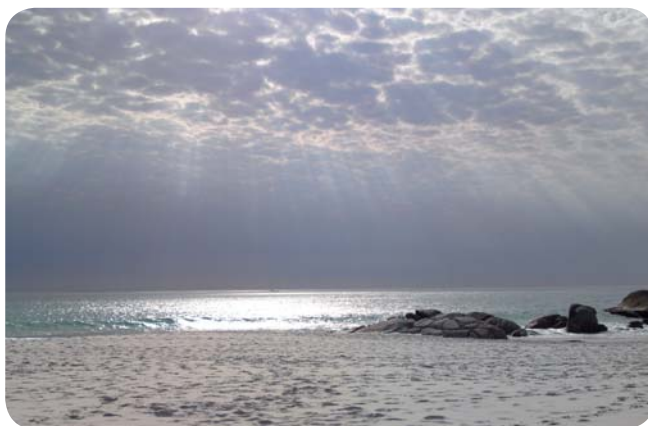
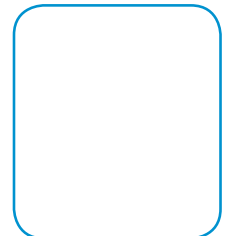
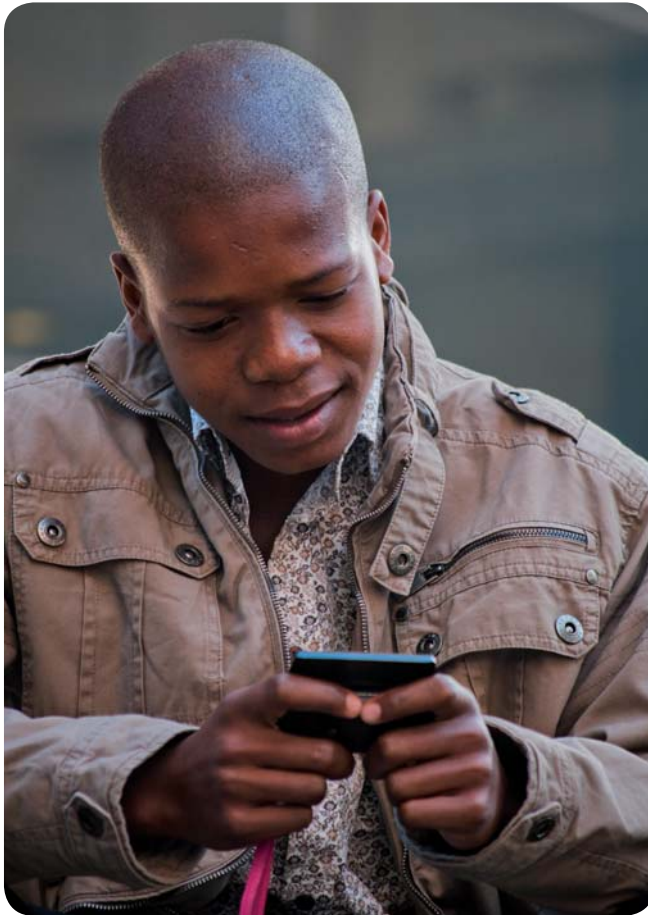




Telkom Group

Sustainability Report **31 March 2011**



Connecting
human potential every second of the day



Telkom Group

Sustainability Report **31 March 2011**

Telkom is Africa's largest integrated communications company, providing integrated communications solutions to an entire range of customers. Telkom's passion is to become world-class.

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1. Introduction and Overview

Introduction

Our sustainability report is aimed at all stakeholders with an interest in our environmental, social and governance issues and performance.

Telkom's approach to sustainability

Our approach to sustainability stems from our fundamental intent to prosper as a business and to meet the human potential through connecting the present and future generations. Our approach to delivering on this objective is based on meeting connectivity solutions that enable people, communities and economies to thrive while protecting the environment.

The goal of sustainability is to meet the needs of the present without compromising the ability of future generations to meet their own needs. While it cannot be achieved by one organisation on its own, we believe that our business can make an important contribution to an ongoing global transition to sustainability.

Initiatives and aspirations

Our reputation for acting responsibly plays a critical role in our success as a business and our ability to generate shareholder value. That reputation stems from our five core values:

- Continuous performance improvement
- Honesty
- Accountability
- Respect
- Teamwork



GRI: refers the reader to an indicator used in the application of the Global Reporting Initiative (GRI) guidelines.

Our long-term financial viability is ultimately linked to the economic well-being of the society we operate in and the stability of the planet we live on.

We recognise the environmental, social and economic threat posed by climate change and the need for coordinated global action to reduce greenhouse gas emissions. We have thus reported for the first time on the 2011 Carbon Disclosure Project (CDP).

Our Sustainability Strategic Plan (to be approved by the governance structures described below) requires making sustainability considerations an integral part of our business plans, decision making processes and the way we run our business.

Sustainability reporting according to the Global Reporting Initiative (GRI) standards and principles allows us to progressively improve our reporting and allows us to identify and address the material issues. Our long term strategy is to incrementally ascend the application levels of the GRI.

The JSE Socially Responsible Investment (SRI) Index has been developed as criteria to measure the triple bottom line performance of companies, and further offers the sustainability benchmark, recognising listed companies incorporating sustainability principles into their everyday business practices and to serve as a toll for investors to assess companies on a broader base. We have taken into account the SRI criteria when developing this report.



1. Introduction and Overview **continued**

Governance structures

Sustainability is a Telkom Board agenda item and a monthly Executive Committee agenda item.

To assist in meeting the recommendations of King III we have established a sustainability forum accountable to the Board to manage sustainability reporting as well as to develop and implement a sustainability strategy for the Company. The Governance Council (GC) under the chair of the Chief of Regulatory and Corporate Affairs is responsible for this role and function. The Empowerment and Sustainability division already exists within the Regulatory and Corporate Affairs division. The GC will delegate work to the workgroups (to still be established) and will be coordinated by the Empowerment and Sustainability division to ensure that sustainability is permeated into day to day activities of the organisation.

Scope and boundary of this report What is included

Although we have issued previous sustainability reports, this is our first sustainability report using the GRI framework. We have reported at a C+ application level. This application level is self declared based against the criteria in the RI application levels and also indicates that we have utilised external assurance. The information provided in this report has been strongly influenced by the GRI G3 and the Telecommunications Services Sector Supplement, Department of Trade and Industry's Codes of Good Practice on Broad-Based Black Economic Empowerment (B-BBEE), and our Carbon Disclosure Project (CDP) submission.

To provide stakeholders with an integrated and succinct view of the Group's sustainability performance, this report focuses on key developments during the year and includes only the most material indicators.

This year's sustainability report includes Corporate Governance and Enterprise Risk Management of the Group while the rest of this report covers the operations of Telkom South Africa only. Subsidiaries i.e. Multi-Links, Africa Online, MWEB and Swiftnet are not specifically covered in sections of this sustainability report. Our Governance and

Corporate Citizenship policies and practices apply to all subsidiaries within the Group and the Telkom SA Limited Board takes ultimate responsibility for the governance and sustainability issues of the Group as a whole. The Group's Sustainability Strategic Plan, upon approval, will be rolled out to all operations and it is envisaged that subsidiaries will be included in the Group sustainability report in future.

Report cycle period

This report supports the Group's annual report and sets out our sustainability performance for the financial reporting period from 1 April 2010 to 31 March 2011. Any subsequent events occurring up to Audit and Risk Committee approval on 15 July 2011, of a qualitative nature and which are material, have also been included.

Assurance and verification

Limited assurance has been obtained from Nkonki Inc., an independent assurance provider, over our carbon footprint data submitted as part of our Carbon Disclosure Project (CDP) submission. For a better understanding of the scope of the assurance, the carbon footprint data in this report should be read in conjunction with the CDP submission which is available online on our website through the link below.

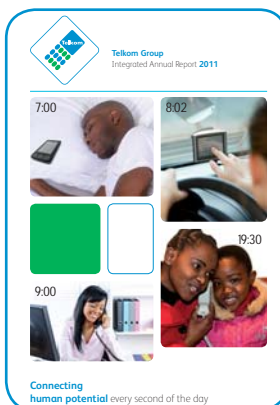
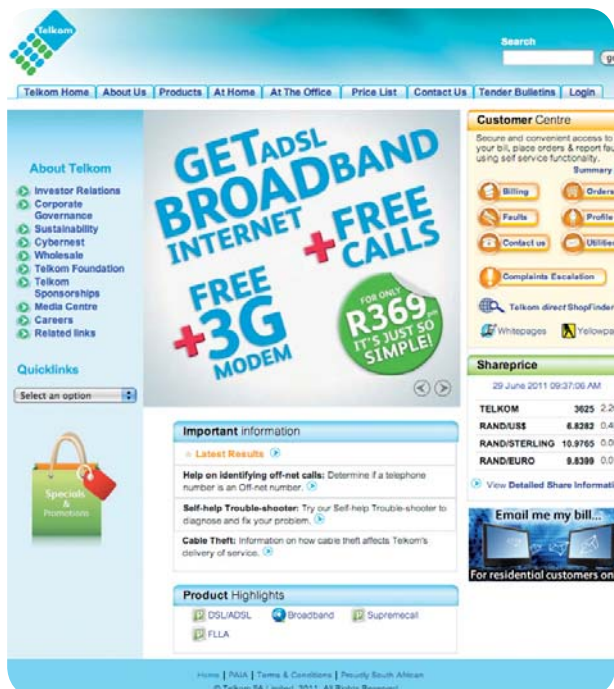
A more comprehensive independent external assurance process will be undertaken from 2012 which will include an assurance statement.

Telkom SA Limited has aligned its efforts to the Department of Trade and Industry's BBEE Code of Good Practice to ensure that we contribute to a sustainable, equitable society and the transformation of the Information and Communications Technology (ICT) sector.

On 27 January 2011, we were certified as a level 4 Contributor to BBEE by the South African Accreditation System (SANAS) approved verification agency, the National Empowerment Rating Agency (NERA). We are recognised as a value added supplier. This allows our clients/customers to recognise 125% of their procurement spent with us.

Our website

Our website <https://secure1.telkom.co.za/ir/sustainability/vision-and-mission.jsp> includes further information regarding our sustainability activities.

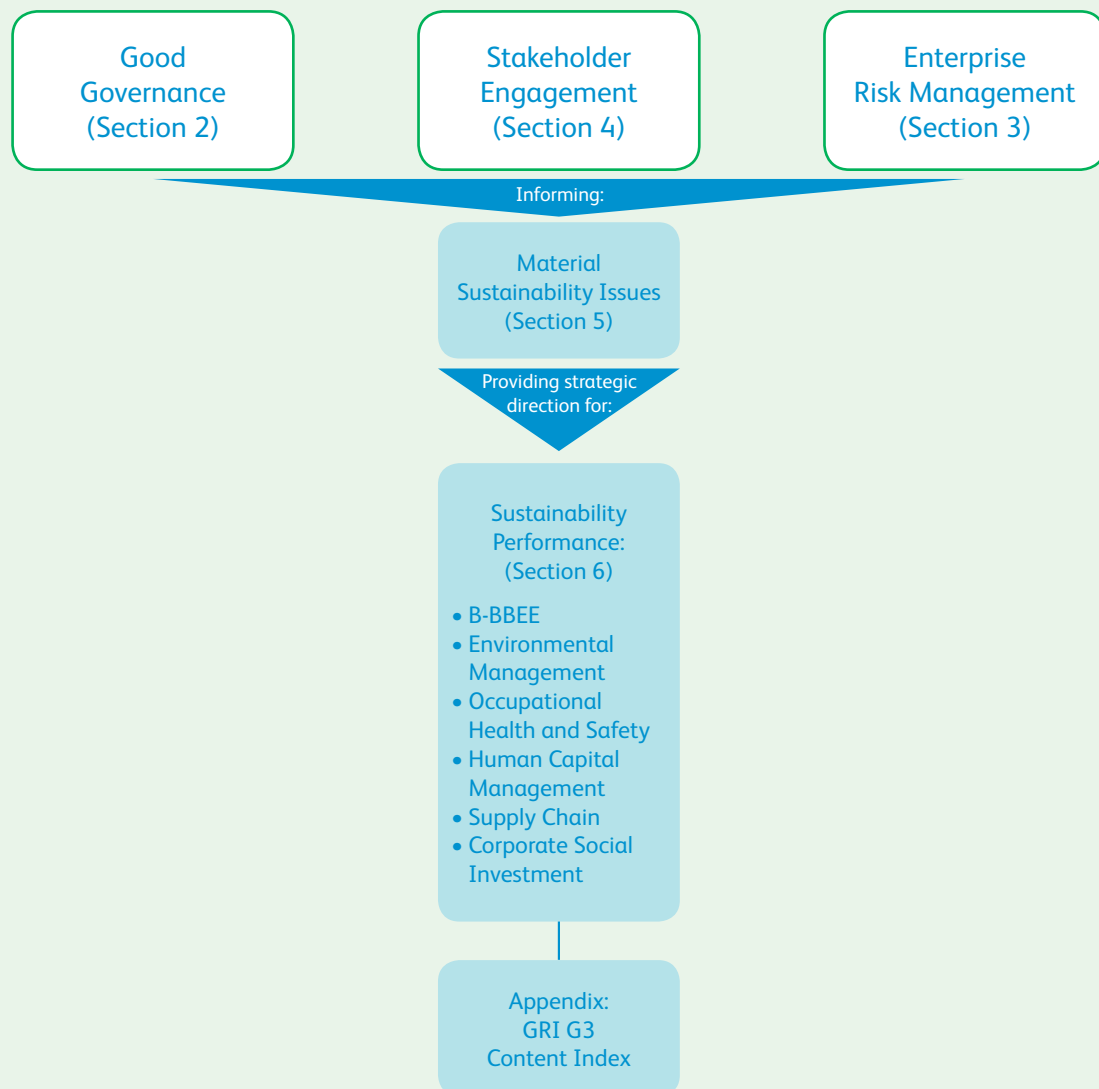




Overview of the report

This sustainability report aims to present a balanced analysis of our sustainability performance in relation to issues that are relevant and material to Telkom and our stakeholders. The report complements our ongoing engagement with our stakeholders, enterprise risk management processes and governance structures.

Identifying our material sustainability issues and reporting on their performance:



1. Introduction and Overview continued

Telkom's value to society

We add significant direct and indirect value to South African society. Direct value added by our business contributes to the development of the South African economy as a whole and the extensive reach of our products and services are indirectly integral to the functioning and development of the South African society.

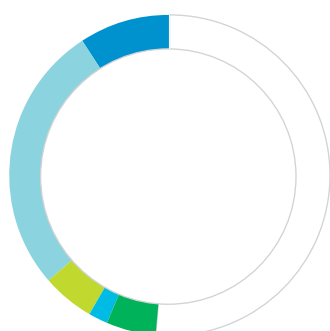
Direct value to society







Telkom SA Limited (company) value added statement for the year ended 31 March 2011

	Notes	2011		2010		2010 (Excl. Vodacom transaction)	
		Rm	% of total	Rm	% of total	Rm	% of total
Value added							
Revenue		31,712		33,911		33,911	
Net costs of services and other operating expenses*		(14,371)		(17,391)		(17,391)	
Investment income		470		800		800	
Other income		534		21,298		715	
		18,345		38,618		18,035	
Value distributed							
Distributed to employees as salaries, wages and other benefits		9,366	51	9,421	24	8,470	47
To government as taxation and dividends	1	984	6	8,587	22	1,198	7
To shareholders (other than government) as dividends		455	2	7,718	20	392	2
To providers of finance as finance expense		895	5	1,323	4	1,323	7
Value reinvested	2	4,919	27	6,047	16	4,818	27
Net earnings retained		1,726	9	5,522	14	1,834	10
		18,345	100	38,618	100	18,035	100
The amounts reflected above have been extracted from the Telkom SA Limited consolidated annual financial statements for the year ended 31 March 2011. For a full appreciation of the financial results readers should refer to the Telkom SA Limited Group Annual Integrated Report and Annual Consolidated Financial Results for the year ended 31 March 2011.							
* included in the figure above are the following distributions:							
Paid to suppliers		13,635		15,572		15,572	
Distributed to corporate social investment through Telkom Foundation		43		58		58	
1. To government as taxation and dividends		984		8,587		1,198	
		684		3,494		939	
South African normal company taxation		548		2,603		1,250	
STC		136		891		(311)	
Foreign taxation		—		—		—	
Dividends		300		5093		259	
2. Value reinvested		4,919		6,047		4,818	
Depreciation, amortisation, impairments and write-offs		4,810		4,687		4,687	
Deferred taxation		109		1,360		131	

The chart below shows the source of our direct value to society:

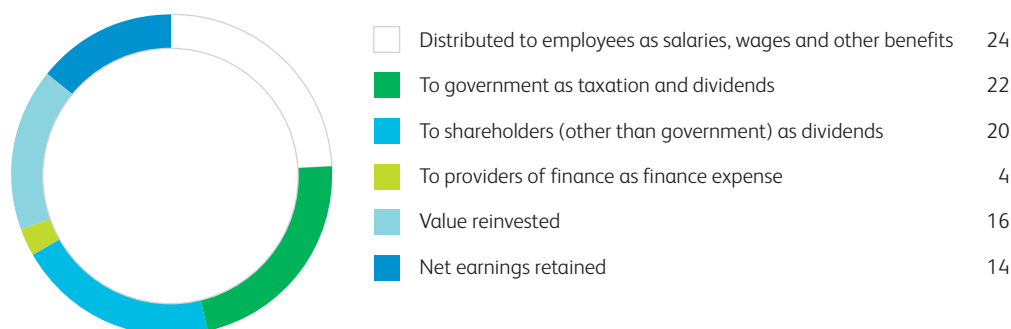
Value to society 2011 (%)



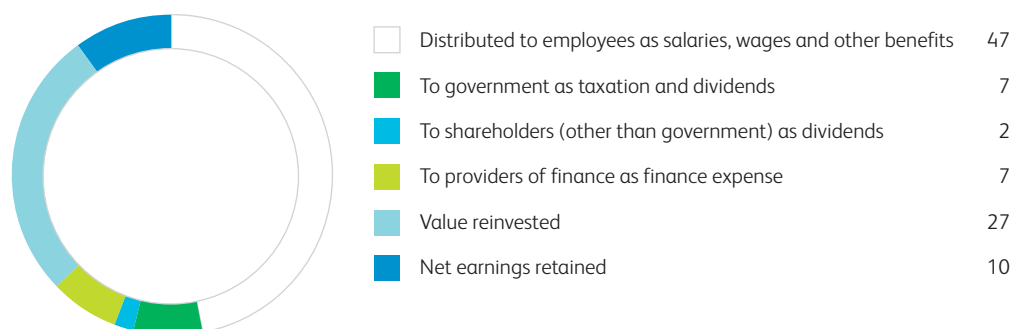
	Distributed to employees as salaries, wages and other benefits	51
	To government as taxation and dividends	6
	To shareholders (other than government) as dividends	2
	To providers of finance as finance expense	5
	Value reinvested	27
	Net earnings retained	9

We played an integral role in the 2011 municipal elections **by enabling the safe delivery of ballot results.**

Value to society 2010 (%)



2010 Excluding Vodacom transaction (%)



Telkom's indirect value to society

We continually invest in expanding and improving our world class infrastructure network. This is demonstrated through our R4 billion network infrastructure capex spend in the 2010/11 financial year. The continued investment in infrastructure facilitates the information age and connects South Africa locally and to the world. This was evidenced by the bandwidth provided by us to broadcast the 2010 FIFA World Cup™ to the world in high definition for the very first time and by our involvement in the 2011 municipal elections.

2011 municipal elections

We played an integral role in the 2011 municipal elections by enabling the safe delivery of ballot results from 20 864 polling stations around the country to the National Results Centre at the Tshwane Show Grounds. Additionally, over the two registration weekends in February and March, we provided the infrastructure to register over 23.6 million voters successfully.

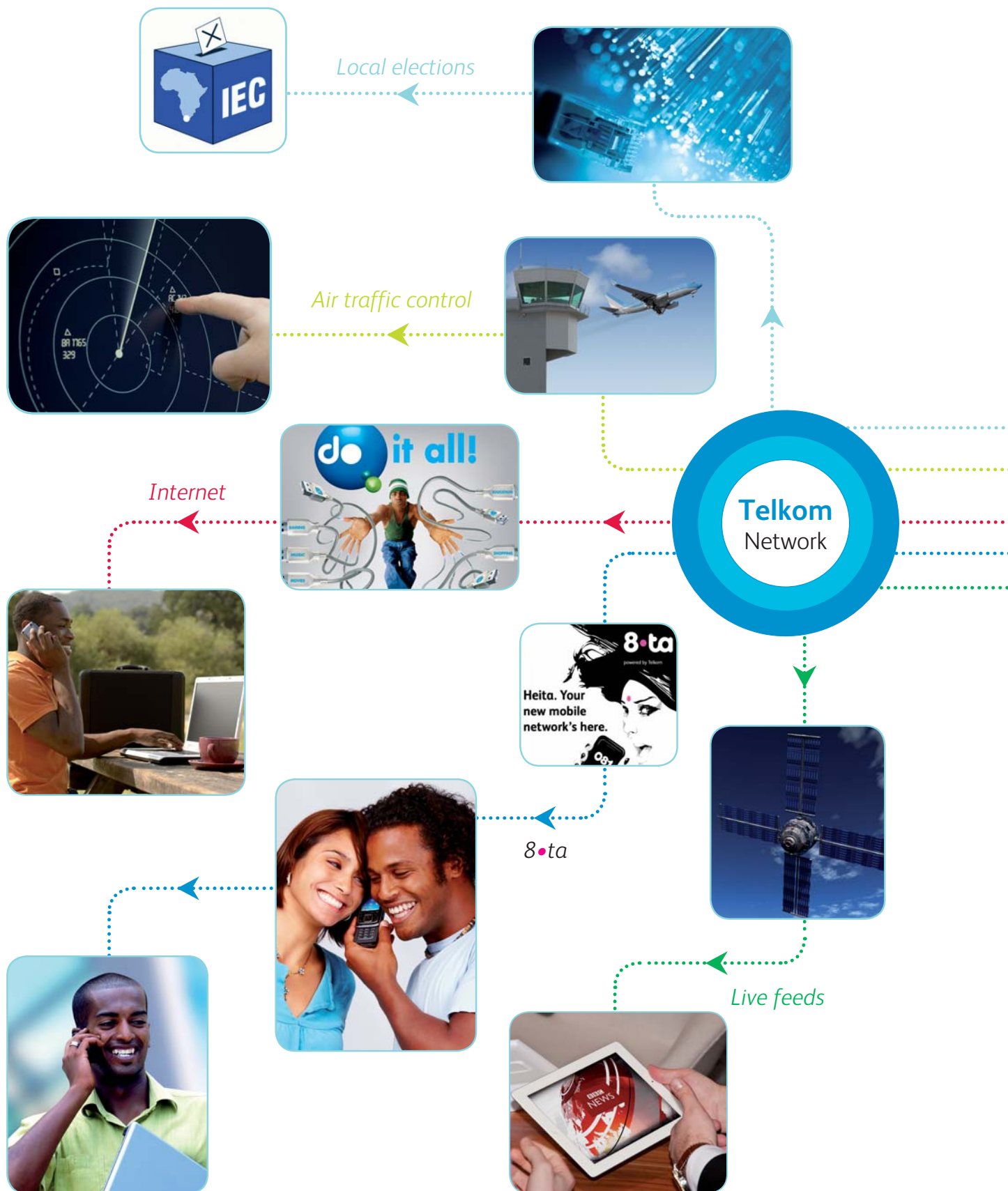
The primary solution that we are providing entails access for the IEC's Wide Area Network (WAN) through Telkom's Virtual Private Network Services platform, using multiple access mediums. These include VSAT technology, Diginet/Martis, ATM, Metro LAN, Telkom's ADSL and ISDN (Primary and Basic Rate) architecture.

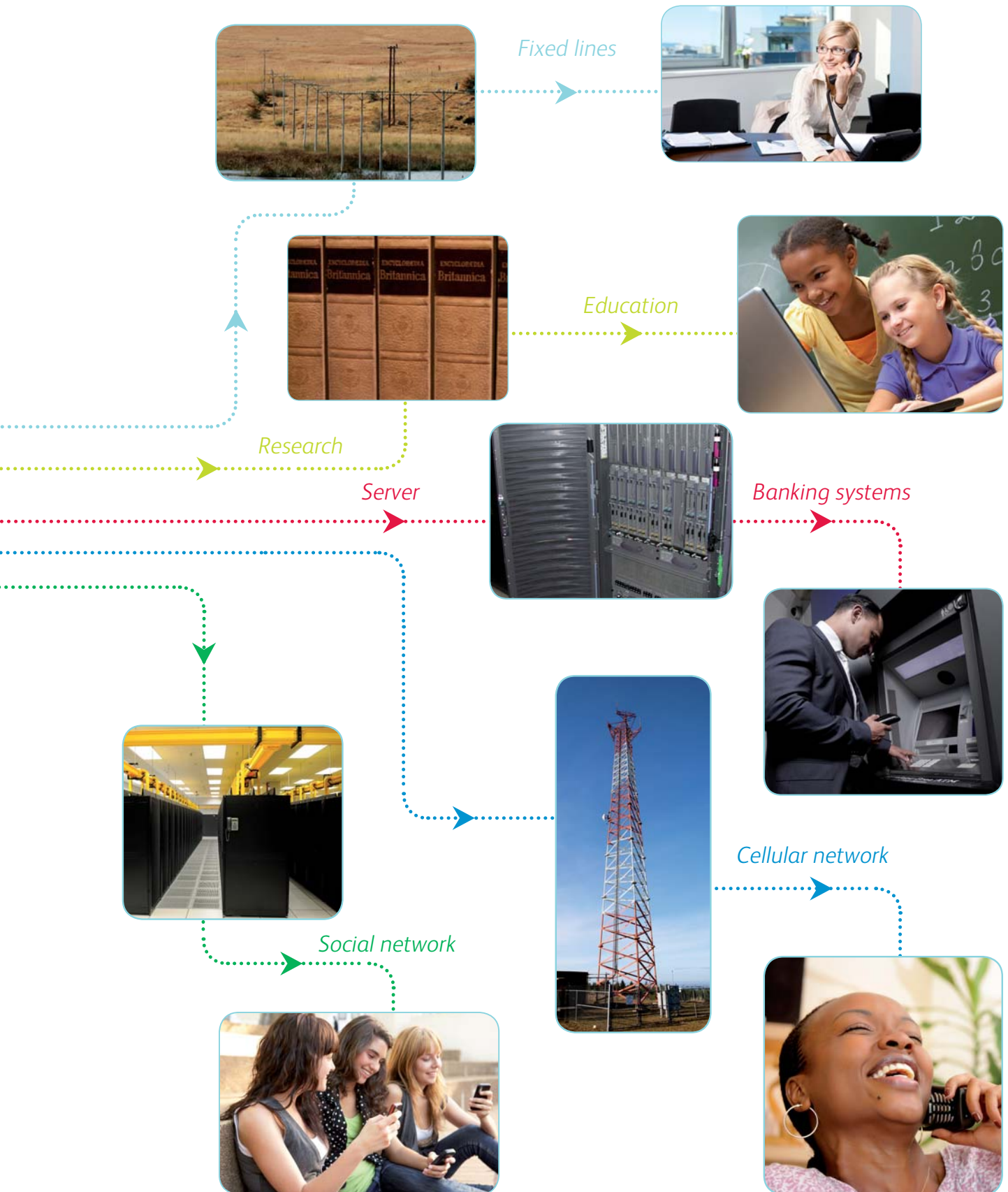
Bridging the digital divide

The Universal Service Obligations requires all telecoms companies to play their role in bridging the digital divide. As a part of this we have rolled out 'E-rate' to specified schools. This is a programme by which we provide schools with Internet connectivity and charges 50% of the standard internet rate. We are playing a leading role in this regard; to date we have provided 2,247 schools throughout the country with this service. Additionally, our corporate social investment initiatives through the Telkom Foundation are aimed at bridging the digital divide through its focus on education initiatives. This is evidenced through our ICT school connectivity initiatives whereby ICT equipment is donated to schools throughout South Africa.

The diagram on the following pages demonstrates the extent of the indirect value that we provide to society:

Connecting human potential every second of the day





2. Good Governance

Compliance

The Telkom Board subscribes to, and is fully committed to, sound business principles and practices of integrity and accountability, and values of good corporate governance as espoused in the Code of Corporate Practices and Conduct of King III (the Code). In so doing, the directors recognise the need to conduct the enterprise in accordance with best corporate practices. The Board is of the view that Telkom complies in all material respects to the principles of the Code. While it acknowledges the importance of good governance, the Board is aware that Telkom does not strictly comply with certain principles set out in the Code. These areas of non-compliance stem mainly from certain provisions in Telkom's articles of association which make provision for certain rights associated with the Class A and B shareholders. Most of the areas of non-compliance were resolved in March 2011, when the rights included in the provisions of Telkom's articles of association resulting in non-compliance with the Code lapsed.

Chairman and Board of Directors

The Board takes overall responsibility for the Group and its role is to exercise leadership and sound judgement in directing the Group to achieve continued prosperity and to act in the best interests of stakeholders.

The Board of Telkom is responsible for directing the Group towards the achievement of the Telkom vision and strategy and is ultimately accountable for the Group's strategy, operating performance and financial results.

Subject to any limitations imposed by the Companies Act, JSE Listings Requirements and the Articles of Association, the management of the business of the Company shall be vested in the directors. The Board and its sub-committees specifically assume ultimate responsibility for:

- scanning the environment to understand and anticipate economic, industry and competitive threats likely to affect the Company;
- reviewing and evaluating present and future strengths and weaknesses of the Company;
- approving and reviewing the Company's competitive strategy and adopting business plans and budgets for the achievement thereof;
- retaining full and effective control of the Company, monitoring and directing management's implementation of Board approved strategies, structures plans and budgets;
- establishing and monitoring a relevant set of financial and non-financial measures of indicators to predict, measure and control the performance of the Company, its business risk and the ability of the Company to implement its strategy and achieve its objectives;

- ensuring that appropriate systems are in place to identify, monitor and manage business risks and to ensure regulatory and legal compliance and that there is an effective risk-based internal audit;
- ensuring that a relevant system of policies and procedures is operative to ensure control and the devolution of authority and responsibility;
- approving the annual budget;
- approving specific financial and non-financial objectives;
- reviewing investment capital and funding proposals;
- defining levels of materiality and authority for commitments made on behalf of the Company;
- considering the adoption of any significant changes in: accounting policies and practices; the extent of debt permitted by the Group; AGM agendas; changes to the memorandum and articles of association and compliance with JSE Listing Requirements and other relevant regulations;
- reviewing the Company's audit requirements;
- acting in the interests of the Company's stakeholders;
- ensuring ethical behaviour and compliance with laws and regulations and the Company's own governing documents, codes of conduct and ethical standards;
- acting as the focal point for, and custodian of, corporate governance by managing its relationship with management, the shareholders and other stakeholders of the Company along with sound corporate governance principles;
- ensuring comprehensive reporting to shareholders;
- approving the preliminary financial statements, annual report and other reports and announcements to shareholders;
- considering the declaration of dividends;
- reviewing the Board's composition, structure and succession;
- reviewing succession planning and endorsing senior executive appointments and high-level remuneration issues;
- establishing the measures for, and reviewing the Group CEO's performance. The Chairman of the Board shall conduct the performance assessment of the Group CEO;
- reviewing non-executive directors' remuneration;
- ensuring that information technology (IT) governance is in place;
- ensuring that the Company is and is seen to be a responsible corporate citizen by having regard to not only the financial aspects of the business of the Company but also the impact that business operations have on the environment and the society within which it operates;

- establishment by the Board of an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. The annual plan must ensure proper coverage of the matters tabled in the Board charter. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan; and
- ensuring that business rescue proceedings commence as soon as the Company is financially distressed.

Telkom has a unitary Board comprising 12 directors. In accordance with Telkom's articles of association, five non-executives including the Chairman have been appointed by the Government of South Africa (the former Class A shareholder) and one non-executive appointed by Black Ginger (the former Class B shareholder).

There are three other non-executive directors who are appointed at the Company's annual general meeting or by the Board and are considered to be independent, as set out in King III and the JSE Listings Requirements.

The executive directors on the Board were Mr. R September up until 7 July 2010, and Mr. PG Nelson, the Group Chief Financial officer up until 25 August 2010.

The Board is led by Mr. PL Zim. In line with best practice, the roles of the Chairman and Group Chief Executive Officer are separated.

Ms NT Moholi has been appointed as Group Chief Executive Officer commencing on 1 April 2011 and Mr [J] Schindehütte was appointed Chief Financial Officer from 1 August 2011. They will both serve as executive directors on the board.

In terms of the articles of association, the non-executive directors appointed by the former Class A shareholder have a fixed term of three years and may be re-elected to the Board. The Chairman has a term of one year and was appointed by the Class A shareholder. [The government's right to appoint the chairman as class A shareholder expired on 5 March 2011. Telkom's amended Articles of Association to be approved at the next Annual General Meeting allows for the appointment of an independent chairman.] The three independent non-executive directors are subject to retirement by rotation and re-election by shareholders at least every three years in accordance with the articles of association and JSE Listings Requirements.

The holders of the Class A and B ordinary shares were the government of the Republic of South Africa and Black Ginger respectively. The Class A and Class B shares were converted to ordinary shares on 5 March 2011. The only significant shareholder is the government who currently holds 39.8% of the issued ordinary shares in the Company.

The members' resignations and appointments to the Telkom Board of Directors during the year under review up to date are as follows:

Resignations

Director	Date of resignation	Reason for resignation
J Molobela (Chairman)	16 February 2011	Term expired
VB Lawrence	15 February 2011	Class A shareholder elected to change representative
PG Nelson	25 August 2010	Personal decision
R September	7 July 2010	Term expired
E Spio-Garbrah	1 May 2010	Class A shareholder elected to change representative
B Molefe	20 April 2010	Class B shareholder elected to change representative
D Barber	20 April 2010	Personal decision

Appointments

PL Zim (Chairman) – 16 February 2011

N Kapila – 16 February 2011

J Molobela – 16 February 2011

Y Waja – 20 April 2010

NT Moholi – 1 April 2011

[I] Kgaboesele – 1 July 2011

[J] Schindehütte – 1 August 2011

2. Good Governance continued

Company Secretary

All directors have access to the advice and services of the Group Company Secretary, who is responsible for ensuring the proper administration of the Board and corporate governance procedures. The Group Company Secretary provides guidance to the directors on their responsibilities within the prevailing regulatory and statutory environment and the manner in which such responsibilities should be discharged.

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

Delegation of authority

The ultimate responsibility for the Group's operations rests with the Board. The Board retains effective control through a well-developed governance structure of Board committees which specialise in certain areas of the business. Certain authorities have been delegated to

the GCEO to manage the day-to-day business affairs of the Group. The Group executives assist the GCEO in discharging her duties and the duties of the Board when it is not in session. However, in terms of statute and the Group's constitution, together with the revised delegation of authority, certain matters are still reserved for Board and/or shareholder approval.

Board meetings

Board meetings are held at least once a quarter. In addition to these meetings, whenever circumstances dictate the necessity, special Board meetings are convened. During the year under review, four scheduled Board meetings were held and seven additional special Board meetings were convened. Details of attendance by each director of the Board are set out in the table alongside. Certain members of senior management attend Board meetings when invited to make presentations on particular issues of interest to the Board. A majority of directors are required for a quorum for Board meetings.

The following table presents the attendance of meetings held during the 2011 financial year by directors:

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
Non-executive				
J Molobela (Chairman) (resigned 16 February 2011)	4	4	7	6
PL Zim (Chairman) (appointed 16 February 2011)	1	1	2	2
DD Barber (resigned 20 April 2010)	0	0	0	0
B Molefe (resigned 20 April 2010)	0	0	0	0
RJ Huntley	4	4	7	7
PG Joubert	4	4	7	6
B du Plessis	4	3	7	7
VB Lawrence (resigned 15 February 2011)	3	3	5	4
PCS Luthuli	4	4	7	6
N Kapila (appointed 16 February 2011)	1	1	2	1
JN Hope	4	4	7	7
E Spio-Garbrah (resigned 1 May 2010)	0	0	0	0
Y Waja (appointed 20 April 2010)	4	4	7	6
Executive				
RJ September (resigned 7 July 2010)	1	1	2	2
PG Nelson (resigned 25 August 2010)	1	1	3	3

¹ The table represents the possible meetings based on the appointment and resignation dates of members.

Committees

The Board is assisted in discharging its duties through its committees.

Executive Committee

This committee consists of the one executive director that serves on the Board of Directors and chief executives and managing directors of the Telkom Group. The Group Chief Executive Officer is the Chairman of this committee and has the power of authority to, among other things:

- implement approved business plans, annual budgets and all other matters and issues relating to the achievement of Telkom's obligations under its licences, including without limitations network expansion, equipment procurement, tariff setting and packaging, customer service and marketing; and
- prepare, review and recommend to the Board the annual budgets and any amendments thereto.

Audit and Risk Committee (ARC)

The ARC is chaired by Mr. PCS Luthuli, an independent non-executive director. It held four scheduled meetings and five special meetings during the financial year. Mr. Luthuli is a Chartered Accountant.

The Committee assists the Board in discharging its duties including:

- to monitor the integrity of the financial statements of the Company;
- to review the Company's internal financial control system including, risk management systems;
- to monitor and review the effectiveness and performance of the Company's internal audit function;

- to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor following appointment by the shareholders in General Meeting;
- to monitor the effectiveness and performance of the external auditor's performance and their independence and objectivity;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services;
- to ensure safeguarding of assets;
- to monitor the establishment of and compliance with the enterprise risk management policies and procedures;
- to monitor compliance with applicable laws, regulations and standards;
- to monitor the adequacy of corrective action taken in terms of the recommendations and observations of internal and external auditors;
- to review financial information and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

As at 31 March 2011, the committee comprised five non-executive directors of which three are considered independent:

PCS Luthuli (independent)
RJ Huntley
Y Waja
PG Joubert (independent)
B du Plessis (independent)

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
PCS Luthuli (Chairman)	4	4	5	5
B du Plessis	4	4	5	5
Y Waja	3	2	3	2
RJ Huntley	4	4	5	5
PG Joubert	4	4	5	3

The terms of reference of the committee were reviewed and approved during the year.

The Audit and Risk Committee conducts the Chief Financial Officer's evaluation as well as a self-evaluation exercise into its effectiveness on an annual basis. The committee conducted the previous Chief Financial Officer Peter Nelson's evaluation, and the committee confirms that it is satisfied with the appropriateness of the expertise

and experience of the Chief Financial Officer. A new Chief Financial Officer has been appointed effective 1 August 2011.

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

The Audit and Risk Committee is satisfied that Ernst & Young is independent in accordance with section 270A of the Corporate Laws Amendment Act, and nominated the re-appointment of Ernst & Young as registered auditors for the 2011/2012 financial year.

2. Good Governance continued

Nominations Committee

The Nominations Committee's functions shall comprise:

- making recommendations on the composition of the Board with respect to all aspects of diversity including academic qualification, technical expertise, industry knowledge, experience, business acumen, race and gender as well as the balance between executive, non-executive and independent non-executive members appointed to the Board;
- identifying and nominating candidates and formulating succession plans in conjunction with HRRRC for the approval of the Board for the appointment of new executives and non-executive directors and Chief Financial Officer and Group Chief Executive Officer;
- recommending to the Board for the continuation (or not) of services of any director who has reached the age of 65;
- ensuring that the revision and assessment of the Board, individual directors as well as committee members is conducted on an annual basis;

- recommending directors who are retiring by rotation, for re-election;
- monitoring the principles of governance and code of best practice in respect of Board composition, structure and process;
- ensuring that induction and ongoing training and development of directors takes place; and
- ensuring that the Audit and Risk Committee gives regular briefings on changes in risks, laws and the environment in which the Company operates.

The Nominations Committee must have a minimum of three members and is chaired by a non-executive director. A quorum for a meeting is two members. As at 31 March 2011, the committee comprised five non-executive directors:

PL Zim (Chairman)
J Molobela
PCS Luthuli
B du Plessis
JN Hope

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

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
PL Zim (Chairman, appointed 16 February 2011)	0	0	2	2
PCS Luthuli	3	3	5	4
B du Plessis	3	3	5	5
J Molobela (resigned as Chairman on 16 February 2011)	3	3	5	3
JN Hope	3	2	5	5

The committee makes recommendations to the Board on the composition of the Board, and the balance between executive, non-executive and independent non-executive directors with respect to all aspects of diversity and experience.

The committee is responsible for identifying and nominating candidates and formulating succession plans in conjunction with the Human Resources Review and Remuneration Committee (HRRRC) for the approval of the Board.

In addition, the committee recommends to the Board, continuation (or not) of services of any director who has reached the retirement age as well as directors who are retiring by rotation, for re-election.

Investment and Transactions Committee

The responsibilities of the committee are to:

- review and recommend to the Board an investment policy appropriate to the Group's strategy, gearing and risk appetite. For clarity, policy proposals will be drawn up by, and agreed to by the Executive Committee prior to review by the Investment Committee;

- review and recommend to the Board investment proposals submitted by the Executive Committee ensuring compliance with the Group's investment policy and the Group's strategy as agreed by the Board;
- monitor the performance of investments against original investment criteria and pre-investment assumptions until the conclusion of the first complete financial year after acquisition. At this stage the Executive Committee will prepare a formal post acquisition review and ongoing performance will become part of normal reporting to the Board;
- review and recommend proposals made by the Executive Committee to dispose of investments;
- review a semi-annual report from the Chief Financial Officer and make recommendations to the Board if necessary, concerning the Group's financial facilities and financing structures; and
- pursuant to 3.5 above, make recommendations to the Board in respect of the selection of merchant banks and professional advisors.

The Investment and Transaction Committee, consists of five non-executive directors:

PCS Luthuli (Chairman)
 RJ Huntley
 JN Hope
 Y Waja
 N Kapila

Mr. PCS Luthuli, a non-executive director, was appointed Chairman of the Investment and Transactions Committee on 21 February 2011. A quorum for a meeting is a majority of members.

The Investment and Transactions Committee held two scheduled meetings and two special meetings during the financial year.

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
PCS Luthuli (Chairman)	2	2	2	1
RJ Huntley	2	1	2	2
JN Hope	2	2	2	1
Y Waja	2	2	2	2
N Kapila (appointed 16 February 2011)	0	0	2	2
VB Lawrence (resigned 15 February 2011)	1	1	0	0

The function of the committee is to assist the Board in evaluating investments, corporate actions and key funding and financial proposals.

Human Resources Review and Remuneration Committee (HRRRC)

The committee consists of non-executive directors and executive management as provided by the Group's Articles of Association. The HRRRC comprises the following non-executive directors of which two must be independent:

RJ Huntley (Chairman)
 PL Zim
 B du Plessis (independent)
 PG Joubert (independent)
 JN Hope
 J Molobela
 TE Msubo

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

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
RJ Huntley (Chairman)	4	4	4	4
PL Zim (appointed 16 February 2011)	1	0	0	0
J Molobela	4	3	4	4
B du Plessis	4	4	4	4
PG Joubert	4	4	4	2
JN Hope	4	3	4	4
TE Msubo (appointed 1 January 2011)	1	1	1	1

2. Good Governance continued

This HRRRC, in consultation with management, ensures that the Group's top management and senior executives are fairly rewarded for their individual contribution to the Group's performance. In fulfilling its duties, the HRRRC gives consideration to industry and local benchmarks to ensure that remuneration packages remain competitive. Senior executives receive a salary, short term incentive and an allocation of shares in terms of the rules of the approved Telkom Conditional Share Plan. Medical and retirement benefits are also offered. Remuneration packages are reviewed annually and performance bonuses are linked both to individual performance and to the performance of the Group. Non-executive directors are paid fees for their services as directors of the Group and for their participation as members of the Board committees.

Board effectiveness

An appraisal of the effectiveness of the Board was conducted externally during the year. The appraisal was benchmarked against the strategic requirements of Telkom SA to ensure the capacity to deliver these requirements and strengthen the diversity and sector expertise of directors. The appraisal was positive and its recommendations will be implemented.

Share dealings

In line with JSE Listings Requirements and the Group's insider trading policy, executives who wish to trade in Telkom securities are required to obtain prior written approval from the Chairman of the Board and the Group Company Secretary before dealing in Telkom securities. The Group operates closed periods as defined in the JSE Listings Requirements. Additional closed periods are enforced, when required, in terms of corporate activities as and when these occur.

Telkom Audit Services (TAS) Overview

The Telkom Board appointed the Telkom Audit and Risk Committee (ARC) to oversee the establishment of effective systems of internal control in order to provide reasonable assurance that the Company's financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an audit function, headed by the Group Executive: Telkom Audit Services (GE: TAS).

TAS, in accordance with best in class practices, is an independent, objective assurance and consulting activity designed to add value and improve Telkom's operations. TAS aims to help Telkom accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

TAS provides assurance to the Company's stakeholders that the Company operates in a responsible manner by performing the following functions:

- evaluating Telkom's governance processes including ethics, especially the 'tone at the top';

- performing an objective assessment of the effectiveness of risk management and the internal control framework;
- systematically analysing and evaluating business processes and associated controls; and
- providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.

The Telkom structure promotes the independence of TAS as a whole and allows it to form its judgments objectively.

In order to ensure the independence; permit sufficient objectivity and assure the accomplishment of audit responsibilities, the GE: TAS functionally reports to the Chairman of the ARC. The GE: TAS also interacts directly with the Board and reports administratively to the Chief Financial Officer. The GE: TAS has unlimited access to all employees of the Company, including the Chairman of the Telkom Board, the chairman and members of the ARC as well as the Chief Executive Officer (CEO).

The TAS charter and risk-based annual audit plan is approved by the ARC.

The internal audit activities are performed by teams of appropriate, qualified and experienced resources. This has enabled sufficient attention being directed towards the growth aspirations of Telkom in areas of new business, whilst ensuring that existing business areas receive due attention.

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

What we did

- A summary of audit results was presented to the ARC and Executive Committee at regular intervals throughout the year.
- TAS also provides information to management, ARC and the Board on the internal audit function's performance against the approved audit plan and the adequacy of the departmental resources.
- Projects were completed covering a variety of financial, strategic, operational and compliance related business processes across all business units and functions in alignment to the elements of the globally recognised COSO (Committee of Sponsoring Organisations of the Treadway Commission) control framework.
- TAS responded to a number of management requests to provide either assurance or consulting services in areas that concerned senior management.

- Internal Audit practices and activities were also benchmarked independently by an authoritative external party as recommended by the SPPIA and required by the ARC. TAS was assessed as “generally conforms” to the IIA standards, which is the highest level of conformance as defined by the Standards. The independent review by the external party also highlighted that based on the overall assessment of “generally conforms”, it is clear that the TAS function is managed appropriately.
- TAS, as mandated by the ARC, has implemented a Company-wide system of management action tracking to monitor the timely remediation of reported control deficiencies. This system empowers management to pro-actively manage the establishment of controls in their environments.
- TAS provides reports to the Audit Committee and Executive Committee at regular intervals detailing the status of agreed remedial actions implemented by management, in support of the establishment and maintenance of a sound control environment.
- Furthermore TAS, adopted strategies and techniques aimed at addressing the specific internal audit requirements of King III, which includes better strategic alignment of the assurance efforts of TAS. In particular; and
 - TAS has conducted a formal documented review of the design, implementation and effectiveness of the Company’s system of IFC and submitted a report in this regard to the ARC; and

- TAS has prepared and presented to the Chairman of the ARC an assessment of the system of internal controls.

The challenges


- Continue to ensure that our work remains strategically aligned and risk-based.
- Drive further cost optimisation opportunities and efficiencies within the section.
- Ensure sufficient attention is directed to new business areas, including subsidiaries.
- Maintain a sufficient skills base that is relevant to business.
- Improve turnaround times in relation to reports.
- Due completion of the TAS audit plan, with sufficient agility to address emerging risks.
- Driving combined assurance efforts of Telkom, so as to ensure there is proper co-ordination of all assurance providers within the control environment at Telkom.
- Enhanced access to and interaction with EXCO.
- Recommendations to execute agreed management actions are within committed timelines.
- Sustain reporting lines and communication protocol such that they are appropriate to all applicable levels of management, with due consideration to the principle of independence.


The table below details Telkom’s practice in terms of the King III requirements on an apply or explain basis.

Telkom practices in respect of corporate governance are listed in the table below:

King III requirement	Telkom practice
Ethics performance The board should ensure that the company’s ethics performance is disclosed in order to provide relevant and reliable information about the quality of the company’s ethics performance. As part of its sustainability reporting, the board reports on the company’s ethics performance and discloses the information in a sustainability report.	The current Business Code of Ethics together with certain supplementary policies were recently revised and approved by the Board of Directors. This forms part of the Ethics programme that was developed and which makes provision for the setting up of an ethics office, committed engagement by way of institutionalising a comprehensive ethics programme, which includes the development, implementation and review of the Business Code of Ethics together with the supplementary policies, compiling an ethics risk and opportunity profile, ethics training and awareness within the organisation and the certification of Company ethics officers. Currently reporting of Ethics is to the Audit and Risk Committee. In future it will be to the Social and Ethics Committee to be established in terms of section 72 of the new Companies Act no.71 of 2008, with the provision for ethics as a standard agenda point as well as the escalation of matters related to ethics.

2. Good Governance continued

King III requirement	Telkom practice
Board chairman <p>If the board appoints a chairman who is a non-executive director but is not independent or is an executive director, this should be disclosed in the integrated report, together with the reasons and justifications for the appointment.</p>	<p>The Chairman is a non-executive director that was appointed by the government in terms of Telkom's Articles. The expiration of the rights attached to the Class A shares on 5 March 2011 allows for the appointment of an independent chairman in future.</p>
Board composition  <p>Every year, non-executive directors classified as 'independent' should undergo an evaluation of their independence by the chairman and the board. If the chairman is not independent, the process should be led by the lead independent director. Independence should be assessed by weighing all relevant factors that may impair independence. The classification of directors in the integrated report, as independent or otherwise, should be done on the basis of this assessment.</p> <p>Independent non-executive directors may serve longer than nine years if, after an independent assessment by the board, there are no relationships or circumstances likely to affect, or appear to affect, the director's judgement. The assessment should show that the independent director's independence of character and judgement is not in any way affected or impaired by the length of service. A statement to this effect should be included in the integrated report.</p>	<p>Assessments are done externally through the Board evaluation process.</p> <p>None of the independent non-executive directors served for more than nine years.</p>
Reporting <p>The following aspects regarding directors should be disclosed in the integrated report:</p> <ul style="list-style-type: none"> • The reasons for the removal, resignation or retirement of directors; • The composition of the board committees and the number of meetings held, attendance at those meetings and the manner in which the board and its committees have discharged its duties; • The education, qualifications and experience of the directors; • The length of service and the age of the directors; • Whether supervising of new management is required in which case retention of board experience would be called for; • Other significant directorships of each board member; • Actual or potential political connections or exposure; and • Any other relevant information. 	<ul style="list-style-type: none"> • Included in governance section of this report. • Included in governance section of this report. • Included in management section of this report. • Included in management section of this report. • Supervising of management by the Board is not a requirement. • Done through the annual declaration of interest. • Five board representatives were appointed by government and one by the Public Investment Corporation.
Board performance <p>The board should state in the integrated report whether the appraisals of the board and its committees have been conducted. The report should provide an overview of the results of the performance assessment and the action plans to be implemented, if any.</p>	<p>Appraisals of the Board and its committees have been conducted.</p> <p>The results of the appraisal and action plans will be discussed at the next Board meeting.</p>

King III requirement	Telkom practice
Board committees	
The composition of board committees should be disclosed in the integrated report, including any external advisers who regularly attend or are invited to attend committee meetings.	Included in the governance section of this report. No external advisers attend on a regular basis.
The integrated report should disclose the terms of reference of the board committees, as approved by the board.	Included in the governance section of this report.
Group vs. subsidiary boards	
Adopting and implementing policies and procedures of the holding company in the operations of the subsidiary company should be a matter for the board of the subsidiary company to consider and approve, if the subsidiary company's board considers it appropriate. The subsidiary company should disclose this adoption and implementation in its integrated report.	Telkom is in the process of developing a framework on governance of subsidiaries. The interim mandate framework has been provided to subsidiaries.
Directors' remuneration 	
Base pay and bonuses: Targets for threshold, expected and stretch targets for performance should be robustly set and monitored and the main performance parameters should be disclosed.	Included in the remuneration report. (Refer Telkom Group Integrated Annual Report)
Participation in share incentive schemes should be restricted to employees and executive directors, and should have appropriate limits for individual participation, which should be disclosed.	Proposed new plans are restricted to selected employees and executive directors. Individual participation levels are set and disclosed in the details of the share plans. Included in the remuneration report. (Refer Telkom Group Integrated Annual Report)
To align shareholders' and executives' interests, vesting of share incentive awards should be conditional on achieving performance conditions. Such performance measures and the reasons for selecting them should be fully disclosed. Where performance measures are based on a comparative group of companies, there should be disclosure of the names of the companies chosen.	Included in the remuneration report. (Refer Telkom Group Integrated Annual Report)
Incentive schemes to encourage retention should be established separately, or should be clearly distinguished, from those related to rewarding performance and should be disclosed in the annual remuneration report voted on by shareholders.	The proposed new share plans contain a 70% retention and 30% performance based element. For further details see the details of the plan. Included in the remuneration report. (Refer Telkom Group Integrated Annual Report)
Companies should provide full disclosure of each individual executive and non-executive director's remuneration, giving details as required in the Companies Act No 71 of 2008 of <ul style="list-style-type: none"> • Base pay; • Bonuses; • Share-based payments, granting of options or rights; • Restraint payments; and • All other benefits (including present values of existing future awards). Similar information should be provided for the three most highly-paid employees who are not directors in the company.	Disclosed in the remuneration report and Annual financial statements. (Refer Telkom Group Integrated Annual Report)

2. Good Governance continued

King III requirement	Telkom practice
<p>In its annual remuneration report, to be included in the integrated report, the company should explain the remuneration policies followed throughout the company with a special focus on executive management, and the strategic objectives that it seeks to achieve, and should provide clear disclosure of the implementation of those policies.</p> <p>The remuneration report should explain the policy on base pay, including the use of appropriate benchmarks. A policy to pay salaries on average at above median requires special justification. It should also explain and justify any material payments that may be viewed as being ex gratia in nature.</p>	<p>Included in the remuneration report. (Refer Telkom Group Integrated Annual Report)</p> <p>Included in the remuneration report. (Refer Telkom Group Integrated Annual Report)</p>
<p>Policies regarding executive employment contracts should be set in the annual remuneration report.</p> <p>These policies normally include at least the following:</p> <ul style="list-style-type: none"> • The period of the contract and the period of notice of termination (after the initial period, contracts should normally be renewable yearly); and • The nature and period of any restraint. 	<p>Included in the remuneration report. (Refer Telkom Group Integrated Annual Report)</p>
<p>The annual remuneration report should disclose the maximum and the expected potential dilution that may result from the incentive awards granted in the current year.</p>	<p>Telkom is requesting authority from shareholders to buy back its shares from the market and to issue new unissued shares to participating employees. In addition shares held by Rossal and Acajou will be utilised for purposes of the share plans. On date of this report the share plans have not been approved by shareholders and no shares have been granted.</p>
Interim results	
<p>Where the external auditor is appointed to perform a publicly reported review of the interim results, the report of the external auditor should be made available to users of the interim results and should be summarised in the interim results.</p>	<p>The review report of the external auditor on the interim results are made available for inspection at the Company's registered office.</p>
Finance function	
<p>Every year, the audit committee should consider and satisfy itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function. The results of the review should be disclosed in the integrated report.</p>	<p>Included in Audit and Risk Committee report. (Refer Telkom Group Integrated Annual Report) The Chief Financial Officer, Peter Nelson, resigned on 25 August 2010, therefore no assessment was conducted in the current year whilst finalising the appointment of the new Chief Financial Officer.</p>
Internal controls	
<p>The audit committee must conclude and report yearly to the stakeholders and the board on the effectiveness of the company's internal financial controls.</p>	<p>Included in Audit and Risk Committee report. (Refer Telkom Group Integrated Annual Report)</p>

King III requirement	Telkom practice
Weaknesses in financial control, whether from design, implementation or execution, that are considered material (individually or in combination with other weaknesses) and that resulted in actual material financial loss, fraud or material errors, should be reported to the board and the stakeholders. It is not intended that this disclosure be made in the form of an exhaustive list, but rather an acknowledgement of the nature and extent of material weaknesses and the corrective action, if any, that has been taken to date of the report.	A control environment assessment has been prepared and presented to the chairman of the Audit and Risk Committee. Over and above this a separate Internal Financial Control assessment has been presented to the Chairman of the ARC to satisfy the said requirements of King III, as mentioned in paragraph 70.
Reporting	
As a minimum, the audit committee should provide the following information in the integrated report:	
<ul style="list-style-type: none"> • A summary of the role of the audit committee; 	Included in the Audit and Risk Committee report. (Refer Telkom Group Integrated Annual Report)
<ul style="list-style-type: none"> • A statement on whether or not the audit committee has adopted a formal terms of reference that have been approved by the board and if so, whether the committee satisfied its responsibilities for the year in compliance with its terms of reference; 	The Audit and Risk Committee Charter was approved by the Board.
<ul style="list-style-type: none"> • The names and qualifications of all members of the audit committee during the period under review, and the period for which they served on the committee; 	Included in the governance section of this report.
<ul style="list-style-type: none"> • The number of audit committee meetings held during the period under review and members' attendance at these meetings; 	Schedule of meetings and attendees included in the governance section of this report.
<ul style="list-style-type: none"> • A statement on whether or not the audit committee considered and recommended the internal audit charter for approval by the board; 	The Audit and Risk Committee annually considers and recommends the internal audit charter for approval by the Board.
<ul style="list-style-type: none"> • A description of the working relationship with the chief audit executive; 	In order to ensure the independence, permit sufficient objectivity and assure the accomplishment of audit responsibilities, the Group Executive: Telkom Audit Services functionally reports to the chairman of the ARC. The Group Executive: Telkom Audit Services also interacts directly with the Board and reports administratively to the Chief Financial Officer.
<ul style="list-style-type: none"> • Information about any other responsibilities assigned to the audit committee by the board; 	Included in the Audit and Risk Committee report. (Refer Telkom Group Integrated Annual Report)
<ul style="list-style-type: none"> • A statement on whether the audit committee complied with its legal, regulatory or other responsibilities; and 	Included in the Audit and Risk Committee report. (Refer Telkom Group Integrated Annual Report)
<ul style="list-style-type: none"> • A statement on whether or not the audit committee recommended the integrated report to the board for approval. 	The integrated report was recommended by the Audit and Risk Committee to the Board for approval.

2. Good Governance continued

King III requirement	Telkom practice
Board's responsibility for risk The board should be able to disclose how it has satisfied itself that risk assessments, responses and interventions are effective.	The Board has delegated the responsibility to the Audit and Risk Committee. Risk management is a regular agenda item for the ARC and quarterly risk submissions are made to the ARC detailing the risk identification, assessment, response and the monitoring of the key risk indicators. The ARC has further mandated the Telkom Executive Risk Management Committee (TERMC) to monitor the implementation and effectiveness of the annual risk management plan.
The board may set limits regarding the company's risk appetite i.e. the risk limits that the board desires, or is willing, to take. Where the risk appetite exceeds, or deviates materially from the limits of the company's risk tolerance (the company's ability to tolerate), this should be disclosed in the integrated report.	The Board has approved the high level appetite and tolerance levels in terms of the impact, likelihood and control effectiveness risk assessments matrices. In view of maturing the Enterprise Risk Management (ERM) process, management and the Board are currently in the process of defining a risk appetite framework and strategy which will be implemented in the 2011/2012 financial year.
Risk assessment The company's integrated report should include key sustainability risks, and responses to these risks and residual sustainability risks.	Included in risk factors portion of ERM report per section 3 and material sustainability issues per section 5.
Risk disclosure In its statement in the integrated report, the board should disclose for the period under review any undue, unexpected or unusual risks it has taken in the pursuit of reward as well as any material losses and the causes of the losses. The disclosure should be made with due regard to the company's commercially privileged information. In disclosing the material losses, the board should endeavour to quantify and disclose the impact that these losses have on the company and the responses and interventions implemented by the board and management to prevent recurrence of the losses.	When management has chosen to tolerate top risks by not implementing further corrective actions, this is indicated in the Executive Committee and Audit and Risk Committee reports as part of the risk summary. The Audit and Risk Committee will escalate these risks to the Board for disclosure should they deem it necessary. During the 2011 financial year we incurred an impairment loss of R453 million on our Multi-Links investment. In June 2010 we entered into a heads of agreement to sell Multi-Links.
The board should disclose any current, imminent or envisaged risk that may threaten the long term sustainability of the company.	Refer to the key strategic risks and related mitigations.
The board should also disclose its views on the effectiveness of the company's risk management processes in the integrated report.	The Board through the Audit and Risk Committee has approved the Enterprise Risk Management policy and framework. The ERM division is subject to internal audit review to ensure the effectiveness of the implementation.
Governance of information technology The board should take the necessary steps to ensure that there are processes in place to ensure complete, timely, accurate and accessible IT reporting, firstly from management to the board, and secondly by the board in the integrated report.	See Audit and Risk Committee report. (Refer Telkom Group Integrated Annual Report)

King III requirement	Telkom practice
Compliance with laws, codes, rules and standards	
The board should disclose in the integrated report the applicable non-binding rules, codes and standards to which the company adheres on a voluntary basis.	There are no non-binding rules, codes and standards to which we adhere on a voluntary basis.
The board should disclose details in the integrated report on how it has discharged its responsibility to ensure the establishment of an effective compliance framework and processes.	The Board has established an independent compliance function that identifies, assesses, advises on, monitors and reports on the corporate compliance risk within the organisation.
A company should consider disclosing in its integrated report any material – or immaterial but often repeated – regulatory penalties, sanctions and fines for contraventions or non-compliance with statutory obligations that were imposed on the company or any of its directors or officers. Disclosure should be considered having regard to whether divulging the information that the disclosure will necessitate, would negatively affect the company, breach confidentiality, or breach any agreement to which it is a party.	Not applicable.
The need for and role of internal audit	
If the board, in its discretion, decides not to establish an internal audit function, full reasons should be disclosed in the company's integrated report, with an explanation of how adequate assurance of an effective governance, risk management and internal control environment has been maintained.	An in-house internal audit function in a co-sourced arrangement has been established for the purpose of providing assurance on the effectiveness of governance, risk management and the internal control environment.
Internal controls	
The board should report on the effectiveness of the system of internal controls in the integrated report.	Included in Directors' responsibility statement. (Refer Telkom Group Integrated Annual Report)
The audit committee should provide comment on the state of the internal financial control environment in the company's integrated report.	Included in Audit and Risk Committee report. (Refer Telkom Group Integrated Annual Report)
Governing stakeholder relationship	
The board should disclose in its integrated report the nature of its dealings with its stakeholders and the outcomes of these dealings.	Included in stakeholder engagement, section 4.

2. Good Governance continued

King III requirement	Telkom practice
A company should consider disclosing in its integrated report the number and reasons for refusals of requests for information that were lodged with the company in terms of the Promotion of Access to Information Act, 2000. Disclosure must be considered having regard to whether divulging the information that the disclosure will necessitate will detrimentally affect the company or breach confidentiality or any agreement to which it is a party.	<p>We received 14 requests of which 13 were refused and 1 granted.</p> <p>The grounds of refusal were mainly the following:</p> <ol style="list-style-type: none"> 1. The requested records contain financial and commercial information, other than trade secrets, of a third party the disclosure of which is likely to cause harm to the commercial or financial interests of the third party, the third party having not consented to the disclosure of the records; 2. The disclosure of the requested record would constitute an action for breach of a duty of confidence owed to a third party in terms of an agreement. The third party having not consented to the disclosure of the records; 3. The requested record contains financial and/or commercial information, other than trade secrets, the disclosure of which is likely to cause harm to the commercial or financial interests of Telkom, and moreover, contains information the disclosure of which could reasonably be expected to put Telkom at a disadvantage in contractual or other negotiations and/or prejudice Telkom in commercial competition; 4. The records requested were required for an opposed court application and the Act is not applicable to records requested for the purpose of civil proceedings; 5. Disclosure of the requested records would involve the unreasonable disclosure of personal information about a third party.
Financial disclosure	
The annual financial statements should be included in the integrated report.	Included in Annual Financial Statements. (Refer Telkom Group Integrated Annual Report)
The board should include commentary on the company's financial results. This commentary should include information to enable a stakeholder to make an informed assessment of the company's economic value, by allowing stakeholders insight into the prospects for future value creation and the board's assessment of the key risks which may limit those prospects.	Included in risk factors portion of ERM report per section 3 and financial overview. (Refer Telkom Group Integrated Annual Report)
The board must disclose whether the company is a going concern and whether it will continue to be a going concern in the financial year ahead. If there is concern about the company's going concern status, the board should give the reasons and the steps it is taking to remedy the situation.	Included in Directors' responsibility statement. (Refer Telkom Group Integrated Annual Report)
Sustainability disclosure	
Reporting should be integrated across all areas of performance, reflecting the choices made in the strategic decisions adopted by the board, and should include reporting in the triple context of economic, social and environmental issues.	<p>The integrated report covers our nine strategic imperatives and deals with all material areas of strategic, operational, financial and sustainability performance.</p> <p>This sustainability report can be referred to for detail on sustainability performance.</p>

King III requirement	Telkom practice
Assurance of sustainability information <p>In obtaining assurance of sustainability information, the company should be clear on the scope of the assurance to be provided and this should also be disclosed.</p> <p>To the extent that reports are subject to assurance, the name of the assurer should be clearly disclosed, together with the period under review, the scope of the assurance exercise, and the methodology adopted.</p>	<p>Per Assurance and verification portion of Introduction and Overview, section 1 of this report.</p>
Summarised integrated report <p>Due to the volume and complexity of information conveyed in the integrated report, users benefit from a summary of the integrated report. The company should therefore prepare a summarised integrated reporting addition to the complete integrated report.</p>	<p>A summarised integrated report is prepared in addition to the complete integrated report and is posted to shareholders.</p>
Contents of summarised report <p>The objective of the summarised integrated report is to give a concise but balanced view of the company's integrated information. In preparing the summarised integrated report, companies should give due consideration to:</p> <ul style="list-style-type: none"> • Providing key financial information. The International Financial Reporting Standard on Interim Reporting (IAS34) provides useful guidance as to which financial information and notes should be included; • Providing sufficient commentary by the company to ensure an unbiased, succinct overview of the company's financial information; and • Providing the company's key performance measures regarding sustainability information. <p>Summarised integrated information should be derived from the underlying integrated report and should include a statement to this effect.</p>	<p>A summarised integrated report is derived from the underlying integrated report.</p>
Assurance of summarised integrated report <p>The audit committee should engage the external auditors to provide an assurance report on summarised financial information, confirming that the summarised financial information is appropriately derived from the annual financial statements.</p>	<p>Report of external auditors is included in the summarised integrated report.</p>

2. Good Governance continued

The table below details areas where we, base on our assessment, do not comply with the recommendations of King III

King III requirement	Telkom response
The company's ethics performance is not assessed, monitored and disclosed.	<p>An ethics programme was developed which includes the following steps:</p> <ul style="list-style-type: none"> • Compiling a risk profile which was done by way of a risk register. • The revision of the Business Code of Ethics which was approved by the board and will be announced and communicated in due course. • The integration of ethical standards which will be addressed by way of the ethics programme. • Reporting on ethics performance.
The chairman of the board should be an independent director.	The Chairman has a term of one year and was appointed by the Class A shareholder. The government's right to appoint the chairman as class A shareholder expired on 5 March 2011.
The chairman should be appointed by the board every year (after an assessment of his independence).	The Chairman has a term of one year and was appointed by the Class A shareholder. The government's right to appoint the chairman as class A shareholder expired on 5 March 2011.
A lead independent non-executive director has not been appointed where the chairman is not independent and free from conflicts of interest.	The Chairman has a term of one year and was appointed by the Class A shareholder. The government's right to appoint the chairman as class A shareholder expired on 5 March 2011.
The majority of the non-executive directors on the Board are not independent.	<p>The Memorandum of Incorporation is being altered to incorporate the balance of the Board composition.</p> <p>The rights attached to the class A and class B shares, including the rights to appoint directors expired on 5 March 2011.</p>
A governance framework has not been agreed by the group and its subsidiaries.	We are in the process of developing a framework on the governance of subsidiaries. The interim mandate framework has been provided to the subsidiaries.
Non-executive directors' fees were not approved by shareholders in advance.	In terms of the current Articles the directors fees were approved by the Board. The fees are included for approval by shareholders on the annual general meeting scheduled for 30 August 2011. Special resolution number 2.
The company's remuneration policy is not tabled to shareholders for a non-binding advisory vote at the annual general meeting.	The endorsement of the policy is included in ordinary resolution number 12 for approval by shareholders on the annual general meeting scheduled for 30 August 2011.

King III requirement	Telkom response
The audit committee does not comprise of only independent non-executive directors.	<p>The alteration of the Memorandum of Incorporation will enable compliance in future.</p> <p>The rights attached to the class A and class B shares, including the rights to appoint directors expired on 5 March 2011.</p>
Material deviations from the Company's risk limits that the Board is willing to take should be disclosed in the integrated report.	We are currently in the process of implementing the risk appetite strategy and once implemented it will be disclosed in the report.
Management has not developed a compliance policy that was approved by the board and implemented by management.	The policy has been developed and we are in the process of being approved and implemented.
<p>The board has not established an independent compliance committee.</p> <p>The board has not assessed the effectiveness of the compliance function.</p>	<p>This requirement will be addressed in the 2012 financial year</p> <p>Internal audit has assessed the effectiveness of the compliance function on behalf of the Board of directors,</p>
The Chief Audit Executive is not apprised formally of the strategy and performance of the company through meetings with the chairman, CEO or both.	Currently the engagement in this regard is informal and on an ad hoc basis. We are in the process of putting a formal structure in place in this regard.
The Company's reputation and its linkage with stakeholder relationships is not a regular Board agenda item.	We are currently piloting the approach to measure the quality of relationships with our stakeholders. The approved measures will be used to guide discussions at Board level.

3. Enterprise Risk Management

Overview

Risk is an essential part of any business. Properly managed, it drives growth and opportunity. By identifying and proactively addressing risks and opportunities, the organisation protects and creates VALUE for its stakeholders, shareholders, employees, customers, regulators and society overall.

The directors of Telkom Group have committed the Group to a process of enterprise risk management that is aligned to the principles of the King III Code. The features of this process are outlined in the Company's Enterprise Risk Management Framework. All service organisations, business units, divisions, subsidiaries and joint ventures will be subject to the Enterprise Risk Management Framework.

Effective risk management is imperative for a group with our risk profile. The realisation of our business strategy depends on us being able to take calculated risks in a way that does not jeopardise the direct interests of stakeholders. Sound management of risk enables us to anticipate and respond to changes in our business environment and take informed decisions under conditions of uncertainty. It also enables us to pursue opportunities favourable to the Group's risk appetite.

The Enterprise Risk Management division (ERM)

The Enterprise Risk Management division is a dedicated business section headed by Advocate Thokozani Mvelase, Group Executive, who reports to the Chief of Regulatory and Corporate Affairs. He is a member of the Telkom Executive Risk Management Committee (TERMC) as well as an invitee to the Audit and Risk Committee (ARC).

Responsibilities of the Group Executive include the following sections:

- enterprise risk management and financial control management
- risk insurance
- business continuity management
- forensics
- physical and technical security.

The ERM division is responsible for the following:

- the facilitation of the determination of the risk appetite and risk tolerance levels;
- the identification of the key strategic risk objectives of the Group;
- facilitating risk identification sessions with management and consultation for proactive risk identification by management;
- performing an independent risk assessment based on the approved ERM Methodology and Framework;

- developing and assessing the risk response strategies, inclusive of following up related action plans;
- identification, analysis and monitoring of key risk indicators; and
- entity wide aggregation and reporting of key risk information.

It is required that the enterprise risk management processes become embedded in our business to ensure that our responses to risk remain current, dynamic and relevant. All key risks associated with major change and significant actions by the Group will fall within the processes of enterprise risk management. The Group maintains a prudent approach to corporate risk and our decisions around risk tolerance, risk appetite and risk responses will reflect this.

Risk interventions are chosen on the basis that they increase the likelihood that we fulfil our promise to our stakeholders.

It is also the Group's intention to give effect to an enterprise risk management system to reduce the total cost of risk, thereby adding maximum sustainable value to all activities of the Group, and assist in achieving key strategic objectives, most specifically:

- to align the risk-taking behaviour of the Group with the key strategic business objectives as defined;
- to protect the reputation and brand name of Telkom worldwide;
- to promote a risk awareness ethic and improve risk transparency both internally and externally;
- to maximise (create, protect and enhance) shareowner value and net worth by managing risks that may impact on the defined financial and performance drivers;
- to identify risk improvement opportunities in the areas of operational responsiveness impacting on customer service satisfaction and efficiency management, that in return, will deliver an improved strategic operating performance;
- to support the business growth strategy through well-defined enterprise risk management methodologies;
- to monitor and ensure that the Group's risk management standard and best practice are subscribed to across the Group, and furthermore to minimise the potential for incurring risk through new investments and ventures; and
- to assist the business in enhancing and protecting opportunities that represent the greatest earnings stream potential.

In order to achieve these objectives it is important to continuously create awareness through workshops and training for management and staff on an ongoing basis.

While King III sets out the principles, the challenge for us is to make the principles real and practical.

Proactive utilisation of the enterprise risk management process in strategic decision-making

In order to achieve the above, and thereby advance effectiveness, the risk reporting structures have been amended so as to ensure the embedding of ERM within the critical business decision-making processes. One of the important achievements for ERM during the 2010/2011 period is the integration of the ERM process within the critical operational and management committees of the Group. It provides management with relevant, up to date risk information covering the exposures to the achievement of the related strategic objectives.

The process has been designed to assign accountability to top management for the effective management of risk exposures.

The risk identification, assessment, response and monitoring are performed on a monthly basis and reported through to the Executive Committee for further action if required.

What we did

- We amended the risk reporting structures to ensure that ERM was embedded in the critical business decision-making processes.
- We integrated the ERM process into our critical operational and management committees to give management relevant, up-to-date risk information covering the exposures to the achievement of the related strategic objectives.
- Risk identification, assessment, response and monitoring are done monthly and reported to the Telkom Executive Risk Committee for further action if required.

Going forward

One of the key objectives for the 2011/12 financial year is to continue growing the effectiveness of enterprise risk management across the Group. While significant progress has been made over the past 12 months, there is still improvement required.

The areas of improvement include:

- integrating risk management fully in performance objectives;
- instilling greater accountability and responsibility;
- moving beyond risk identification and assessment to tactical risk response strategies;

- reviewing the entity's risk appetite and ensuring that it is both a Board and management tool in effective decision-making (i.e. risks it will and will not take);
- demonstrating the cost benefit of the risk management effort;
- reviewing and improving our consolidated reporting;
- investigating an enterprise risk management solution that will enable the Group to record all business related risks into a central repository – thus a risk integrated reporting system that will support a dynamic, sustainable and integrated enterprise process;
- ERM training and knowledge management activities;
- review of sustainability and corporate citizenship risks and ensuring this transition with corporate governance divisions and related service organisations within the Telkom Group; and
- continuing with review of the human capital in ERM division to enable it to be effective and efficient.

The King III Code

King III became necessary in order to improve corporate governance in companies. The essential focus of the Code is that the Telkom Board shall "exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the Company's business".

While King III sets out the principles, the challenge for us is to make the principles real and practical through reference to these global guidelines.

The Enterprise Risk Management Framework is based on the internationally recognised Committee of Sponsoring Organisations of the Treadway Commission Framework and incorporates all critical risk management elements. Our approved Enterprise Risk Management Policy and Framework provides reference for the enterprise risk management process and addresses the requirements of the King III Code.

Accountability, roles and responsibilities

It is essential to clearly define the specific accountabilities, roles and responsibilities from an enterprise risk management perspective to eliminate any potential confusion. In defining these specifics it is necessary to understand the specific requirements from a Board and management perspective as emphasised by the King III Code.

3. Enterprise Risk Management **continued**

These principles can be highlighted as follows:

The Board's Responsibility for Risk Governance

- The Board is responsible for the governance of risk.
- The Board approves the levels of risk tolerance.
- The Audit and Risk Committee assists the Board in carrying out its risk responsibilities.

Management's Responsibility for Risk Management

- The Board delegates to management the responsibility to design, implement and monitor the risk management plan.

Risk Assessment

- The Board ensures that risk assessments are performed on a continual basis.
- The Board ensures that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.

Risk Response

- The Board ensures that management considers and implements appropriate risk responses.

Risk Monitoring

- The Board ensures continuous risk monitoring by management.

Risk Assurance

- The Board receives assurance regarding the effectiveness of the risk management process.

Risk Disclosure

- The Board ensures that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.

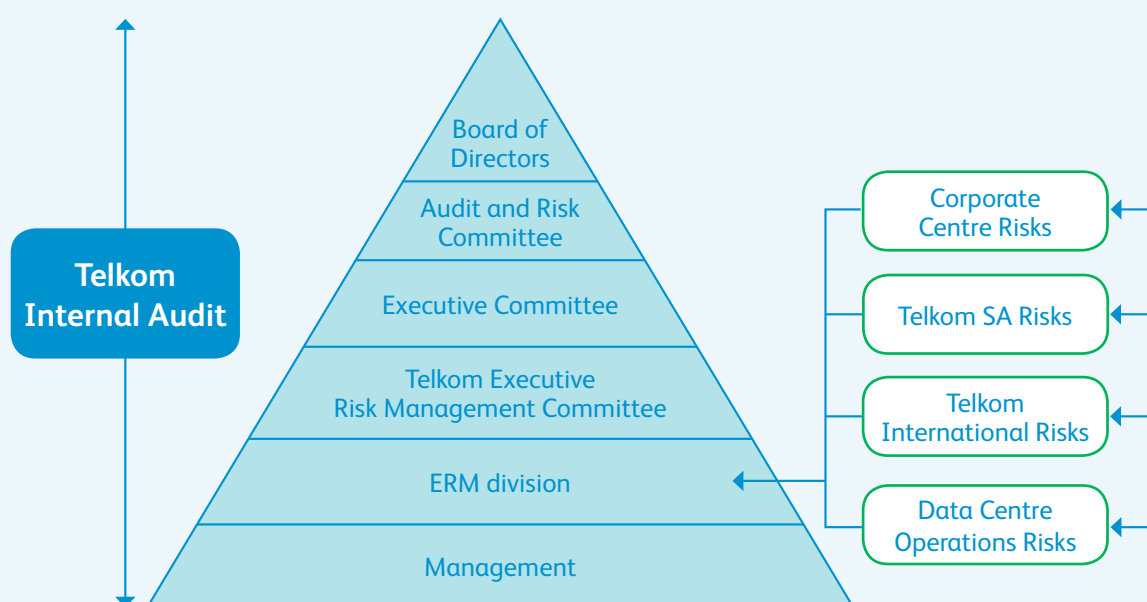
Global IP Transit

The Global IP transit service is the provision of internet connectivity at international locations in various countries on the Telkom international IP network.



Enterprise Risk Management operational structure

Essential to the achievement of the enterprise risk management objectives is the implementation of an enterprise risk management structure to support the achievement of the objectives. The following diagram depicts the Group enterprise risk management structure:



The Board of Directors drives the total enterprise risk management through the approval of the Enterprise Risk Management Policy and Framework.

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

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

The Telkom Executive Risk Management Committee convenes on a quarterly basis to examine the risk profile of the Group, monitor the implementation of actions, monitor the key risk indicators and give effect to the risk response strategies.

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

Management is the ultimate owner of the risk and is responsible for managing the risk exposure within the risk appetite as approved by the Board.

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

Management

Senior management is responsible for effective risk management through the following:

- identification of risks in relation to their strategic objectives as aligned with those of the Group;
- implementation of risk mitigation strategies, control activities and action plans in relation to the risks identified which fall outside the approved risk appetite or tolerance levels; and
- provision of key risk indicator data for further analysis and monitoring by the Enterprise Risk Management division.

3. Enterprise Risk Management **continued**

Reporting

Reporting of risk information takes place on an ongoing basis as summarised below:



Monitoring of the ERM Process and Plan is performed on an ongoing basis through the constitution and convening of the above committees, through interaction with management and through the combined assurance process. In addition internal audit plays a significant role in auditing the ERM processes and provides assurance on the effectiveness of these processes.

Risk Finance and Insurance (RF and I)

Risk Finance is the provision of appropriate and adequate funds or funding measures put in place to pay for the losses that eventually occur. Risk Financing concentrates not only on the post-loss events but also on pre-loss.

Risk Financing is vital in ensuring that adequate and appropriate funds are available to pay for losses when they occur, such that there are minimal disruptions in pursuit of Company objectives. The funds can be sourced from the Company's own resources (Risk Finance) or from outside resources such as insurance.

How does RF and I fit into ERM?

One of the many definitions of ERM is that it is a process or method which is a collection of interrelated tasks or risk control measures, which accomplish a goal of managing risks and reducing losses. Risk Finance and Insurance is one such risk control measure, a risk transferring mechanism.

RF and I tasks within Telkom SA

The primary function of RF and I is to:

- provide financial protection against future risk, accidents and uncertainty by:

- establishing and maintaining commercially purchased insurance programmes;
- managing self-insurance programmes;
- managing Alternative Risk Transfer; and
- supporting overall risk management function;

- collect, compile and present underwriting information to underwriters to assist the insurer in establishing the risk profile of Telkom to determine the applicable risk rating. However, other than for insurance purposes, underwriting information is a necessary risk management tool to manage the cost of risk;
- manage the claims process;
- act as custodians of a Risk Finance Strategy which outlines the structure of risk financing and insurance within the Group; and
- provide support to subsidiaries.

Insurance and Risk Finance Services has built a positive stakeholder relationship which includes among others, the brokers and insurers, which was best demonstrated by the speed and timeous intervention during a gas explosion in one of our sites, i.e. our insurers appointed property assets assessors and forensic specialists to determine the extent of the damage, cost of the loss/damage and the reimbursement cost and the entire process was handled effectively as well as with the necessary urgency.

Protecting our assets

Our Asset and Revenue Protection Services (TARPS) section minimises, prevents and combats fraud, corruption and theft, primarily through forensic investigative services and the deployment of effective security strategies, both technical and physical.

Our zero tolerance approach to criminal and unethical behaviour appears to be paying off.

Security services

To ensure the efficient management of our security services, TARPS' centralised National Security Control Centre continues to monitor and provide real time surveillance and support to business. Provision of armed escort services requirements increased due to the need to protect our staff in dangerous areas. Security services are also provided to ensure network sustainability.

Fighting the scourge of fraud and irregular conduct

Our forensic division within TARPS is responsible for fraud management, fraud prevention and the investigation of fraud and irregular conduct. During the year under review, our major focus has been on preventative measures, fraud awareness and training among employees. This enables us to minimise our exposure to fraud and irregular conduct. In order to encourage reporting of fraud and irregular conduct by employees and our stakeholders, the whistle blowing policy has been reviewed to conform to best industry practices. This is also supported through our independent hotline facility which has been outsourced.

The introduction of our mobile operator 8•ta has presented new opportunities to fraudsters. We are working closely with the 8•ta team to prevent and combat any fraud related incidents in their environment. Significant arrests in this regard have been made by our team and the police. The following are the statistics for the reported incidents and investigated cases pertaining to Telkom SA:

Loss statistics

	2010	2011
Total incidents reported	5,096	4,564
Total cases investigated	4,360	3,348
Total cases resolved	3,746	3,517
Case types investigated		
TARPS investigations		
Asset theft	1,519	921
Burglary	75	65
Business Code of Ethics	413	337
Fraud	159	121
Line management requests	4	0
Other (Case types to be identified)	8	0
Fraud risk review	0	3
Reputational risk (Refund scam)	134	66
Robbery	49	14
Security breaches	11	4
Vehicle	7	19
Total TARPS investigations	2,379	1,550
NPS investigations		
Cable	1,246	1,264
Network	549	420
Solar panel theft	112	48
Payphones	82	66
Total NPS investigations	1,989	1,798
Loss values (Rm)		
Commercial and financial losses	12.9	11.5
Cable theft losses	165.4	183.5
Network fraud losses	3.0	2.1
Total loss	181.3	197.1
Number of arrests	520	466
Number of convictions	81	132

Asset theft main losses

IT equipment	726 cases
Cellular phones	205 cases
Other equipment	355 cases

Business code of ethics main transgressions

Conflict of interest	31 cases
Providing confidential information	43 cases
Private work	22 cases

Fraud main types

Subsistence and travel

REPORTED INCIDENTS

Incidents reported via 0800 124 000 (KPMG)	2,350
Incidents reported internally	2,214
Total incidents reported	4,564

3. Enterprise Risk Management **continued**

Cases referred to employee relations

	2010	2011
Cases pending by employee relations	119	35
Cases finalised by employee relations	115	166
Sanctions imposed		
Counselling	0	0
Verbal warning	19	16
Written warning	17	32
Final written warning	30	18
Suspension without pay	4	5
Demotion	1	1
Dismissal	27	31
24 hour resignation accepted	11	10
Not guilty	6	11
Not concluded	4	39
Withdrawn	0	3

More than one employee can be involved in a case. Therefore the number of sanctions can exceed the number of cases.

Business Continuity Management (BCM)

The BCM group enables and governs our national business continuity and disaster recovery related operations, systems, structures and networks, through continuous BCM awareness campaigns, providing training and support, and conducting business continuity and network disaster recovery exercises.

The fully equipped Telkom Disaster Management Centre (TDMC) was established and completed during April 2010 from which any disaster can be managed by the Telkom Emergency Management Team (EMT). Telkom BCM was intensely involved with the 2010 FIFA World Cup™ readiness to the extent of participating in the National Joint Operations Committee (NATJOC). The TDMC was

also successfully utilised as the fallback centre for the 2010 Telkom FIFA Control Centre which had to be evacuated from the NNOC an hour before a critical soccer match, following a bomb threat.

Risk factors

You should carefully consider the risks described below in conjunction with the other information and the consolidated financial statements of the Telkom Group and the related notes included elsewhere in this annual report before making an investment decision with regard to our ordinary shares.

We seek to achieve these objectives through continuously creating awareness via workshops and training sessions for all employees.



Key risks

Risk	Context	Mitigating factors
Investment in mobile strategy	Our ability to successfully implement the mobile strategy and compete against incumbent cellular operations	<ul style="list-style-type: none"> • We continue to expand the acquisition and securing of distribution and airtime channels • We continue to expand our network coverage and quality • We continue to offer value to customers through appropriately designed product offerings and convergence • We continue to expand our competitive product offerings to the market • We continue to focus on customer service and service delivery
Multi-Links	The poor financial performance of our Multi-Links investment	<ul style="list-style-type: none"> • We have entered into heads of agreement to sell Multi-Links
Competition and downward pressure on pricing and margins	Increased competition in the South African communications market, limited overall average tariff increases, decrease in market share and an increase in cost in our fixed-line business	<ul style="list-style-type: none"> • We participate in an annual competitor landscape analysis of the Top 10 IT and Top 10 Telecom competitors • We conduct detailed profitability studies per product as part of the product strategy to establish a good understanding of the margins when responding to competitor price pressures • We continue to drive channel optimisation focus to align the value of the customer with the cost of the channel • We report and monitor in terms of revenue per line measures
Management information systems	Our ability to continue to improve and maintain our management information and other systems	<ul style="list-style-type: none"> • We continue to maintain our management systems and invest in our information technology plan
Loss of critical skills and high cultural entropy	The possibility of losing key personnel or the inability to hire and retain highly qualified management, employees and partners and the inability to reduce the cultural entropy to acceptable norms.	<ul style="list-style-type: none"> • We deploy retention schemes to retain the critical skills within the business • We continue to develop long and short term interventions to entrench our values • We continue to implement our culture revitalisation development plan.
Difficulty in supporting new business models	Continuing rapid changes in technologies could increase competition or require us to make substantial additional investments in technologies and equipment	<ul style="list-style-type: none"> • We continue to invest in our network strategy which is aligned to the business strategy • We continue to assess the impact of legacy technologies
Competition and litigation exposure	We are parties to a number of legal and arbitration proceedings, including complaints before the South African Competition Commission	<ul style="list-style-type: none"> • We engage with the Competition Commission on an ongoing co-operative basis • We continue embedding a compliance culture within Telkom • We have conducted Company-wide assessment of alleged anti-competitive behaviour • Implementation of a formal governance framework and controls • We continue to drive the ethics programme
Local loop unbundling	There is a high possibility that we will be required to unbundle the local loop, or are unable to negotiate favourable terms and conditions for the provision of interconnection services and facilities leasing services and ICASA may find that we have significant market power or otherwise imposes unfavourable terms and conditions on us	<ul style="list-style-type: none"> • We have a specialist regulatory department engaging with the key role players • We actively participate in providing commentary and submissions • We actively consider alternate strategies and courses of implementation that would/could satisfy the current market and government intended aim better.
Regulatory landscape	Telkom's interpretation of existing regulations, the adoption of new policies or regulations that are unfavourable to us, or the imposition of additional licence obligations and fees on us	<ul style="list-style-type: none"> • We have a specialist regulatory department engaging with the key role players • We continue to expand our skills set to respond to proposed regulations • We actively participate in providing commentary and submissions • We continue to establish a structured stakeholder management programme with ICASA
Achievement of financial targets	The effect of the global economic and financial conditions coupled with increased competition and regulatory pressures could impact the achievement of our financial targets	<ul style="list-style-type: none"> • Capital and operational expenditure budgets remain tightly controlled • We continue to drive cost and revenue initiatives to support the achievement of our financial targets
Labour unions	Significant labour disputes, work stoppages, increased employee expenses as a result of collective bargaining and the cost of compliance with South African labour laws	<ul style="list-style-type: none"> • We hold intervention sessions with the unions to clarify mutual understanding of the consultation process • We have a specialist employee relation department that understands the legislation and landscape
Service delivery	High rates of theft, vandalism, network fraud, payphone fraud and lost revenue experienced due to non-licensed operators in our fixed-line business	<ul style="list-style-type: none"> • We continue to maintain our fixed-line network • We continue to deploy alternate technologies in high theft areas • We deploy a network security strategy

4. Stakeholder Engagement

Introduction

The global telecommunications industry is very competitive and constantly evolving. This evolution has a direct impact on us and we have to align ourselves to the constantly changing industry dynamics. For us to successfully align ourselves to these dynamics, engagement with the company's stakeholders is pivotal.

Our Enterprise Stakeholder Management and Government Relations division has been charged with identifying and engaging with stakeholders. The established stakeholder engagement mechanisms allows us to both inform stakeholders of the company's developments and to gather feedback from stakeholders in this regard.

We recently developed an Enterprise Stakeholder Management Policy, the purpose of which is to further define how the company and its representatives should interact with stakeholders. This will be implemented through an Enterprise Stakeholder Management Strategy that is currently being developed. This is a clear indication that we take our stakeholder relations seriously.

It is important to ensure that the objectives of the engagement and the desired outcome are set up front. Our engagement with stakeholders must be transparent and ethical. As a responsible corporate citizen, we should engage with the sustainability of all our stakeholders in mind. The company will always strive for collaborative engagements so that desired outcomes are reached by our consensus.

Below we identify our significant stakeholders, the manner and frequency with which we engage with them and elaborate on the issues identified through this process.

Investors

We engage with investors in a variety of ways. Our dedicated Investor Relations office informs shareholders and analysts about corporate governance, strategic, financial and operational performance and leadership issues on an ongoing basis. Investors are also engaged with through our annual general meeting, interim and annual results presentations, investor road shows and ad hoc meetings and teleconferences with management. We provide Securities Exchange News Service (SENS) announcements whenever required and produce an annual report once a year. We also engage with our majority shareholder, government, through bilateral twice-monthly meetings.

The predominant theme of this engagement is adding value to our investors through providing guidance and removing uncertainty on any business issue that we are allowed to disclose.

Governors

Our governors (the Board and management) are important stakeholders in the company. Governors are engaged through regular Board, Board Committee, and EXCO meetings (as per the Board calendar).

These engagements regularly involve top management to ensure that expectations of the Board are clearly communicated to the company management and that strategic targets are set and adhered to.

Customers

Customer service is the link that ensures that we generate revenue. We engage with our customers through annual customer sales forums, monthly customer news publications, market research and customer satisfaction surveys and through our website, call centre, and walk-in centres.

Customer satisfaction and defending profitable revenue through customer retention and loyalty are our primary concerns when engaging with customers. We have a number of re-engineering initiatives to improve our customer service capability, including the roll-out of mobile network masts, price reduction and broadband deployment.

Government

Government is one of our most important stakeholders. The Department of Communications is responsible for policies that shape the telecommunications industry. We engage with government through ad hoc lobbying, workshops, round tables, seminars, and conferences and twice-monthly bilaterals with the Minister, Deputy Minister and other senior officials of the Department of Communications.

Government's main priority has been to increase competition in the sector and to improve access to communications. We regularly engage with government on these matters and consider our responsibilities for bridging the digital divide as being a material issue for the company.

Regulators

The telecommunications industry is highly regulated by the Independent Communications Authority of South Africa (ICASA). By controlling telecommunications licensing requirements and associated fees, setting standard service levels for electronic communications services, and controlling pricing mechanisms, the Regulator has a large influence on us and the entire telecommunications industry. It goes without saying that we have constant engagement with the Regulator through many avenues.

Our engagement with the Regulator is extensive, however in the year under review the following points were of significance:

Termination rates: For the year under review, the Regulator issued a regulation that required operators to reduce their termination rates. We are committed to the lowering of telecoms cost by rationalising the cost base of products and services, e.g. mobile and fixed termination rates. In this process we gave a 100% pass through to our customers of the reduction in mobile termination rates. In order to be more transparent with regard to pricing, we voluntarily embarked on and successfully completed a project to split our wholesale and retail operations.

Spectrum licence fees and access: Administrative Incentive Pricing (AIP) was introduced by ICASA in August 2010; these regulations set the pricing formulae that will be used to determine spectrum fees payable by licensees. The main aim of AIP is to create incentives for spectrum users to optimise the effective and efficient use of the radio frequency spectrum by incentivising the use of higher frequencies and in non-urban areas. There was much uncertainty regarding the implementation of the various formulae and data tables and we and other industry players requested further



engagement with ICASA to gain clarity on these points. The new fee structure is expected to substantially increase the total spectrum fees payable by us despite efforts to take advantage of the associated incentive mechanisms. However, the Regulator has delayed the implementation of these regulations to 1 April 2012.

Local Loop Unbundling (LLU): LLU is a regulatory mandated process that allows multiple telecommunication operators to access and provide services over the last-mile copper infrastructure that is traditionally owned by the incumbent operator. The exact impact of LLU on our profitability is largely unknown as the form and details to be imposed by ICASA are not yet known. We have analysed various LLU options and will continue to engage with key stakeholders in this regard.

Media

We engage the media through briefing sessions, press conferences and press releases. We have significant involvement in sports sponsorships which have been a key element of our marketing communication mix over the past years. The emotional relationship that we develop with our stakeholders through sponsorship overcomes cultural and language differences and is thus a very effective tool for communication.

The 2010 FIFA World Cup™ was a highlight for us. The soccer spectacle gave us extensive media coverage due to our successful transmission of the event internationally. The coverage of the event put our abilities in the limelight and augurs well for the company's reputation. On the other hand, we received negative publicity when dossiers that contained serious allegations were leaked to the media and certain sections of the media deliberately damaged our brand with allegations of tender irregularities involving a B-BBEE company. We issued statements and conducted media briefings to clarify issues. Through our media relations office, we responded timeously to media enquiries.

In addition, during the period under review, we sponsored/were a major sponsor in: the Telkom PGA Championship and the Telkom PGA Pro-am gold tournaments; the Telkom Knock Out soccer competition and the Telkom Charity Cup; the South Africa national swimming competitions; the Absa Cape Epic multi day mountain bike race; and the Para-Olympics team.

Employees

Employees are integral to our success. We engage with our employees through ad hoc road shows, group communications, face to face dialogues, staff meetings, and our monthly online newsletter.

We hold our employee wellness and loyalty in high regard and have launched a culture revitalisation project (CHART) to align

our company culture to our values. Our former CEO embarked on employee road shows to further engage with employees and a dedicated email address has been created for employees to send any queries they may have.

Organised labour

We acknowledge organised labour as being an important stakeholder of the company. To this end, we have developed a Restructuring Forum, a Company Forum, and a National Employment Equity and Skills Development Forum for engaging with organised labour to discuss/resolve various issues – these meet as and when required. We have also developed task teams consisting of both management and labour representatives that engage with organised labour on specific issues as they arise. Structured meetings with the Congress of South African Trade Unions (COSATU), National Economic Development and Labour Council (NEDLAC), and other such structures are held on an ad hoc basis.

Employee issues such as salary negotiations and voluntary severance packages are discussed at these forums and through our other engagement structures. In recognition of organised labour within Telkom, the company has an agreement with the three unions – Communication Workers Union (CWU), Solidarity and South African Customs Union (SACU) that their members are entitled to two hours per month to attend briefing meetings without deduction from their salaries.

Suppliers/Partners

We continuously seek ways to improve the sourcing and procurement process. We engage with our suppliers through ad hoc 'one on ones' for each supplier segment, workshops, and supplier engagement fora.

In order to increase the transparency in the bidding process, we have implemented the e-Sourcing system. Supplier workshops have been aimed at increasing the understanding of how we and our suppliers can maximise their relationships.

Civil society

We mainly engage civil society through the Telkom Foundation, a Telkom funded NGO that funds different projects that are aimed at empowering different sections of our society. This is done through ad hoc face to face dialogues, partnerships programmes, funding/ sponsoring local initiatives, events, and seminars and conferences.

The Foundation is primarily concerned with improving standards of education in South Africa and indirectly assisting to bridge the digital divide that South Africa faces. The Foundation also acts as a platform through which we are able to interact with the South African public, thereby taking us closer to the real issues that South Africans face.

4. Stakeholder Engagement continued

The table below provides a summary of material issues identified as part of the stakeholder engagement process as well as the stakeholders that are materially impacted by such issues. The material issues have been linked with the relevant business impacts and strategy as well as the sustainability context in the material sustainability issues section which follows.

	Regulatory and compliance	Engagement and development of employees	Dependence on suppliers	Customer satisfaction	Fatalities, lost time injuries, HIV & Aids, electro magnetic radiation	Energy costs, security of electricity supply, climate change and waste recycling	Transformation of the ICT sector and the Telkom business	Enhancing value added to all stakeholders
Investors	✓			✓		✓	✓	✓
Governors	✓	✓	✓	✓	✓	✓	✓	✓
Customers				✓			✓	✓
Government	✓					✓	✓	✓
Regulators	✓	✓				✓	✓	✓
Media				✓			✓	✓
Employees		✓			✓		✓	✓
Organised labour		✓					✓	✓
Suppliers/ Partners			✓		✓	✓	✓	✓
Civil Society						✓	✓	✓



5. Material Sustainability Issues

Material sustainability issues

The process of identifying our material sustainability issues involved engaging with internal and external stakeholder groups as well as by considering our risk management and governance processes. Sustainability issues (both negative and positive) are informed by:

- Stakeholder engagement through Telkom's Enterprise Stakeholder Management and Government Relations division (refer Stakeholder Engagement – section 4);
- Assessment of our risks and risk factors (refer Enterprise Risk Management – section 3); and
- Assessment of legislative, social and environmental requirements.

GRI's principles on materiality and relevance were applied to the issues determined above to identify issues that would substantively influence the assessments and decisions of stakeholders as material sustainability issues.

Material sustainability issues were aligned with the relevant GRI performance indicators, including the telecommunications sector supplement, and by observing the GRI guidance for using such indicators. Further relevant performance indicators were identified

for each material issue based on other frameworks (e.g. Department of Trade and Industry's Codes of Good Practice on Broad-Based Black Economic Empowerment) and our internal reporting processes. Each indicator was assessed in terms of the availability of information over the period 1 April 2010 to 31 March 2011. Indicators on which the relevant information was available have been reported on, thereby ensuring that the minimum number of indicators in each of the respective GRI performance indicator categories observed have been met to achieve a C+ application level sustainability report. Indicators where relevant and reliable information was not readily available have been highlighted as not currently measured but commentary on management's approach to these areas has been provided.

The material issues identified together with the related performance indicators have been summarised in the table below. Each material issue has been linked with the relevant business impacts and strategy as well the sustainability context. Performance of the organisation against each material issue has been dealt with under the relevant sustainability performance category.





5. Material Sustainability Issues continued

Sustainability performance category (Refer section 6)	Material issue	Relevant stakeholders	Link to Strategy/Business relevance	Sustainability context
Telkom's value to society including Corporate Social Investment (CSI)	Enhancing value added to all stakeholders	All	Sustainable profitable growth initiatives	Managing direct and indirect economic impacts to all stakeholders. Improve society's access to telecommunications and bridging the digital divide.
B-BBEE	Transformation of the ICT sector and the Telkom business	All	Business imperative towards transformation	Managing diversity, employment equity, skills and enterprise development
Environmental management	Energy costs, security of electricity supply, climate change and waste recycling	Suppliers/partners, Regulators, Civil society, Government, Governors, Investors	Product reliant on constant/uninterrupted electricity supply i.e. electricity supply security which is critical to service delivery and associated increasing energy costs. Substitution of network material (batteries and copper) with new technology (optic fibre)	Carbon footprint associated with energy costs and business continuity considerations. Consumption of hazardous and non-renewable material for networks means disposal and recycling is key to cost reduction and increased availability of resources
Occupational Health and Safety	Fatalities, lost time injuries, HIV and AIDS	Employees, Suppliers/ Partners, Governors	Improved productivity and skills retention through employee safety, health and loyalty	Employees are a key stakeholder and valuable asset for the business. The OHS Act protects employees from unhealthy and unsafe working practices. An unhealthy and unsafe workforce is also an unproductive workforce

<p>Key performance metric</p> <p>(a description of GRI performance indicators has been provided in the GRI G3 Content Index below)</p>
<ul style="list-style-type: none"> • Direct value added statement (GRI ref EC1) • Indirect economic and impacts (GRI ref EC9*) • Policies and practices to enable the deployment of telecommunications infrastructure products and services in remote and low population density areas (GRI ref PA1*) • Policies and practices to overcome barriers for access and use of telecommunication products and services (GRI ref PA2*)
<ul style="list-style-type: none"> • B-BBEE Scorecard measures
<ul style="list-style-type: none"> • Direct energy consumption by primary energy source (GRI ref EN3)# • Indirect energy consumption by primary source (GRI ref EN4)# • Total direct and indirect greenhouse gas emissions by weight (GRI ref EN16)# • Other relevant indirect greenhouse gas emissions by weight (GRI ref EN17)# • Total water withdrawal by source (GRI ref EN8) • Monetary value of significant fines and sanctions for non-compliance with environmental laws and regulations (GRI ref EN28) • Initiatives to reduce indirect energy consumption and reductions achieved (GRI ref EN7*) • Initiatives to reduce greenhouse gas emissions and reductions achieved (GRI ref EN18*)
<ul style="list-style-type: none"> • Rates of injury, occupational diseases, lost days and absenteeism, and number of work related fatalities (GRI ref LA7) • Programmes in place to assist workforce members, their families, or community members regarding serious diseases (GRI ref LA8) • Estimated costs of occupational injury incidents

5. Material Sustainability Issues continued

Sustainability performance category (Refer section 6)	Material issue	Relevant stakeholders	Link to Strategy/Business relevance	Sustainability context
Human Capital Management	Engagement and development of employees	Employees, Regulators, Organised Labour, Governors Skills Development and Employment Equity, ensuring we are transforming and have a good skills base	Culture revitalisation project and alignment to group values Impact on socio-economic environment; availability of skills in ICT	Engagement with employees, employee retention and effectiveness, loyalty and wellness
Supply chain	Dependence on suppliers	Suppliers/Partners, Governors	Provide end-to-end solutions to enterprise market and increase use of highly skilled partners	Managing the relationship with and dependence on suppliers to ensure continuity, cost and quality of supply
	Customer satisfaction	Customers, Media, Governors, Investors	Defending profitable revenue through customer retention and loyalty	Adequate customer engagement to identify and respond to evolving issues and needs
Regulatory ¹	Regulatory and compliance	Regulators, Government, Investors, Governors	Good Corporate Governance in line with King Codes on Corporate Governance	Manage anti-corruption, compliance and anti-competitive policies and procedures

* – Material GRI indicators not currently measured but management approach provided.

– Limited assurance provided (refer assurance and verification in section 1 Introduction and Overview).

¹ There is no stand alone performance section for regulatory, the performance commentary on these issues have been included in the customer commentary (as part of the supply chain section) and the Group Integrated Annual Report.

<p>Key performance metric</p> <p>(a description of GRI performance indicators has been provided in the GRI G3 Content Index below)</p>
<ul style="list-style-type: none"> • Average hours of training per year per employee (GRI ref LA10) • Percentage of employees covered by collective bargaining agreements (GRI ref LA4) • Percentage of employees receiving regular performance and career development reviews (GRI ref LA12*) • Total number of incidents of discrimination and actions taken (GRI ref HR4) • Programmes for skills management and lifelong learning (GRI ref LA11*)
<ul style="list-style-type: none"> • Significant environmental impacts of transporting products and other goods and materials and transporting members of the workforce (GRI ref EN29*)
<ul style="list-style-type: none"> • Customers reached and response to issues and needs through product and service solutions
<ul style="list-style-type: none"> • Legal actions for anti-competitive behaviour

6. Sustainability Performance

Broad Based Black Economic Empowerment

Our commitment and alignment to Broad Based Black Economic Empowerment extends beyond the compliance to a transformational approach. The company's aim is to play an active role in the empowerment process in a manner that is sustainable, credible and of benefit to the company, our stakeholders and the country as a whole.

Telkom SA Limited has aligned its efforts to the Department of Trade and Industry's B-BBEE Code of Good Practice to ensure that we contribute to a sustainable, equitable society and the transformation of the Information and Communications Technology (ICT) sector.

On 27 January 2011, we were certified as a Level 4 Contributor to B-BBEE by the South African National Accreditation System (SANAS) approved verification agency, the National Empowerment Rating Agency (NERA). Telkom is recognised as a value added supplier. This allows our clients/customers to recognise 125% of procurement

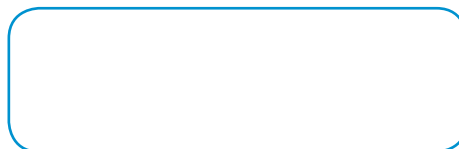
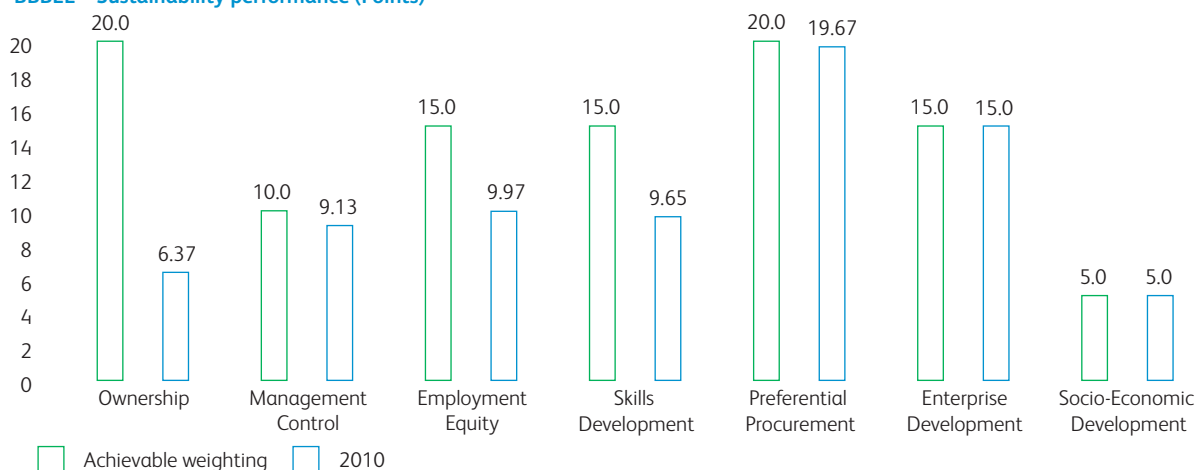
spent with us until our new certificate is issued or where this certificate expires on 26 January 2012.

We were ranked 54th out of 100 and 7th of 10 ICT participants by the 2011 *Financial Mail* Top Empowered Companies Survey.

The scores presented are those of the 2010 financial period as contributions have been verified on a retrospective basis. We will be undergoing verification for the 2010/11 year in June 2011.

The Telkom Group is in the process of setting targets for each of its four business units namely, Telkom South Africa, Telkom International, Data Centre Operations and the Corporate Centre. The targets will be monitored monthly at the level of the business units and service organisations (for employment equity). Tracking at the Group level will be conducted quarterly through an internally developed BEE system across all B-BBEE scorecard elements.

BBBEE – Sustainability performance (Points)

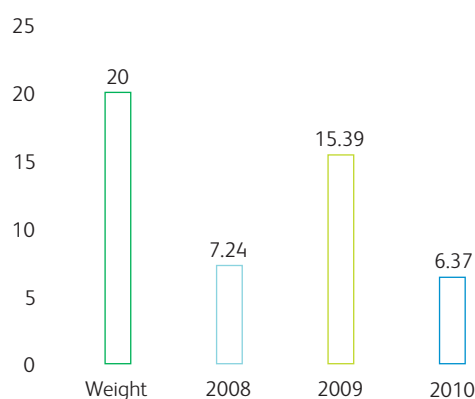


The senior management indicator has been consistent at maintaining a full score.

Ownership

Our equity ownership contribution decreased from 15.39 points in 2009 to 6.37 points in 2010 following the unbundling of Vodacom shares and the exit of our BEE partner Newshelf 772 (Pty) Ltd. The Board of Directors will mandate the Company on a B-BBEE Ownership Deal when it is feasible to do so.

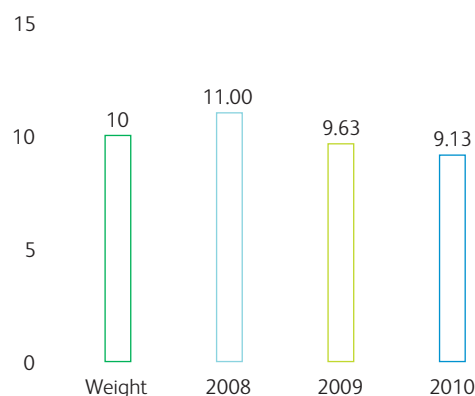
Ownership (Points)



Management Control

In 2008 we maximised points and gained the bonus point for black independent non-executive directors. We have not achieved the bonus point in subsequent years due to a change in the number of black executive directors, therefore contributing to our score dropping from 11 in 2008 to 9.13 in 2010. We appointed a black male and female chairman of the Board and chief executive officer which will be reflected in the verification for the 2010/11 financial year.

Management Control (Points)

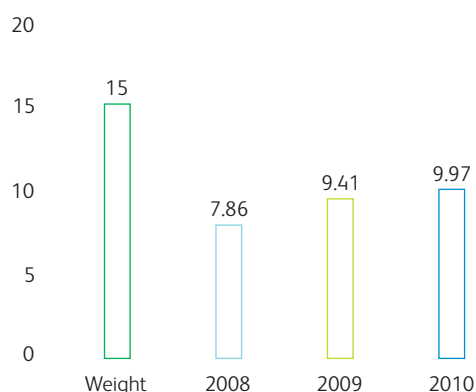


Employment Equity

Our performance on employment equity has increased since the first verification in 2008 moving from 7.86 to 9.97 by 2010, however challenges still exist. Recruitment of disabled employees still remains a challenge with very low numbers of black disabled employees, both male and female. The Codes of Good Practice (Code 300) require that a sub-minimum of 40% of the employment equity targets set out in the employment equity scorecard be achieved in order to score points under the employment equity scorecard. Performance within the employment equity scorecard was as follows:

- We did not score any points for the disability indicator within the employment equity scorecard as the 40% sub-minimum of 0.8 was not reached.
- The senior management indicator has been consistent at maintaining a full score, and
- The challenges lie in the middle and junior management levels. The challenge around these two management levels is black female representation as opposed to black male representation (ratio of females to males remains at 1:2). Further engagement with the relevant stakeholders will be conducted to address this challenge.

Employment Equity (Points)

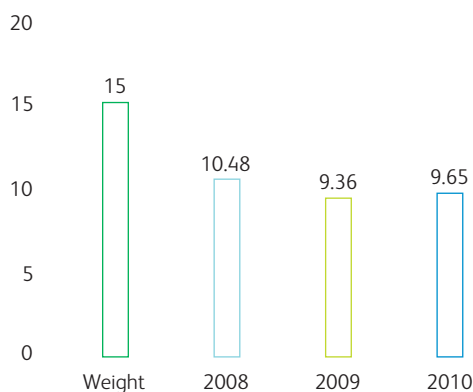


6. Sustainability Performance continued

Skills Development

The skills development element of the BEE scorecard has seen a slight increase from the previous verification. However it remains inconsistent from the first verification. The main challenge for the skills development element remains spend on black disabled employees which directly links to the challenge faced in the employment equity element. Further engagement with the relevant stakeholders will be conducted to address this challenge. The skills development spend on black people amounted to R193.7 million (2.84% of payroll) after the adjustment for gender.

Skills Development (Points)

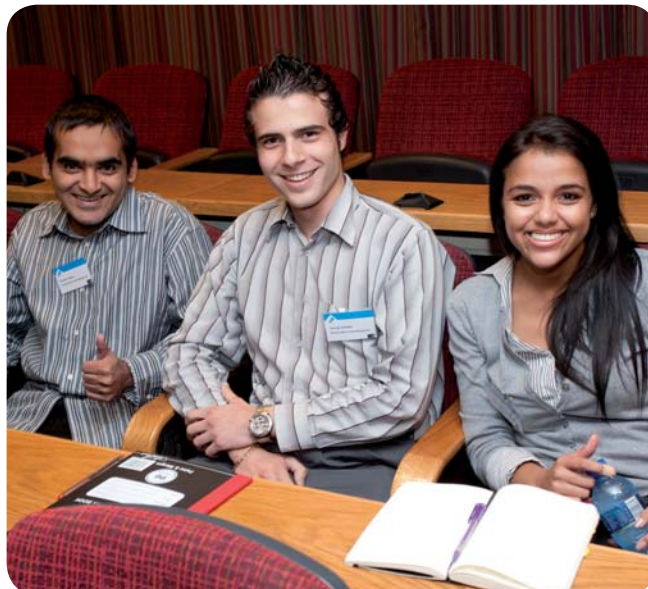
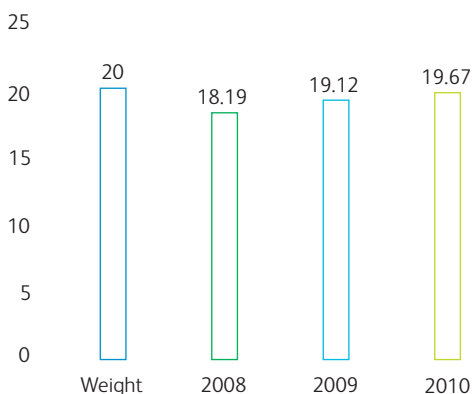


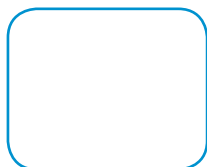
Preferential Procurement

The preferential procurement element has once again produced a stellar performance resulting in 19.67 points in 2010, only 0.23 points away from full compliance. The procurement scorecard suffers from a challenge in the Qualifying Small Enterprises (QSE) and Exempted Micro Enterprises (EME) categories. Many of our suppliers are classified as large enterprises and due to our stringent black ownership and black women ownership requirements, we have managed to over achieve the targets in the Codes of Good Practice as they are used as minimum targets. The preferential procurement scorecard, in terms of spend, is depicted below:

Indicator	Spend in Rm	Percentage
BEE Procurement Spend on all suppliers as a % of total Measurable Procurement Spend	10,129.2	75.60%
BEE Procurement Spend on QSE/EME suppliers as a % of total Measurable Procurement Spend	193.3	8.91%
BEE Procurement Spend on Black Owned suppliers as a % of total Measurable Procurement Spend	4,149.9	30.97%
BEE Procurement Spend on Black Women Owned suppliers as a % of total Measurable Procurement Spend	888.3	6.63%

Preferential Procurement (Points)



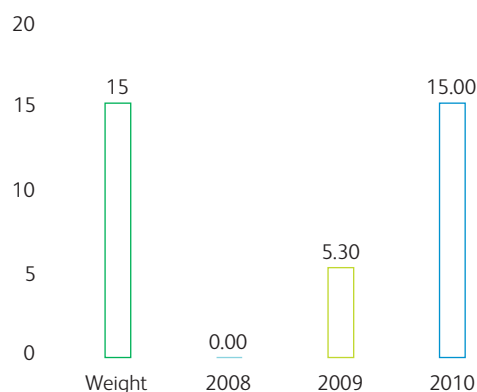


Enterprise Development

We have achieved maximum points for the enterprise development element moving from 5.3 points in 2009 to 15 points in 2010. We incurred R83.8 million in the 2009/10 financial year on activities and initiatives outlined below. Our current enterprise development initiatives include:

- Payment of supplier with 10 – 15 days of invoice.
- We offered free professional services in the form of training by employees for Process Control Release (PCR) accreditation on quality control for Qualifying Small Enterprises and Exempt Micro Enterprises.
- Training for suppliers, for Qualifying Small Enterprises and Exempt Micro Enterprises, at the Telkom Centre For Learning on technical and management.
- Payment of insurance on the supplier vehicles, and
- We provided financial (overheads and monetary) and administrative support for the Delta Florist project.

Enterprise Development (Points)



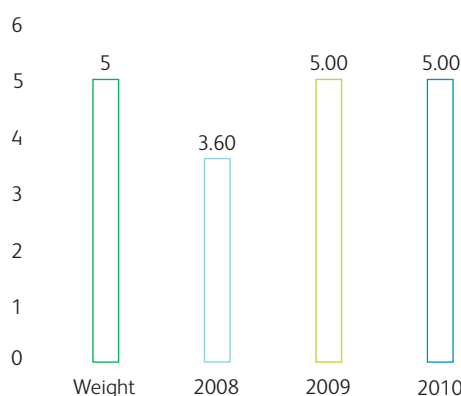
Socio-Economic Development

We have maintained maximum points for the socio-economic development element of the BEE scorecard. We claimed R85.5 million socio-economic development spend in the 2009/10 financial year on the following projects:

- Deployment of mobile libraries and science laboratories.
- Payment of school fees and other related expense for high school pupils, and
- Donations and financial support on an ad hoc basis.

The socio-economic development element is managed by the Telkom Foundation with the following focus areas, namely: education, welfare, economic development (skill training and job creation). The contributions made in the current reporting period can be found in the CSI section of this report.

Socio-Economic Development (Points)



We once again performed well against the B-BBEE scorecard for the 2010 verification period. We have noted the challenges that we face and are making plans to mitigate and eliminate, where possible. Moving forward we will:

- Continue the process of investigating alternatives to conclude a BBEE deal.
- Engage with our human resources department to identify the causes of the challenges faced by employment equity and skills development and subsequently map out solutions.
- Maintain and improve the score achieved in the preferential procurement element.
- Continue with our commitment to identify enterprise development initiatives that are aligned with the Codes of Good Practice (Code 600) and to our business strategy. Furthermore we are committed to maintaining the scores achieved in the Enterprise Development and Socio-Economic Development elements of the B-BBEE scorecard, and
- Improve on our level 4 contributor status to B-BBEE.

Our certificate can be found in the sustainability website by following this link:

https://secure1.telkom.co.za/apps_static/ir/pdf/sustainability/bee/TelkomSA-B-BBEE_Certificate_2011.pdf.

6. Sustainability Performance **continued**

Environmental management

Our commitment to environmental management remains an integral part of our ongoing commitment towards sustainability. Our material issues include energy supply security and climate change. As electricity is required to power our products and South African electricity is predominantly coal-based with high emission factors, it results in our products having a large impact on climate change. The correct handling and disposal/recycling of our waste generated by our network is also a material issue for us as is compliance with relevant environmental legislation.

Clearly defined initiatives in terms of our certified ISO 14001:2004 Environmental Management System (EMS) are implemented to support initiatives to mitigate impacts as far as is reasonably practicable.

During this reporting cycle the following key initiatives took place to support our drive to manage our environmental impacts:

- Environmental Policy statement review;
- ISO 14001 Certification recertification achievement;
- Revised environmental training;
- Energy and carbon footprint baseline in the development process;
- Integrated waste and recycling management; and
- Our first submission to the Carbon Disclosure Project.

Policy

Our Environmental Policy statement is the backbone from which all aspects of environmental management evolve. It is therefore imperative that the statement is periodically reviewed in order to meet the changing dynamics of the company. In accordance with changing business needs, certain activities may be outsourced to service providers and specific emphasis is included in the policy statement to ensure that service providers comply with the requirements of this policy.

Certification

During this reporting cycle we once again achieved ISO 14001:2004 re-certification for our Environmental Management System. Compliance with international standards provides a basis of confidence for other sectors wishing to enter into potential business relationships.

Training

We are currently reviewing the formal environmental management training offering at our respective Centre for Learning regional campuses. The revised training will be specifically focused on empowering employees in the company who have been appointed to support Telkom's EMS in their specific areas of responsibility. The EMSRP (Environmental Management System Responsible

Person) will be provided with the necessary tools required to ensure that all aspects relevant to their specific areas of responsibility are managed in accordance with our Environmental Management Systems requirements.

Climate change

Adapting to climate change has become one of the Information and Communication Technology (ICT) sector's major challenges in recent years. Climate change poses an array of physical, operational and regulatory risks, such as rising water, energy and insurance costs; network disruptions due to extreme weather events; electricity and water disruptions; as well as the introduction of a suite of green regulatory instruments. Pressure arising from international climate change conventions; impending national climate change policy and legislation, such as the carbon tax; as well as energy insecurity increase the necessity to consider the impacts that climate change will have on our business. While we will be impacted by climate change, it also contributes to climate change through the use of fuel, refrigerant gases and electricity. Electricity is a substantial contributor to our carbon footprint, due to the coal-based nature of South Africa's electricity grid.

While climate change poses numerous risks to us, there are also emerging opportunities in continuing developments in the ICT sector, such as video-conferencing and remote information access, to allow many other sectors to reduce their carbon footprints through mitigating transport emissions. Other opportunities to invest in intellectual property, energy management planning and alternative technologies geared towards improving energy efficiency and minimising business disruption are emerging as key areas for future innovation across the ICT sector.

Our carbon footprint

As a first step in managing our contribution to climate change, we measured our carbon footprint. The 'Greenhouse Gas Protocol – a corporate accounting and reporting standard' (GHG Protocol) developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) was used as the basis for calculating the carbon footprint. The carbon footprint for this year will be used as the baseline in order to inform future mitigation options, emission reduction strategies and targets.

The boundary for the carbon footprint in Telkom South Africa includes the following scopes as per the GHG Protocol:

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

While **climate change poses numerous risks** to us, there are also opportunities such as growing our global teleconferencing service in order to reduce business travel

Our carbon footprint

The carbon footprint was calculated using emission factors provided by the Intergovernmental Panel on Climate Change (IPCC) and the United Kingdom's Department for Environment, Food and Rural Affairs (DEFRA). DEFRA's emission factors are used by organisations worldwide to calculate their carbon footprints. Our overall (Scope 1, 2 and 3) carbon footprint for the year ended 31 March 2011 is 825,673 tCO₂e.

Table 1 below provides a breakdown of emissions per scope.

Scope 1, 2 and 3 carbon emissions

Activity	Activity data	Carbon emissions (tCO ₂ e)
Scope 1 emissions		
Diesel consumed in generators	2,358,809 litres	6,274
Refrigerant gases	24,463 kg ¹	44,243
Total (tCO₂e)		50,517
Scope 2 emissions		
Activity	Activity data	Carbon emissions (tCO ₂ e)
Electricity consumption	700,940,529 KWh	721,969
Total (tCO₂e)		721,969
Scope 3 emissions		
Activity	Activity data	Carbon emissions (tCO ₂ e)
Car hire	1,382,349 km ²	281
Employee Business Travel – Car allowance	27,829,356 km ³	8,161
Employee Business Travel – Fleet use	Debis fleet: 144,263,559 km ⁴ TFMC fleet: 2,593,085 litres	42,257
Logistics	935,627 litres	2,488
Total (tCO₂e)		53,187
Total emissions (tCO₂e)		825,673

¹ The refrigerant gas value provided is the total consumption (kg) from several different types of refrigerant gases, each of which have their own Global Warming Potential (GWP).

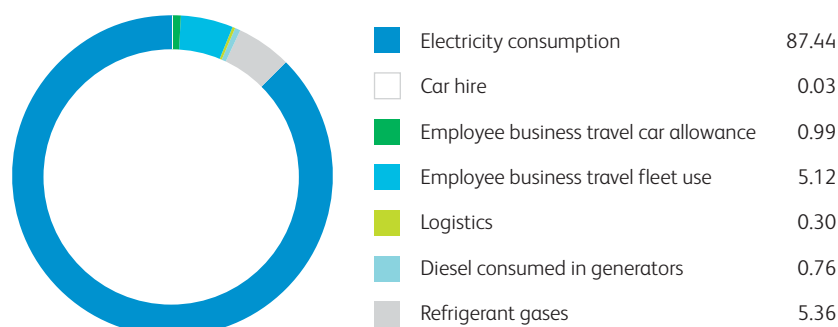
² The car hire value provided is the total kilometres travelled in hire cars, which is split according to fuel type and engine size when calculating the associated carbon emissions.

³ The employee business travel/car allowance value provided is the total kilometres travelled in employee owned cars, which is split according to fuel type and engine size when calculating the associated carbon emissions.

⁴ The Debis vehicle fleet value provided is the total kilometres travelled in Debis fleet vehicles, which is split according to fuel type and engine size when calculating the associated carbon emissions.

Electricity contributes the majority (87%) of our carbon footprint as illustrated in the chart below:

Carbon emissions (%)



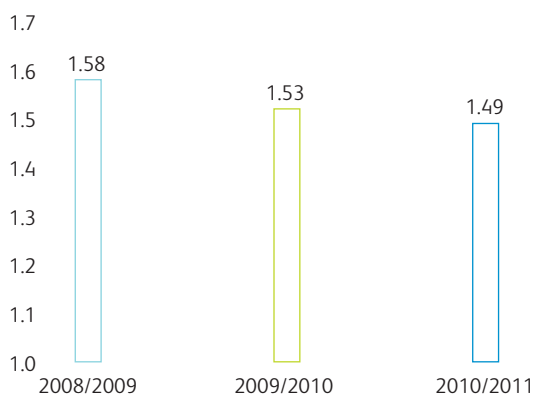
6. Sustainability Performance continued

We have taken the first step on our climate change journey by calculating our carbon footprint. As this is the first year that we have calculated our carbon footprint, each year there will be an improvement in the systems and processes used for the collection and collation of the underlying carbon data. This carbon footprint will act as the baseline to inform our future carbon emission reduction strategies and targets.

Water

The total potable water consumption figure for the 2011 financial year was 1,487,065 KL.

Water consumption (KL million)



Total potable water consumption (KL)

Increasingly, pressure is being placed on South African water resources. We have embarked on water awareness campaigns to enlighten employees about the importance of water and to report water waste to our Total Facility Management Company (TFMC). Employee attitude and behaviour towards water management is evident according to the consumption figures over the past three years, as there has been a steady although slight decrease in water consumption. Space optimisation projects have also contributed to water savings by identifying under-utilised sites and relocating employees more efficiently.

Integrated waste and recycling management

Together with the TFMC we compiled an integrated waste management procedure document. As a large percentage of our waste is managed by the TFMC it is incumbent on us to ensure that specific processes are implemented between both parties to ensure maximum waste management and recycling effectiveness. The procedure document provides guidance to employees as to how to manage the associated waste streams and also provides clarity as to what and how recyclable waste is to be managed. The procedure

document also clearly defines who is responsible for which waste stream.

Copper

Our above and below ground copper network is vulnerable to theft. Large quantities of copper networks have been recovered and replaced with optic fibre and radio technology to mitigate this concern. Projects are also underway to recover large quantities of redundant copper in equipment rooms to minimise congestion and to enhance cooling systems. New technologies also require smaller quantities of copper connection to operate. Copper is a non-renewable resource and it is for this reason that we manage this material responsibly.

Optic fibre

To cater for our new communication technologies, optic fibre plays a significant role. Recoveries are imminent in instances where damaged optic cable is replaced rather than re-joined. This is important in terms of the necessity for data communications where transmission requirements are critical. Optic fibre cables are recycled based on its large plastic component.

Lead-acid batteries

In some instances where electricity is not accessible, rural communication technology require batteries as a means of power. Batteries are recharged and replaced regularly for purposes of minimal service interruption. Batteries have a limited life cycle and old batteries are recovered and recycled for their lead and plastic content through certified hazardous substance disposal service providers.

Recyclable waste stream management			
Indicator	Metric tonnes		
Waste stream	2008/9	2009/10	2010/11
Copper	1,301	2,210	1,387
Optic fibre	282	234	203
Batteries	349	344	348

Compliance

During the reporting cycle, there was an incident of non-compliance with the National Environmental Management Act, specifically for failing to undertake an Environmental Impact Assessment prior to the construction of two masts that were part of a turnkey solution. This resulted from miscommunication between us and the appointed contractor and steps have been undertaken to prevent this from occurring again.

There were no significant fines during the reporting cycle.

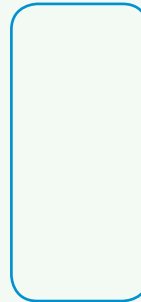
Case study: Environmental awareness

Network cables and masts impact biodiversity. We are proactive in managing these impacts as is demonstrated by these case studies:

Hartbeeshoek earth satellite station – Bat relocation project

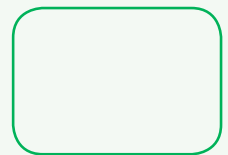
A large colony of Egyptian free-tailed bats has occupied a portion of our earth satellite station in Hartbeeshoek near Pretoria. As the facility is situated in the Cradle of Humankind, which is listed as a heritage site and known to be ecologically sensitive, it is therefore imperative that we manage the relocation of the bats as conservatively as possible. Bats do have a tendency to create a potential health risk to humans because of the large quantities of excrement deposits.

It is important from this perspective to relocate the bats with minimal disturbance for purposes of their protection. We purchased a second bat house similar to the one successfully installed at a facility in Hectorspruit in Mpumalanga as reported on in the previous annual report. The bat house will be installed later in the next reporting year to allow for the young to develop before alterations are carried out to seal the facility.



Telkom/Wakkerstroom BirdLife South Africa Centre – Environmental social responsibility project

The environmental management team from the Corporate Safety Health Environment (SHE) division in collaboration with the Telkom Foundation have donated five stand-alone desktop computers and a printer to the Wakkerstroom branch of BirdLife South Africa. The computers will be located in the interpretive centre where basic computer literacy is tutored along with education and awareness pertaining to birdlife conservation. This forms part of an ongoing corporate social/environmental sustainability project. We have in recent years formed a partnership with BirdLife South Africa in Wakkerstroom to assist in proactively reducing migratory bird mortalities emanating from the presence of our infrastructure in the immediate wetland areas. BirdLife South Africa and ourselves are committed to community upliftment and environmental awareness.



Andre Steenkamp, BirdLife SA Centre manager and Derek Doveton of Telkom with a group of school children outside the interpretive centre.



Andre Steenkamp and a few school children inside the interpretive centre.

6. Sustainability Performance **continued**

Greening Limpopo Campaign – a tree planting initiative

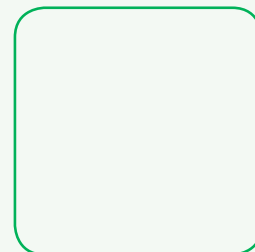
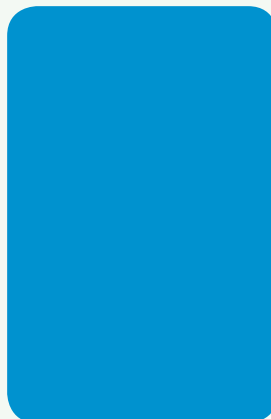
The Greening Limpopo Campaign is a Telkom SA and Limpopo Province joint initiative that will see trees planted throughout the province. It was officially launched by the Premier of Limpopo.

The rapid development of human settlements has adversely affected the environment and the planting of trees will help address the land degradation caused by the unavoidable and unplanned settlements which are sprouting up in the province. It is critical to create awareness among the population about the ever increasing environmental problems caused by deforestation and the project seeks to teach people to plant trees where possible to reverse the negative impacts of climate change. The Premier urged the residents of Limpopo to plant more trees to green the province and make it ecologically sustainable, so that the environment can be sustainable for future generations.



The following districts were targeted for roll-out of the Limpopo Province Greening Project:

- Capricorn district: Aganang, Blouberg, Molemole, Lepelle Nkupi.
- Mopani district: Sekgopo Tribal Offices, Giyani, Greater Tzaneen, Maruleng, Greater Letaba.
- Sekhukhune district: Elias Motsoaledi, Makhuthamaga, Fetakgomo.
- Waterberg district: Midille, Mogalakwena, Mookgopong, Bela-Bela, Thabazimbi, Lephalale.
- Vhembe district: Makhado, Mutale, Thumela, Musina.



Occupational health and safety

By virtue of our role in the ICT sector our employees are exposed to hazardous and risk imminent environments. The Board and management of Telkom, however, believe that such hazards and risks can be managed through strong leadership and adherence to world-class standards and practices. Our OHS Vision is that “GOING HOME AS HEALTHY AS REPORTING FOR DUTY” becomes a way of life while performing our duties. Underpinning this vision is our belief that every employee is our most valuable resource.

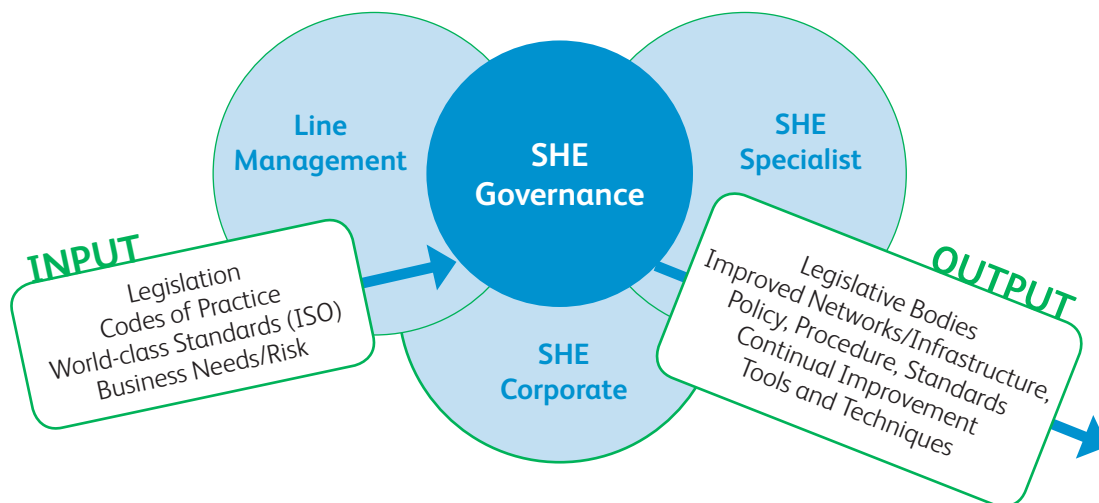
Our Occupational Health and Safety (OHS) policy, approved by the Board, endeavours to have the highest practical standards of behaviour and performance adopted and achieved by each business unit. Working safely is a condition of employment, and effective safety leadership is a prerequisite for career enhancement.

Our governance framework is structured to incorporate OHS statutory compliance nationally. The first tier begins with the CEO through the corporate OHS Governance Forum and is cascaded to all levels in the organisation. The second tier is the Safety Health Environment (SHE) corporate division. This division’s mandate is

primary responsible for strategic alignment, legislative compliance, policy setting and system implementation and sustainability. SHE corporate ensures that the interface from one tier to the next is sustained through an OHS integration committee consisting of SHE specialists and duly designated responsible persons which form the third tier. Legal compliance within the respective service organisations along with the implementation of the SHE governance forum’s mandate and associated requirements in their respective service organisations is the primary responsibility of the SHE specialists.

Given the breadth and diversity of the business and operations, we believe that each of our operating business units must develop and manage its own specific risks associated with their work environment, under the direction and supervision of the Telkom SHE governance forum. This ensures that the highest standards of performance and accountability are achieved across all our activities. The development and implementation of OHS management systems are based on clear standards. Each business unit/service organisation is required to adopt these minimum standards.

Telkom's governance framework



12 Safety Standards (Visible Leadership is at the centre)



Our Occupational Health and Safety Standards

Understanding the OHS risks

Subject matter experts from line management with SHE specialists and the occupational medical practitioner develop risk profiles for each service organisation in the business units. The process followed to develop or revise a risk profile is through consultation with a subject matter expert from the specific business unit, a SHE specialist and the occupational medical practitioner. The first step is to identify the hazards the employees are exposed to. A task list, exposure level and risk rating by job type are then completed. This enables us to understand the necessary control methods that need to be in place to mitigate, as far as reasonably practicable, any occupational health and safety risk the employees and third parties are exposed to when performing work on our premises and on the premises of our customers.

Our risk profiles are developed and/or revised for all new business units or when job profiles are changed due to the changes in this business. Hence our mobile services underwent a risk assessment during the reporting cycle and the mast and tower and shift work profiles were revised to incorporate newly identified risks.

Prevention

Management is accountable for developing and implementing formal training, induction, awareness and competence programmes which are applicable to all relevant levels and functions within their area

of responsibility. The risk registers available for each job function enables the OHS specialists in the respective service organisations to ensure employees are competent to perform their work safely. The service organisation ensures that recruitment and selection practices specifically consider safety training, awareness and competencies of all relevant personnel prior to deployment in the workplace. The service organisations also ensure that management are trained in effective visible OHS leadership techniques that reinforce desired behaviours and correct unsafe practices.

Fifty three electronic based knowledge reviews have been developed to assist with the deployment of OHS training. Employees participate by accessing the knowledge reviews on our intranet. Effective completion of the course is monitored through a test where 80 % is the minimum for the result to be captured on our national training system. This initiative is indeed proving to be a popular option to disseminate SHE awareness efficiently with a 6.4 % increase in completed courses from last year. More initiatives will be implemented for the future to increase the number of completed knowledge reviews, ensuring our employees are well educated to conduct their daily tasks in a safe and healthy manner.

Through Telkom's Procurement Services and Contractor Management Administration Centre (CMAC) processes, a selection criterion is implemented for the selection practices specifically to

6. Sustainability Performance continued

consider the SHE competencies of potential contractors and service providers before contracts are approved and contractors and service providers are appointed to supply services to us either on our premises or on the premises of our customers.

OHS Performance Targets

During the course of this year the OHS Performance Targets were revised and limited to critical targets. The risk owners assume responsibility for developing and implementing corrective actions for any missed targets and this is monitored through scheduled legal compliance audits and periodic reviews. Unfortunately the period since implementation is too short to derive useful data to determine overall performance; however this will be reported on next year.

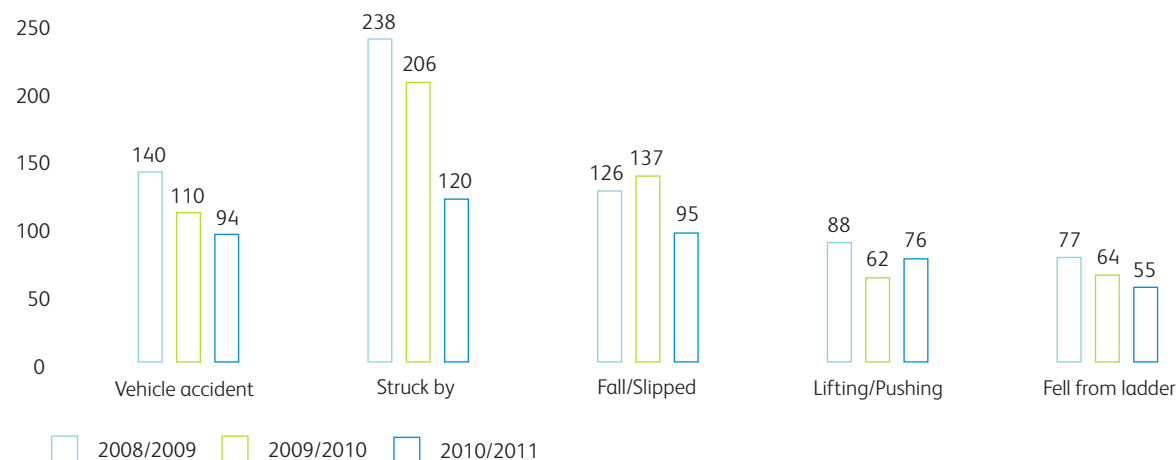
The new targets are:

- **100%** legislative appointments completed in writing and structures in place.
- **100%** of legislative committees established.
- **100%** SHE committee meetings held in accordance with legislation.
- **100%** emergency evacuations conducted in accordance with legislative requirements.
- **100%** medical assessment to all personnel working as per risk profile.
- Minimum of four job observations completed per employee/ annum (one per quarter).
- **95%** average score achieved for legal compliance audits conducted (EMS).
- **100%** contextualised SHE Plan developed and implemented.

Injuries on duty

In total, 747 work-related incidents on duty were reported, a 12.5% improvement on the 854 incidents reported the previous year. Below is a graph indicating the five main incident causes resulting in the number of incidents reported.

Injuries on duty



Five main incident causes

Of the five main incident causes reported, the one that requires special attention without ignoring the rest is "Lifting/Pushing". We will increase awareness programmes and documentation regarding the lifting and pushing of heavy material for employees exposed to this risk as the number of incidents has increased in this area compared to the previous year.

- **<4%** Incident Frequency Rate (IFR) (4:100).
- **<2%** Lost time Injury Frequency Rate (LTIFR) (2:100).

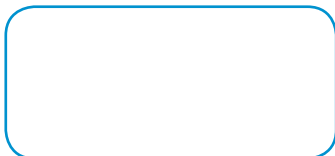
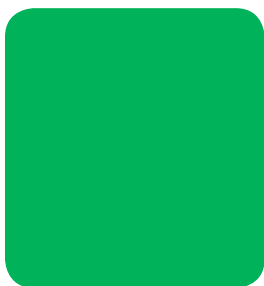
Performance

Fatalities

It is with deep regret that we report that three employees lost their lives in work-related accidents this reporting cycle. The Telkom Board and executive management team extended their condolences to the families and colleagues of those who have lost their lives. Their names and details are recorded below.

Name	Region	Job description	Cause of fatality
WA de Bruin	North Eastern Region	Technical Officer Network Core Operations	Motor vehicle accident
LC Dhlamini	North Eastern Region	Technical Officer Network Field Services	Gunshot
PD Mashego	North Eastern Region	Technical Officer Network Field Services	Motor vehicle accident

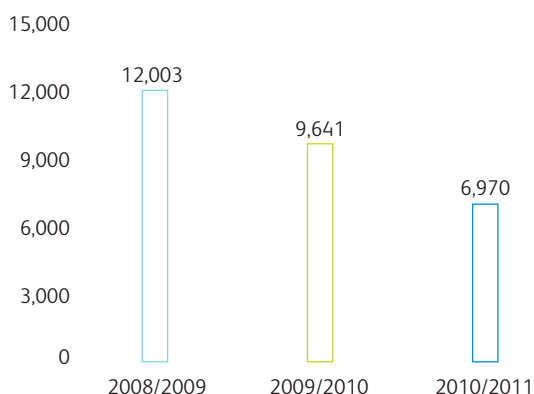
Through our Employee Assistance Programme, we provided support to the family and the colleagues of the deceased through psychological consultations to assist them to cope with their loss.



Total number of lost days due to occupational injuries

In total, 6,970 lost days (shifts) were recorded as a result of occupational injuries, a 27.7% improvement on the 9,641 on the shift/days lost the previous year. As indicated below, this resulted in R9.71 million cost saving on the previous year's estimated cost of occupational injuries.

Total number of lost days due to occupational injuries



Estimated costs of occupational injuries

In total, 1.37 employees for every 100 employees could not complete their shift or start with the next shift due to occupational injuries. This is an 18% improvement compared to the results obtained for the previous year. The reduction in the number of lost days (27.7%) is due to a combination of reduction in injuries on duty and the severity of incidents.

The improvement in Injury Frequency Rate (IFR) is a direct result of the dedication of our employees to improve their working habits by always prioritising safety. From the corporate SHE office numerous job-related health and safety awareness topics were communicated to all staff and with effective objective driven training by the Centre of Learning to develop the employees by providing the necessary knowledge to improve their safety skills, the necessary results are obtained in achieving this remarkable improvement in managing incidents. Because we as a company aimed and continue to aim for zero tolerance, this will not stop here, indeed; more and more emphasis will be placed on the health and safety risks to minimise, as far as reasonably practicable, injuries in the workplace.

Due to a decrease in employee numbers as a result of the voluntary severance packages offered, more focus will be placed on managing safety in the workplace to maintain our high safety standards.

A project to manage this is ongoing with the main objectives:

- To evaluate and improve, where necessary, the standard operating procedures, guidelines and training modules to good practices;

Estimated costs of occupational injuries (Rm)



- To evaluate and improve, where necessary, procedures and practices to manage lost time to sick leave due to injuries on duty.
- To evaluate and improve, where necessary, procedures and practices to manage medical incapacity and productivity.
- To ensure processes are in place to obtain an integrated management approach toward lost time, and
- To develop a cost benefit analysis for the medical management programmes.

Occupational health overview

Occupational hygiene surveys are regularly conducted in relation to a number of areas, e.g. ventilation, illumination, noise and water. Recommendations from the reports are implemented to promote a safe working environment.

We have implemented a medical surveillance programme to proactively manage occupational health diseases. The surveillance programme consists of:

- Mast and tower medicals
- Pre-employment medicals
- Periodic medicals
- Exit medicals
- Forklift medical screening
- Audio screening

In this performance cycle, 6% of employees underwent medical screening. These focused mainly on employees who had to go for re-certification – forklift drivers and people working at heights, with reference to the new OHS performance targets, above, the focus will be 100% Medical assessments over a three-year period. This will

6. Sustainability Performance continued

enable us to determine a baseline and ensure that employees are medically fit to conduct their jobs.

Key findings of consultations include:

- Lower back and Injury on Duty (IOD) cases are high mainly due to various causes including old degenerative conditions such as arthritis, occupational musculoskeletal disorders related to awkward bending, inappropriate lifting of heavy working tools, and occasional tripping at work, and poor safety practices at the workplace.
- 60% of the lower back cases seen in this financial year were mainly due to motor vehicle accidents and IODs.

HIV/AIDS

The Thuso HIV/AIDS and TB Workplace Programme has been in operation since 2004, when we became one of the first companies in South Africa to provide a comprehensive testing, care and treatment programme for HIV and AIDS to our employees, their immediate dependants, and contract workers.

Since 2004, the Thuso Programme has grown in recognition in the Group and employees and their families know that help on any medical condition is just a phone call away, differentiating us as an employer that cares. The programme incorporates treatment strategies that are in line with current World Health Organisation treatment protocols, including pathology testing, medical care by a doctor of the patient's choice, TB prophylactic treatment, vitamins, minerals and supplements, psychological counselling, TB screening and management and a drug delivery mechanism that is both confidential and convenient. All services are provided by an external service provider at no cost to employees and their immediate dependants.

Some employees access treatment through their medical aid programme or a government clinic. The Thuso call centre is still available to these employees for support and counselling and the case managers make regular calls to ensure that the patients are well and compliant with their treatment programme.

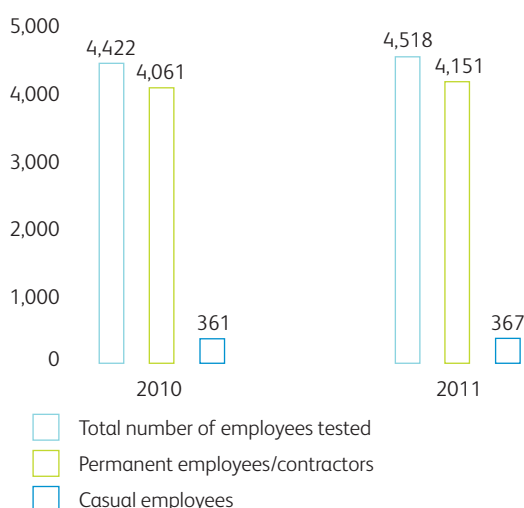
On-site Voluntary Counselling and Testing ('VCT') is offered to all employees for early identification of HIV positive status and also as a preventative mechanism to reduce future HIV infections. There is no doubt that individuals that participate in regular HIV screening (annual) are more aware of the risks of HIV and the behaviour required to prevent infection. Early identification of a conversion from HIV negative to HIV positive is important with regard to successful treatment and reducing the potential risk of infecting other people.

Patients are started on antiretroviral treatment at a CD4 count of lower than 350. This means that most employees are still healthy at the time of diagnosis and do not yet have any serious symptoms of HIV infection.

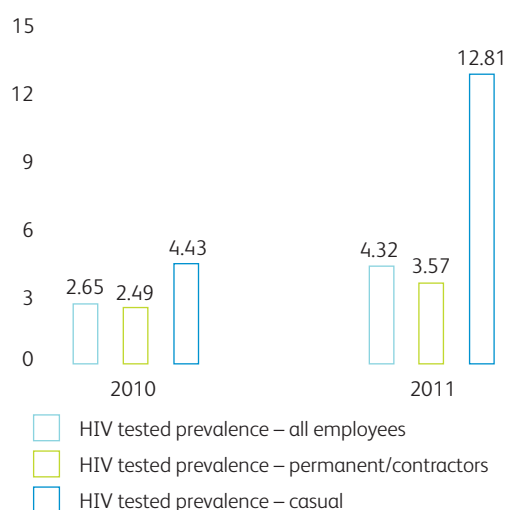
During the year under review 4,151 employees (3,562 permanent employees, 589 contract workers) were tested and 148 employees (108 permanent employees and 40 contract workers) were tested HIV positive. This equates to an HIV tested actual prevalence of 3.57% for the 4,151 employees; 3.03% for the permanent employees.

As part of our commitment to manage and extend the benefits of the HIV programme, testing is provided to outsourced entities and for the year under review 367 workers were tested on-site at no cost to us. The overall management of this tested HIV population is the responsibility of the South African Branch of the United States Agency for International Development (USAID).

Number of employees tested for HIV (Number)



HIV tested prevalence (%)



All employees, as part of the integrated Employee Wellness Programme, undergo VCT, Wellness Screening and tuberculosis (TB) risk screening. Individuals that are at risk of having TB are referred for TB diagnosis and treatment. We maintained our very low prevalence rate compared to the South African average with only 1.54% of our employees being treated for tuberculosis as compared to 2010 when 2.74% received treatment. During the period under review 2,699 employees were screened for TB during the on-site wellness screening. 106 (3.97%) of all screened employees had one or more symptoms of TB.

TB treatment is difficult to access for working individuals and therefore a decision was made to provide TB treatment through the Thuso programme. Treating TB through the programme will improve access and compliance to treatment and will ensure that the risk of transmission in the workplace is as low as possible. The TB treatment programme will also ensure that there is minimum absenteeism associated with the diagnosis and treatment.

The impact of the treatment provided is also measured against sick leave indices of employees registered on the Chronic Disease Management and Expert Treatment Programme and is regarded as a key contributor towards understanding the impact of the disease on the workplace and its employees. It is also an indication of the effectiveness of the treating protocols amongst the HIV positive population and the overall programme. A correlation is then made between those registered and compliant in terms of treatment protocols and those non-registered (could be due to fear of disclosure or taking antiretroviral drugs, denial, belief in traditional healers vs. conventional medicine) and the broader Group population. The result of this is an indication of the general state of the health and well-being of the infected employee, being economically productive and present at work.

All the HIV positive groups, except the non-registered group, have seen a decrease in the average number of sick days taken during

2010, highlighting the importance of good management of HIV positive employees.

Electro magnetic (EM energy) radiation is a form of energy that arises when electric charges are accelerated and these electric charges induce an EM field within the region surrounding the charge source. This EM field then generates an EM wave from the region surrounding the charges, much like the expanding waves that are created when a rock is tossed into a body of water. Our benchmarking of material issues with other ICT companies both locally and internationally revealed that many of them discuss the research being undertaken with respect to the health effects of EMR.

The radiation from the EM waves used in the Group can be classified as non-ionising. The Department of Health adopted the International Commission on Non-Ionising Radiation Protection (ICNIRP) exposure guideline which specifies the limits for human exposure to EM fields up to 300 GHz to provide protection against known adverse health effects.

We set standards to protect the health of our employees and to limit the EM field levels. To mitigate this risk as far as reasonably practicable, a work instruction and process document have been compiled and awareness and sensitising training is available. A course is being developed which focuses on non-ionising radiation awareness and on techniques to limit its effects on the human body. The course will also be computer based and compulsory on a three yearly cycle. On the occupational health risk exposure the necessary medical screening will be conducted and it will also be repeated before attending the next three-year training to ensure employees are medically fit to operate in this environment.

We have a division which follows a structured process to measure output signals at each GHz transmitter to ensure compliance with the OHS Act.

Case study on wellness

Today it is widely accepted that a healthy workforce is any given company's greatest asset, holistically representing the organisation's vitality, creativity and therefore wealth generating capacity. The Employee Wellness Team, for the past year, focused on remedial, preventative and health promotional interventions. The primary focus of these interventions was to enhance psycho-social wellness, facilitate psychological functioning and the enablement of employees to perform at optimal productivity levels. Our employees, contract and temporary workers and their legal dependants are eligible for Employee Assistance Programme (EAP) services (four sessions per annum) at no cost.

During the 2010/2011 cycle, 1,344 referrals were forwarded to the Employee Assistance Programme office. The above indicates a 13.6% increase in comparison to the 2009/2010 cycle where 1,161 referrals were received. The total cost of the rendered Employee Assistance Programme services amounts to R2,217,451.00. This included, preventative initiatives such as Channel T presentations on themes such as emotional burnout, stress management, work-life balance, financial and psychological wellness; articles regarding the nature and availability of Employee Assistance Programme services and psychological well-being published in *Touch* magazine and the SHE website in order to enable individuals to pro-actively manage their psycho-social well-being.

During 2010 Telkom Employee Wellness conducted a National Lifestyle Modification Survey within the Company. This survey was primarily concluded in order to acquire essential information with the view to improve the overall general well-being of all employees. The results will allow Employee Wellness to design and implement lifestyle specific interventions to improve employee wellness.

Given the global economic downturn and the fact that financial stress was cited as the leading cause of overall stress in 2010, the impact of financial constraints on the health of our employees, it was decided that the Centre For Learning needs to develop a financial management training course as an official course that employees can attend to obtain the skills to manage their own financial situation. This course should be in place by November 2011.



6. Sustainability Performance continued

Human capital management

We operate in a regulated, but competitive market where technological and regulatory changes are continuously lowering the barrier to entry. As a result, our people more and more are becoming our differentiator in the marketplace.

The average employee is 42 years old and has been with the organisation for 18 years. We therefore have a mature and sophisticated workforce with a proven track record. However, we operate in one of the fastest changing industries, which means our employees must be flexible and adaptable to change and thus our ability to transform our organisation will be impacted by our employees' change resilience and retraining capacity.

As a result our human capital strategy focuses on the transformation of our employee profile, focusing on the following:

- Talent – ensuring we have enough human capital capacity and capability to execute current and future business strategies.
- Culture – establishing a common value-based culture driven through effective leadership and reflected in the positive behaviour/performance of all employees.

Currently we are organised into four business units, three are profit and loss centres and a corporate support centre.

	Number of employees
Telkom SA	20,768
Telkom International	11
Telkom DataCentre (Cybernet)	555
Corporate Centre	1,550
	22,884

Our workforce

As at end of the reporting period we employed 22,884 permanent employees, 1.56% less than the previous year. The majority of employees (67%) are deployed in operational and support roles. Some 22% are in first line supervisory roles and 11% in management.

A key attribute of the communications industry is that technological changes happen quickly. These changes however do result in less human capital needed to operate and maintain the network. This process is also driven by the fixed to mobile substitution. In response to these pressures, our human capital employed has been managed down over time as per the table below.

Description	2006/07	2007/08	2008/09	2009/10	2010/11
Opening balance	25,575	25,864	24,879	23,520	23,247
Employee gains	1,512	918	1,047	592	439
Appointments	1,486	891	1,034	584	428
Re-instatement	26	27	13	8	11
Employee losses	1,223	1,903	2,406	865	802
Employee retrenchments (Employee initiated)	20	4	10		191
Voluntary early retirement	7	2	5	1	110
Voluntary severance	13	2	5	0	81
Involuntary reductions	0	0	0	0	0
Natural attrition	1,203	1,899	2,396	864	611
Closing balance	25,864	24,879	23,520	23,247	22,884
Other employees	5,807	3,801	4,307	3,557	2,550
Total headcount	31,671	28,680	27,827	26,804	25,434

It is important to note that voluntary separation packages referred to in the table mostly consist of:

- A voluntary separation package offer made to management employees from May – July 2010.
- A similar offer was later extended to bargaining unit employees, with the majority having their last day of duty at 31 March 2011. The closing headcount therefore includes a total of 1,633 employees (of which 899 early retirement candidates) that were no longer on the payroll from 1 April 2011. This process is detailed below.

The next step in the **Strategic Workforce plan** is the designing and alignment of HR measures

Telkom									
Current status (2011/03/31)									
Grades	Black		White		Foreign Nationals		Grand Total	Black	Female
	Male	Female	Male	Female	Male	Female		Total	Total
Top Management	4	2	1	0	0	0	7	6	2
	57%	29%	14%	0%	0%	0%		85%	29%
Senior Management	38	28	52	10	2	0	130	66	38
	29%	22%	40%	8%	2%	0%		51%	29%
Middle Management	786	274	995	276	16	5	2,352	1,060	555
	33%	12%	42%	12%	1%	0%		45%	24%
Junior Management	8,885	3,573	4,955	1,725	34	3	19,175	12,458	5,301
	46%	19%	26%	9%	0%	0%		65%	28%
Operational	353	417	98	307	0	1	1,176	770	725
	30%	35%	8%	26%	0%	0%		65%	62%
Support	22	19	1	1	1	0	44	41	20
	50%	43%	2%	2%	2%	0%		93%	45%
Total	10,088	4,313	6,102	2,319	53	9	22,884	14,401	6,641
	44%	19%	27%	10%	0%	0%		63%	29%

2011 voluntary separation/early retirement packages

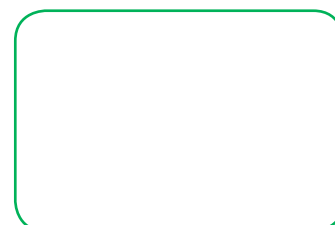
Based on the Group Strategy and Business Plan, and specifically the focus to implement a strategic workforce plan linked to the long-term business strategy, a voluntary separation/early retirement package was offered to employees in the bargaining unit from 21 February to 18 March 2011. Although it supports the Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) improvement initiative, it will create an opportunity to refresh the organisation with new and young skills and developing and training for future skill needs.

Packages were offered to all employees in the bargaining unit, with no obligation on any employee to apply for a voluntary separation package. The decision to apply for a package was therefore at the sole discretion of every individual and it was the company's prerogative to decline applications. The following principles have been applied where applicants' applications were considered for approval:

- When there is an opportunity to re-organise the division/job responsibilities, improve synergies and productivity if the position is scrapped.
- When there is an over-supply of specific skills.
- When the position is in an area of business that is declining, and
- When the applicant is 50 or older, with skills that are not critical to the future of the company, and/or whose skills can be replaced via re-organisation.

A total of 1,633 employees took the voluntary separation package with 31 March 2011 as last day of duty. There were 734 employees that took the severance package and 899 employees who took the early retirement package.

The next step in the Strategic Workforce plan is the designing and alignment of HR measures to address under- or over-supply of skills per job function. This information will also serve as an input to the Talent Management workstream that is currently under design and due to be implemented during the second half of 2011.



6. Sustainability Performance continued

Staffing and staff exits

Females now represent 29.02 % (2010: 28.69 %) of the permanent workforce with black representation at 62.93 % (2010: 62.73 %).

Our natural attrition rate decreased to 2.65 % (2010: 3.7 %) and resignations decreased to 1.69 % (2010: 2.46 %). This low attrition rate coupled with a reduced need for headcount resulted in a recruitment rate of only 1.7 %, limiting opportunities to significantly impact our demographical profile. The table below does, however, indicate that turnover as well as the recruitment profile improves our demographical profile.

EE Group	Losses	Appointments	Internal promotions
Black	54.7 %	77.6 %	77.5 %
Female	24.2 %	37.6 %	38.7 %

Rewards and recognition

A process that should lead to differentiate rewards based on performance and more finely attuned market related pay has been embarked on with organised labour and we hope to report more fully on this next year. Currently all employees are subject to a performance assessment. The performance management process includes regular feedback and review sessions and provides for a performance plan and development plans for current and future positions.

A short-term incentive plan to reward the achievement of annual performance targets has been in place for a number of years. Business unit(s) and company performance against weighted performance measures determines the level of payment. A balanced set of indicators comprising financial, customer, internal processes and human capital measures are used.

The payment is capped at 100 % of the potential award and employees must meet their individual performance targets and be in the employ of the company on 31 March of each financial year to qualify for the payment. See remuneration report for more detail (Refer to Telkom Group Integrated Annual Report.)

Currently no long-term incentive plan is in place. However, the intention is to approach shareholders for the approval of a plan in 2011/12.

Our 'Name In Lights' programme recognises outstanding achievements by employees or teams who go the extra mile. The programme has been revamped as from the 2011/12 financial year. Telkom also has a sales incentive programme, Club Tau, for sales staff that over-achieve on their annual targets and entails a fully paid trip for both the sales achiever and his/her partner including flights, transport, accommodation and excursions.

Training and development

Our Centre for Learning (CFL) is dedicated to unlocking the potential of all our employees through flexible and relevant development solutions. The centre has six regional campuses used for training delivery. In addition computer based training is also offered.

For the period under review we used 93,845 (2010: 110,188) man days for training to enhance internal capabilities and competence. On average the training days per employee category was as follows:

Employment category	Average number of days per employee
Management	3.3
Specialists	4.0
Operational	4.2

Training refers to:

- All types of vocational training and instruction;
- Paid educational leave provided;
- Training or education pursued externally and paid for in whole or in part by us; and
- Building future capacity (internships, skills programmes, learnerships).

In partnership with the Department of Communications and Information Systems, Electronics and Telecommunications Technologies Sector Education and Training Authorities (ISETT SETA), we support government's Jobs Initiative on Priority Skills Acquisition (JIPSA) initiative through various training programmes conducted and managed by our Centre for Learning.

Capacity-building initiatives are broadly defined and implemented within the ICT focus areas of IP, Next Generation Network and Commodity Services inclusive of broadband and wireless skills. Programmes are designed and implemented as learnerships, skills programmes and internships.

These initiatives, in which we invested R72.5 million, are aligned with, and form part of, the government's JIPSA. To date a total number of 1,928 students have completed the 12-month training programme of which 1,044 (53.0 %) have obtained employment. A further 131 students are currently still busy with their development programmes. Race/gender demographics of the participants: 94.7 % black and 60.7 % male.

Employee engagement

Culture revitalisation

Culture revitalisation was identified as a priority in our transformation process and the Barrett Culture Tools and Transformation process was the most suitable vehicle to enable the organisation to advance to a value-based performance culture.

Following the 2009 Culture Values Assessment five Core Values were identified for us. These values, aptly named CHART, represent:

- Continuous performance improvement;
- Honesty;
- Accountability;
- Respect; and
- Teamwork;

Five behaviours associated with each core value were also identified by employees. To entrench the new values and associated behaviours the following interventions were put in place:

- Providing an on-line CHART Awareness Tool;
- CHART Values Workshops;

- CHART Discussion Sessions;
- Culture Fit Assessment; and
- Process designed for employees and teams to be recognised for living the values and associated behaviours that will be implemented in 2011/12 financial year.

A focus was placed on top leadership to facilitate personal transformation:

- Individual values assessment was conducted and feedback provided with the aim of aligning personal values with the company values;
- Individual 360° leadership values assessments and feedback were conducted;
- Personal commitment plans were facilitated where personal areas of concern were addressed; and
- Team cohesion workshops were facilitated.

Forty eight percent of employees participated in the 2011 Telkom-wide culture values assessment to determine the current culture, the desired culture and the identification of non-productive or limiting aspects of the current culture (entropy). Employees' perception of the current culture improved slightly. While the entropy level improved by 3% from 32% to 29%, it is still far away from the level of less than 10% to be regarded as "healthy".

Employees identified five positive values that define our current culture. The first three also featured in previous studies. This tells us there is a degree of consistency:

- Customer satisfaction;
- Productivity;
- Teamwork;
- Accountability; and
- Commitment.

A new model to measure employee engagement was used as it better suits our needs. Because of this we are unable to compare the 2011 results with those of previous years.

The findings of the Employee engagement study compared to other companies in South Africa and ICT companies across the globe is indicated in the table below:

	Telkom	SA benchmark	Global industry benchmark
Disaffected	27%	26%	21%
Agnostics	60%	64%	71%
True believers	13%	10%	8%

Based on the results and entropy percentile per level and business unit, specific processes were put in place to address the required actions needed to help decrease entropy, increase engagement levels and resolve potentially limiting values. This process is continued into the 2011/12 financial year). The process includes:

- Presenting CVA/Engagement results;
- Obtaining buy in from Managing Executives (ME) to commit to the CVA/Engagement Plan;
- Conducting focus groups;
- Conducting entropy workshops;
- Launching of Values Based Leadership Assessment (360°); and
- Continue with Team Cohesion Workshops

Discrimination in the work place

A number of cases were recorded in the Employee relations data base for the period 1 April 2010 to 31 March 2011 on discrimination in the form of racism, sexual harassment, unfair discrimination on appointments and promotions. These are in the form of grievances from individual employees against other employees of the company as shown in the table below and the outcome thereof. Those that were finalised were dealt with in terms of the company grievance procedure and disciplinary procedure.

Incidents of discrimination and actions taken:

1 April 2010 – 31 March 2011

Type of offence	Cases captured	Outcome
Racism/Sexism (Grievance)	1	1 Pending
Sexual Harassment (Refer to policy documentation)	6	4 Finalised, 2 pending
(Disciplinary)	6	1 Finalised, 5 pending
Promotion (Grievance)	6	4 Finalised, 2 pending
Racism/Disrespect/ Discrimination (Disciplinary)	1	1 Pending
Racism/Disrespect/ Discrimination (Dispute)	19	8 Finalised, 11 pending
Racism/Disrespect/ Discrimination (Grievance)		
Total	39	39

The challenges faced due to discrimination in the workplace are both at organisational and individual levels, such as perceived slow pace of transformation by the unions, lack of culture that is inclusive, perceived discrimination in reverse.

Centre For Learning is running pilot training on relationship building and diversity management course, which addresses the day to day functioning of employees in a diverse environment. The organisational culture division is also vigorously driving the change of culture in the company. This initiative will have a great impact which will lead to the desired behaviours in the company.

Going forward disability and unfair discrimination awareness campaigns are being developed.

We are committed to addressing issues of unfair discrimination, racism and sexual harassment in a holistic manner.

6. Sustainability Performance continued

Employee relations

While no companywide strike action occurred, 18,181 man days were lost due to a targeted strike action running up to the 2010 FIFA World Cup™, with 2,241 employees participating at some or other stage of the strike.

Union membership: 31 March 2011

Type of employee	Union		Total	%
Bargaining Unit	CWU		8,228	40.34
	S.A.C.U.		4,078	20.00
	Solidarity		3,177	15.58
	No Affiliation	Postal Union	6	
		Society of Telkom Engineers	44	
		UASA	9	
	No affiliation Total		59	0.29
	No Union	No Union	4,853	23.80
Bargaining Unit Total			20,395	100.00
Management	CWU		187	7.51
	S.A.C.U.		279	11.21
	Solidarity		170	6.83
	No Affiliation	Postal Union	4	
		Society of Telkom Engineers	174	
		USA	29	
	No Affiliation Total		207	8.32
	No Union	No Union	1,646	66.13
Management Total			2,489	100.00
Grand Total			22,884	

Talent management

The scope and parameters of the talent management process have been re-evaluated and re-designed. It will consist of two segments: 1) leadership pipeline and 2) critical skills pipeline, focusing on the identification and development of current and future leadership and critical skill capabilities.

The leadership succession planning process will only be implemented once the delayering process is finalised and the top leadership structure is confirmed. The critical skills segment will be based primarily on information obtained from the work force planning process which is currently in progress and envisaged to be concluded by end June 2011.

The overall intentions of the revised talent management process are as follows:

- Developing leadership capacity by identifying and developing successors who are prepared to assume current and future leadership roles.
- Safeguarding business-critical capabilities by prioritising succession management around those capabilities most critical to business success and most scarce in the labour market, and
- Development of future/emerging talent through the identification and development of the capabilities required to fulfil our future talent needs/strategic priorities.

The talent management process has also been integrated with retention management and the focus of the integrated talent management and retention strategy will be:

- To attract and acquire the right talent into the organisation;
- To identify and retain the right numbers of people and positions in the right places;
- To identify and develop high potential talent as dictated by the current and future needs of the business;
- To retain and develop leaders who embody and drive the desired leadership behaviour, culture and values; and
- To effectively deploy the required talent.

The integration of talent management with retention has contributed quite considerably to the delay in implementation since it required fairly extensive consultation with management and organised labour. At this stage, it is anticipated that the first phase of the newly aligned and integrated approach to talent management and retention will be implemented in the second quarter of the 2011 financial year.

Supply chain Procurement

Our procurement services division has achieved tremendous success during the reporting period ending 31 March 2011. We have

introduced process improvements, policy reviews and updates to ensure alignment with relevant legislation(s). Opportunities for risk diversification, mainly around large contracts, have been identified and implemented. Engagement with suppliers has improved in an effort to improve supplier performance and resolution of operational issues.

Engaging with our suppliers

The tender process

We are committed to maintaining a transparent, open and fair tendering process. All tender requests are published in our weekly tender bulletin on our website.

Our tenders are managed by cross functional sourcing teams staffed with individuals from different areas and levels within our organisation to evaluate and make recommendations on bids which, depending on value, may require approval of our executive committee and/or our Board of directors. This process, strengthened by embedded good corporate governance principles, is one of the processes that we have in place for reducing fraud in the procurement process.

We also seek to utilise at least two suppliers for all critical equipment and/or services where possible in order to minimise supply chain risk and have adopted affirmative preferential procurement policies that favour historically disadvantaged suppliers.

Measuring performance

We are committed to ensuring optimal quality, pricing, and continuity in the supply chain. We have continuous interaction with most of our suppliers to improve performance and to resolve operational issues. We also arrange an annual supplier engagement session and in the 2010/11 year this was focused on the middle-spend suppliers.

Supplier delivery performance is measured and reported quarterly via our supplier performance management programme with all our major suppliers. Delivery performance is consistently at 100% or close thereto, but action is taken pro-actively to prevent repeated late deliveries in isolated instances where this occurs.

Managing sustainability issues in the supply chain

Value to society – B-BBEE initiatives

We recognise our societal obligation to assist in transforming South Africa's business landscape. As discussed in the B-BBEE section of this report per our 2010 verified scores, we have once again scored highly in the Preferential Procurement aspect of B-BBEE; 75.6% of our total Measurable Procurement Spend was classed as B-BBEE Procurement Spend and as a result our Preferential Procurement B-BBEE performance scored us 19.67 B-BBEE points (0.23 points away from full compliance).

The B-BBEE section of this report also reflects that our enterprise development B-BBEE performance was greatly improved from 2009 to 2010. These initiatives assist our black suppliers in improving their own business performance.

In this 2011 financial year we implemented our 'prequalification' programme through which we have defined criteria by which our suppliers need to abide (e.g. local manufacturing) and we implemented BEE commitment plans to ensure that suppliers are contracted on all B-BBEE aspects thereby ensuring meaningful transformation of the industry.

We also recognise that the B-BBEE system is subject to potential abuse. As a result, we conduct in-depth inspections at our bidder's

premises and where there is any suspicion of fronting, external consultants/specialist auditors are appointed to fully investigate the bidder. Where fronting is uncovered, the bidder is eliminated from the process. Any form of fronting and any other ways of doing business with us that may be deemed to be illegal/unethical by us shall be construed as misrepresentation and we shall have the right to terminate the contract and blacklist the concerned company/bidder for a period to be determined by us alone (covered in our preferential procurement policy).

Climate change – carbon disclosure

For the first time we have taken steps to measure and report on the carbon footprint of our supply chain. The carbon footprint of car hire, employee business travel fleet use, and logistics have been included in our Scope 3 emissions as reported to the Carbon Disclosure Project. We view this as a good starting point to use as a base for such disclosures of our carbon footprint in our supply chain and to better control this.

Health and safety

As can be seen in the Health and Safety Section of this report, we hold our contractors to health and safety compliance and competencies to the highest level.

Before any contractor, service provider or agent is appointed, Telkom Procurement Services by means of its tender process assesses the Safety, Health and Environment (SHE) compliance and competencies of each particular bidder. Appointed contractors, service providers and agents are audited to maintain and ensure compliance.

We fully comply with the relevant statutory requirements as laid down by law by ensuring that all our contractors, service providers and agents are integrated into our SHE policies and procedures.

Regulatory and governance

Our tender processes are extremely robust and the company boasts a proud record of compliance with all relevant laws, regulations and codes, in particular with governance codes such as King III.

In the spirit of continuous improvement, in conjunction with regulatory and compliance divisions, we regularly refine and update our policies and processes and constantly train our employees on governance and legislative related issues.

The year ahead

We are constantly looking to refine our procurement processes and will implement the following two plans in the year ahead.

- We are automating some of our tender processes with the implementation of an E-sourcing/auction solution which will result in more competitive pricing, efficiencies and a greener environment through paper reduction. We are planning to implement a single and secure 'order to payment' solution that will facilitate the automation of an end to Procure-to-Pay process with electronic collaboration between us, the buyer and its supplier fraternity during the 2011/12 financial year.
- In the year ahead we will continue to expand our 'set aside' programme by which the opportunity for suppliers to provide us with certain goods and services will only be extended to pre-identified supplier groupings, e.g. black owned and engendered companies.

6. Sustainability Performance continued

Customers

Our customers are segmented into three broad categories – wholesale and networks (Telkom Wholesale); enterprise (Telkom Business) and consumers (The Consumer Market and 8•ta).

Telkom Wholesale provides products and services to other telecommunications operators and effectively, 80 % of mobile operators in South Africa run on our network. To meet the needs and expectations of our customers we launched many new products and services for them.

Our enterprise marketing strategy is the main driver of the Telkom Business unit which has 400 000 customers. The top 275 corporate customers plus government and big business account for 66 % of its revenue with the balance spread among 390 00 small- and medium-sized businesses.

As we operate in a highly competitive market we are developing a customer centric philosophy for our strategic customers (ensuring we deliver a message of co-creation and partnership); government and large businesses (forging partnerships and building relations) and small and medium businesses (supporting and building the entrepreneurial segment). On the product side we are focused on four key sectors: fixed line to personal communications; broadband and ISP

to personal IT; data connectivity to borderless connected systems; and data centre hosting to computing and software as a service.

On the consumer side, where we have 2.3 million customers, we are moving from being predominantly product centric to a customer service operation and from basic voice and data connectivity to fully converged solutions that integrate voice, data, video and internet services.

Our customers are sub-divided into three main value tiers – high value customers (15.72 % of our consumer revenues); medium value customers (more than 50 % of our revenue) and low value customers (19 % of our revenue).

Going forward, our challenges are to increase value and profitability and retain our customers by growing broadband and launching FMC bundles. A further challenge is the fact that globally, fixed line subscriber bases are declining and South Africa is no exception.

We launched our mobile arm, 8•ta, during the year and we see this R6 billion project as being the ‘future of Telkom’. Our main challenge is to become a credible market player over the next few years and our defined strategy is to consistently provide the best mobile experience in the country.

Telkom employees were involved as volunteers in a number of projects

Corporate Social responsibility

Introduction

The primary aim of our CSI initiatives is to contribute to the positive transformation of disadvantaged communities in South Africa through the support of education at school level with a specific focus on maths, science and technology.

Our CSI initiatives are undertaken by the Telkom Foundation, a non-profit organisation that is governed by its Trust Deed and by the Trust Property Control Act, 1988. As such, the Foundation acts independently of Telkom and is managed by its board of trustees. The mandate provided by the Trust Deed dictates that the Foundation will contribute towards the positive transformation of disadvantaged communities in South Africa.

The Telkom Foundation was created as a Trust in 2002. As such it should adhere to the laws and regulations relating to a trust. Appointment and activities of trustees are in terms of the Trust Property Control Act ('the Act'). The Foundation is managed by the Head of Foundation and is accountable to the Trustees.

The Telkom Foundation receives all of its funding from us, amounting to R43 million in 2010/11 making us one of South Africa's leading Corporate Social Investors. The main focus of the Telkom Foundation has traditionally been on education, with welfare and economic development initiatives being secondary to this.

Below we provide an overview of some of our CSI initiatives under our four focus areas for 2010/11:

- Education – Primarily focusing on schools;
- Economic Development – Focus on projects aimed at transferring skills to local communities with the aim of improving participants chances of securing jobs or becoming entrepreneurs;
- Welfare – Focus on providing financial aid to needy communities; and
- Staff volunteerism – Encouraging staff to contribute their time and in some cases resources to needy communities.

Readers are referred to the Telkom Foundation annual report for further details that they may require on these initiatives – this will be published in the fourth quarter of 2011.

Education

With regard to education, the Telkom Foundation aims to contribute to the positive transformation of disadvantaged communities in South Africa and to deliver its programmes through NGOs and other institutions. Our focus is primarily on demystifying maths, science, and technology in rural and semi-rural communities.

In partnership with key education stakeholders such as the national departments of Education, Provincial Departments of Education, NGOs and others, Telkom Foundation provided support to schools across the country in the form of the following:

a) Mobile libraries

- This involves the resourcing of mobile libraries with books from Grade R to 7. 125 schools in the North West, Eastern Cape, Gauteng, Limpopo and Mpumalanga provinces have benefited from this programme.

b) Mobile Science Laboratory project

- This involved the provision of 125 well-resourced mobile laboratories in maths, physical science, technology and entrepreneurship in the North West, Eastern Cape, Gauteng, Limpopo, North West and Mpumalanga provinces. 25 schools per province were identified for this benefit.

c) ICT connectivity

- 45 schools in the North West, Eastern Cape, Gauteng, Limpopo, North West and Mpumalanga provinces are in the process of being provided with the following ICT equipment:
- 21 computers
- A note book
- 1 projector
- 1 interactive white board
- 1 printer
- 11 tables
- 21 chairs

Beacon of Hope

This initiative started in 2007 with the aim of identifying excelling learners in disadvantaged schools and moving them to better resourced Model C or private schools across the country. This year, we have a total of 140 learners in 16 schools across the country in this project – 56 of these learners are in matric. We not only pay the student's tuition fees – among other items, books, clothing, extra lessons, and boarding fees are also paid for and a personal allowance is provided. An average of R77,820 has been spent on each learner in 2011.

Sediba project

The Sediba project is a Telkom Foundation and University of Potchefstroom initiative that is geared towards training teachers in the fields of science and technology in various provinces. We have been involved in the project since 2002 and over 2,000 teachers from various provinces have been empowered through the project since our involvement.

Economic development

A number of projects across the country were funded in this category. Most of these projects were focused on training young people in a variety of skills with the aim of improving their chances of employment or entrepreneurship. On the next page is a list of some of the projects the Foundation funded in this category.

6. Sustainability Performance **continued**

a) **Star strider**

This Gauteng-based organisation focuses on training women and assisting them in purchasing the material required to start their business. More than R490,000 has been spent on this project to date.

b) **Vezokuhle Youth Development project**

This Eastern Cape-based organisation focuses on training women in entrepreneurship. R300,000 has been spent on this project to date.

c) **Zebra Arts and Craft**

This Northern Cape organisation focuses on skills training and job creation in arts and crafts. The Telkom Foundation has provided it with R270,000 in funding to date.

d) **Teach South Africa**

This is an organisation that trains and employs Teach Ambassadors who teach maths, science, and technology in previously disadvantaged communities. R1.6 million has been spent on this initiative.

e) **Boiteko SMH School**

This is a Gauteng-based school for children with disabilities. The Telkom Foundation has provided it with R500,000 to date.

f) **Salitig Training College of South**

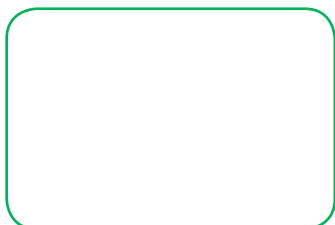
This Training College trains NGOs, PBOs, and CBOs to look after orphans and vulnerable children. The Telkom Foundation has provided it with R100,000 to date.

g) **Ikageng Bakery**

This organisation aims to operate a bakery service that will create job opportunities and skills training for community members. More than R160,000 has been provided to it to date – this money will be used to purchase training equipment and pay for rent and electricity, transport and stipends.

Welfare

The welfare focus area of the Telkom Foundation deals with the basic needs of people, specifically focusing on women, children and people with disabilities. We are a major sponsor of Lifeline and Childline and sponsor a number of organisations that work with people with disabilities, women and children.



Staff volunteerism

In addition to initiating and/or supporting projects in alignment with the above three areas, we encourage staff volunteerism through engaging employees in social upliftment initiatives, facilitate the contribution of time, money, and/or skills to charitable causes through the 'Giving from the Heart' programme, and support various other projects through the Adopt-a-Project programme.

Adopt-a-Project has given top management and Board members the opportunity to champion a project of their own choice from the community they come from with the main objective being to plough back into communities, inspire the new generation as role models, and set the tone for their peers. The Group CEO of Telkom adopted a school in the Eastern Cape and provided transport for the learners, projects undertaken by other staff members have included: the renovation and resourcing of a school in the Western Cape; the adoption of the Othandweni family care centre in Gauteng; and the adoption of Nazareth House, an HIV/Aids centre.

Telkom employees were also involved as volunteers in a number of projects including the building of a house in Kagiso as well as other projects such as caring for people with HIV and Aids. This project was driven by the Foundation but included staff in the Group.

The year ahead

To ensure that we achieve a meaningful impact in communities, the Trustees engaged in a strategy session in 2011 to narrow the focus of the Foundation. It was decided to refocus the Foundation in three main areas: maths, science and technology education; entrepreneurship; and Blue Flag programmes (to provide emergency/ disaster relief funding). The Telkom Foundation will continue with its existing commitments however.



7. Conclusion

Our year in review

We made significant strides in the management of our sustainability issues over the 2010/11 reporting period and we are proud to present our first GRI rated Sustainability Report to our stakeholders. We recognise that the identification and management of our sustainability issues is not only a social imperative but is of increasing importance for ensuring business continuity in a changing business environment.

Below we capture some of our sustainability successes of the reporting period. For the first time, we have measured and disclosed

our carbon footprint and have reported to the Global Reporting Initiative C+ Application Level. We are proud of our continually improving health and safety performance; however we regret that three of our staff lost their lives during the course of work in this reporting period.

We recognise that this report is a starting point, going forward we will consolidate our sustainability efforts into a clear strategy and expand the scope of our reporting.

Executive highlights

- Appointment of a new Chairman, Mr P L Zim
- Appointment of a new CEO, Ms N T Moholi
- Appointment of a new CFO, Mr J Schindehutte (from August 2011)

Sustainability reporting and assurance

- First assured carbon footprint and Carbon Disclosure Project submission:
 - Our carbon footprint was measured in accordance with the Greenhouse Gas Protocol.
- Achieved a C+ Global Reporting Index rating for our sustainability report.
- BEE Level 4 Contributor.

Environmental and social performance

- Measured our carbon footprint and established a baseline.
- Integrated waste and recycling management process.
- Continually improving our health and safety performance.
- BEE successes.
- Improvement in employment equity, skills development, preferential procurement, enterprise development.

Making a difference to society

- Playing a key role in the successful delivery of the 2011 municipal elections.
- Delivering a flawless performance in high definition broadcast of the 2010 FIFA World Cup™.
- Bridging the digital divide:
 - Delivering internet connectivity to 2,247 schools to date, and
 - Improving science and technology education through CSI initiatives.

Appendix: GRI G3 Content Index

Strategy and analysis

GRI Principles met	Description	Reference	Integrated report	Sustainability report
1.1	Statement from the most senior decision maker of the organisation about the relevance of sustainability to the organisation and its strategy.	Chairman's review Chief Executive Officer's review	12	Not included
1.2	Description of key impacts, risks and opportunities.	<ul style="list-style-type: none"> Key impacts, risks and opportunities are provided throughout the report. Corporate risks are identified in Enterprise Risk Management > risk factors. Material sustainability issues are summarised in Section 5 Material Sustainability Issues > Material sustainability issues. 		32-33 38-43
2.1	Name of reporting organisation.	Telkom SA Limited.	339	n/a
2.2	Primary brands, products and/or services.	Telkom Telepresence and throughout the report	10 throughout report	Not included
2.3	Operational structure of the organisation including main divisions, operating companies, subsidiaries and joint ventures.	Telkom Group structure	8	Not included
2.4	Location of organisation's headquarters.	Pretoria, South Africa		n/a
2.5	Number of countries where organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Introduction and Overview > Scope and boundary of this report > What is included		2
2.6	Nature of ownership and legal form.	Public Company listed on the JSE		n/a
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries).	Included in Section 1, The regulatory and competitive landscape	8, 10, 78 throughout report	Not included
2.8	Scale of the reporting organisation including: <ul style="list-style-type: none"> Number of employees; Net sales; Total capitalisation broken down in terms of debt and equity; and Quantity of products or services provided. 	> Human capital management > Our workforce Annual financial statements		58 Not included
2.9	Significant changes during the reporting period regarding size, structure or ownership, including: <ul style="list-style-type: none"> Location of, or changes in operations, including facility operations, closings, and expansions; and Changes in the share capital structure and other capital formation, maintenance, and alteration operations. 	<ul style="list-style-type: none"> There were no significant changes during the reporting year. Refer to subsequent events (note 46 of Group annual financial statements and note 42 of the Company annual financial statements) for changes after the period but before approval of the Integrated Report. 		n/a
2.10	Awards received in the reporting period.	No awards were received during the reporting period.	35, 87	n/a
3.1	Reporting period for information provided.	Year ended 31 March 2011.		n/a
3.2	Date of most recent previous report.	Year ended 31 March 2010.		n/a
3.3	Reporting cycle.	Annually.		n/a

GRI Principles met	Description	Reference	Integrated report	Sustainability report
3.4	Contact point for questions regarding the report or its contents.	Inside back cover	339	As per integrated report
3.5	Process for defining report content, including: <ul style="list-style-type: none"> • Determining materiality, • Prioritising topics within the report, and • Identifying stakeholders the organisation expects to use the report. 	Stakeholder Engagement > Introduction and Material Sustainability Issues > Material sustainability issues.		34, 38
3.6	Boundary of the report.	Introduction and Overview > Scope and boundary of this report > What is included.		2
3.7	State any specific limitations on the scope or boundary of the report.	Introduction and Overview > Scope and boundary of this report > What is included.		2
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Introduction and Overview > Scope and boundary of this report > What is included.		2
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report.	Sustainability Performance > Environmental management > Climate change > Our carbon footprint.		48-49
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statements.	No information that has been stated in earlier reports has been restated in this report.		n/a
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report.	Sustainability Performance > Environmental management > Climate change > Our carbon footprint.		48-49
3.12	Table identifying the location of the standard disclosures in the report.	Appendix > GRI G3 Content Index.		68-71
3.13	Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider.	Introduction and Overview > Scope and boundary of this report > Assurance and verification.		2
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Good Governance > Chairman and Board of Directors section and Committees sections.		8-9 11-14
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and if so, his/her function within the organisation's management and the reasons for this arrangement).	Good Governance > Chairman and Board of Directors section.		8-9
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Good Governance > Chairman and Board of Directors section.		8-9

Appendix: GRI G3 Content Index **continued**

GRI Principles met	Description	Reference	Integrated report	Sustainability report
4.4	Mechanisms for stakeholders and employees to provide recommendations or direction to the highest governance body.	Good Governance > Delegation of authority and Board meetings section.		10
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements) and the organisation's performance (including social and environmental performance).	Good Governance > King III application table > Chapter 2 Boards and directors > Directors' remuneration. (BEE Performance is linked to compensation, no other social/environmental parameters are).		17-18
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Good Governance > King III application table > Chapter 2 Boards and directors > Board composition.		16
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics.	Good Governance > King III application table > Chapter 2 Board and directors > Reporting.		16
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Good Governance > King III application table > Chapter 2 Boards and directors > Board performance.		16
4.14	List of stakeholder groups engaged by the organisation E.g. communities, civil society, customers, shareholders and providers of capital, suppliers and employees, other workers and their trade unions.	Stakeholder Engagement		34-35
4.15	Basis for identification and selection of stakeholders with whom to engage. Includes process for defining stakeholder groups and for determining the groups with which to engage.	Stakeholder Engagement		34
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. E.g. surveys, focus groups, community panels, corporate advisory panels, written communication, management/ union structures and other vehicles. Say whether any engagement was undertaken specifically as part of the report preparation process.	Stakeholder Engagement		34
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Stakeholder Engagement		36

GRI Principles met	Description	Reference	Integrated report	Sustainability report
Environmental				
EN 3	Direct energy consumption by primary energy source.	Sustainability Performance > Environmental management > Climate change > Our carbon footprint (Scope 1)		49
EN 4	Indirect energy consumption by primary source.	Sustainability Performance > Environmental management > Climate change > Our carbon footprint (Scope 2)		49
EN 8	Total water withdrawal by source.	Sustainability Performance > Environmental management > Water		50
EN 16	Total direct and indirect greenhouse gas emissions by weight.	Sustainability Performance > Environmental management > Climate change > Our carbon footprint (Scope 1 and 2)		49
EN 17	Other relevant indirect greenhouse gas emissions by weight.	Sustainability Performance > Environmental management > Climate change > our carbon footprint (Scope 3)		49
EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Sustainability Performance > Environmental management > Compliance		50
Human rights				
HR 4	Total number of incidents of discrimination and actions taken.	Sustainability Performance > Human capital management > Discrimination in the workplace		61
Labour practices and decent work				
LA 4	Percentage of employees covered by collective bargaining agreements.	Sustainability Performance > Human capital management > Employee relationships		62
LA 7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work fatalities by region.	Sustainability Performance > Occupational health and safety > Performance		54-55
LA 8	Education, training, counselling, prevention, and control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	Sustainability Performance > Occupational health and safety > HIV/AIDS and Case study on wellness		56, 57
LA 10	Average hours of training per year per employee by employee category.	Sustainability Performance > Human capital management > Training and development		60
Economic				
EC 1	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.	Introduction and Overview > Telkom's value to society > Direct value to society		4-5



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