Our ERM process and performance is discussed in detail in the Telkom IR (page 97).

**RESPONDING TO STAKEHOLDERS**

Understanding and being responsive to the interests of our stakeholders, and establishing relationships based on trust, is critical to delivering on our core purpose. Recognising the importance of having a structured approach to managing and engaging our stakeholders, this year we have defined a clear governance process and management framework for stakeholder engagement. The Telkom Board has identified eight stakeholder groups for particular focus and engagement, namely: investors, government, regulators, our customers, our employees, organised labour, our suppliers, and media and opinion formers. A summary of the material interests of each of these priority stakeholder groups, and a brief review of our response to addressing these interests, is provided in our IR (page 27).
MATERIAL ISSUES PERFORMANCE REVIEW

Promoting ethical conduct and anti-corruption 19
Human capital developing our people 21
Promoting employee safety, health and wellbeing 26
Broad-based black economic empowerment 30
Procurement and supply chain 32
Product and service responsibility 34
Investing in society 38
Managing environmental impact 40
United Nations Global Compact table 45
GRI table 47
In line with King III requirements, Telkom conducted an ethical risk assessment survey during the 2013 reporting cycle. As part of this process, we assessed respondents’ perceptions regarding our management of ethics within the Company. The survey findings provided a favourable indication that employees are familiar with Telkom’s standards of conduct and encourage all stakeholders to raise concerns about potential breaches or any other legal or ethical issues with management. We maintain high standards of business assurance in order to identify and monitor material risks, safeguard our assets and prevent or detect fraud and corruption.

**PROMOTING ETHICAL BEHAVIOUR**

Telkom has various initiatives in place to educate, create awareness and provide advice on ethical conduct, as well as provide opportunities for reporting unethical behaviour. Our ethics programme includes providing training and awareness on our business code of ethics and supplementary policies such as a the gifts and entertainment policy, conflict of interest, prevention of fraud and corruption, whistle blowing, share dealing, and the prohibition against sexual harassment and unfair discrimination policies. The induction of new employees includes an online course on ethics. We communicate with our employees on ethics-related issues through e-news articles, our ethics website and with banners and notice boards. An ethics mailbox is in place to provide staff with advice on ethical dilemmas. This mailbox received 48 concerns/questions raised by staff during the 2014 financial year. The mailbox is also displayed on telephony accounts for our customers who are faced with an ethical dilemma. The table below reflects the nature and frequency of issues where guidance has been provided over the last three reporting cycles.

<table>
<thead>
<tr>
<th>Type of ethics matters reported</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflict of interest/private work</td>
<td>7</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Unfair treatment/unethical behaviour</td>
<td>10</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Gifts</td>
<td>5</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Share dealing</td>
<td>3</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Unethical behaviour of management</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Telkom Retirement Fund</td>
<td>5</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other, ie sponsorships, dress code</td>
<td>21</td>
<td>36</td>
<td>4</td>
</tr>
<tr>
<td>Ethics training/other</td>
<td>0</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Compliance</td>
<td>0</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>56</td>
<td>90</td>
<td>48</td>
</tr>
</tbody>
</table>

In line with King III requirements, Telkom conducted an ethical risk assessment survey during the 2013 reporting cycle. As part of this process, we assessed respondents’ perceptions regarding our management of ethics within the Company. The survey findings provided a favourable indication that employees are familiar with Telkom’s standards of conduct and that they are generally motivated to act ethically. The results indicated a need to strengthen the enforcement of ethical conduct and transparency. The findings of this ethics survey were incorporated into the ethics risk register using the principles and methodology followed in our enterprise risk management process.

**COMBATING FRAUD AND CORRUPTION**

Fraud risk assessments are performed for each service organisation and cover all types of fraud risks and violations of the business code of ethics. Line management assist with the implementation of relevant controls to mitigate the risks. A fraud perception survey is conducted across business units and the outcomes inform the development of further interventions. This is supported by our independent whistle-blowing policy and crime hotline, for reporting of matters relating to unethical behaviour, fraud, theft and corruption. The hotline and internal reporting channels investigated 2 088 cases during the reporting cycle, compared to 2 448 calls in the previous period (see table on next page). Independent, fair and objective investigations are conducted on all reported and detected cases of fraud, theft, corruption and unethical conduct.
Telkom’s whistle-blowing hotline: incidents reported

<table>
<thead>
<tr>
<th>Incidents</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total incidents reported</td>
<td>4 218</td>
<td>3 976</td>
</tr>
<tr>
<td>Total cases investigated</td>
<td>2 448</td>
<td>2 088</td>
</tr>
<tr>
<td>Total cases resolved</td>
<td>1 994</td>
<td>1 616</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number and nature of incidents investigated</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset theft</td>
<td>845</td>
<td>633</td>
</tr>
<tr>
<td>Burglary</td>
<td>59</td>
<td>34</td>
</tr>
<tr>
<td>Business code of ethics</td>
<td>307</td>
<td>281</td>
</tr>
<tr>
<td>Fraud</td>
<td>117</td>
<td>73</td>
</tr>
<tr>
<td>Other (case types to be identified)</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Fraud risk review</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Reputational risk (refund scam)</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Robbery</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Security breaches</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Vehicle misuse</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td>Bank line division (e.g. cloned cash cheques)</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Telkom mobile</td>
<td>0</td>
<td>41</td>
</tr>
<tr>
<td>Cable theft</td>
<td>770</td>
<td>703</td>
</tr>
<tr>
<td>Network (e.g. subscription fraud, line tapping and manipulation of payphones)</td>
<td>206</td>
<td>210</td>
</tr>
<tr>
<td>Solar panel theft</td>
<td>28</td>
<td>15</td>
</tr>
<tr>
<td>Payphones (vandalism and theft of money)</td>
<td>37</td>
<td>27</td>
</tr>
</tbody>
</table>

| Total investigations                          | 2 448  | 2 088  |

**GOING FORWARD**

The Ethics Office will continue to provide advice on matters referred to the ethics mailbox, promote whistle-blowing within Telkom and among external stakeholders, ensure that collaborative efforts with stakeholders are embarked upon to promote ethical conduct and good corporate citizenship, and ensure that internal and external ethics performance adhere to the same ethical standards.

Ethics champions will be appointed in each service organisation/business unit to assist the Ethics Office with establishing and sustaining an ethical corporate culture.

The Ethics Office is implementing an ethics management framework and ethics management plan that it compiled during the review period. The Ethics Office is also implementing an updated business code of ethics and supplementary policies, including the conflict of interest policy and the gift and entertainment policy.

Fraud risk assessments will be conducted in the Finance, Procurement Services and Company Secretary business units during the next reporting cycle.
Having a skilled, motivated, culturally diverse and productive workforce is fundamental to achieving our growth strategy. If Telkom is to grow successfully in this rapidly changing sector, then it is critical that we are able to attract and retain the best talent. As we adapt our business model to the realities of digital and mobile, we need to have the right people, with the right attitude and aptitude, in the right roles.

The main challenge that we face is the need to reduce the significant staff cost burden and optimise the efficiency of our workforce, while ensuring that we have the capabilities to respond effectively to the demands of a rapidly changing telecoms sector. While we recognise that our staff costs have in the past been too high, it is critical that the measures we take to reduce these costs are done sensitively, and that these do not undermine our drive to develop a technically skilled customer-driven company.

As part of our strategy turnaround plan, we have focused our efforts this year on organisational redesign initiatives that seek to streamline our workforce, flatten the organisational structure, reduce bureaucracy and bring us closer to the customer.

### WORKFORCE STATISTICS

The ongoing implementation of our new business model and organisational structure, to align with the business turnaround strategy, will impact on a year-on-year comparison of allocated human resources. The organisation was resourced at the end of the reporting year as follows.

#### Telkom’s permanent staff per business unit (as at 31 March 2014)

<table>
<thead>
<tr>
<th>Department</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Political region</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief information officer</td>
<td>–</td>
<td>–</td>
<td>864</td>
<td>Eastern Cape</td>
<td>1 314</td>
<td>1 300</td>
<td>1 150</td>
<td>5,99</td>
</tr>
<tr>
<td>Chief marketing officer</td>
<td>–</td>
<td>–</td>
<td>28</td>
<td>Free State</td>
<td>761</td>
<td>782</td>
<td>696</td>
<td>3,63</td>
</tr>
<tr>
<td>Corporate centre</td>
<td>1 791</td>
<td>1 785</td>
<td>1 582</td>
<td>Gauteng</td>
<td>11 239</td>
<td>11 449</td>
<td>10 524</td>
<td>54,82</td>
</tr>
<tr>
<td>Chief technology officer (Networks and wholesale)</td>
<td>14 265</td>
<td>14 115</td>
<td>11 827</td>
<td>KwaZulu-Natal</td>
<td>2 490</td>
<td>2 516</td>
<td>2 273</td>
<td>11,84</td>
</tr>
<tr>
<td>Chief operating officer</td>
<td>–</td>
<td>–</td>
<td>14</td>
<td>Limpopo</td>
<td>443</td>
<td>427</td>
<td>370</td>
<td>1,93</td>
</tr>
<tr>
<td>Telkom business</td>
<td>821</td>
<td>882</td>
<td>957</td>
<td>Mpumalanga</td>
<td>514</td>
<td>498</td>
<td>431</td>
<td>2,25</td>
</tr>
<tr>
<td>Consumer services and retail</td>
<td>3 144</td>
<td>3 378</td>
<td>2 923</td>
<td>North West</td>
<td>429</td>
<td>409</td>
<td>346</td>
<td>1,80</td>
</tr>
<tr>
<td>Telkom mobile</td>
<td>355</td>
<td>435</td>
<td>403</td>
<td>Northern Cape</td>
<td>255</td>
<td>226</td>
<td>199</td>
<td>1,03</td>
</tr>
<tr>
<td>Telkom data centre operation</td>
<td>538</td>
<td>603</td>
<td>599</td>
<td>Western Cape</td>
<td>3 494</td>
<td>3 602</td>
<td>3 208</td>
<td>16,71</td>
</tr>
<tr>
<td>Telkom international</td>
<td>25</td>
<td>11</td>
<td>–</td>
<td>Total</td>
<td>20 939</td>
<td>21 209</td>
<td>19 197</td>
<td>100,00</td>
</tr>
</tbody>
</table>

#### Human Capital

**Developing Our People**

#### Stats

- **Trudon**
  - **Race**
    - **Asian**
      - Male: 25
      - Female: 47
    - **African**
      - Male: 66
      - Female: 74
    - **Coloured**
      - Male: 28
      - Female: 64
    - **Disabled**
      - Male: 0
      - Female: 2
    - **White**
      - Male: 119
      - Female: 107
    - **Total**
      - Male: 238
      - Female: 294
  - **Total**
    - Male: 72
    - Female: 140

- **Swiftnet**
  - **Race**
    - **Asian**
      - Male: 10
      - Female: 5
    - **African**
      - Male: 39
      - Female: 35
    - **Coloured**
      - Male: 12
      - Female: 11
    - **Disabled**
      - Male: 0
      - Female: 0
    - **White**
      - Male: 26
      - Female: 22
    - **Total**
      - Male: 87
      - Female: 73
  - **Total**
    - Male: 15
    - Female: 74

**Age distribution Telkom SA (permanent employees)**

- **Age range**
  - 20 to 29: 2 039
  - 30 to 39: 7 934
  - 40 to 49: 8 944
  - 50 to 54: 3 019
  - 55 to 65: 1 311
  - **Total**: 23 267

- **Average age = 43 (Male = 45, Female = 41)**
- **Average years of service = 18 (Male = 20, Female = 14)**

---

Average age = 43 (Male = 45, Female = 41).
Average years of service = 18 (Male = 20, Female = 14).
HUMAN CAPITAL
DEVELOPING OUR PEOPLE
(CONTINUED)

Labour turnover rate

<table>
<thead>
<tr>
<th>Age range</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 to 29</td>
<td>5.03%</td>
<td>4.09%</td>
<td>4.66%</td>
<td>4.80%</td>
<td>4.18%</td>
</tr>
<tr>
<td>30 to 39</td>
<td>4.25%</td>
<td>3.08%</td>
<td>3.10%</td>
<td>3.50%</td>
<td>2.76%</td>
</tr>
<tr>
<td>40 to 49</td>
<td>2.78%</td>
<td>2.15%</td>
<td>1.83%</td>
<td>2.24%</td>
<td>1.66%</td>
</tr>
<tr>
<td>50 to 54</td>
<td>3.69%</td>
<td>2.02%</td>
<td>1.11%</td>
<td>1.72%</td>
<td>1.13%</td>
</tr>
<tr>
<td>55 to 65</td>
<td>5.00%</td>
<td>2.92%</td>
<td>1.59%</td>
<td>3.30%</td>
<td>2.61%</td>
</tr>
<tr>
<td>Grand total</td>
<td>3.70%</td>
<td>2.65%</td>
<td>2.31%</td>
<td>2.80%</td>
<td>2.13%</td>
</tr>
</tbody>
</table>

Recruitment rate per age range

<table>
<thead>
<tr>
<th>Age range</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 to 29</td>
<td>16.72%</td>
<td>11.97%</td>
<td>13.61%</td>
<td>25.34%</td>
<td>9.07%</td>
</tr>
<tr>
<td>30 to 39</td>
<td>1.90%</td>
<td>1.84%</td>
<td>2.22%</td>
<td>6.11%</td>
<td>1.45%</td>
</tr>
<tr>
<td>40 to 49</td>
<td>0.72%</td>
<td>0.58%</td>
<td>0.51%</td>
<td>1.37%</td>
<td>0.65%</td>
</tr>
<tr>
<td>50 to 54</td>
<td>0.14%</td>
<td>0.16%</td>
<td>0.09%</td>
<td>0.54%</td>
<td>0.12%</td>
</tr>
<tr>
<td>55 to 65</td>
<td>0.00%</td>
<td>0.07%</td>
<td>0.06%</td>
<td>0.41%</td>
<td>0.16%</td>
</tr>
<tr>
<td>Grand total</td>
<td>2.5%</td>
<td>1.86%</td>
<td>1.95%</td>
<td>4.3%</td>
<td>1.23%</td>
</tr>
</tbody>
</table>

OUR PEOPLE AGENDA

The diagram below illustrates the focus areas of our people agenda.

STRATEGIC WORKFORCE PLANNING

Our strategic workforce plan, which guides the allocation of resources internally and the actions required to manage the workforce accordingly, is reviewed and updated annually. Taking permanent and contract or temporary employees into account, this year the total workforce was reduced by 13%. The table below reflects where we had staff reductions.

<table>
<thead>
<tr>
<th>Workforce movements</th>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td></td>
<td>23 520</td>
<td>23 247</td>
<td>22 884</td>
<td>20 939</td>
<td>21 209</td>
</tr>
<tr>
<td>Employee gains</td>
<td></td>
<td>592</td>
<td>439</td>
<td>435</td>
<td>915</td>
<td>255</td>
</tr>
<tr>
<td>Appointments</td>
<td></td>
<td>584</td>
<td>428</td>
<td>428</td>
<td>906</td>
<td>245</td>
</tr>
<tr>
<td>Re-instatement</td>
<td></td>
<td>8</td>
<td>11</td>
<td>7</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Employee losses</td>
<td></td>
<td>865</td>
<td>802</td>
<td>2 380</td>
<td>645</td>
<td>2 267</td>
</tr>
<tr>
<td>Voluntary reduction</td>
<td></td>
<td>1</td>
<td>191</td>
<td>1 873</td>
<td>55</td>
<td>1 835</td>
</tr>
<tr>
<td>Early retirement</td>
<td></td>
<td>1</td>
<td>110</td>
<td>1 013</td>
<td>6</td>
<td>1 103</td>
</tr>
<tr>
<td>Severance</td>
<td></td>
<td>–</td>
<td>81</td>
<td>860</td>
<td>49</td>
<td>732</td>
</tr>
<tr>
<td>Natural attrition</td>
<td></td>
<td>864</td>
<td>611</td>
<td>507</td>
<td>590</td>
<td>432</td>
</tr>
<tr>
<td>Closing balance</td>
<td></td>
<td>23 247</td>
<td>22 884</td>
<td>20 939</td>
<td>21 209</td>
<td>19 197</td>
</tr>
<tr>
<td>Contract or temporary employees</td>
<td></td>
<td>3 557</td>
<td>2 550</td>
<td>3 028</td>
<td>2 938</td>
<td>1 846</td>
</tr>
<tr>
<td>Total headcount</td>
<td></td>
<td>26 804</td>
<td>25 434</td>
<td>23 967</td>
<td>24 147</td>
<td>21 043</td>
</tr>
</tbody>
</table>

STRUCTURAL OPTIMISATION AND TRANSFORMATION

A strategic reorganisation of the company to drive further efficiencies has been approved by the Board and will be fully implemented during the next reporting cycle. With weaker levels of economic activity reducing the natural attrition rate of the workforce, and prompting greater pressure for above-inflation wage increases, any efforts to reduce employee costs need to be managed with particular sensitivity.
Our natural attrition rate remains very low at 2.1% (2013: 2.8%). This low attrition rate and limited recruitment needs constrains our ability to significantly transform the demographic profile of our workforce. Within these constraints we nonetheless managed to positively influence the demographics of the workforce with the limited movements that took place, as reflected in the employee movement table below.

### Employee movement: gains and losses

<table>
<thead>
<tr>
<th>EE Group</th>
<th>Appointments (%)</th>
<th>Losses (%)</th>
<th>Promotions (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>86.97</td>
<td>76.31</td>
<td>63.65</td>
</tr>
<tr>
<td>Female</td>
<td>55.02</td>
<td>41.37</td>
<td>28.99</td>
</tr>
</tbody>
</table>

As indicated in the workforce demographics table below, at the end of the reporting cycle, black representation was 65.6% (2013: 64.9%) while female representation was 31% (2013: 30.9%).

### Status of workforce demographics (as at 31 March 2014)

<table>
<thead>
<tr>
<th>Level</th>
<th>Black Male</th>
<th>Female</th>
<th>White Male</th>
<th>Female</th>
<th>Foreign nationals Male</th>
<th>Female</th>
<th>Grand total</th>
<th>Black Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>12</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>%</td>
<td>50</td>
<td>8</td>
<td>25</td>
<td>13</td>
<td>17</td>
<td>–</td>
<td>58</td>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>Senior management</td>
<td>51</td>
<td>19</td>
<td>56</td>
<td>13</td>
<td>–</td>
<td>–</td>
<td>139</td>
<td>70</td>
<td>32</td>
</tr>
<tr>
<td>%</td>
<td>37</td>
<td>14</td>
<td>40</td>
<td>9</td>
<td>–</td>
<td>–</td>
<td>50</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Middle management</td>
<td>35</td>
<td>15</td>
<td>12</td>
<td>37</td>
<td>4</td>
<td>2</td>
<td>2,403</td>
<td>1209</td>
<td>658</td>
</tr>
<tr>
<td>%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Junior management</td>
<td>7,321</td>
<td>3,373</td>
<td>3,732</td>
<td>1,326</td>
<td>21</td>
<td>2</td>
<td>15,775</td>
<td>10,694</td>
<td>4,701</td>
</tr>
<tr>
<td>%</td>
<td>46</td>
<td>21</td>
<td>24</td>
<td>8</td>
<td>–</td>
<td>–</td>
<td>68</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Operational</td>
<td>2,49</td>
<td>345</td>
<td>59</td>
<td>194</td>
<td>–</td>
<td>1</td>
<td>848</td>
<td>594</td>
<td>540</td>
</tr>
<tr>
<td>%</td>
<td>29</td>
<td>41</td>
<td>7</td>
<td>23</td>
<td>–</td>
<td>–</td>
<td>70</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Support</td>
<td>20</td>
<td>70</td>
<td>5</td>
<td>5</td>
<td>–</td>
<td>–</td>
<td>90</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>44</td>
<td>21</td>
<td>25</td>
<td>10</td>
<td>–</td>
<td>–</td>
<td>66</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8,478</td>
<td>4,114</td>
<td>4,729</td>
<td>1,826</td>
<td>43</td>
<td>7</td>
<td>19,197</td>
<td>12,592</td>
<td>5,947</td>
</tr>
<tr>
<td>%</td>
<td>44</td>
<td>21</td>
<td>25</td>
<td>10</td>
<td>–</td>
<td>–</td>
<td>66</td>
<td>31</td>
<td></td>
</tr>
</tbody>
</table>

### EMPLOYEE RELATIONS

The past year has continued to see domestic challenges in South Africa, characterised by continuing high levels of unemployment and income inequality, ongoing service delivery protests and strike action, and further delays in the rollout of Eskom’s electricity generation plans. Amidst this challenging environment, Telkom maintained sound relationships with organised labour. We concluded a three-year substantive agreement with organised labour, without labour disruptions.

While we have processes in place to ensure open and effective communication with unions, we recognise that the issues of building and maintaining trust requires constant attention.

### Employee unionisation (as at 31 March 2014)

The table below records the percentage of unionised employees.

<table>
<thead>
<tr>
<th>Type of employees</th>
<th>Union</th>
<th>2013 Total</th>
<th>2013 %</th>
<th>2014 Total</th>
<th>2014 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bargaining unit</td>
<td>CWU</td>
<td>7,161</td>
<td>38.58</td>
<td>6,606</td>
<td>39.69</td>
</tr>
<tr>
<td></td>
<td>S.A.C.U.</td>
<td>3,819</td>
<td>20.57</td>
<td>3,407</td>
<td>20.47</td>
</tr>
<tr>
<td></td>
<td>Solidarity</td>
<td>2,880</td>
<td>15.52</td>
<td>2,538</td>
<td>15.25</td>
</tr>
<tr>
<td></td>
<td>No union</td>
<td>4,702</td>
<td>25.33</td>
<td>4,092</td>
<td>24.59</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>18,562</td>
<td></td>
<td>16,643</td>
<td></td>
</tr>
<tr>
<td>Bargaining unit</td>
<td>CWU</td>
<td>201</td>
<td>7.59</td>
<td>209</td>
<td>8.18</td>
</tr>
<tr>
<td></td>
<td>S.A.C.U.</td>
<td>275</td>
<td>10.39</td>
<td>259</td>
<td>10.14</td>
</tr>
<tr>
<td></td>
<td>Solidarity</td>
<td>194</td>
<td>7.33</td>
<td>276</td>
<td>10.81</td>
</tr>
<tr>
<td></td>
<td>No union</td>
<td>1,977</td>
<td>74.69</td>
<td>1,810</td>
<td>70.87</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2,647</td>
<td></td>
<td>2,554</td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td>CWU</td>
<td>201</td>
<td>7.59</td>
<td>209</td>
<td>8.18</td>
</tr>
<tr>
<td></td>
<td>S.A.C.U.</td>
<td>275</td>
<td>10.39</td>
<td>259</td>
<td>10.14</td>
</tr>
<tr>
<td></td>
<td>Solidarity</td>
<td>194</td>
<td>7.33</td>
<td>276</td>
<td>10.81</td>
</tr>
<tr>
<td></td>
<td>No union</td>
<td>1,977</td>
<td>74.69</td>
<td>1,810</td>
<td>70.87</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2,647</td>
<td></td>
<td>2,554</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>21,209</td>
<td></td>
<td>19,197</td>
<td></td>
</tr>
</tbody>
</table>
GOAL SETTING AND GOLDEN THREATS CASCADEING

While a formal performance management system has been entrenched in the company for more than 20 years, a need was identified to refresh the system to ensure better alignment of performance expectations at an individual level, with organisational performance. The process commenced by targeting the management levels.

The intention is to focus the organisation on the key metrics that will promote sustainability. To this end a renewed focus on customer advocacy has been adopted, including the introduction of the Net Promoter Score (NPS) measurement process.

TALENT DEVELOPMENT AND LEARNING

Telkom’s ability to deliver on its strategy depends on staying abreast of evolving technologies, and using these technologies optimally, to provide the best products and services to its customers. The development and implementation of skills development programmes that keep pace with technological evolution is essential. As the shift to broadband progresses, we anticipate a significant demand for people with technical skills and experience in the new technologies.

We are working hard on building an appropriate pipeline of skills. We are retraining staff on the new generation network technology, as we roll out the network building programme. On a permanent employee base of 19 197, a total of 92 914 facilitator-led training days were delivered during the year. This training effort represents training coverage of 63%.

During the reporting cycle, R301 million (2013: R255 million) was invested in training.

<table>
<thead>
<tr>
<th>Training intervention</th>
<th>Benefiting service organisation</th>
<th>Target</th>
<th>Employees trained</th>
<th>Progress (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFS: MSAN basic</td>
<td>NFS</td>
<td>3 228</td>
<td>2 659</td>
<td>82</td>
</tr>
<tr>
<td>NFS: MSAN functional</td>
<td>NFS</td>
<td>2 269</td>
<td>2 073</td>
<td>91</td>
</tr>
<tr>
<td>Ethernet fundamentals</td>
<td>NIP, WHOLESALE, CNFO</td>
<td>1 933</td>
<td>1 713</td>
<td>89</td>
</tr>
<tr>
<td>HUAWEI MSAN: CNFO first line maintenance</td>
<td>CNFO, DAS, NCO, NIP</td>
<td>403</td>
<td>236</td>
<td>59</td>
</tr>
<tr>
<td>ALCATEL MSAN: CNFO first line maintenance</td>
<td>CNFO, DAS, NCO, NIP</td>
<td>358</td>
<td>276</td>
<td>77</td>
</tr>
<tr>
<td>HBR copper cable jointing</td>
<td>NFS</td>
<td>5 071</td>
<td>1 419</td>
<td>28</td>
</tr>
<tr>
<td>Micro fibre optic cable</td>
<td>NFS</td>
<td>690</td>
<td>152</td>
<td>31</td>
</tr>
<tr>
<td>IMS introduction</td>
<td>NCO, CNFO</td>
<td>70</td>
<td>86</td>
<td>123</td>
</tr>
<tr>
<td>CPH loopcare</td>
<td>Consumer services, FAMC</td>
<td>623</td>
<td>639</td>
<td>103</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>14 445</td>
<td>9 253</td>
<td>64</td>
</tr>
</tbody>
</table>

EXECUTIVE LEADERSHIP DEVELOPMENT

In view of the strategic reorganisation of the company, succession planning will be reviewed and revised once the new organisational management structure has been fully resourced.

PROGRAMMES FOR SKILLS MANAGEMENT AND LIFELONG LEARNING

In preparation for the migration to an IP network, we are training field staff in NGN skills and technology. In the review period 9 253 candidates were trained, amounting to 17 422 training days. Training is delivered timeously, in line with the network rollout.

<table>
<thead>
<tr>
<th>Programme description</th>
<th>Program type</th>
<th>Target</th>
<th>Recruited</th>
<th>In progress</th>
<th>Completed training</th>
<th>Absorbed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecoms systems</td>
<td>Learnership</td>
<td>Unemployed graduates*</td>
<td>78</td>
<td>20</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Telecoms network operations</td>
<td>Learnership</td>
<td>Unemployed graduates</td>
<td>59</td>
<td>31</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Learnership</td>
<td>Telkom employees</td>
<td>18</td>
<td>18</td>
<td>–</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RPL**</td>
<td>Telkom employees</td>
<td>106</td>
<td>106</td>
<td>–</td>
<td>N/A</td>
</tr>
<tr>
<td>Next generation networks</td>
<td>Internship</td>
<td>Unemployed graduates***</td>
<td>56</td>
<td>31</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>317</td>
<td>206</td>
<td>66</td>
<td>38</td>
</tr>
</tbody>
</table>

* Five learners did not complete the programme.
** RPL – recognition of prior learning.
*** Two learners did not complete the programme.

LEARNERSHIPS

Telkom’s learnership programmes form part of the government’s National Skills Development Strategy to create skills and ease poverty and unemployment. Telkom offers high school graduates from different communities a learnership opportunity, which consists of both theoretical and practical training in the work environment.

<table>
<thead>
<tr>
<th>Programme description</th>
<th>Program type</th>
<th>Target</th>
<th>Recruited</th>
<th>In progress</th>
<th>Completed training</th>
<th>Absorbed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecoms systems</td>
<td>Learnership</td>
<td>Unemployed graduates*</td>
<td>78</td>
<td>20</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Telecoms network</td>
<td>Learnership</td>
<td>Unemployed graduates</td>
<td>59</td>
<td>31</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>operations</td>
<td>Learnership</td>
<td>Telkom employees</td>
<td>18</td>
<td>18</td>
<td>–</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RPL**</td>
<td>Telkom employees</td>
<td>106</td>
<td>106</td>
<td>–</td>
<td>N/A</td>
</tr>
<tr>
<td>Next generation</td>
<td>Internship</td>
<td>Unemployed graduates***</td>
<td>56</td>
<td>31</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>networks</td>
<td></td>
<td></td>
<td>317</td>
<td>206</td>
<td>66</td>
<td>38</td>
</tr>
</tbody>
</table>

24 Telkom Sustainability Report 2014
GRADUATE DEVELOPMENT SCHEMES

Full-time bursaries are offered for primarily undergraduate studies in core fields, namely Electrical Engineering (Light Current), Information Technology/Computer Science, Marketing and Accounting. Full time bursaries are awarded to external candidates. The Company currently has 139 full time students that are engaging in undergraduate studies in the aforementioned fields.

On completion of their studies, full-time bursary graduates are appointed in fixed-term contract or permanent positions. Bursars that are appointed on the one year fixed-term contract are provided exposure to practical training and work experience and are considered for permanent placement as opportunities become available during their contract period. Sixty-four full-time bursary students successfully completed their studies in December 2013. Of these graduates, twenty-seven have been permanently appointed in the organisation and 12 are employed on a one year fixed-time contract. Seventeen students have been given an extension to continue with their studies, and one bursar is continuing with post-graduate studies through the Company’s Centre of Excellence programme (see next heading). Two students out of the 2013 final year students declined the job offers while five were released as Telkom could not give them job offers as there were no vacancies in their fields of study.

Part time bursaries are available to internal employees to promote continuous learning and continued skills development. Over 650 employees participated in the part-time bursary scheme in the past financial year. This included studies towards both undergraduate (Degrees/Diplomas) and post-graduate qualifications. Part-time studies are in fields that are core to employees’ current jobs and Telkom’s business needs.

CENTRE OF EXCELLENCE PROGRAMME

The Telkom Centre of Excellence (CoE) postgraduate programme is a Telkom initiative to leverage more investment for research and development in the telecommunications industry and to increase the pool of skills within South Africa. It is a collaborative programme between Telkom, academia, the telecommunications industry and government to promote research in communication technology and associated sciences and to provide facilities to encourage young scientists and engineers to pursue their interests in South Africa.

Currently there is 16 CoEs at higher educational institutions around the country. The programme provides the opportunity to approximately 240 full time postgraduate students each year to receive financial assistance from the CoE programme.

Telkom provides financial resources to each of the CoEs and various ICT companies in South Africa provide additional funding while the combined total also receives partial matching funds from the South African Government through the Department of Trade Industry’s Technology and Human Resource for Industry Programme (THRIP).

REWARD AND RECOGNITION

An important element of our talent attraction and retention strategy is being able to offer competitive remuneration and incentive schemes. A principle agreement was reached with organised labour this year to begin to differentiate individual compensation levels based on market pay and performance. While a short-term incentive plan to reward the achievement of group and business unit performance targets has been in place for several years, business leaders now have the ability to differentiate payment based on level of performance.

To further strengthen the process of aligning employee performance with organisational objectives, the Board and shareholders approved a long-term share incentive scheme, with the first allocations being given in November. For more information please refer to the remuneration report on page 88 of our IR.

ORGANISATION DESIGN AND PERFORMANCE CULTURE

Over the last six to seven years Telkom’s financial performance has been under pressure from continued fixed mobile and voice data substitution, with new revenue streams unable to compensate for losses in traditional revenue streams. This continues to put pressure on running a cost-efficient organisation. With staff cost to revenue approaching 38%, we have to ensure the organisation is structured optimally, facilitating a culture of high performance.

Various initiatives have been implemented this year to promote a high performance culture. We expect a significant impact to be felt as a result of new appointments to the executive leadership team, strengthening of our performance management system and processes and the implementation of various initiatives around remuneration.

Telkom undertook various change management initiatives over the past year at the individual, group and organisational level to ensure business projects and initiatives are implemented successfully.
Telkom Sustainability Report 2014

PROMOTING EMPLOYEE SAFETY, HEALTH AND WELLBEING

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

Our foremost safety related incidents are associated with vehicle accidents and falls (notably from ladders) and slips while undertaking duties. Medical trends that are an ongoing concern include a rising incidence of obesity, effective management of hypertension and diabetes, an ageing workforce with increasing medical challenges, and ensuring that employees with medical conditions adhere to recommendations by OHP/treating doctors.

OUR MANAGEMENT APPROACH

Managing health and safety risks in the workplace is a priority. As our GCEO has stated: “one injury is one injury too many.” Telkom’s health and safety division ensures that the Company complies with relevant legislation. The company’s OHS system is certified to OHSAS 18001, the international standard for occupational health and safety management systems. Telkom’s Occupational Health and Safety (OHS) policy is regularly reviewed and updated as necessary.

In seeking to ensure the health and welfare at work of all employees, we undertake to:

• Identify hazards in the workplace, assess the risks related to them and implement appropriate preventative and protective measures
• Provide necessary information, instruction, training and supervision
• Provide and maintain safe plant and work equipment
• Establish and enforce safe methods of work
• Ensure that tasks given to employees are within their skills, knowledge and ability to perform
• Ensure that technical competence is maintained through the provision of refresher training as appropriate

Every safety incident is reported and investigated to determine the root cause.

Health and safety audits are conducted and corrective actions are implemented where non-conformances are identified. To enhance health and safety management, we will make additional health and safety legal appointments to ensure responsibilities are cascaded to all management, supervisory and operational levels within Telkom.

Telkom's healthcare programmes aim to contribute towards ensuring a supportive and sustainable working environment. We promote awareness and help facilitate healthy lifestyle choices and a work-life balance. We continue to seek to reduce health care costs and levels of absenteeism, resulting in improved productivity.

Training

In line with the requirements of prescribed OHS legislation and the internal Telkom OHS policy, adequate training aimed at mitigating exposure to risks in the workplace is provided to employees through various mediums. Training statistics are closely monitored to determine the effectiveness of the OHS training curriculum.

Internal audits this year identified gaps in the health and safety knowledge of Telkom employees at all levels. To address this concern, during the forthcoming reporting cycle, two new formal OHS courses will be launched:

• An interactive computer based training module designed to inform all new employees about the basic requirements of health and safety. The course has also been included in the Telkom annual OHS performance targets as mandatory for all employees to complete during the 2015 reporting cycle.
• A three-day facilitator-led training course designed to provide management and operational employees who have been appointed to the OHS legal structures
with the skills and knowledge required to implement and manage OHS compliance within Telkom.

In anticipation of the new Construction Regulations that will come into effect by August 2015, a focus during the forthcoming year will be the updating of all construction regulation procedures, work instructions, processes and audit documentation.

**Telkom OHS targets and audits**

OHS governance is critical to ensure company-wide compliance with prescribed OHS legislation. The OHS governance division reviews progress against annual OHS performance targets. From audit data, non-conformance and emerging significant trends are identified and OHS performance targets are revised accordingly.

---

### OHS compliance: SHE assurance

The below table illustrates levels of achievement against performance targets for the 2014 financial year.

<table>
<thead>
<tr>
<th>OHS management system compliance</th>
<th>OHS site compliance</th>
<th>EMS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OHS compliance</strong></td>
<td><strong>Compliance rating</strong></td>
<td><strong>Overall SHE rating</strong></td>
</tr>
<tr>
<td>OHS site compliance</td>
<td><strong>Compliance rating</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Occupational health and hygiene</td>
<td><strong>Compliance rating</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Occupational hygiene (EH)</td>
<td><strong>Compliance rating</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Injury on duty (IOD) management</td>
<td><strong>Compliance rating</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Annual</td>
<td>1.221</td>
<td>58</td>
</tr>
<tr>
<td>Mast and towers</td>
<td>555</td>
<td>53</td>
</tr>
<tr>
<td>Audio</td>
<td>457</td>
<td>85</td>
</tr>
<tr>
<td>Pre-employment</td>
<td>85</td>
<td>2,425</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,204</strong></td>
<td><strong>2,425</strong></td>
</tr>
</tbody>
</table>

---

**Injury on duty (IOD) management**

Lost time incident frequency rate per 100 employees (Fatalities, IFR, LTIFR)

---

**Figure 1: Number and type of medicals**

- **Annual:** 1,221
- **Mast and towers:** 555
- **Audio:** 457
- **Pre-employment:** 85

---

**Occupational health**

A confidential medical surveillance programme, which includes clinical case management, is our primary means of managing occupational health. The programme is risk based, in line with Telkom’s risk assessment programme and in compliance with the OHS Act. Medical screening is undertaken onsite in temporary set up rooms, to ensure that employees are medically fit to perform their daily duties. The type of medical screening required depends on the type of work being performed, the duration of the task, materials being used, and potential exposure.

During the reporting cycle, 2,425 medical examinations were undertaken across risk categories (see graph above), and the occupational medical practitioner managed 400 clinical health cases.

**Occupational hygiene**

Occupational hygiene surveys are conducted at Telkom buildings throughout the regions. A number of regionally based approved inspection authorities have been appointed to ensure that urgent ad hoc surveys are conducted as soon as possible as well as to minimise travelling costs. Scheduled surveys include monitoring indoor air quality, dust, water quality and illumination at selected buildings. The main focus this year was on water surveys.

**OUR SAFETY PERFORMANCE**

We are pleased to report no work-related fatalities during the reporting period. There was also an encouraging decrease in the number of injuries on duty, resulting in an improved performance across the following performance measures: the number of days lost due to injury, the incident frequency rate (IFR) and the lost time incident frequency rate (LTIFR).

The risk of falls from ladders is an ongoing concern and challenge. The risk arises principally from operational pressure to provide service to a customer as quickly as possible without assistance from another person. This can result in unsafe conditions that are problematic to manage as a single person on the job.

For the 2014/2015 performance cycle, absolute rules will be developed and implemented to address practices that can result in injuries on the job. We will not only focus on serious incidents, but also on near misses and minor incidents in support of employee safety and contributing to the Company’s overall performance.
03
PROMOTING EMPLOYEE SAFETY, HEALTH AND WELLBEING
(CONTINUED)

Incident frequency rate per 100 employees

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>2.97</td>
<td>2.84</td>
<td>3.06</td>
<td>2.66</td>
<td>2.40</td>
</tr>
</tbody>
</table>

Incidents on duty (IOD)

<table>
<thead>
<tr>
<th>Year</th>
<th>Bitten by dog</th>
<th>Fall/slipped</th>
<th>Fell</th>
<th>Fell from ladder</th>
<th>Insect stings</th>
<th>Lifting/pushing</th>
<th>Other</th>
<th>Struck by/against</th>
<th>Vehicle accident</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>28</td>
<td>81</td>
<td>67</td>
<td>7</td>
<td>38</td>
<td>57</td>
<td>32</td>
<td>32</td>
<td>18</td>
</tr>
<tr>
<td>2011</td>
<td>28</td>
<td>57</td>
<td>67</td>
<td>5</td>
<td>38</td>
<td>57</td>
<td>32</td>
<td>32</td>
<td>18</td>
</tr>
<tr>
<td>2012</td>
<td>28</td>
<td>57</td>
<td>67</td>
<td>5</td>
<td>38</td>
<td>57</td>
<td>32</td>
<td>32</td>
<td>18</td>
</tr>
<tr>
<td>2013</td>
<td>28</td>
<td>57</td>
<td>67</td>
<td>5</td>
<td>38</td>
<td>57</td>
<td>32</td>
<td>32</td>
<td>18</td>
</tr>
<tr>
<td>2014</td>
<td>28</td>
<td>57</td>
<td>67</td>
<td>5</td>
<td>38</td>
<td>57</td>
<td>32</td>
<td>32</td>
<td>18</td>
</tr>
</tbody>
</table>

IOD costs

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>50</td>
<td>40</td>
<td>30</td>
<td>20</td>
<td>10</td>
</tr>
</tbody>
</table>

PROMOTING EMPLOYEE WELLBEING

Telkom appreciates that employees who are physically and emotionally well and have a positive, committed attitude are more motivated and productive. Telkom’s longstanding Thuso Employee Wellness Programme seeks to promote health and wellbeing through educational initiatives, regular screening, and support, including leading programmes for employees that are already at risk of developing chronic lifestyle conditions. In providing health and wellness initiatives that are closely aligned with business needs, the programme seeks to improve the productivity, morale, general health and wellbeing of its employees, and assist employees in achieving a healthy work-life balance.

Onsite health risk assessments are offered during ‘wellness days’ to all employees, their families and contract workers nationally. The value offering has been designed to measure lifestyle factors across various inter-related health risk areas including diabetes, cholesterol, blood pressure and body mass index (BMI), HIV, Tuberculosis and Prostate-Specific Antigen (PSA) screening.

The Thuso 24/7 call centre is an integral part of the Thuso Wellness value offering, providing qualified counselling, advice, care and support to Telkom employees and their immediate dependants in relation to any health matter, including HIV/AIDS and tuberculosis treatment.

At the end of the reporting cycle, there were 684 individuals registered with the Thuso programme, compared to 765 the previous year. The number of actively registered individuals has been influenced by the reduction in Telkom’s permanent of 10% from March 2013.

<table>
<thead>
<tr>
<th></th>
<th>Swiftnet 2013</th>
<th>Swiftnet 2014</th>
<th>Trudon 2013</th>
<th>Trudon 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absenteeism</td>
<td>626</td>
<td>594</td>
<td>2 993</td>
<td>3 616</td>
</tr>
<tr>
<td>Lost days</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Injuries</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Work related fatalities</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Occupational disease incidents</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
HIV and TB workplace programme

During the year under review 2,283 employees (1,982 permanent employees and 301 contractors) were tested for HIV (5,862 in 2012), with 65 employees (57 permanent employees and eight contractors) testing HIV positive. This equates to a HIV tested prevalence rate of 2.85%, rising from 2.76% in the previous financial year for permanent and contractor employees combined.

All employees that undergo wellness screening also undergo TB risk screening. Individuals that are at risk of having TB are referred for TB diagnosis and treatment. This year 2,533 employees (2,194 permanent and 339 contractors) were screened of which 96.60% reported no symptoms of TB; 3.32% of individuals screened reported one or more symptoms and 0.08% reported receiving TB treatment. These percentages have remained stable since 2009 with a minimum of 95% of Telkom employees recording no TB symptoms.

Treatment and care

The Thuso HIV/AIDS and TB Workplace Programmes has been available to Telkom employees and their immediate families since 2004. The Thuso programme is regarded as a leading disease management programme.

Anti-retroviral treatment is provided to pregnant mothers in line with the South African Anti-retroviral Treatment Guidelines and the World Health Organization Protocol. The programme has ensured zero HIV mother-to-child transmission since its inception. Thuso has maintained excellent levels of adherence to treatment for the last two financial years.

Currently 287 individuals (214 employees and 73 dependents) are receiving highly active antiretroviral therapy (HAART) through Thuso.

The programme places an emphasis on education and prevention. Annual telephonic surveys with individuals registered on the Thuso programme provide valuable insights into how effectively the disease is understood and being managed.

Employee Assistance Programme

Telkom’s Employee Assistance Programme (EAP) provides psychological care and support to employees and their families. The aim is to help with personal, family and work related psycho-social problems, and to optimise psychological wellbeing. During the past year, the EAP expanded its national footprint with the appointment of a panel of 130 registered psychologists and social workers countrywide to provide counselling service on a pay-for-service basis.

Number of employees tested
BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Telkom is committed to playing its role in the continuing socio-economic transformation of South Africa. Promoting economic transformation that brings about meaningful broad-based black economic empowerment (B-BBEE) is regarded as a strategic imperative and not a matter of merely meeting legislative requirements.

We have aligned our efforts to the Department of Trade and Industry’s B-BBEE Codes of Good Practice to ensure that we contribute to a sustainable, equitable society and the transformation and alignment of the Information and Communications Technology (ICT) sector. We have an approved B-BBEE policy and implementation plan that guides our progress.

During the reporting cycle there were some significant developments in the B-BBEE legislative environment. The B-BBEE Codes of Good Practices (which provide the structures for the BEE Scorecard) and the B-BBEE Act were revised, both by the Minister of Department of Trade and Industry and the President of South Africa. The revised codes will be effective from 30 April 2015. Telkom will continue to be measured against the ICT Sector Code until the lapse of the certificate in July 2015. The ICT Sector Codes enforce higher targets for the ownership, employment equity, skills development and preferential procurement elements, with which Telkom must comply.

OUR PERFORMANCE

Telkom once again performed well against the B-BBEE scorecard. For the 2014 verification period we were certified as a level 3 contributor to B-BBEE, maintaining our status from the previous year. Our certificate is available on the Telkom website at www.telkom.co.za. In anticipation of the new codes we will be re-energising our approach as we strive to improve our level of contribution in the longer term.

Among State-owned Enterprises (SOEs), Telkom has outperformed its peers for B-BBEE compliance and enterprise development. In August 2013, the Chartered Institute of Purchasing and Supply and the State-owned Enterprises Procurement Forum presented two procurement awards to Telkom: the award for Most Empowered SOE in Compliance to B-BBEE and the award for Best Supplier and Enterprise Development.

Progress is being made in implementing our transformation and diversity targets, driven by Telkom’s National Equity and Development Transformation Forum. Positive gains have been made in addressing inequalities and discrepancies in remuneration as well as ensuring a transformed environment. We are looking to increase our representation of women at management level, as well as of people with disability in technical and management positions. Our human resources development section provides more detail on our initiatives aimed at meeting these transformation objectives.

We continue to excel in our preferential procurement performance and met our target scores for social economic development and enterprise development. We will be putting in place a five-year enterprise development strategy with the aim of using our enterprise development activities to take a leadership role in addressing societal challenges. Telkom has a valuable asset base that, with some creativity, can be used effectively to empower enterprise development and make a positive contribution to building the South African economy.

We are invigorating our efforts to improve our performance in terms of ownership, employment equity and skills development. Through various stakeholder engagements, research and benchmarking, we seek to identify and pursue opportunities to mitigate challenges to transformation.
Telkom’s B-BBEE scorecard performance

<table>
<thead>
<tr>
<th>Element</th>
<th>Weighting</th>
<th>Score in 2012</th>
<th>Score in 2013</th>
<th>Score in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity ownership</td>
<td>20</td>
<td>5.39</td>
<td>4.64</td>
<td>8.93</td>
</tr>
<tr>
<td>Management control</td>
<td>10</td>
<td>10.83</td>
<td>11.00</td>
<td>10.00</td>
</tr>
<tr>
<td>Employment equity</td>
<td>10</td>
<td>10.18</td>
<td>5.81</td>
<td>5.29</td>
</tr>
<tr>
<td>Skills development</td>
<td>17</td>
<td>10.64</td>
<td>8.08</td>
<td>7.82</td>
</tr>
<tr>
<td>Preferential procurement</td>
<td>20</td>
<td>10.79</td>
<td>24.46</td>
<td>24.68</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>11</td>
<td>15.00</td>
<td>11.00</td>
<td>11.00</td>
</tr>
<tr>
<td>Socio-economic development</td>
<td>12</td>
<td>5.00</td>
<td>12.00</td>
<td>12.00</td>
</tr>
</tbody>
</table>

Ownership: This year Telkom achieved 8.93 out of a maximum 20 points for ownership. This year we implemented an employee Forfeitable Share Plan (FSP) that enables employees to become shareholders, subject to certain performance criteria being met. The scheme is promoting greater levels of black ownership in Telkom.

Management control: On management control Telkom achieved 10 out of a possible 10 points in the 2014 financial year. In the 2013 financial year, a strategic and key appointment at the Group Chief Executive Officer level resulted in a decrease of 1 point this year. In the 2013 financial year verification process, Telkom achieved 11 points, including bonus points, for black independent non-executive directors.

Employment equity: This year on employment equity, Telkom scored 5.29 out of a maximum 10 points, representing a 0.52 decrease on the 5.81 scored in the previous cycle. We will continue to focus on improving our female to male employee ratio and scoring in the disabled employee category.

Skills development: Telkom achieved 7.82 out of a possible 17 points, representing a 0.26 decrease on the 8.08 achieved in the 2013 financial year. Significant resources are invested annually in accordance with the Company’s skills needs and the Codes of Good Practice.

Preferential procurement: Telkom continued to improve its excellent preferential procurement performance of 24.46 out of a maximum of 20 in the 2013 financial year to achieve a total of 24.68 in the 2014 financial year. Telkom is committed to further its contribution to the transformation of supply chain and the ICT sector.

Enterprise development: Telkom has maintained the maximum score of 11 points for Enterprise Development in the last three years. Our Enterprise Development initiatives support our Preferential Procurement efforts of introducing, developing and sustaining black suppliers in the Telkom supply chain.

Socio-economic development: Telkom has maintained the maximum score of 12 points for the socio economic development the last three years and will continue to provide the necessary support to the Telkom Foundation, which is responsible for implementing corporate social investment initiatives in communities.

During the reporting period, Telkom subsidiary, Trudon achieved a level 6 contributor status, while SwiftNet scorecard is under review. Telkom is committed to B-BBEE, which we regard as both a national and business imperative. Telkom will continue to work with the management teams of both companies to support their efforts in improving their overall scores going forward.

We believe that B-BBEE plays a vital role in the transformation process by opening up opportunities to its employees and those individuals or entities that have been historically disadvantaged. Through our own Black Economic Empowerment practices, Telkom aim to positively contribute to the growth and development of the country.

LOOKING AHEAD

We will continue to engage with internal and external stakeholders on issues relating to Telkom’s transformation and underperformance on some of the B-BBEE elements. In seeking to address our challenges and improve our performance in all categories, we have the following priority objectives:

- Investigating alternatives to conclude a B-BBEE deal
- Engaging with our human resources department to identify the causes of the challenges to advancing employment equity and skills development and subsequently map out solutions by setting up targets
- Maintaining the scoring achieved for preferential procurement, enterprise development and socio-economic development
- Continuing to identify enterprise development initiatives that are aligned with the Codes of Good Practice and our business strategy
- Improving on our level 3 contributor status to B-BBEE

Following the implementation of recommendations by an internal task team, our exposure to B-BBEE risks has been reduced; this remains a significant focus area owing to the magnitude of its potential impact. The changing legislative environment presents both compliance challenges as well as opportunities for promoting transformation. Our implementation plan will be reviewed and updated to align with current changes in legislative requirements. We aim to fully align our employment equity and B-BBEE plans to support the business strategy. We will review our targets and action plans for the 2015 financial period to ensure they are achievable in the context of the restructuring of the Company and our underperformance in certain areas.
Telkom aims to ensure that when making procurement decisions we source, contract, lease, and procure goods and services from suppliers that demonstrate a commitment to sustainable business practice and that will support Telkom’s compliance efforts in terms of the ICT Charter. We strive to continually identify and leverage best practices in the procurement and supply chain environment. We are committed to promoting preferential procurement and developing suppliers through enterprise development, as pivotal drivers of economic transformation.

During the reporting cycle Telkom ensured a responsible spend in its supply chain of R21 006 million in the procurement of capital items, goods and services. In our efforts to select suppliers, service providers and business partners with relevant value added solutions for our business, we remained committed to upholding robust corporate governance tendering processes through the application of the Preferential Procurement Policy Framework Act of 2000 (PPPFA), which seeks to ensure a tender process that is fair, equitable, transparent, competitive and cost effective.

During the reporting cycle there were approximately 2 500 trade and sundry vendors on the Telkom database. The number of active contracts was actively reduced to 480 from 570 at the start of the period. Telkom went on a drive to reduce its supplier base to achieve efficiencies and cost savings through a reduction in the number of purchase orders, invoices and associated payments. Furthermore the consolidation of purchases to a fewer number of suppliers has enabled leveraging of volumes for higher discounts.

KEY DEVELOPMENTS

- To engage with a broader supplier community, tender requests are published daily on the tender bulletin on the Telkom corporate website. In the next financial period, our tenders will be published more widely through a channel partner, the Supply Chain Network, in association with Absa Bank. This provides a procurement portal that connects small business and big business; it presents opportunities for significant reduction in supply chain costs and improvements in service levels.

- We continued to make significant strides using e-Sourcing, which enables a faster, more transparent and fairer way of facilitating tenders and conducting negotiations. Founded on a web-based platform, e-sourcing ensures smooth and clear communication, providing a more profitable business tool for both Telkom and its suppliers. Conducting negotiations via an online platform (e-Auctions) enables greater competitive bidding, improved efficiencies as well as the elimination of a paper based tender system. The growth in electronic tenders is nonetheless being hampered by the ability of the supplier community to access electronic tenders and submit their responses online. Ongoing simple training in the use of e-Sourcing is assisting in addressing this challenge.

- Another performance highlight is a cost reduction initiative with our critical and non-critical suppliers. In collaboration with our strategic suppliers, we identified and utilised specific cost saving levers. This included reducing unessential expenses, including flowers, office plants, bottled water, administrative employee support services and shuttles. Reduced air travel costs and creating opportunities to reduce air-travel by using our world-class video conferencing facilities, has become a Group-wide standard. To further engage with employees and identify potential savings projects, an online employee cost saving suggestion facility was deployed. Over 1 800 suggestions were received, processed and investigated; many suggestions have already been implemented.

- The changing business landscape prompted us to review and improve our warehouse facilities and associated logistics, to ensure the optimum number and location of warehouses are in place to best serve our internal customers. A further enhancement has been the introduction of a framework for an IDP (Integrated Demand Planning) model, aimed at ensuring a seamless Sales and Operations Planning Process. With the introduction of Category Management,
a new course has been chartered in understanding all aspects of a category to the financial benefit of the company. Several pilot projects were started in the course of the year.

- In terms of our IT procurement, going forward we will be focusing on developing more robust and strategically aligned relationships with our principal IT suppliers. A second focus area will be to realise opportunities identified to improve the value we receive from our non-IT procurement spend, in areas such as fleet management, travel, and advertising.

**PROMOTING RESPONSIBLE PRACTICE**

We expect our suppliers to act in a socially and environmentally responsible manner. All existing and new suppliers are required to comply with Telkom’s safety, health and environmental (SHE) requirements.

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

On a quarterly basis Telkom’s Procurement Services department evaluates the performance of the top 40 to 50 suppliers (based on strategic importance and spend volumes) in terms of their delivery, quality and BEE performance. A full assessment of late deliveries is performed and suppliers are engaged to resolve any operational issues. Penalties for non-delivery or late delivery are consistently imposed to ensure on-time delivery is achieved. Telkom has aligned its payment policies for procurement to enable quicker payments to EME/QSE suppliers. During the period under review, payment was made within 10 days of receipt of invoice to 88% of active Black EME/QSE suppliers.

Where possible, Telkom seeks to diversify supplier risk by using at least two suppliers for critical network-related products and/ or technologies. Where diversified risk is not required, measures are put in place to encourage the entry of new, preferably local, suppliers into the market. To promote opportunities, Telkom offers regular training for potential local suppliers. We also hold annual supplier engagement sessions aimed at resolving technical issues. Telkom also trains and educates suppliers in SHE issues as well as supplier quality requirements associated with doing business with Telkom. We conduct supplier audits focused on environmental issues, and develop methods to lessen environmental impacts.

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

- Inability to deliver on time
- E-auctions and their impact
- Litigation issues
- Guidance on ethical business practices
- Correct and timely payments
- Strategic partnerships and B-BBEE compliance
- Guidance on procurement governance issues
- Supplier development with specific focus on quality assurance through a program called Process Controlled Released (PCR).
- Long-term forecast demand and review of actuals against demand
- Identification of cost drivers and jointly working on cost reduction opportunities.

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

As part of efforts to transform Telkom’s procurement services into a world-class operation, we are members of various international and local bodies such as the Chartered Institute of Purchasing Supply (CIPS) and Corporate Executive Board. These assist the process of identifying and adopting best practice opportunities, such as through the introduction of a Category Management course.

**PREFERENTIAL PROCUREMENT**

Over the past decade, Telkom has demonstrated best practice in the area of Preferential Procurement, creating a new generation of pioneering black businesses in the country’s ICT sector. Telkom performed exceptionally well during this reporting cycle, maintaining its consistent high score on the Preferential Procurement element of the scorecard (ICT Codes) at 18.68 points out of a maximum 20 (excluding the bonus points). The total Preferential Procurement score, inclusive of bonus points, was 24.68, representing an achievement that few South African companies could equal.

During the 2014 financial year, Telkom procured R4 307 million from black-owned companies, equating to 30.49% of the measurable procurement spend and procured R1.512 million from EME companies, R869 million from black female-owned companies and R13.140 million from BEE-compliant companies. This amounts to 93.02% of the Group’s total measured procurement spend.

During the 2014 financial year, Telkom procured 75.87% of all goods and services locally.

### Local Procurement Expenditure

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage local procurement (%)</td>
<td>82.79</td>
<td>75.87</td>
<td>65.64</td>
<td>79.67</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**ENTERPRISE DEVELOPMENT**

Telkom’s Enterprise Development (ED) programme continues to deliver on our objectives of supporting businesses to be sustainable, creating jobs, empowering the previously disadvantaged communities and increasing SMME competitiveness. Strong partnerships and commitment is required to continuously build the capacity of the company’s black suppliers. Telkom contributes towards achieving economic and social transformation in South Africa by playing a meaningful role through Enterprise and Supplier Development initiatives, including the following:

ICT incubation programme: Telkom’s strong partnership with The Bandwidth Barn “The Barn”, an ICT incubation programme based in Cape Town, is instrumental in building the capacity of black ICT companies. Telkom ED programme through The Barn has developed 20 enterprises that are 100% black women-owned and managed. This group’s sales turnover has exceeded R30 million rand and the staff contingent has reached 97 with 18 new jobs created this year. Whilst on the programme, the participants have teamed up to win bids from Parliament, the City of Cape Town and the Western Cape Provincial Government.

Absa: Telkom ED partnership through connectivity: Telkom is sponsoring 24 months internet connectivity to six Absa ED centres nationally. The collaboration of leading companies promoting the development of Small Micro Medium Enterprises (SMMEs) provides networking opportunities with various partners/SMMEs. The initiative provides an opportunity to host Telkom’s own supplier development initiatives at the ED centres, and give exposure to Telkom’s product offering.
PRODUCT AND
SERVICE RESPONSIBILITY

To ensure the sustainability of our business, we need to proactively and effectively manage all aspects of our services and products that directly affect our customers. These include health and safety issues, information and labelling, marketing, and privacy. Telkom was not found to be non-compliant and did not incur any fines relating to products and services legislation in this reporting year. Furthermore, they were no substantiated complaints regarding breaches of customer privacy and losses of customers data during this reporting year.

**Short-term payment:** In line with our Preferential Procurement Policy, a total of 86 black QSE/EME’s were paid within an average of five days of receipt of correct invoice.

**Supply chain portal:** Our online e-portal enables suppliers to facilitate access to markets by providing access to tenders from public and private sectors. It also enables our buyers to access verified suppliers, in terms of SARS, B-BBEE and other compliance requirements, thereby increasing a pool of black suppliers, QSE/EMEs and black women-owned suppliers on their database. Telkom is exploring the possibility of advertising tenders through the e-portal, to expand our coverage.

**Enterprise development expos:** Enterprise development expos provide brand exposure, business support and growth opportunities to SMMEs to encourage less dependency on Telkom. This year, a total of 36 black SMMEs participated in three ED EXPOs. These initiatives have led to trade success to SMMEs such as Mukoni Software, Nkanyezi Marketing, LBZS Communications and Hashtopic in the form of purchase orders and requests for quotations securing deals with prominent companies like PetroSA, Tsogo Sun and the National Empowerment Fund.

**Training:** Telkom’s Supplier Development efforts resulted in 95 active SMMEs trained this year in various fields to enhance their delivery and performance. This is not limited to Telkom-required training but extends to training to equip and advance the companies’ competitiveness.

**Process control release:** Telkom offers Process Release Control (PCR), an abridged version of the ISO 9001 (2008) quality management standard. During this reporting cycle, 12 black QSE/EME met the PCR requirements and have advanced to ISO certification.

A dedicated Enterprise and Supplier Development division is mandated to build on the existing initiatives and create a sustainable framework for Telkom.

A key pillar in Telkom’s turnaround strategy is our focus on improving levels of customer satisfaction and loyalty through focused initiatives, including technology improvements that enable innovative products and services that meet customer needs and improve the customer experience.

**OUR SERVICE OFFERINGS**
Telkom’s service offerings include fixed-line and mobile connectivity solutions, Broad Band, and ICT wholesale facilities. In addition, we provide services and solutions to mobile cellular operators and international ICT companies, services providers, fixed-line operators and broadcasters, both locally and internationally. Our data centre offering, IT Business services, consists of basic hosting as well as cooling, power and backup power, managed and fully managed hosting and disaster recovery. Telkom also provides machine-to-machine (M2M) connections that allow machines to communicate with one another through our network.

**CUSTOMER LOYALTY AND
EXPERIENCE MANAGEMENT**
Telkom continues to measure among other measurements of customer satisfaction the services quality perception of its customers.

This measurement is conducted using the Customer Loyalty Measurement (CLM) score obtained from the conducting an annual survey. Towards the end of the financial year, we adopted the Net Promoter Score (NPS) as a key metric and tracker of customer experience. We also implemented a specialist Customer Experience Centre aimed at improving overall customer service.

**Customer Loyalty Measurement (CLM)**
The CLM was used to measure the degree of loyalty towards Telkom and to determine the perceptions of service received while interacting with Telkom at the different touch points across the different customer facing business units of the business. Fieldwork takes place on an annual basis, it being conducted from August to December by means of telephonic interviews.

Perceptions of the Overall Quality and Satisfaction levels improved significantly together with perceptions of Pricing and the main customer contact with overall service quality improving from a score of 51 to 59 since 2013. This is most likely driven by the improvements in the Residential and Small Business markets.
Total Telkom – overall quality of service

Net Promoter Score (NPS)
The primary aim of the NPS research was to determine customers' loyalty to Telkom as well as their satisfaction with the products and services offered by Telkom. The NPS is a simple, yet powerful, metric that measures both delight and anger, and that can be used easily at all levels of the organisation to assess the nature of customer advocacy, both positive and negative. To measure our NPS we simply ask one question: “How likely would you be to recommend Telkom to friends and colleagues?” Depending on their response, we categorise customers into one of three groups: a loyal promoter, passively indifferent, or a dissatisfied detractor. By understanding their reasons for promotion, indifference or detraction, we can then identify and address the key pain points needed to improve the overall customer experience, and grow the number of promoters.

We are currently piloting the NPS in different regions, and are looking to have every technical and sales agency generate and share their own NPS scores. Along with this, we will be implementing measures to ensure that we close the loop with customers and resolve any outstanding issues as quickly as possible. We will be sharing the feedback from this process with our frontline to enhance learning and improvement.
PRODUCT AND SERVICE RESPONSIBILITY (CONTINUED)

Research findings
Fieldwork takes place on an annual basis. This year it was conducted from August to December by means of telephonic interviews. A total of 4,163 customers who had contact with Telkom, were interviewed, a smaller sample to that used in previous years. In 2013 the full loyalty model was only applied to the Enterprise Market, Government Sales, Large Business and Telkom Mobile segments. Due to shortening of the questionnaire only the Touchpoints and loyalty questions were asked of the rest of the segments.

This year the research identified an improvement in perceptions of quality of service amongst the mass market volume market, namely the residential and small business sectors. The research findings indicate that our efforts to connect with customers, improve our communication and simplify some business processes are being noticed. It appears, however, that levels of satisfaction among Enterprise Market customers, especially in the corporate environment, have deteriorated. Since these are relatively large corporates, we will seek to communicate more visibly at a strategic leadership level. The Net Promoter Score findings provide a baseline for the way forward. In addition, the reasons provided for the ratings provide an insight into the "triggers" that will make customers active promoters, and what will drive them away.

In order to understand the reasons for the NPS scores, the customers were also asked the reason for their rating. In most of the customer facing business units, the promoters far outweighed the detractors making for positive Net Promoter Scores across the different segments. It is interesting to note that the reasons for promotion are in fact mainly around responsiveness and good service, and the exact opposite is the primary reason for detractors.

Wholesale Services is the only business area where detractors were greater than promoters. However, as this is an area where our customers are primarily made up of our competitors it is very encouraging to note that 18% of this group are promoters of Wholesale Services.

Wholesale Services is the one business area where detractors were greater than promoters. However, as Wholesale is an area where detractors were greater than promoters it is very encouraging to note that 18% of this group are promoters of Wholesale Services. The relationship between the company and its customers is evidently a key driver of satisfaction. According to the findings of the Ask Afrika Orange Index 2012, it is critical to continue to demonstrate to customers that they are valued and understood by tapping into the relevant emotional (humanness) dimensions in each interaction.

Although Telkom’s overall service quality is perceived to have improved, there are areas needing improvement and attention to further improve customer loyalty. Telkom has initiated a number of projects and continues to implement projects that will assist in improving performance in the critical improvement areas. Initiatives will be driven under the leadership of the newly established Customer Experience Management section, with the aim of driving value and retaining customers.

Recognition
In September 2013, Telkom Mobile won the My Broadband mobile broadband provider of the year, while from a customer experience perspective we were placed 12th overall in the Orange index, up from 46th in the previous year. Our focus on building the brand will be further enhanced by making LTE mainstream as a viable broadband offering.

The pursuit of optimising the customer service experience is evidenced in a recent HelloPeter report, which highlights Telkom Mobile as having the highest compliments to complaints ratio from consumers, an indication that the company’s service levels are higher than those of its peers.

CUSTOMER EXPERIENCE (CEX) IMPROVEMENT
Telkom continues to focus on improving customer churn and retention through dedicated functions. These include a dedicated senior manager responsible for churn and improved churn reporting, and a retention centre – the Telkom Option Centre (TOC). Promoting customer retention initiatives is an ongoing focus and we are pleased to report a significant decrease this year in the number of customers giving up their Telkom products and services.

This year we established a CEX function – a dedicated and sustainable capability to manage customer experience and satisfaction. A challenge has been to rapidly build required capability in terms of people, processes and operating models. The key measurements of the initiative’s successful implementation will be the following:

- Improvement in Broadband NPS score
- Improved churn rates
- Employee awareness and adoption of NPS and Customer First culture

Telkom aims to achieve the following in the 2015 financial year:

- Continue building a lasting capability to manage customer experience
- Proceed with fixing broken elements in our process
- Delivering rich voice-of-the customer data to the frontline and throughout the organisation

- Embedding customer-oriented behaviours and decision-making throughout the organisation

These goals are achievable through the successful implementation of the following initiatives:

- Developing a CEX Integrated Plan consisting of CEX improvement projects for the next 18 months
- Setting up of a CEX training academy
- Implementing a mobilisation and organisational alignment plan
- Piloting bottom-up Net Promoter System in selected shops, yards and call centres
- Design and implement a repeatable top down NPS survey
- Develop CEX episode ambition i.e. ensure customer issue is resolved at the specific touch point and within reasonable time
- Redesign and standardise churn management model and build enabling capability
- Implement a CEX proof of concept (POC) to test people, process and system improvements in selected geographic areas

INNOVATION
Our network is key to our ability to be innovative and to provide customers with the quality of products and services to meet their needs.

Network upgrades and rollout
In 2012 Telkom commenced the implementation of its Next Generation Network (NGN) programme. A pilot was successfully completed in March 2013 in 83 locations by installing devices called multi-service access nodes, or MSANs, and by extending its fibre network. Speeds of up to 40Mbps are supported in areas where the remote MSANs are deployed. In April 2013 Telkom introduced a 20Mbps and a 40Mbps VDSL service and embarked on the national rollout of its NGN network.

Over the next five years Telkom aim to deploy the remote MSANs and replace existing ‘legacy’ equipment, which is reaching end of life and end of support. As of 31 March 2014 Telkom had over 400 000 active ports in the NGN footprint which has passed more than 350 000 homes/buildings, which can now experience higher Broadband speeds and improved service experience due to Telkom extending its fibre network closer to the home/building. On average 1.8km of copper is replaced with fibre, thus reducing the copper loop length, which has been the limiting factor for Telkom to offer higher broadband speeds.

A number of benefits are derived through the deployment of the NGN, namely: reduced customer faults due to the shortened copper loop length, improved service activation, and reduced repair times — this is due to the MSANs having the capability for remote
service activation and fault diagnosis without having to dispatch a technician.

Apart from the NGNEC project initiatives, Telkom has initiated additional projects — including the strategic analysis of its IP and Transport Core Network, broadband enhancements, and stabilization of xDSL lines on all platforms — which are aimed at reducing operating expenses and capital expenditure spend and enhancing Telkom’s ability to be more competitive and improve the customer experience.

Telkom Mobile’s 2G/3G footprint has been expanded through the roaming agreement with MTN. With almost 2 500 active Wi-Fi hotspots, Telkom Mobile now has the largest Wi-Fi network in South Africa. This Wi-Fi network will serve to differentiate Telkom Mobile from other mobile operators and help us deliver on our strategic objective of “leading in mobile data and disrupting in voice”.

**SIGNIFICANT PRODUCTS AND SERVICES**

To ensure Telkom remains relevant in the rapidly evolving ICT market, we focus on being innovative by bringing new ideas, products and solutions to the market, and developing new capabilities to enhance our competitiveness in the market by optimising the customer experience. We aim to achieve this through the following:

- Creating the capabilities to support the seamless migration of legacy products and services to the New Generation Network (NGN) based services
- Building capabilities to allow us to aggregate our business service, including services provided by external service providers. This will allow Telkom to perform a prime contractor role for our customers.
- Innovating new concepts and customer solutions
- Defending against competitive business models as well as incubating new business models to support revenue growth
- Developing new commercial partnerships to support revenue growth and decrease operational and capital requirements

**Business voice services**

A focus has been to transform the way fixed voice services are delivered and consumed, by moving from basic voice telephony to increased value and feature rich voice communication applications, underpinned by an all IP Converged network. This has enabled innovative product offerings and business models, bringing customers more value through simplified offers that are both convenient and affordable.

In a significant step towards becoming a true Next Generation Communications Service Provider, Telkom has ceased traditional distance-based billing. Since August 2013, customers no longer pay separate rates for local and long-distance calls on the Telkom network. A single blended rate of 46 cents per minute (23 cents per minute off-peak), was introduced that is both simple and convenient for customers to understand and predictable in terms of their costs.

Telkom is committed to the evolution of fixed voice services, affording customers a flexible range of options to meet changing business requirements for the next financial period. This will go beyond telephony, with a comprehensive communications approach, where voice is but one of a number of applications serving the business needs.

**Business convergence services**

During the review period we developed a comprehensive strategy and tactical plan to lead the market in Convergence and make significant progress in delivering on our aspirations. Telkom has developed core capabilities including a business development team that focuses on unlocking the value of Unified Communication and Collaboration business opportunities in the local market.

We have launched over 300 Converged Deals/Bundles/Solutions providing for single solution from a single service provider, as well as a single bill and single point of contact for purchase and support. We have grown the converged customer base to approximately 2 500 business customers. These converged services include the Single Rate product which provides customers with one of the lowest rates of 79 cents to all networks all the time, including popular international destinations from a landline or mobile. In addition, our Business Circle service provides free calls amongst business fixed and mobile lines (provided that the mobiles and landlines are from Telkom) offering a free service, activation and unlimited calls. In the large enterprise market, the focus has been on the delivery of Unified Communication and Collaboration solutions, which offers huge growth potential for Telkom.

**Mobile products**

Telkom Mobile is a leader in the industry, with innovative and unmatched products. The ‘unlimited product’ remains a leading product, at a cost of R1 199 for unlimited voice and data, and has not been matched by competitors. Our pre-paid offering has been strengthened by the Sim Sonke product. This has the most cost effective on-net and off-net rates of 29 cents and 75 cents, respectively. The product is now available nationally and its success is evident in the growth of our subscriber base. The rollout of LTE continues, with more than 1 000 LTE sites on air. This rollout facilitates the introduction of new LTE-enabled products that will further contribute to our data-led strategy. Our attractive data offerings have generated increased month-on-month usage.

Over the next reporting period, Telkom will continue to grow its position as a market leader in Converged communications and will launch more integrated solutions to grow its Mobile and Data Centre offerings, while defending the fixed line business. Innovation and focused sales and marketing will be key to achieve our aspirations. A significant demand in Unified Communication and Collaboration services is expected. We aim to grow revenues by 200% during this period, by focusing on further product innovation and demonstrating benefits to customers through business development initiatives.

**FASTNET**

Telkom’s subsidiary FastNet assessed its overall quality of customer service performance for 2013 to be 70% compared to 63% in 2012, with a Net Promoter’s Score of 33.2. Products and services are a key driver for our customers at FastNet, followed by technical support and technicians.

FastNet has a range of innovative products and services that includes M2M. The purpose of this new technology is to wirelessly monitor a wide range of conditions from a remote site and deliver information via real time online, a cloud based reporting software suite. This service also includes optional energy monitoring and solar powered solutions for remote locations and assists customers in reducing their maintenance costs, early intervention and diagnostics that enable planning and proactive maintenance.

The Telkom Mobile Wi-Fi solution powered by FastNet is the latest initiative from FastNet to revolutionise the end-user experience in South African Wi-Fi hotspots. Wi-Fi is increasingly becoming the preferred mode of Internet connection globally, and the technology is increasingly available. The major advantage of Wi-Fi is that it is compatible with almost every operating system, game device and advanced printer.

The network allows free access for certain customers and as a result reduces the costs of connectivity for users. The equipment installed at all the sites allows FastNet to provide consumer hotspots as well as added value through the existing ProPOS services offered by FastNet. The target market for the service are locations that have pause areas and areas approved by Telkom Mobile.
The Telkom Foundation manages Telkom’s corporate social investment initiatives. The Foundation is committed to making meaningful contributions to improving livelihoods in disadvantaged communities through a range of structured programmes. It further seeks to promote and embed a culture of giving across the organisation through its programmes and employee volunteerism.

In support of the South African government’s objective to improve the quality of education, especially at foundation levels, the Foundation has refocused its strategy on education. Numeracy and literacy remain major challenges facing the country. Through strategic partnerships with government, civil society and other corporates, the Foundation has positioned itself to make a meaningful contribution towards improving levels of education.

The Foundation has delivered in accordance with its latest strategy objective to ensure a closer alignment of its support programmes with the goals of the South African Government and Telkom’s overall business strategy. The Foundation has implemented systems to assess its impact on beneficiary communities and has increased volunteering opportunities for Telkom staff.

**FOCUS AREAS**

In line with the core purpose of Telkom SA SOC Limited: “ Seamlessly connecting people to a better life”, the Telkom Foundation is focusing on contributing meaningfully to underprivileged communities through sustainable education interventions and social relief programmes. The Telkom Foundation strives to make a measurable impact on education and job creation within the ICT industry in South Africa. Education is the key focus area, with employee volunteering programme and social development programmes playing a supporting role. The Foundation implemented both integrated projects as well as stand-alone projects in all three focus areas.

**Spend by focus**

The Telkom Foundation spent R37.7 million on projects during the 2014 financial year. The spend breakdown in each focus area is shown below:

- Education 55%
- Employee volunteering 12%
- Social development 22%
- Other 11%
PROJECT HIGHLIGHTS

Schools connectivity
During the past year Telkom Foundation connected 32 schools in five provinces. Each school received an ICT laboratory comprising 21 computers and appropriate software, an interactive white board and projector, furniture, as well as two-years’ Wi-Fi internet access, and training for 20 teachers. The programme reached approximately 6 000 learners and 240 educators. The Telkom Foundation with the assistance of Department of Education will analyse the learner performance in the next fiscal year.

Educator Mentorship and Development Project (EMDP)
The EMDP provides support to educators through the involvement of retired excellent educators. It is a partnership with the Central University of Technology and Free State Department of education. The retired educators were identified with the assistance of the two partners. The project was extended to a further four schools in the Free State during 2013 following the success of the pilot implemented in three schools in the province. This project has delivered average increases of up to 10% in learner performance in science and mathematics.

National Teaching Awards
The Telkom Foundation has partnered with the Department of Basic Education on the annual National Teaching Awards since 2011. The objective of the awards is to encourage, motivate and reward excellence in teaching. In 2013 the Foundation donated ICT labs to category winners to further enhance the teacher and school performance.

Rally to Read
The Telkom Foundation has partnered with the Rally to Read Educational Trust and Bidvest Group to support literacy and numeracy in primary schools across all provinces. The Rally to Read provides teacher and learner literacy resources as well as training and monitoring for teachers. The project supported 106 schools, reaching 1 340 educators and 40 193 learners during the 2014 financial year.

The Future of the African Daughter
The Future of the African Daughter project is a development project for girls aged 12 to 19 years which started in 2012. The project is aimed at girls from previously disadvantaged families. In 2013 the Telkom Foundation extended the reach of this project with the establishment of the Eastern Cape chapter catering for 60 girls who have participated in the maths and science development programme as well as leadership development.

Beacon of Hope
The Beacon of Hope project is a high school scholarship project that provides opportunities to high performing learners in maths and science from poorly resourced schools to access well-resourced schools and reach their potential. The project bid farewell to the last 23 learners who were part of the 200 learners identified in 2007 before the project commenced in 2009. The project currently has a group of 28 learners identified recently, which is the last group before the project end.

Social development
This focus area continues to remain our key priority in ensuring that previously disadvantaged communities realise better standards of living, and deal with our social challenges. During the review period we sponsored 22 social development projects across all nine provinces. The total investment of R4,8 million benefited 1 050 beneficiaries comprising children and people with disabilities, orphaned and vulnerable children, the aged, children and people with chronic diseases.

Staff volunteerism
The Foundation enabled the participation of over 2 000 Telkom employees in various voluntary community development initiatives and facilitated Telkom employees to give over R340 000 to community development organisations. The volunteers were involved in the Mandela day, 16 days of activism, Aids day and volunteer week.

GOING FORWARD
The increased access to ICTs in South Africa presents an opportunity exists for technology to play a greater role in providing solutions to socio-economic challenges. The Foundation will continue to explore innovative solutions and leverage Telkom’s expertise in ICT.
Telkom is committed to managing and minimising its environmental impacts. As an ICT company, we have a relatively low environmental impact, with the exception of our carbon emissions generated through electricity consumption. We continue to improve how we measure and manage our environmental footprint in terms of our carbon emissions, energy consumption, water use, waste and impacts on biodiversity.

Our core business enables our customers, across many sectors, to reduce their environmental impacts, notably through reduced carbon footprints, by reducing their need to travel. We aim to assist our customers by providing a stable, reliable service, and the right service platform to meet their needs. We continue to invest in our infrastructure to provide modern and efficient communications technology offerings to our customers that reduce the need for travel and provide energy efficient data storage facilities. An increasing number of global businesses are incorporating machine to machine (M2M) communications into their operations, leading to greater productivity, lower energy use and decreased carbon dioxide emissions.

MANAGEMENT STANDARDS AND TRAINING
Each element of the Telkom Environmental Policy Statement (EPS), approved by our GCEO, must be adopted, implemented and sustained in all areas of service delivery throughout Telkom.

Key aspects pertaining to environmental management are as follows:
- Pollution and waste management
- Resource consumption and recycling management
- Water, energy and emission management
- Biodiversity (fauna and flora) management
- Environmental aspect and impact management
- Environmental incident management

The Telkom SHE Governance division has obtained the required ISO 14001:2004 recertification of its Environmental Management System (EMS). In line with the international standard and with legislated requirements, we ensure that our EPS and EMS guide our objectives and targets. As part of a process of continual improvement, we monitor and manage our environmental impacts and potential impacts.

Telkom is in the process of designing an electronic learning module specifically aligned with the requirements of the ISO 14001 Standard. The learning medium will enable all employees’, desktop access to the training and will enable those who are directly implicated, the opportunity to implement an enhanced approach towards effective Environmental management.

Compliance
Telkom did not experience any environmental management related fines or penalties for non-compliance with environmental laws and regulations during the reporting cycle. This is a positive indication that the EMS methods, procedures and applicable protocols are meeting the desired conformance requirements.

ENERGY USE
Electricity consumption accounts for 86% of our carbon footprint (excluding our subsidiaries). Telkom is the 15th highest electricity user among the top 100 companies listed on the Johannesburg Stock Exchange (JSE)\(^1\). In the reporting cycle we spent R612 million on electricity, excluding our subsidiaries.

\(^1\) Carbon Disclosure Project (CDP) South Africa 100 Climate Change Report 2013.
Our approach

Our approach to energy management is based on reducing our overall energy consumption and improving our energy efficiency through the initiatives described below. We are in the process of developing targets for reducing energy use, recognising the value that these will have in driving improved performance.

Initiatives to reduce energy consumption

We have been implementing energy efficient lighting interventions at our facilities nationwide since 2011. The table below indicates the savings (kWh and Rand) achieved through these initiatives.

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>2012 kWh savings</th>
<th>2012 rand savings</th>
<th>2013 kWh savings</th>
<th>2013 rand savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installation of T5 fluorescent lights to replace T8 and T12 fluorescent lights, which are less efficient</td>
<td>19 800 382</td>
<td>286 068 179</td>
<td>31 957 932</td>
<td>R767 117 615</td>
</tr>
</tbody>
</table>

- Our NGNEC program is replacing legacy POTS and ADSL networks with MSAN and/or wireless technology and will reduce/eliminate the digital primary and secondary switching units, reducing energy consumption.
- We have implemented 113 smart meters, which monitor energy consumption, at our priority sites* in terms of ensuring business continuity.
- We use ambient air controls (free cooling) to cool our Bellville datacentre, which saves an estimated 4.7 million kWh per annum.
- We have a program in place to replace our tank chillers and dip-on-units with energy efficient units.

Initiatives in the pipeline

- We are investigating the feasibility of reductions in HVAC energy use through increases in set-point temperature in selected equipment buildings. Depending on the outcomes of this testing, the set points will be progressively adjusted on selected sites from the 2015 reporting cycle.
- Telkom will roll out further energy efficient LED lighting in the 2015 financial year with potential cost savings of R32 800 000 and kWh savings of 35 907 240 per annum.

Fuel

Telkom’s primary fuel contributors to our carbon footprint include: Telkom’s fleet (this is outsourced), employee air travel, employee business travel and diesel to fuel standby generators.

Our approach

To reduce our impact on the environment and limit costs, we seek to optimise the efficiency of our fleet and limit business travel where possible. The key initiatives to reduce our fuel use and emissions are outlined below.

Initiatives to reduce fleet fuel consumption

- Smart dispatching of vehicles and improved management of technician related travel significantly reduce kilometres travelled.
- A pilot project was successfully undertaken in Gauteng to monitor and manage driver behaviour, including inefficient driving techniques such as harsh acceleration and braking, as well as excessive idling times. We are in the process of rolling the monitoring system out to our fleets in the other regions.
- We replaced approximately 850 one-ton fleet vehicles with fuel-efficient half-ton light delivery vehicles during the reporting cycle.

Initiatives to reduce general fuel consumption

- Fuel use by our standby diesel generators is reduced through a change in the monthly testing process. Testing duration has been reduced from two hours to one hour per standby plant.
- Fuel use by our standby diesel generators is also reduced through the energy efficiency initiatives discussed in the energy section.
- Telkom’s subsistence and travel policy requires employees to consider video-conferencing or teleconferencing as an alternative to travelling. The policy also encourages sharing car rental and shuttle services and using public transport where possible. This has resulted in marked reductions in our air and other business travel during the reporting period.

CLIMATE CHANGE AND OUR CARBON FOOTPRINT

The telecommunications sector is traditionally regarded as a relatively low-impact industry when it comes to energy usage and carbon emissions. However, when compared to the top 100 companies listed on the Johannesburg Stock Exchange (JSE), Telkom’s carbon emissions from electricity use are the 15th highest2, due to the scale of our operations and legacy infrastructure.

By extending the reach of Telkom’s infrastructure through our investments, our communications technology offerings can assist our customers across many sectors to reduce their carbon footprint, for instance by creating opportunities to dematerialise their businesses and reduce the need for travel by providing alternative communication methods. While this generates value to society and to the environment, we nonetheless recognise that there are significant opportunities for Telkom to reduce costs, energy use and carbon emissions.

The telecommunications sector is an expanding sector, with energy demands that will continue to grow. Telkom aims to balance its current energy requirements with the need for greater energy efficiency. We are driven to become more energy efficient for the following reasons:

- Cost savings
- Playing our part to limit our demand on South Africa’s limited energy supply
- Being a responsible corporate citizen – we recognise the environmental, social and economic threat presented by climate change and the need for co-ordinated global action to reduce greenhouse gas emissions.

Our approach

Telkom has been measuring its carbon footprint for four years, using the Greenhouse Gas Protocol (GHG Protocol) as the basis for calculations. In order to improve the credibility of our reporting, we obtained reasonable assurance over our scope 1, 2 and 3 emissions3 through independent assurance providers CA Governance, using the ISO 14064-3 standards. The scope of the carbon footprint comprises Telkom South Africa and the South African operations of the subsidiaries Swiftnet and Trudon.

For the fourth consecutive year, we reported to the CDP on our carbon management and emissions, demonstrating our commitment to reducing emissions and to providing investors and other stakeholders with an insight into our carbon and energy management activities. In addition, we are members of the National Business Initiative’s (NBI) Energy Efficiency Leadership Network (EELN) and are signatories to the NBI’s Energy Efficiency Leadership Network Pledge, pledging to:

- Plan for energy efficiency improvement supported by an energy management system,
- Develop company level targets to help deliver on the National Energy Efficiency Strategy,
- Develop carbon reduction skills and undertake capacity building.

2. Carbon Disclosure Project (CDP), South Africa 100 Climate Change Report 2013
3. Scope 1: Direct greenhouse gas emissions (GHG) from sources owned or controlled by Telkom
Scope 2: Indirect (GHG) emissions from the generation of electricity consumed by Telkom
Scope 3: Other indirect GHG emissions as a consequence of activities of Telkom, but not from sources owned or controlled by Telkom
In line with our sustainability strategy, we aim to reduce our carbon emissions by:
• Improving the energy efficiency of our buildings, networks and equipment
• Ensuring that our fleet is optimised and being used efficiently
• Limiting business travel
• Target setting

**Carbon tax**
Telkom estimates its carbon tax liability to be R2.5 million (direct) and indirect impact between R13 and R32 million per annum.

### MANAGING ENVIRONMENTAL IMPACT (CONTINUED)

#### ENVIRONMENTAL IMPACT

In the interests of improving its sustainability performance, Telkom seeks to promote the minimisation of its footprint, taking into account its environmental footprint and the environmental impact of its operations. Telkom recognises that business practices affect the environment and seeks to optimise its performance in this regard. Several initiatives are in place to reduce its carbon footprint and enhance its environmental performance, which are described below.

**Telkom carbon footprint**
Telkom estimates its total carbon footprint to be 739 976 tCO₂e for 2014.

<table>
<thead>
<tr>
<th>Scope</th>
<th>2014 Carbon emissions (tCO₂e)</th>
<th>2013 Carbon emissions (tCO₂e)</th>
<th>2012 Carbon emissions (tCO₂e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope 1</strong></td>
<td><a href="#">Activity data</a></td>
<td><a href="#">Activity data</a></td>
<td><a href="#">Activity data</a></td>
</tr>
<tr>
<td><strong>Scope 2</strong></td>
<td><a href="#">Activity data</a></td>
<td><a href="#">Activity data</a></td>
<td><a href="#">Activity data</a></td>
</tr>
<tr>
<td><strong>Scope 3</strong></td>
<td><a href="#">Activity data</a></td>
<td><a href="#">Activity data</a></td>
<td><a href="#">Activity data</a></td>
</tr>
</tbody>
</table>

**Biodiversity**
Telkom seeks to minimise the impact of its infrastructure on the species and ecosystems of South Africa. A holistic conservation approach is paramount to our EMS. For a number of years, we have been actively involved in various biodiversity initiatives, including the following:
• The management of red billed buffalo weed over occupancy on mass infrastructure in the Mpumalanga area;
• The preservation of the sociable weaver nests on telephone routes in the Northern Cape;
• The prevention of blue crane collisions on telephone routes in the Free State;
• The successful relocation of Angolan free tailed bats from Telkom network facilities in Mpumalanga;
• The rescue and relocation of black eagle chicks from towers in the Northern Cape; and
• The relocation of a telephone route crossing a migratory bird wetland in Mpumalanga.

The Telkom environmental management team has developed methods and controls to manage the encroachment of various species on Telkom infrastructure. Line managers are now in a position to manage such interventions independently.
Wakkerstroom walkway
Since 2009, we have partnered in a biodiversity project in the Wakkerstroom area of Mpumalanga, internationally recognised as a haven for migratory birds. Our involvement has included providing computers to the local community, removing telephone lines from wetlands and upgrading a walkway providing access to bird hides. The walkway revamp was funded by the Telkom Foundation and has been well received.

**INTEGRATED WASTE MANAGEMENT**
Responsible disposal of waste presents a significant opportunity to minimise our impact on the environment. Recognising the strain placed on South Africa’s landfill sites, and the impact of hazardous waste on the environment, Telkom promotes recycling and resource efficiency. We further recognise the important revenue generating potential of certain waste streams such as copper.

**Our approach**
Waste is a key issue for Telkom in terms of infrastructure management. Infrastructure components wear out and must be replaced. They also need to be upgraded and replaced in line with new technology development.

Due to the dispersed nature of much of Telkom’s infrastructure, the scope for waste management falls into two areas:
- **TFMC managed waste**: This includes the normal office waste streams and non-telecommunication waste. TFMC manages the collection, separation and disposal of all the non-telecommunications waste types as well as all recycling initiatives pertaining to such waste.
- **Telkom managed revenue generating waste streams**: This includes copper cable, optic fibre, batteries, e-waste and other redundant telecommunication waste. These products are consolidated at Telkom around the country. It is from these centres that the revenue generating waste is picked up by appointed vendors for processing.

Telkom has a formal procedure for integrated waste management. This details requirements for the handling of waste streams as well as the recycling of materials where possible. Telkom aims to dispose of waste in an environmentally responsible manner by using accredited vendors for collection and disposal. Disposal certificates are obtained from suppliers to ensure that waste is not dumped illegally and is processed according to environmental governing legislation.

**Our performance**
Telkom managed revenue generating waste streams: For the current reporting cycle, Telkom’s recycled waste has consisted of the following streams (Trudon and SwiftNet do not contribute to these waste streams):

<table>
<thead>
<tr>
<th>Waste stream (tonnes)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>1 301</td>
<td>2 210</td>
<td>1 387</td>
<td>1 279</td>
<td>1 231</td>
<td>1 241</td>
</tr>
<tr>
<td>Optic fibre</td>
<td>282</td>
<td>234</td>
<td>203</td>
<td>251</td>
<td>281</td>
<td>333</td>
</tr>
<tr>
<td>Batteries</td>
<td>349</td>
<td>344</td>
<td>348</td>
<td>293</td>
<td>477</td>
<td>647</td>
</tr>
<tr>
<td>E-waste</td>
<td>297</td>
<td>383</td>
<td>341</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper</td>
<td>181</td>
<td>172</td>
<td>75</td>
<td>210</td>
<td>177</td>
<td>182</td>
</tr>
</tbody>
</table>

The above table and graph excludes subsidiaries.
While these materials constitute the majority of Telkom’s recyclable revenue generating waste stream by volume, their quantity is not necessarily influenced primarily by our resource efficiency initiatives. In the case of copper and optic fibre recycling volumes are driven primarily by the amount of damage inflicted upon our infrastructure as a result of copper cable theft.

• Batteries: To ensure continuous power to equipment, batteries are used at sites as backup power when there is a local power failure. Batteries are scrapped by technical staff in the regions and brought to the different Reverse Logistics yards for selling. Batteries are only scrapped when they are no longer suitable for recharging or are damaged. Batteries are sold to specific buyers with a disposal certificate supplied to Telkom for every lot sold.

• Electronic scrap (e-waste) is consolidated at our Boksburg yard and is sold via auctions.

• Copper cable: the majority of the recycled copper is recovered from the field after dead-line route recoveries. Copper is sold to an approved recycling and processing contractor Sindawomye and reworked into other products.

• Optic fibre cable is sold to Sindawomye through an existing contract. The cable is reworked into various components including PVC, Kevlar and optic fibre. These are then either reworked into other products or sold individually. The Kevlar, PVC and stiffening rods are used at the Thembani social upliftment project, an outstanding example of Telkom’s social commitment, creating work opportunities as well as supporting the special needs of the Bedford community or families especially women and children using the redundant Telkom cable. The optic fibre cable itself is not used by the community but disposed of in an environmentally friendly manner with the support and approval of the local legislative bodies.

• Other recycled waste such as steel, wood, tools, leather, and furniture, is sold to Telkom staff or externally via tender or offer to purchase.

Water

Although Telkom is not a water intensive business, water scarcity is a key issue for South Africa and we therefore aim to be a responsible corporate citizen and minimise our water use. Telkom’s water use is limited to municipal water, which we use for cooling, catering, and toilet and shower facilities.

Water use

The above table and graph excludes subsidiaries.

Our performance

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>KI (millions)</td>
<td>1.58</td>
<td>1.53</td>
<td>1.49</td>
<td>1.63</td>
<td>2.12</td>
<td>2.05</td>
</tr>
</tbody>
</table>

Initiatives to reduce water consumption

In the 2014 reporting cycle we replaced 342 old, inefficient showerheads at the Olifantsfontein Centre with efficient showerheads. We also rolled out a water awareness campaign to educate employees on the water issues facing South Africa, and on how to reduce water consumption in the office and at home.
Telkom, with the assistance of the National Business Initiative (NBI), is exploring the opportunity of becoming a United Nations Global Compact (UNGC) signatory by 2015. This requires the company to uphold the 10 UNGC principles relating to human rights, fair labour practices, limiting environmental impacts, and corruption.

We have conducted a gap analysis and self-assessment to assess our performance against the UNGC principles. This is illustrated in the table below:

<table>
<thead>
<tr>
<th>Focus area</th>
<th>Relevant UNGC principle</th>
<th>Telkom’s UNGC support</th>
</tr>
</thead>
</table>
| Broad-based black economic empowerment | Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.  
Principle 2: Make sure that they are not complicit in human rights abuses. | Working groups and element owners have been established to account for performance of all the seven elements on the B-BBEE scorecard.  
Implementation and commitment to the B-BBEE Plan; B-BBEE strategy and other transformation policies.  
Commitment to include people with disabilities in our occupational structures. |
| Human capital: developing our people | Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.  
Principle 6: The elimination of discrimination in respect of employment and occupation. | Telkom is line with global standard practices, where applicable, in relation to the hours, wages and leave each employee is entitled to Telkom protects its workers from non-harassment; however does not provide training for managers on the identification and management of harassment cases in the workplace. Although Telkom does train on chairing inquiries. Policy on harassment are not actively communicated to all employees.  
Telkom adheres to all legislation relating to employee privacy. The company has policies for IT monitoring where systems are in place for compliance with such policies.  
Telkom has grievance mechanisms which are available for all employees and are known to all employees. |
| Managing environmental impact      | Principle 7: Businesses should support a precautionary approach to environmental challenges.  
Principle 8: Undertake initiatives to promote greater environmental responsibility.  
Although there is not a systematic approach in place to ensure knowledge of new environmental legislation, the best method to ensure knowledge of new environmental legislation is under investigation.  
Telkom has in place an environmental policy and is ISO 14001 (EMS) certified.  
Telkom assesses and addresses the environmental impacts of its operations before these operations start (Environmental Impact Assessments).  
Though Telkom has not conducted assessments of its supply chain to identify suppliers with risks of human rights abuses; defined minimum requirements for human rights standards or collaborated with peers to implement continuous improvement of human rights standards.  
The company promotes international environmental standards in its interactions with suppliers and business partners. |
| Procurement and supply chain       | Principle 7: Businesses should support a precautionary approach to environmental challenges.  
Principle 8: Undertake initiatives to promote greater environmental responsibility.  
Principle 9: Encourage the development and diffusion of environmentally friendly technologies. | Telkom has a commitment to promote the continuous improvement of human rights standards of its suppliers and trains the relevant management and procurement staff.  
Telkom has not conducted assessments of its supply chain to identify suppliers with risks of human rights abuses; defined minimum requirements for human rights standards or collaborated with peers to implement continuous improvement of human rights standards. Therefore Workshops will be arranged to address these issues with a Green Questionnaire to be included in Telkom’s Bid Documentation.  
Telkom is committed in developing a Green Procurement Policy document. |
<table>
<thead>
<tr>
<th>Focus area</th>
<th>Relevant UNGC principle</th>
<th>Telkom’s UNGC support</th>
</tr>
</thead>
</table>
| Products and service responsibility    | **Principle 7:** Businesses should support a precautionary approach to environmental challenges.  
**Principle 8:** Undertake initiatives to promote greater environmental responsibility.  
**Principle 9:** Encourage the development and diffusion of environmentally friendly technologies. | Telkom has a stringent procurement process. All vendors are expected to comply with SABS and quality standards before they are permitted to be placed on our supplier panel. |
| Promoting employee safety, health and wellbeing | **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights.  
**Principle 2:** Make sure that they are not complicit in human rights abuses. | Telkom is in line with the Global Compact recommendations related to the health and safety of its workers.  
Where Telkom employees travel on business, the health and safety requirements are managed by the travel agency with a minimum requirement of three-star accommodation. |
| Promoting ethical conduct and anti-corruption | **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery. | Telkom has a clear stance against anti-corruption.  
Telkom does evaluate and assess the risk of corruption when doing business.  
The company ensures that employees know the company’s anti-corruption commitment and all relevant persons are properly trained. |
| Investing in society                   |                                                                                        | Telkom has compiled and implemented the CSI Policy to guide the CSI initiative.  
The Telkom Foundation (CSI function) is responsible for the implementation of the CSI initiatives in schools and communities at large.  
Annual significant budget allocation in accordance with the required B-BBEE target to The Telkom Foundation.  
Our focus areas include Education (ICT), Social Development, Entrepreneurship and Staff Volunteerism. |
### GRI INDEX

#### C+ application level

<table>
<thead>
<tr>
<th>Indicator name</th>
<th>Indicator description</th>
<th>Page number</th>
<th>Fully met/ partially met</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profile disclosures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Chairman and CEO statements.</td>
<td></td>
<td>JR 17-19, 41-43 SR 9-10</td>
<td>Fully</td>
</tr>
<tr>
<td>2.1 Name of the organisation.</td>
<td>Telkom SA SOC Limited</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>2.2 Primary brands, products, and/or services.</td>
<td>IR 8</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>2.3 Operational structure of the organisation.</td>
<td>IR 8</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>2.4 Location of organisation’s headquarters.</td>
<td>Telkom Towers North, 152 Johannes Ramokhoase Street, Pretoria, 0002</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>2.5 Number of countries where the organisation operates.</td>
<td>South Africa only</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>2.6 Nature of ownership and legal form.</td>
<td>Telkom is a “State-owned Company” as defined in the Companies Act, Act No 71 of 2008 (“the New Companies Act”). The New Companies Act came into operation on 1 May 2011, which contained new compliance obligations on Telkom. A “State-owned Company” is defined in the New Companies Act as an enterprise that is registered as a company and which is listed as a public entity in schedule 2 or 3 of the PFMA. Telkom is listed as a major public entity in schedule 2 of PFMA – thus it is a “State-owned Company”. The Group is domiciled in South Africa and listed on the JSE Limited.</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).</td>
<td>IR 8</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>2.8 Scale of the reporting organisation, including:</td>
<td>• Number of employees; • Number of operations; • Net revenues; • Quantity of products or services provided; and • Beneficial ownership.</td>
<td>JR 6, 7, 8, 27</td>
<td>Fully</td>
</tr>
<tr>
<td>2.9 Significant changes during the reporting cycle regarding size, structure, or ownership including:</td>
<td>• The location of, or changes in operations, including facility openings, closings, and expansions; and • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations).</td>
<td>JR 5</td>
<td>Fully</td>
</tr>
<tr>
<td>2.10 Awards received in the reporting cycle.</td>
<td></td>
<td>JR 33</td>
<td>Fully</td>
</tr>
<tr>
<td>3.1 Reporting cycle (eg, fiscal/calendar year) for information provided.</td>
<td></td>
<td>JR 5</td>
<td>Fully</td>
</tr>
<tr>
<td>3.2 Date of most recent previous report (if any).</td>
<td></td>
<td>JR 5</td>
<td>Fully</td>
</tr>
<tr>
<td>3.3 Reporting cycle (annual, biennial, etc)</td>
<td></td>
<td>JR 5</td>
<td>Fully</td>
</tr>
<tr>
<td>3.4 Contact point for questions regarding the report or its contents.</td>
<td>Administration section</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>3.5 Process for defining report content, including:</td>
<td>• Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report.</td>
<td>JR 27, 34 SR 16</td>
<td>Fully</td>
</tr>
<tr>
<td>3.6 Boundary of the report.</td>
<td></td>
<td>JR 5</td>
<td>Fully</td>
</tr>
<tr>
<td>3.7 State any specific limitations on the scope or boundary of the report.</td>
<td></td>
<td>JR 5</td>
<td>Fully</td>
</tr>
<tr>
<td>3.8 Basis for reporting on joint ventures, subsidiaries, etc.</td>
<td></td>
<td>JR 5</td>
<td>Fully</td>
</tr>
<tr>
<td>Indicator name</td>
<td>Indicator description</td>
<td>Page number</td>
<td>Fully met/ partially met</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>3.10</td>
<td>Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement. The 2013 financial information have been restated due to the adoption of IAS 19R, amendment to IAS 16 as well as the change in the accounting policy related to the Cell Captive. Group amounts have also been restated due to the sale of the iWayAfrica Group. The layout of the statement of profit or loss and other comprehensive income has been changed to provide more relevant disclosures. Other income, employee expenses, selling, general and administrative expenses and service fees have been restated.</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>3.11</td>
<td>Significant changes from previous reporting cycles in the scope, boundary, or measurement methods applied in the report. There have been no significant changes from previous reporting cycles in the scope, boundary, or measurement methods.</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>3.12</td>
<td>Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found: • Strategy and Analysis 1.1 – 1.2;  • Organisational Profile 2.1 – 2.10;  • Report Parameters 3.1 – 3.13;  • Governance, Commitments, and Engagement 4.1 – 4.17;  • Disclosure of Management Approach, per category;  • Core Performance Indicators;  • Any GRI Additional Indicators that were included; and  • Any GRI Sector Supplement Indicators included in the report.</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>4.1</td>
<td>Governance structure of the organisation, including committees of the Board.</td>
<td>IR 76-84</td>
<td>Fully</td>
</tr>
<tr>
<td>4.2</td>
<td>Indicate whether the Chair of the highest governance body is also an Executive Officer (and, if so, their function within the organisation’s management and the reasons for this arrangement).</td>
<td>IR 76</td>
<td>Fully</td>
</tr>
<tr>
<td>4.3</td>
<td>For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. State how the organisation defines ‘independent’ and ‘non-executive’ • Non-executive director – a director not employed by the company on a full time basis and who does not take part in the day-to-day activities of the Company;  • Independent – as defined in King III, Principle 2.18.</td>
<td>IR 72-75, 79-81</td>
<td>Fully</td>
</tr>
<tr>
<td>4.4</td>
<td>How do stakeholders provide recommendations to the Board? The company makes use of the following: • Annual general meetings where shareholders are entitled to attend and vote on decisions  • Periodic reporting to shareholders and analysts on the financial performance of the company  • Shareholder resolutions where shareholders are able to make a decision and pass resolutions  • Unions where employees are entitled to membership and attendant representation  • Surveys where employees are engaged eg Heartbeat survey, Telkom Culture survey etc.</td>
<td></td>
<td>Fully</td>
</tr>
<tr>
<td>4.14</td>
<td>List of stakeholder groups engaged by the organisation.</td>
<td>IR 27-32</td>
<td>Fully</td>
</tr>
<tr>
<td>4.15</td>
<td>Basis for identification and selection of stakeholders with whom to engage.</td>
<td>IR 27</td>
<td>Fully</td>
</tr>
<tr>
<td>Profile disclosures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN3</td>
<td>Direct energy consumption by primary energy source.</td>
<td>SR 42</td>
<td>Fully</td>
</tr>
<tr>
<td>EN4</td>
<td>Indirect energy consumption by primary source.</td>
<td>SR 42</td>
<td>Fully</td>
</tr>
<tr>
<td>EN7</td>
<td>Initiatives to reduce indirect energy consumption and reductions achieved.</td>
<td>SR 41</td>
<td>Fully</td>
</tr>
<tr>
<td>EN8</td>
<td>Total water withdrawal by source.</td>
<td>SR 44</td>
<td>Fully</td>
</tr>
<tr>
<td>Indicator name</td>
<td>Indicator description</td>
<td>Page number</td>
<td>Fully met/ partially met</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------</td>
<td>-------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>EN14</td>
<td>Strategies, current actions, and future plans for managing impacts on biodiversity.</td>
<td>SR 42-43</td>
<td>Fully</td>
</tr>
<tr>
<td>EN16</td>
<td>Total direct and indirect greenhouse gas emissions by weight.</td>
<td>SR 42</td>
<td>Fully</td>
</tr>
<tr>
<td>EN17</td>
<td>Other relevant indirect greenhouse gas emissions by weight.</td>
<td>SR 42</td>
<td>Fully</td>
</tr>
<tr>
<td>EN18</td>
<td>Initiatives to reduce greenhouse gas emissions and reductions achieved.</td>
<td>SR 41</td>
<td>Fully</td>
</tr>
<tr>
<td>EN22</td>
<td>Total weight of waste by type and disposal method.</td>
<td>SR 43</td>
<td>Partially</td>
</tr>
<tr>
<td>EN28</td>
<td>Monetary value of significant fines and sanctions for non-compliance with environmental laws and regulations.</td>
<td>SR 40</td>
<td>Fully</td>
</tr>
</tbody>
</table>

**Labour practices and decent work**

| LA1           | Total workforce by employment type, employment contract, and region, broken down by gender. | SR 21-23   | Partially                |
| LA2           | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | SR 22      | Fully                    |
| LA4           | Percentage of employees covered by collective bargaining agreements. | SR 23      | Fully                    |
| LA7           | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region and by gender. | SR 27-28   | Fully                    |
| LA8           | Programmes in place to assist workforce members, their families, or community members regarding serious diseases. | SR 28, 29  | Fully                    |
| LA10          | Average hours of training per year per employee by gender, and by employee category. | SR 11      | Fully                    |
| LA12          | Percentage of employees receiving regular performance and career development reviews, by gender. | SR 22      | Partially                |
| LA13          | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | SR 21-23   | Fully                    |

**Product responsibility**

| PR4           | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. | SR 34      | Fully                    |
| PR5           | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | SR 34-35   | Fully                    |
| PR8           | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | SR 34      | Fully                    |
| PR9           | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | SR 34      | Fully                    |

**Economic**

| EC1           | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | JR 6       | Fully                    |
| EC6           | Policy, practices, and proportion of spending locally-based suppliers at significant locations of operations. | SR 11, 33  | Fully                    |
| EC8           | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | SR 38-39   | Fully                    |
COMPANY REGISTRATION NUMBER
1991/005676/30

HEAD OFFICE
Telkom Towers North
152 Johannes Ramokhoase Street
(Porterly Poes Street)
Pretoria, 0002

POSTAL ADDRESS
Telkom SA SOc Limited
Private Bag X881
Pretoria, 0001

TELEPHONE HELPLINE
0861 100 948

COMPANY SECRETARY
Xoliswa Mpengoshe Makasi
Tel: +27 12 311 3911
secretariat@telkom.co.za

MEDIA RELATIONS
Sinah Phochana
Tel: +27 12 642 1715
PhochanaMS@telkom.co.za

UNITED STATES ADR DEPOSITARY
The Bank of New York Mellon
Shareholder Relations Department
PO Box 11258
New York
NY 10286-1258
Tel: +1 888 643 4269
shareowner-svcs@bankofny.com

CORPORATE COMMUNICATIONS
Praveen Naidoo
Tel: +27 12 311 7720
NaidooP29@telkom.co.za

CHIEF RISK OFFICER
Adv. Ouma Rasethaba
Tel: +27 12 311 4785
rrasethj@telkom.co.za

SUSTAINABILITY
Lindiwe Maepa
Tel: +27 12 311 6519
MaepaLJ@telkom.co.za

AUDITORS
Ernst & Young Inc.
102 Rivonia Road
Sandton, 2146
Private Bag X14
Sandton, 2146
Tel: +27 11 772 3000
Fax: +27 11 772 4000

TRANSFER AGENTS
ComputeShare Investor Services (Pty) Limited
70 Marshall Street
Johannesburg, 2001
PO Box 61051
Marshalltown, 2107

BUSINESS CALL CENTRE
10217

INVESTOR RELATIONS
Nwabisa Piki
Tel: +27 12 311 3911
telkomir@telkom.co.za

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