
Caption S

Governance

GRI and King III

The business and affairs of Telkom are managed under the direction of the Board of Directors. The executive team, under the leadership of the Group Chief Executive Officer, ensures that the strategic direction and policies put in place by the Board are implemented. The Board is responsible for the establishment of committees to ensure that Telkom's stakeholders are holistically taken into consideration and that Telkom is ethical and transparent in its business practices.

In this section, we will unpack the various governance procedures, committees, guidelines and charters to which Telkom subscribes, as well as any material changes to these that may have taken place over past financial year.

KING III APPLICATION

The values of good Corporate Governance, as espoused in the King III Code of Corporate Governance (the Code), provide the Telkom Board with clear guidelines as to how best to adopt sound business principles and how best to implement practices of integrity and accountability. The Board is fully committed to these codes and its directors recognise the importance of conducting the enterprise in all engagements in accordance with best corporate practices.

The Board strives to comply with the principles of the Code. While it acknowledges the importance of good Corporate Governance, the Board is aware that Telkom does not strictly apply all the principles set out in the code. These areas of non-compliance are explained on page 56. The areas of non-compliance stem mainly from sections in Telkom's Memorandum of Incorporation (MOI), which made provision for certain rights associated with the former 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 MOI resulting in non-compliance with the code expired. Telkom's MOI was revised and will be presented at the Annual General Meeting (AGM) for approval.

CHAIRMAN AND THE BOARD OF DIRECTORS' RESPONSIBILITIES

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 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 MOI, 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 MOI and compliance with JSE Listings Requirements and other relevant regulations;
- reviewing the Company's audit requirements;
- acting in the interests of the Company's stakeholders;
- ensuring ethical behaviour and compliance with laws and regulations and the Company's own governing documents, codes of conduct and ethical standards;
- acting as the focal point for, and custodian of, Corporate Governance by managing its relationship with management, the shareholders and other stakeholders of the Company along with sound Corporate Governance principles;
- ensuring comprehensive reporting to shareholders;
- approving the preliminary financial statements, annual report and other reports and announcements to shareholders;
- considering the declaration of dividends;
- reviewing the Board's composition, structure and succession;
- reviewing succession planning and endorsing senior executive appointments and high-level remuneration issues;
- establishing the measures for, and reviewing the GCEO's performance. The Chairman of the Board shall conduct the performance assessment of the GCEO;

- reviewing non-executive directors' remuneration;
- ensuring that information technology (IT) governance is in place;
- ensuring that the Company is, and is seen to be a responsible corporate citizen by having regard to not only the financial aspects of the business of the Company but also the impact that business operations have on the environment and the society within which it operates;
- establishment by the Board of an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. The annual plan must ensure proper coverage of the matters tabled in the Board charter. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan; and
- ensuring that business rescue proceedings commence as soon as the Company is financially distressed.

Telkom has a unitary Board comprising of 14 directors. In accordance with Telkom's MOI, five non-executive directors including the Chairman have been appointed by the Government of South Africa (the former class A shareholder) and one non-executive director has been appointed by Black Ginger (the former class B shareholder).

A non-executive director is a member of the Board of Directors without executive responsibilities. A non-executive director is not an employee of Telkom.

An independent non-executive director is a non-executive director who:

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

There are six other independent non-executive directors who are appointed at the Company's Annual General Meeting or by the Board, as set out in King III and the JSE Listings Requirements.

The executive directors on the Board are Ms NT Moholi, the GCEO, and Mr JH Schindehütte, the Group Chief Financial Officer. Up until the appointment of Mr JH Schindehütte as Chief Financial Officer, Mr DJ Fredericks was an invitee to the Board as acting Chief Financial Officer.

The Board is led by Mr PL Zim. In line with best practice, the roles of the Chairman and GCEO are separated. A lead independent director has been appointed, Mr PCS Luthuli.

In terms of the MOI, 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 had a term of one year and was appointed by the former class A shareholder. The Chairman was re-appointed by the Board and his terms of office will end the earlier of 31 August 2013 or at the next Annual General Meeting. The Government's right to appoint the Chairman as class A shareholder expired on 5 March 2011. All non-executive directors are subject to retirement by rotation and re-election by shareholders at least every three years in accordance with the MOI and JSE Listings Requirements.

The holders of the former 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:

Director	Date of resignation	Reason for resignation
Resignations		
PG Joubert	30 August 2011	Retirement
Appointments		
NT Moholi	1 April 2011	
I Kgaboesele	1 July 2011	
JH Schindehütte	1 August 2011	
Dr S Sibisi	20 February 2012	
NP Mnxasana	20 February 2012	
NP Dongwana	20 February 2012	

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 integrated 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 each specialising in certain areas of the business. Certain authorities have been delegated to the GCEO to manage the day-to-day business affairs of the Group. The 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 11 additional special Board meetings were convened. Details of attendance by each director of the Board have been set out in the table below. 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 2012 financial year by directors:

	Scheduled		Special	
	Number of meetings	**Attendance**	**Number of meetings**	**Attendance**
Non-executive				
PL Zim (Chairman)	4	4	11	10
RJ Huntley	4	4	11	11
PG Joubert (resigned 30 August 2011)	1	1	4	4
B du Plessis	4	4	11	11
J Molobela	4	4	11	11
PCS Luthuli	4	3	11	11
N Kapila	4	4	11	11
JN Hope	4	3	11	9
Y Waja	4	4	11	10
I Kgaboesele (appointed 1 July 2011)	3	3	7	7
Dr SP Sibisi (appointed 20 February 2012)	1	1	2	2
NP Mnxasana (appointed 20 February 2012)	1	1	2	1
NP Dongwana (appointed 20 February 2012)	1	1	2	2
Executive				
NT Moholi (appointed 1 April 2011)	4	4	11	10
JH Schindehütte (appointed 1 August 2011)	3	3	7	7

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 two executive directors that serve on the Board of Directors, chiefs and managing directors of the Telkom Group. The GCEO 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 two special meetings during the financial year. Mr Luthuli is a chartered accountant.

The committee assists the Board in discharging its duties including:

- monitoring the integrity of the financial statements of the Company;
- reviewing the Company's internal financial control system including risk management systems;
- monitoring and reviewing the effectiveness and performance of the Company's internal audit function;
- making recommendations to the Board in relation to the appointment of the external auditor and approving the remuneration and terms of engagement of the external auditor following appointment by the shareholders at a general meeting;
- monitoring the effectiveness and performance of the external auditor's performance and their independence and objectivity;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services;
- ensuring the safeguarding of assets;
- monitoring the establishment of, and compliance with, the enterprise risk management policies and procedures;
- monitoring compliance with applicable laws, regulations and standards;
- monitoring the adequacy of corrective action taken in terms of the recommendations and observations of internal and external auditors; and
- reviewing financial information and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

Read more: for the audit and risk committee report please see page 125

As at 31 March 2012, the committee comprised five independent non-executive directors.

PCS Luthuli
I Kgaboesele
NP Mnxasana
NP Dongwana
B du Plessis

Ms RJ Huntley and Mr Y Waja stepped down as members on 23 January 2012.

	Scheduled		**Special**	
	Number of meetings	**Attendance**	**Number of meetings**	**Attendance**
PCS Luthuli (Chairman)	4	4	2	2
I Kgaboesele	3	3	1	0
B du Plessis	4	4	2	2
NP Mnxasana	1	1	0	0
NP Dongwana	1	1	0	0
RJ Huntley	4	4	2	2
Y Waja	4	4	2	2

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

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 evaluation of the Chief Financial Officer, Mr Jacques Schindehütte, and the committee confirms that it is satisfied with the appropriateness of the expertise and experience of the Chief Financial Officer.

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

The Audit and Risk Committee is satisfied that Ernst & Young is independent in accordance with Section 94(8) of the Companies Act 71 of 2008, and nominated the re-appointment of Ernst & Young as registered auditors for the 2013 financial year.

Audit Committee pre-approval policy

In accordance with our Audit Committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by the Telkom Board's Audit Committee, which concluded that the provision of such services by the independent accountants was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

The pre-approval policy provides for categorical pre-approval of permissible non-audit services and requires the specific pre-approval by the Audit Committee, prior to engagement, of such services, other than audit services covered by the annual engagement letter, that are individually estimated to result in an amount of fees less than 10% of the independent accountant's total audit engagement fee for individual services; provided that all such fees must be less than 50% of the total audit fees for Telkom's annual audit engagement.

In addition, services to be provided by the independent accountants that are not within the category of pre-approved services must be approved by the Audit Committee prior to engagement, regardless of the service being requested and the amount, but subject to the restrictions above. Requests or applications for services that require specific separate approval by the Audit Committee are required to be submitted to the Audit Committee by both management and the independent accountants, and must include a detailed description of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent accountants. The Audit Committee may delegate pre-approval authority to one or more of its members. The member, or members, to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate to management its responsibilities to pre-approve services to be performed by the independent accountants.

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 the Human Resources Review and Remuneration Committee for the approval of the Board for the appointment of new executives and non-executive directors and Chief Financial Officer and GCEO;
- 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 2012, the committee comprised three non-executive directors and four independent non-executive directors:

PL Zim (Chairman)
J Molobela
PCS Luthuli (Independent)
B du Plessis (Independent)
JN Hope
N Mnxasana (Independent)
NP Dongwana (Independent)

The Nominations Committee held two scheduled meetings and one special meeting during the financial year.

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
PL Zim (Chairman)	2	1	1	0
PCS Luthuli	2	2	1	1
B du Plessis	2	2	1	1
J Molobela	2	2	1	1
JN Hope	2	2	1	1
N Mnxasana	–	–	–	–
NP Dongwana	–	–	–	–

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

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 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
- make recommendations to the Board in respect of the selection of merchant banks and professional advisors.

The Investment and Transactions Committee, consists of four non-executive directors and two independent non-executive directors:

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

Mr I Kgaboesele, an independent non-executive director, was appointed Chairman of the Investment and Transactions Committee on 23 February 2012.

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	Atten-dance	Number of meetings	Atten-dance
I Kgaboesele (Chairman)	1	1	0	0
PCS Luthuli	2	2	2	2
RJ Huntley	2	2	2	2
JN Hope	2	2	2	2
Y Waja	2	2	2	2
N Kapila	2	2	2	2

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

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)

For full details on the terms of reference of the HRRRC see the remuneration report. The committee consists of non-executive directors and executive management as provided by the Group's MOI. As at 31 March 2012 the HRRRC comprises the following non-executive directors (of which one is independent) and an executive management member:

RJ Huntley (Chairman) (stepped down from 31 May 2012)
PL Zim
B du Plessis (Independent)
JN Hope
J Molobela
TE Msubo (Chief of Human Resources)

Ms NP Dongwana, an independent non-executive director, wa appointed chairman of the HRRRC as of 1 June 2012.

The HRRRC held four scheduled meetings and no special meetings during the financial year. A quorum for a meeting is 50% of members.

	Scheduled		Special	
	Number of meetings	Atten-dance	Number of meetings	Atten-dance
RJ Huntley (Chairman)	4	4	–	–
PL Zim	4	2	–	–
J Molobela	4	4	–	–
B du Plessis	4	4	–	–
JN Hope	4	2	–	–
TE Msubo (Chief of Human Resources)	4	4	–	–

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

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 and short-term incentive. 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.

Read more: for the remuneration report please see page 116

Social, Ethics and Sustainability Committee (SESC)

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

1) Social and economic development, including the Company's standing in terms of the goals and purposes of:

- the 10 principles set out in the United Nations Global Compact Principles (being those recorded in Appendix);
- the OECD recommendations regarding corruption;
- the Employment Equity Act; and
- the Broad-Based Black Economic Empowerment Act.

2) Good corporate citizenship, including the Company's:
   - promotion of equality, prevention of unfair discrimination, and reduction of corruption;
   - contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
   - record of sponsorship, donations and charitable giving.
3) the environment, health and public safety, including the impact of the Company's activities and of its products or services.
4) consumer relationships, including the Company's advertising, public relations and compliance with consumer protection laws.
5) labour and employment, including:
   - the Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
   - the Company's employment relationships, and its contribution toward the educational development of its employees;
   - drawing matters within its mandate to the attention of the Board as occasion requires; and
   - reporting, through one of its members, to the shareholders at the Company's Annual General Meeting on the matters within its mandate;
   - considering any other matters as requested by the Board,

The committee comprises the following non-executive directors:

JN Hope (Chairman)
RJ Huntley
Y Waja

The SESC held one scheduled meeting and no special meetings during the financial year. A quorum for a meeting is a majority of members.

	Scheduled		Special	
	Number of meetings	Atten-dance	Number of meetings	Atten-dance
JN Hope (Chairman)	1	1	–	–
RJ Huntley	1	1	–	–
Y Waja	1	1	–	–

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

As from the next financial year ending 31 March 2013, the SESC will report at the Company's Annual General Meeting on the matters within its mandate.

Ethics performance

The King III report requires the Board to ensure that the Company's ethics are managed effectively. This process starts internally through fostering a culture that encourages staff to act ethically.

In 2011, Telkom's Board of Directors approved a revised business code of ethics, as well as supplementary ethics-related policies. Subsequently the focus in the last year was on establishing an ethics function, and raising awareness around the business code of ethics. Telkom therefore appointed an ethics officer and established an ethics office responsible for the implementation of the Telkom ethics programme.

The following initiatives formed part of the roll-out of Telkom's ethics programme:

1) Extensive internal communication on the business code of ethics and the supplementary policies.
2) Training and awareness, which included the development of an on line training course that was subsequently launched.
3) The introduction of an ethics helpline where employees could obtain confidential advice on ethical dilemmas.
4) The compilation of an ethics risk and opportunity profile.

Ethics performance is reported to the Social and Ethics Committee that was established in terms of Section 72 of the new Companies Act no. 71 of 2008.

Independent Directors' Committee (IDC)

The Independent Directors' Committee comprises solely of independent non-executive directors. A quorum for a meeting is a majority of members.

The committee comprises the following independent non-executive directors:

PCS Luthuli (Chairman)
I Kgaboesele
B Du Plessis
NP Mnxasana
NP Dongwana

The Chairman of the committee will be the lead independent director and will be appointed by the Board annually. The Chairman of the Board shall not be eligible to be appointed as Chairman of the committee in the event that he/she is a non-executive director or executive director.

The committee will assist the Board in dealing with the management of any actual or perceived conflicts of interest that arise within the Board. Meetings of the committee will be held as and when necessary with the guidance of the lead independent director.

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 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.

APPLICATION OF KING III

Telkom strives to apply the recommendations of King III to the extent practical and fit for the business. Telkom recently completed its own assessment of the application of the King III recommendations. The table below represents areas where, based on our own assessment, the Company did not apply the recommendations of King III with explanation as well as relevant matters that were reported on last year that we believe requires contextualisation.

King III recommendations	Telkom's explanation
Ensure that collaborative efforts with stakeholders are embarked upon to promote ethical conduct and good corporate citizenship; and internal and external ethics performance is aligned around the same ethical standards.	Telkom is currently considering the implementation of projects and efforts that encompasses alignment of internal and external engagement to promote standardised ethical conduct and good corporate citizenship.
Background and reference checks should be performed before the nomination and appointment of directors.	Background and reference checks were historically not performed as certain rights vested in the class A and B shareholding. In future, background and reference checks will be performed prior to the nomination and appointment of directors.
An overview of the appraisal process, results and action plans should be disclosed in the integrated report.	The appraisal process has recently been completed by an independent service provider. Telkom is awaiting the final report from the service provider prior to considering the recommendations and action plans.
The nomination for the re-appointment of a director should only occur after the evaluation of the performance and attendance of the director.	The MOI requires that one third of directors must retire each year, who may be re-elected by shareholders, in line with schedule 10.16(g) of the JSE Listings Requirements.
The Board should receive an independent assurance on the effectiveness of the IT internal controls.	An annual performance assessment has been scheduled to be performed in the 2013 financial year with the assistance of the internal audit function.
Compliance should be a regular item on the agenda of the Board; and The Board should disclose details in the integrated report on how it discharged its responsibility to establish an effective compliance framework and processes.	Telkom has embarked on a governance, risk, ethics, compliance and sustainability (GRECS) alignment project. The compliance function, reports to the Audit and Risk Committee.
The induction and ongoing training programmes of directors should incorporate an overview of and any changes to applicable laws, rules, codes and standards; and Directors should sufficiently familiarise themselves with the general content of applicable laws, rules, codes and standards to discharge their legal duties.	The compliance officer together with the Company Secretary informs the Board of any changes to applicable laws, rules, codes and standards and in future will incorporate these in formalised induction and ongoing training programmes for directors.
The compliance officer should be a suitably skilled and experienced person who should have access and interact regularly on strategic compliance matters with the Board and/or appropriate Board committee and executive management.	This function, in line with the reporting of GRECS has been assigned to the Audit and Risk Committee.
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 and has now been appointed by the Board until the next Annual General Meeting. A lead independent director has been appointed in terms of the King III recommendations.
The Chairman should be appointed by the Board every year (after an assessment of his independence).	As indicated above the Chairman was previously appointed by the class A shareholder. He has now been appointed by the Board until the next Annual General Meeting.
A governance framework has not been agreed by the Group and its subsidiaries.	Telkom has embarked on a GRECS alignment project.

King III recommendations	Telkom's explanation
The Audit Committee does not comprise of only independent non-executive directors.	The alteration of the MOI will enable compliance in future. The rights attached to the class A and class B shares, including the rights to appoint directors expired on 5 March 2011. For a portion of the year not all members were independent. However, when the Board's capacity was increased to 14 members, the Audit Committee members were replaced and now reflect independent members.
Material deviations from the Company's risk limits that the Board is willing to take should be disclosed in the integrated report.	The risk appetite strategy and framework have been developed. The initial risk appetite and risk bearing capacity figures have been calculated. These are currently in the process of being benchmarked after which the will be presented to the Board for approval. A comprehensive dash board has been developed to enable the effective monitoring of these limits going forward.
The Company's reputation and its linkage with stakeholder relationships is not a regular Board agenda item.	Telkom is currently piloting the approach to measure the quality of relationships with its stakeholders. The approved measures will be used to guide discussions at Board level.

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

- Shareholder meetings are held where shareholders have an opportunity to provide input to Telkom.
- Investor relations interact with shareholders on an ongoing basis, and the feedback from these interactions are communicated to the Executive Committee and the Board.
- When both final and interim results are announced, the GCEO and top management go on local and international shareholder road shows to address shareholders and feedback from these road shows is filtered to the Board.
- Similarly road shows are normally arranged by the GCEO and top management to address employees.

GRI and King III

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 the 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 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;
- corporate compliance;
- corporate risk insurance;
- business continuity management;
- forensics; and
- 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; as approved by the Board of Directors;
- 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.

GOVERNANCE, ETHICS, RISK MANAGEMENT, COMPLIANCE AND SUSTAINABILITY (GRECS)

In order to advance the maturity and the effectiveness of the GRECS divisions we embarked on a convergence project with the aim of driving maximum value out of the GRECS function. This is a strategic approach to integrating risk management, controls, assurance structures and processes, and the intelligent use of IT and data management structures supported by a strong organisational culture – ultimately to deliver and improve performance and compliance and enable organisational resilience.

The goal of GRECS convergence is not an attempt to create a single, structure with one reporting line leading to the top. Rather, it is a common approach to eradicating duplicated effort, complexity, and cost, leading to improved performance in alignment with Telkom's vision and mission.

Telkom seeks to operate in compliance with all applicable Acts and regulations. Telkom, through its GRECS programme is maturing its risk management practices including its compliance function. The new Consumer Protection Act (CPA) which came into effect on 1 April 2011 and which regulates the way we interact with our customers and how we market our products is a high priority within our identified regulatory universe. The main requirements that affect Telkom relate to product labelling, pricing policies, product liability and product safety, returns policies, advertising, marketing, standard terms and conditions and promotional competitions. Likewise the Companies Act, 2008 which took effect from 1 May 2011 is also applicable to Telkom and is being managed through our various governance structures and functions.

ACHIEVEMENTS

- During the current financial year we continued to build on the effectiveness of the enterprise risk management programme. This included the integration of business continuity management into the risk management framework and the facilitation of business continuity risk through the risk management process.
- We commenced with the integration of compliance in order to utilise ERM as an effective channel to business in implementing the requirements of the compliance framework.
- We developed and commenced implementation of the risk appetite strategy and framework.
- We enhanced our risk reports to include detailed analysis and monitoring of key risk indicators, loss events and remediation tracking.
- We continued to support critical operational and management committees by providing management with 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, on a quarterly basis, for further action if required.

COMMITMENTS

One of the key objectives for the 2013 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. The focus areas for the coming year include the following:

- To ensure next generation network transformation results in sustainable outcomes and opportunities;
- To ensure Telkom Mobile results in sustainable outcomes and opportunities;
- Ensure alignment with Business unit strategies and risk;
- Implementation and monitoring of risk bearing capacity and tolerance levels; and
- Continued risk assessments across all business units, inclusive of monitoring and tracking key risk indicators, control effectiveness and action plans.

THE KING III CODE

King III was released to accommodate changes in laws, and was motivated by a desire to encourage improvement in Corporate Governance. 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 and recommended practices, the challenge for us is to make the principles real and practical through reference to these 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.

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 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.

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

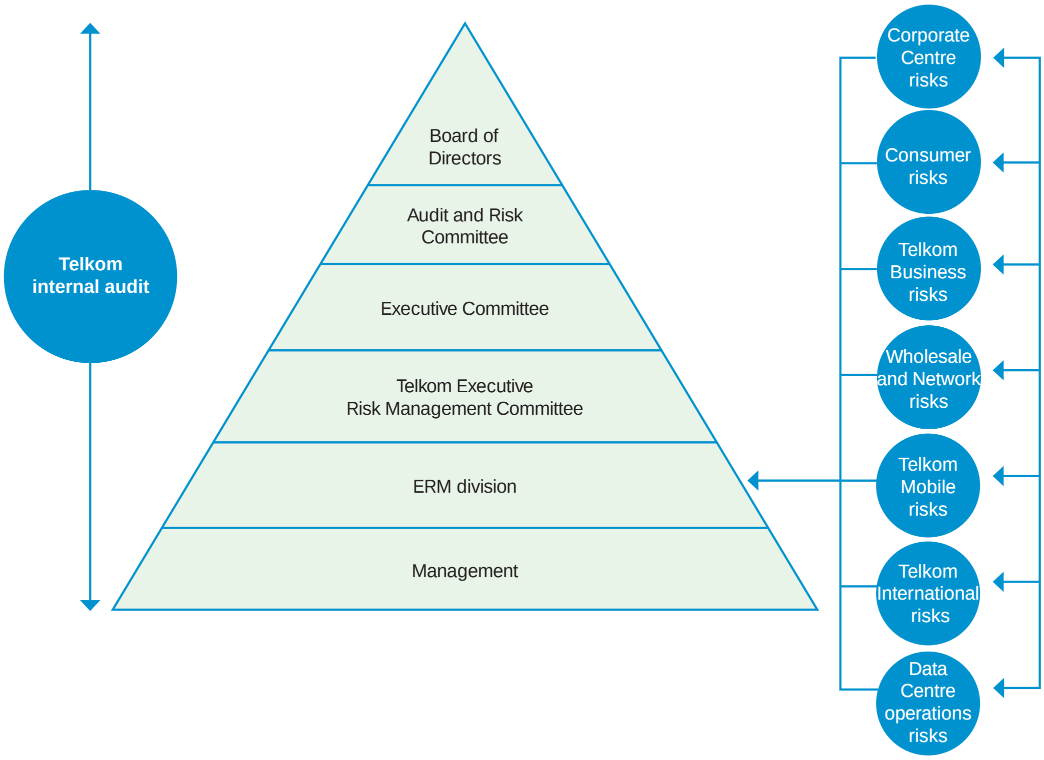
- The Board ensures continuous risk monitoring by management.

Risk disclosure

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

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.

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

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 finance 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 RISK FINANCE AND INSURANCE 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.

RISK FINANCE AND INSURANCE TASKS WITHIN TELKOM

The primary function of risk finance and insurance 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.
- 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.

IT GOVERNANCE

The Telkom Board accepts ultimate responsibility for IT governance. The CIO role in Telkom is performed by the Managing Director, Wholesale and Networks.

We have a comprehensive IT internal control framework which forms part of our IT governance framework.

IT is aligned to the company's performance and sustainability objectives through the activities of an IT Oversight Committee where the Managing Directors of the various Business Units as well as other senior corporate Executives are represented. This Committee oversees the IT activity in Telkom and reports on the status of the IT function to the Board. Such reporting is based on the dimensions of Risk, Strategy, Resource, Performance and Value, as per best practice of the IT Governance Institute. The Value dimension includes benefits tracking of significant IT investments.

Our IT function has always been subject to our enterprise risk management program. The management of our Information assets is a priority and a continuous improvement program of our Information Security Management System exists.

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 table represents the statistics for the reported incidents and investigated cases pertaining to Telkom.

Loss statistics	2010	2011	2012
Total incidents reported	5,096	4,564	**4,512**
Total cases investigated	4,360	3,348	**3,122**
Total cases resolved	3,746	3,517	**2,411**
Telkom investigations			
Asset theft	1,519	921	**1,072**
Burglary	75	65	**44**
Business code of ethics	413	337	**311**
Fraud	159	121	**164**
Line management requests	4	0	**0**
Other (case types to be identified)	8	0	**0**
Fraud risk review	0	3	**0**
Reputational risk (refund scam)	134	66	**17**
Robbery	49	14	**9**
Security breaches	11	4	**2**
Vehicle	7	19	**55**
Cable	1,246	1,264	**1,058**
Network	549	420	**285**
Solar panel theft	112	48	**52**
Payphones	82	66	**53**
Total Telkom investigations	4,368	3,348	**3,122**
Loss values (Rm)			
Commercial and financial losses	12.9	11.5	**5.5**
Cable theft losses	165.4	183.5	**247.6**
Network fraud losses	3.0	2.1	**1.6**
Total loss	181.3	197.1	**254.7**
Number of incidents			
Number of arrests	520	466	**502**
Number of convictions	81	132	**87**
Asset theft main losses (number of cases)			
IT equipment	961	726	**791**
Cellular phones	184	205	**339**
Other equipment	230	355	**347**
Business code of ethics main transgressions (number of cases)			
Conflict of interest	27	31	**28**
Providing confidential information	35	43	**24**
Private work	76	22	**24**
Reported incidents			
Incidents reported via 0800 124 000 (KPMG)	2,553	2,350	**2,233**
Incidents reported internally	2,543	2,214	**2,279**
Total incidents reported	5,096	4,564	**4,512**

Enterprise risk management *(continued)*

	2010	2011	**2012**
Cases referred to employee relations			
Cases pending by employee relations	119	35	**30**
Cases finalised by employee relations	115	166	**167**
Sanctions imposed*			
Verbal warning	19	16	**20**
Written warning	17	32	**25**
Final written warning	30	18	**24**
Suspension without pay	4	5	**6**
Demotion	1	1	**1**
Dismissal	27	31	**20**
24 hour resignation accepted	11	10	**19**
Not guilty	6	11	**10**
Not concluded	4	39	**30**
Withdrawn	0	3	**2**
Mutual separation agreement	0	0	**10**

*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.

BCM is an integrated management process that identifies the potential risks to Telkom and the consequences to business in case of occurrence. BCM provides a framework for building a resilient company that is capable to respond effectively, to protect the interests of our key stakeholders, our reputation, our brand and the organisational activities which create value to the Group.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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.

Risk	Context	Mitigating factors
Investment in mobile strategy	Telkom's ability to successfully implement the mobile strategy and compete against incumbent cellular operators places the mobile strategy at risk.	• Acquiring and securing new distribution channels (especially airtime). • Further expanding our network coverage and improving network quality. • Offering increased value to customers through appropriately designed product offerings (converged product offerings). • Increasing our competitive product offerings to the market. • Focusing on customer service and service delivery.
Poor perception of leadership's ability	Poor perception of Telkom's leadership's ability to execute on the strategic direction of the Company could negatively impact Telkom's share price and the ability to raise capital in the open market at an acceptable cost.	• Continued engagement with the investment community. • Actively driving the strategic direction of the Group. • Ensuring leadership stability.
Investment in our Next Generation Network	Continuing rapid changes in technology and increased competition requires that Telkom makes substantial investments in new technologies and equipment.	• Investing in a commercially led network which is aligned to the business strategy. • Continual re-assessment of the impact of legacy technologies.
Increased 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 Telkom's fixed-line business are ongoing risks for the business.	• Annual participation in landscape analysis of the Top 10 IT and Top 10 Telecom competitors. • Conducting 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. • Ongoing channel optimisation focus continues to align the value of the customer with the cost of the channel. • We report and monitor in terms of revenue per line measures.
Local loop unbundling	There is a high possibility that Telkom will be required to unbundle the local loop, or will be unable to negotiate favourable terms and conditions for the provision of interconnection services and facilities leasing services. ICASA may find that we have significant market power or otherwise may impose unfavourable terms and conditions on us.	• Active engagement with key role players through our specialist regulatory department. • Active participation in providing commentary and submissions. • Ongoing consideration of alternate strategies and courses of implementation that would/could better satisfy the current market and Government's intended aims.
Competition and litigation exposure	Telkom is party to a number of legal and arbitration proceedings, including complaints before the South African Competition Commission. Refer to page 195 for details.	• Ongoing engagement and co-operative participation with the Competition Commission. • We continue to embed a compliance culture within Telkom. • Company-wide assessment of alleged anti-competitive behaviour has been conducted. • Implementation of a formal governance framework and controls. • We continue to drive the ethics programme.

Risk	Context	Mitigating factors
Regulatory landscape	According to Telkom's interpretation of existing regulations, the adoption of new policies or regulations that are unfavourable to the Group is a risk going forward, as is the imposition of additional licence obligations and fees.	• Specialist regulatory department engages with the key role players. • Continual expansion of our skills set to respond to proposed regulations. • Active participation in providing commentary and submissions. • We continue to establish a structured stakeholder management programme with ICASA.
Global economic conditions	The effect of the global economic and financial conditions coupled with increased competition and regulatory pressures could impact the achievement of Telkom's financial targets.	• Capital and operational expenditure budgets remain tightly controlled. • We continue to drive cost and revenue initiatives to support the achievement of our financial targets.
Service delivery	High rates of copper theft, vandalism, network fraud, payphone fraud and lost revenue experienced.	• Continued maintenance of the fixed-line network. • Deployment of alternate technologies in high theft areas.
High cultural entropy	High cultural entropy levels could result in poor effectiveness and efficiency in achieving the desired strategic direction.	• Ongoing retention schemes to retain the critical skills within the business. • We continue to develop long- and short-term interventions to entrench our values. • Continued implementation of our culture revitalisation development plan.

Sustainability review

'Perhaps no other sector besides telecommunications is better positioned to facilitate the shift towards sustainable, less energy-intensive business practices.

The Group also seeks to operate as a responsible corporate citizen in respect of its environmental impact, while simultaneously ensuring the sustainable growth of the business.'

SUSTAINABILITY IN THE TELKOM VISION AND MISSION

Telkom endeavours to integrate sustainability across all of our business units and to firmly entrench this important issue into the organisation's values, strategies and policies.

Telkom, as a responsible corporate citizen of society, has legal and moral obligations in respect of the economic, social, governance-related and natural environments in which it operates. This, together with the broader developmental mandate set down by the South African Government (Telkom's largest direct and indirect shareholder), means that the Group intends to operate in a manner that builds capacity and connectivity for the well-being of the South African economy, and society as a whole.

The Group also seeks to operate as a responsible corporate citizen in respect of its environmental impact, while simultaneously ensuring the sustainable growth of the business.

Over the past year, Telkom's various business units were engaged in the development and finalisation of the Telkom Sustainability Strategy. The aim is to ensure a common understanding of sustainability considerations, as well as the meaningful integration of sustainability practises into the Group's diverse operations. The strategy, which is expected to be formally approved by the Telkom Board during the second half of 2012, seeks to ensure the integration of sustainability considerations into our business plans, decision-making processes and our operations. The strategy will align all Telkom policies with the principles of sustainability. This will be accomplished through the establishment of clear guidelines in monitoring and evaluating our performance, and the development of set targets. The strategy also seeks to ensure compliance with the sustainability requirements of King III (as well as any related governance legislation), the industry codes for Broad-Based Black Economic Empowerment (B-BBEE) and sustainability, as well as the Global Reporting Initiative (GRI) guidelines. The strategy will also aid us in co-ordinating our sustainability activities more effectively with our partners – in both the public and private sectors – as well as with civil society.

Although Telkom has, in the past, actively managed its environmental, safety and social issues, we have only just begun the formal journey towards fully integrating sustainability into the organisation. The empowerment and sustainability in corporate affairs division will lead the process of ensuring that the Telkom Sustainability Strategy is approved in the second half of the following year.

Arbor celebration at Bachana Mokwena Primary School in Ga-Rankuwa Zone 15.

The Telkom Green Initiative, a forum aimed at consolidating the Company's environmental and energy initiatives, which was launched in 2009, has been altered from its original embodiment to suit the decision to integrate the above activities under the empowerment and sustainability division. This will allow for a more holistic, integrated approach towards the achievement of a broader range of targets informed by an assured and formal baseline.

Following the creation and updating of existing procedures, we will ensure that all issues considered material to the survival of Telkom as an organisation are monitored, measured and reported 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. This year we have reported, for the second time, on the 2012 Carbon Disclosure Project (CDP).

As part of our governance process for sustainability, we endeavour to allocate sustainability risks a "risk owner" within Telkom who will take accountability for the improvement and management of each risk. There is consensus across the organisation that this is the best method to ensure that employees within each business unit are accountable for any sustainability issues affecting their operations.

Telkom subscribes to the GRI reporting guidelines and reports annually to the JSE SRI Index and CDP. Telkom produced its first C+ level GRI Sustainability Report in 2011, C+ has been maintained for 2012. The reporting process assisted Telkom to understand the material issues across the triple bottom line and further provides business impact relevance to all material sustainability issues. Our long-term aspiration is to incrementally ascend the application level of GRI in our reporting.

For a broader overview of the entire scope of this report, please refer to the inside front cover.

The stakeholder engagement section and material sustainability issues table can be found on pages 72 and 76 of this report.

TELKOM'S VALUE TO SOCIETY

We add significant direct and indirect value to the 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.

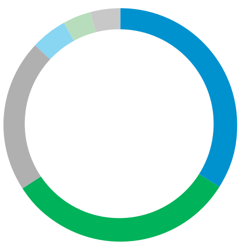
Group value added statement

	Notes	2011 Rm	2012 Rm
Value added			
Revenue		33,308	**33,079**
Net costs of services and other operating expenses*		(14,932)	**(17,583)**
Investment income		213	**238**
Other income		540	**579**
		19,129	**16,313**
Value distributed			
Distributed to employees as salaries, wages and other benefits		9,716	**8,636**
To Government as taxation and dividends	1	1,264	**1,089**
To shareholders (other than Government) as dividends		373	**–**
To providers of finance as finance expense		898	**765**
Value reinvested	2	5,062	**5,644**
Net earnings retained		1,696	**53**
Non-controlling interest		120	**126**
		19,129	**16,313**

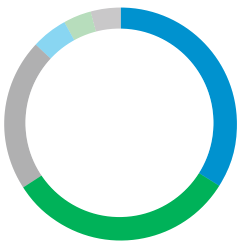
The amounts reflected above have been extracted from the consolidated annual financial statements for the year ended 31 March 2012. For a full appreciation of the financial results readers should refer to the consolidated annual financial results for the year ended 31 March 2012.

	2011	2012
** Included in the figure above are the following distributions:*		
Distributed to suppliers	*14,719*	***16,435***
Distributed to corporate social investment through Telkom Foundation	*43*	***41***
1. To Government as taxation and dividends	1,264	**1,089**
South African normal company taxation	722	**1,026**
STC	157	**70**
Foreign taxation	3	**(7)**
Dividends received	382	**–**
2. Value reinvested	5,062	**5,644**
Depreciation, amortisation, impairments and write-offs	4,965	**6,138**
Deferred taxation	97	**(494)**

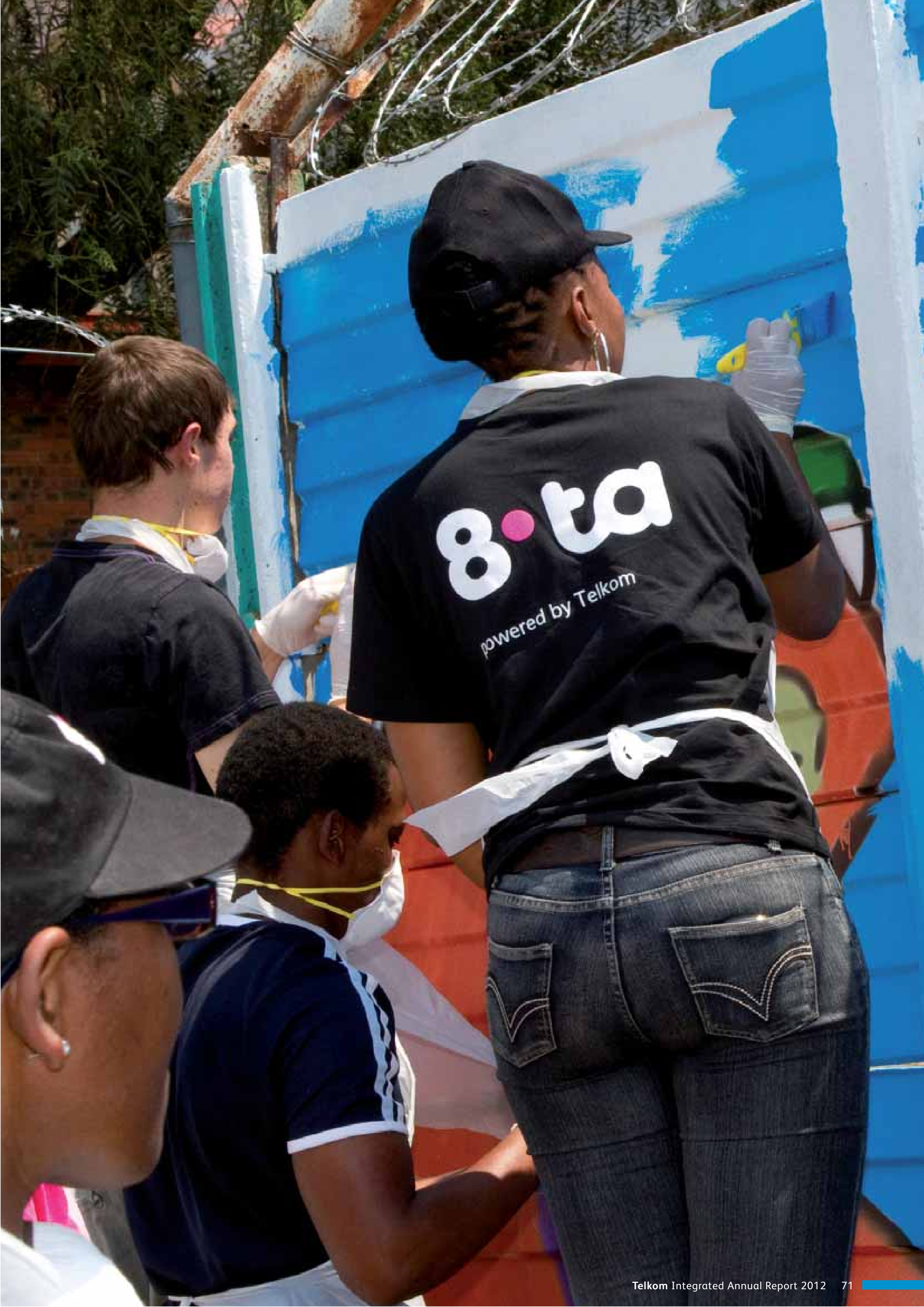
Value to society 2011



Value to society 2012



GRI and King III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STAKEHOLDER ENGAGEMENT

In order to successfully implement the Company's defend and grow strategy, Telkom understands the importance of engaging with its stakeholders. In line with King III recommendations, Telkom has identified key stakeholder groups who may impact or be impacted by the Company's endeavours to attain its strategic objectives. These stakeholder groups and their issues have been approved by Telkom's Board of Directors. For each stakeholder group, the Company has identified a stakeholder owner. Stakeholder owners are members of the Executive Committee. Telkom's Board of Directors has identified Government, customers, regulators and organised labour as paramount stakeholder groups for a successful implementation of the defend and grow strategy. The focus on these stakeholder groups was informed by their possible impact on Telkom's ability to attain the strategic objectives of the defend and grow strategy.

As a responsible corporate citizen who strives to uphold good governance at all times, Telkom has an inclusive approach to stakeholder engagement. By so doing the Company is able to engage its stakeholders on an equal basis. As part of the enterprise stakeholder management strategy, the Company is working on an approach to prioritise its stakeholders.

Telkom recognises that stakeholder engagement represents a core component of corporate accountability. Not only does stakeholder engagement assist in opening up new insights into the expectations of society, investors, Government, our employees and our suppliers, but through such a process we also gain a clearer understanding of important public discourse themes and the role that we as Telkom can play in addressing them. Our stakeholder management and Government relations section in partnership with the business champion that owns each stakeholder group guides the engagement process with identified stakeholder groups to ensure that they know about our developments and that we, in return, understand and make use of their feedback.

To guide this process Telkom has developed a stakeholder management policy that affirms the importance of engaging with a diverse range of stakeholders as a critical means of achieving long-term business objectives. The objectives of this policy, which is implemented through our enterprise stakeholder management strategy, are to build trust, mutual respect transparency as well as to ensure that stakeholders enable rather than obstruct the achievement of enterprise objectives. Establishing constructive relations requires a long term view, and Telkom understands that mutually beneficial relations are often built on constant communication between stakeholders and the organisation. As a company listed on the JSE, Telkom is fully aware that this report will be in the public domain. The report is intended to be of interest to all current stakeholders, potential stakeholders and the general public.

Telkom stakeholder ownership and engagement occurs at different levels within the organisation due to the size of the Company, the nature of its business and its national footprint. Threats and opportunities that are at Telkom's disposal provide a yardstick with which the Company determines the materiality of an issue. From the defend and grow strategy perspective, issues that can have a significant bearing on Telkom's sustainability are deemed as material.

Swimming contributes towards the Company's objectives of being a caring organisation, as the sport offers opportunities, for both able and disabled people.

GRI and King III

The most material stakeholder groups and the significant issues raised by them, as well as Telkom's responses are set out in the table below:

Stakeholder group	How did we engage?	Material issues raised	Telkom's response
Customers	• Customer sales forum; • Account management; • Customer newsletters; • Telkom's website; • Call centres; • Walk-in centres; • One on one contact; and • Advertising.	• Telkom's reputation: difference between business clients and residential clients; Residential perceptions of Telkom performance declining (complaints about network reliability and services); • Fulfilment and assurance (copper theft and its impact of quality service to its customers); • Service interruptions in some customer segments i.e. consumer; and • Cost of communication for fixed-line customers.	• Expansion of Next Generation Network: improving services: creating better value for money through investment in new technology; and • Telkom is exploring new means of customer communication concerning service disruptions and alternative technologies to limit disruptions from copper cable theft.
Suppliers	• One on one contact; • Supplier engagement forums – held in previous years; • Monthly/quarterly supplier performance management reviews; • Continuous non-performance/contractual issues to prevent litigation; and • Debriefing sessions with unsuccessful bidders on tenders.	• Correct and timely payments; • B-BBEE compliance for suppliers; • Procurement governance processes; and • Contractual lead times.	• Instituting faster payment to assist exempt micro enterprise/qualifying small enterprise suppliers; • Supplier training to comply with safety, health and environmental/quality requirements; • Penalties levied against suppliers for late deliveries.
Investors	• One-on-one investor and analyst meetings; • Roundtable discussions; • Bilateral meetings with Government departments and regulatory institutions; • Roadshows; • AGM; • SENS announcements; • Results presentations; • Integrated annual report; • Sustainability report; and • Investor conferences.	• Implications of potential equity sale; • The dual mandate of Government as both shareholder and policymaker inhibits the Department of Communications from performing fiduciary responsibilities; • Decline in investor confidence due to unsatisfactory financial and operational performance; • Clarity on strategy execution in a very competitive and dynamic market; • Poor business decisions, such as acquisitions which have destroyed shareholder value; • Regulatory issues facing Telkom; • Pending competition sanctions against Telkom; • Return on capital expenditure on NGN and Mobile; and • Concerns on Mobile business case.	• Telkom's strategy is commercially led; • Key strategic focus on growth in data demand and fixed-mobile convergence; • Leveraging off superior fixed-line network to provide converged services; • Strong relationships with corporate customers supported by service excellence; • Building on our relationship with key stakeholders; • Good quality and stable management team; and • Skilled and experienced Board of Directors.

<table>
<tr><th>Stakeholder group</th><th>How did we engage?</th><th>Material issues raised</th><th>Telkom's response</th></tr>
<tr><td>Authorities</td><td>Lobbying;
Bilaterals;
Workshops;
Roundtables;
Submissions to Parliament, task teams and policymaking bodies and;
Participation in public policy-making seminars and conferences.</td><td>1. Government has multiple, potentially conflicted roles:
policy maker: enabler for competitive telecommunications sector in South Africa;
shareholder: income from dividends;
competitor: Government owns Infraco and State IT Agency; and
regulator: issues of compliance, Competition Commission scrutiny, legacy problems in terms of pricing.
2. Potentially conflicted situation between Department of Communication, Department of Public Services and Administration and ICASA.
3. Partnership with Government for Africa expansion strategy.</td><td>The stakeholder management and Government relations section guides engagement with various parts of Government at different levels.</td></tr>
<tr><td>Governors (Board and top management)</td><td>Regular Board meetings with clear a strategic agenda;
Board committee meetings;
Strategic sessions;
Briefing sessions on key legislations such as King III, Companies Act etc; and
Induction of new Board members.</td><td>Board
Board effectiveness assessment report will highlight all material issues related to the Board, if any.
Top management
Leadership development and support;
Issues of trust between Board and management; and
Perceived lack of governance.</td><td>Telkom has a compulsory induction programme specifically for new Board members;
The Company has a set of values, which all Telkom stakeholders – including the Board and top management – are expected to adopt;
Telkom has a governance framework, which is based on the King III Code of Good Governance; and
The Board effectiveness process recommends actions required to improve the effectiveness of the Board.</td></tr>
<tr><td>Employees</td><td>Intranet;
Performance management/ one-on-one discussions;
Staff meetings;
CEO road shows;
Electronic newsletter, T-News;
Online/Telkom Touch Magazine;
DMS/Skytrain;
Business planning/team building sessions;
Culture values assessment; and
Employee engagement survey.</td><td>Aging workforce;
Job insecurities;
Job creation;
Career development and planning; succession planning;
Level of skills to service customers/deliver on business plan imperatives;
Delayering;
Lack of trust/confidence in management;
Management lack of transparency/consistency; and
Business decline.</td><td>Performance reviews for all employees;
Targeted training for relevant staff;
Employee assistance programme;
Leadership assessment;
Leadership development interventions;
Revitalise succession/ retention planning;
Monitor values and employee engagement;
Focus groups to deep dive in key issues and develop appropriate intervention plans.</td></tr>
</table>

Stakeholder group	How did we engage?	Material issues raised	Telkom's response
Organised labour	• The restructuring forum, as a purely consultative body where the Company shares information with labour leaders; • The Company Forum, as the only decision-making structure on issues that require negotiations; • The National Employment Equity and Skills Development Forum; and • Structured meetings with COSATU, NEDLAC DoL, DoC.	• Conflict between economic and social agenda; • Lack of trust by organised labour; • Perceived inequalities and discrepancies on remuneration, rewards and general treatment of workers along racial lines; • Matters relating to transformation, diversity, AA and skills development; • Telkom's role in the transformation of society through universal services and access to telecommunications; and • COSATU wants Telkom to be a 100% state-owned entity.	• Task teams, which consist of both management and organised labour representatives and which deal with specific issues: mandated by the Company Forum.
Media	• Media briefing sessions; • Media conferences; • Media releases; • Reactive comment; • Strategic proactive placement; • Media interviews; and • Networking.	• Telkom lacks a presence on social media (Facebook, Twitter, etc.)	• Telkom continually explores mechanisms to engage media on the nature of its business. Information sessions, tours and networking sessions have been most successful in explaining the products, services and strategic direction of the Company to media; and • A policy is under development that will guide Telkom's strategic participation on social media platforms.
Competitors	• Lobbying on mutually beneficial regulatory and policy engagements.	• Competitors perceive Telkom as anti-competitive and monopolistic; • Competitors want Telkom to open up its 'last mile infrastructure' to competition; and • Telkom's product and services prices are seen as exorbitant.	• Telkom is a member in forums where ICT-related issues are discussed (e.g. South African Communications Forum); and • The Company is implementing a programme focused on replacing the legacy infrastructure with a view of providing both high quality of service and value for money on products and services.
Opinion makers	• Roundtable discussions; • Roadshows; • Analyst day; • Annual results; • Integrated annual report; • Sustainability report; • Conferences and seminars; and • Participation in public forums.	• Perceived poor Corporate Governance; and • Poor financial performance.	• Investment in additional capacity and training for public communications.
Civil society	• Face-to-face dialogues; • Partnership programmes; • Funding/sponsoring local events; • Seminars and conferences; and • Telkom Foundation projects.	• No formal structured relationship with broader members of civil society or NGOs in general and therefore no formal engagement unless it is through targeted projects with the Telkom Foundation; • Greenhouse gas emissions/ environment; and • Radiofrequency waves.	• Expansion of Telkom Foundation capacity; • Responding to information needs of non-governmental organisations e.g. CDP submission; and • Participation within South African Telecommunication Association regarding non-ionising radiation issues.

The Government of the Republic of South Africa is the largest shareholder and through its various institutions, remains Telkom's most complex stakeholder. To guide this area of stakeholder engagement Telkom has created the Department of Stakeholder Relations to ensure that support in the long-term relationship remains constructive and mutually beneficial. Engagement between Telkom and the Government's various role players take place in five key levels:

Policymaker: The Department of Communications (DoC) is a Telkom shareholder representative for Government and at the same time, the department is guiding ICT policy formulation and implementation. As a Company that had monopoly in fixed-line services previously, Government expects of Telkom to play a lead role in supporting its policy initiatives to ensure a competitive landscape and open up opportunities for other players to participate in this market. The department has thus been active in driving legislative changes in this regard and Telkom is seen as an enabler to making Government's requirements a reality.

Regulator: The DoC's primary role is to develop policy for the industry whilst ICASA regulates the sector. Policies and regulations on unbundling of the local loop, broadband, interconnection, and pricing have been introduced as interventions for promoting competition and the delivery of the Government's social agenda. It is therefore critical that in business planning and engagement, Telkom is fully aware of these and their impact on the business. To date, the DoC as well as associated regulatory agencies have introduced a series of regulations to facilitate competition and allow for new entrants into the market. The Competition Commission has also been very decisive about its intolerance for companies that practise anti competitive behaviour to the detriment of others. A series of complaints have been lodged against Telkom, and the outcome could have a material impact on Telkom.

Read more: for more detail please see page 20

Customer: As the largest single employer in the country, national, provincial and local Government also constitutes a key customer base for Telkom and a material source of revenue. Maintaining customer satisfaction and service levels requires constant engagement.

Competitor: Through its ownership of InfraCo and the State IT Agency, direct competitors to key Telkom business segments, Government is in a potentially conflicted situation with respect to its position as largest shareholder in Telkom.

Shareholder: Government owns a 39.8% stake of Telkom making it the majority shareholder. Telkom as a listed company is now governed in terms of JSE Regulations and therefore Government has to be cognisance that Telkom should balance both the social and financial mandate of its shareholders.

The way forward

Due to the complex and critical requirements of Government, the Department of Stakeholder Relations continues to evolve within Telkom, building new internal relationships and in particular developing the more specialised resources to ensure that stakeholder feedback loops are closed and, where material integrated into the Telkom enterprise risk management system. We are satisfied that Telkom, has, based upon supplier feedback, achieved significant improvements in the business relationships with its suppliers, and in particular the smaller players in this field.

At the same time we recognise that perception of our performance among key customer segments, such as residential, continues to decline and that this represents a material challenge to our brand and business model.

Going forward the department will continue to explore and identify opportunities for improvement in its interactions and responses to all stakeholder groups in order to protect and enhance the Telkom brand over the long term and improve or sustain relationship with stakeholders.

Affiliations

Telkom is a member of, and actively participates in, a range of professional and industry organisations that engage with Government and other key role players on matters of economic policy and transformation, enabling Telkom to play a meaningful strategic role in South Africa: key among them are:

- the World Economic Forum (WEF);
- the Black Management Forum (BMF);
- Business Unity South Africa (BUSA);
- the National Business Initiative (NBI); and
- South African Chamber of Commerce and Industry.

Telkom also seeks to contribute to policy development, project-co-ordination and capacity-building initiatives in the science and engineering, technology and innovation sector through its membership in:

- the National Science and Technology Forum (NSTF);
- the International Telecommunications Union (ITU);
- the African Telecommunication Union (as an associate);
- the South African Communications Forum (SACF);
- the Southern African Telecommunications Association (SATA);
- the Commonwealth Telecommunications Organisation;
- the TeleManagement Forum (TM Forum); and
- the Engineering Council of South Africa.

The objective of these bodies is to promote the interests of their members, foster collaborative partnerships in ICT research and development, and to work towards consensus on a wide range of technical and policy issues affecting the future direction of the ICT industry. Telkom as a company, as well as certain of its business units and senior officials, is a member of a range of professional organisations in the professional, accounting, Corporate Social Investments (CSI), personnel management and procurement fields.

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 on page 72);
- Assessment of our risks and risk factors (refer material issues affecting Telkom on page 66); and
- Assessment of legislative, social and environmental requirements.

GRI's principles on materiality, stakeholder inclusiveness, sustainability context and completeness were applied to the issues determined above to identify issues that reflect the organisation's significant economic, environmental and social aspects, or that would substantively influence the assessments and decisions of stakeholders and the prioritisation of these issues that are sufficiently important to be reported on as material sustainability issues. Materiality focus for sustainability information is broader than the traditional measures of financial materiality and a great deal of judgement is required.

Emphasis of reporting should reflect relative priority of material issues and for this reason Telkom have categorised sustainability material issues into focus areas providing a contextual backdrop on which performance can be reported back to the organisation as well as Telkom's diverse stakeholders. There are seven sustainability focus areas in this year's integrated report, namely:

1 Human capital/our people
2 Occupational health and safety
3 Empowerment
4 Procurement
5 The Telkom Foundation
6 Environmental management (including climate change and energy)
7 Product responsibility

The material sustainability issues identified together with the related performance indicators (GRI and non-GRI) have been summarised in the table on pages 78 and 79. Where only narrative or partial disclosure for a GRI indicator has been given this has been indicated with an asterisk next to the indicator. In 2011 limited assurance was obtained over the carbon footprint data submitted as part of Telkom's Carbon Disclosure Project (CDP) submission. This year we obtained reasonable assurance (at the levels of moderate for scope 1, high for scope 2 and high for scope 3 in a statement of verification by independent assurance providers CA-Governance and submitted this to the CDP.

In addition we submitted five of our 2012 Global Reporting Initiative G3 key performance indicators to CA-Governance for independent assurance. The result was assurance levels that ranged from starter (SA), through to high (HA) and extremely high (EHA). HA SA EHA

For greater understanding of the verification and assurance processes as well as the conclusions reached, the two statements are available on Telkom's website.

WEB: www.telkom.co.za/ir

Sustainability focus area	Material sustainability issues	Context	Key performance metric description
1. Human capital/our people (page 80)	Corporate culture building initiatives and group values. Skills development programmes that keep pace with technological evolution including job creation. Managing trends in workforce including ageing and transformation.	Engagement with employees, employee retention and effectiveness, loyalty and wellness.	LA1 – Total workforce by employment type, employment contract, and region. LA2 – Total number and rate of employee turnover by age group, gender, and region. LA4 – Percentage of employees covered by collective bargaining agreements. LA10 – Average hours of training per year per employee in each employee category. LA11 – Programmes for skills management and lifelong learning. LA12 – Percentage of employees receiving regular performance and career development reviews. LA13 – Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.
2. Occupational health and safety (page 88)	Proactive programmes to manage health issues including HIV and AIDS. Safety programmes and training. Non-ionising electromagnetic fields. Analysis of absenteeism trends and management of emerging issues.	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.	LA7 – Rates of injury, occupational diseases, lost days and absenteeism and number of work related fatalities. LA8 – Programmes in place to assist workforce members, their families, or community members regarding serious diseases. Non-ionising electromagnetic fields (Non-GRI indicator). Number of employees tested for HIV and HIV tested prevalence (Non-GRI indicator).
3. Empowerment (page 95)	Comprehensive transformation programmes. Changes in legislative environment. Imperatives to conclude another B-BBEE ownership deal.	Managing diversity, employment equity, skills and enterprise development and procurement.	B-BBEE scorecard measures (Non-GRI indicator). EC6 – Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.*
4. Procurement (page 96)	Procurement screening process including transformation, safety and environmental management criteria.	Managing the relationship with and dependence on suppliers to ensure continuity, cost and quality of supply.	EC6 – Policy, practices, and proportion of spending locally-based suppliers at significant locations of operations.* Tender process (Non-GRI indicator).

Sustainability focus area	Material sustainability issues	Context	Key performance metric description
5. The Telkom Foundation (page 97)	Telkom Foundation initiatives. Civil society engagement.	Improve society's access to telecommunications and bridging the digital divide.	EC8 – Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. Telkom Foundation spend on projects and by focus area (Non-GRI).
6. Environmental management (page 100)	Carbon footprint associated with energy costs and business continuity considerations. Telkom's geographic footprint.	Investment in more efficient infrastructural technology with lower energy and material requirements with medium to long-term benefits. Management of fuel and electricity consumption efficiency. Security of electricity supply. Biodiversity management. Waste management and recycling.	EC2 – Financial implications and other risk opportunities for the organisation's activities due to climate change.* EN3 – Direct energy consumption by primary energy source. SA EN4 – Indirect energy consumption by primary source. HA EN7 – Initiatives to reduce indirect energy consumption and reductions achieved.* EN16 – Total direct and indirect greenhouse gas emissions by weight. HA EN17 – Other relevant indirect greenhouse gas emissions by weight. EHA EN18 – Initiatives to reduce greenhouse gas emissions and reductions achieved.* EN8 – Total water withdrawal by source. EN14 – Strategies, current actions, and future plans for managing impacts on biodiversity. EN22 – Total weight of waste by type and disposal method.* EN28 – Monetary value of significant fines and sanctions for non-compliance with environmental laws and regulations.
7. Product responsibility (page 104)	Product responsibility management. Adequate customer engagement to identify and respond to evolving issues and needs. Non-ionising electromagnetic fields.	Customer satisfaction.	PR4 – Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.* PR5 – Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. PR8 – Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.* PR9 – Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.*

** Where only narrative or partial disclosure for GRI indicator has been given this has been indicated with an asterisk next to the indicator'*

HUMAN CAPITAL/OUR PEOPLE

Although the telecommunications sector is heavily regulated, it is an intensely competitive market where technological innovations and regulatory changes continuously lower the barrier to entry. As a result our ability to motivate, train and develop our diverse workforce is a critical factor for our ability to remain a player of significance in this sector.

To ensure that this happens Telkom's human capital strategy focuses on managing our current employee profile to respond to the challenges facing us. This is done through interventions that focus on talent management to ensure that we have sufficient human capacity and capability to execute current and future business strategies.

In addition we invest heavily in retraining, as well as deepening of a common corporate culture that embraces change and empowers all members of staff to work within a value-driven culture. To support these challenges there are extensive employee wellness programs in place which are described in greater detail under occupational health and safety.

Read more: for further information please see page 88

Strategic workforce planning

A strategic workforce and cost planning (SWCP) methodology was rolled out during the review period. It is an integrated and systematic approach that, using the Company strategy as a point of departure, identifies the gaps between our current workforce and future needs. The result from this planning process serves as input for human resources and line management to identify, implement and manage solutions to address critical workforce gaps.

The strategic workforce and cost plan is reviewed annually in line with the Company strategy. The process is displayed in the following diagram:

Succession planning

We re-evaluated and redesigned the scope and parameters of our succession planning process, which now consists of two segments – leadership pipeline and critical skills pipeline.

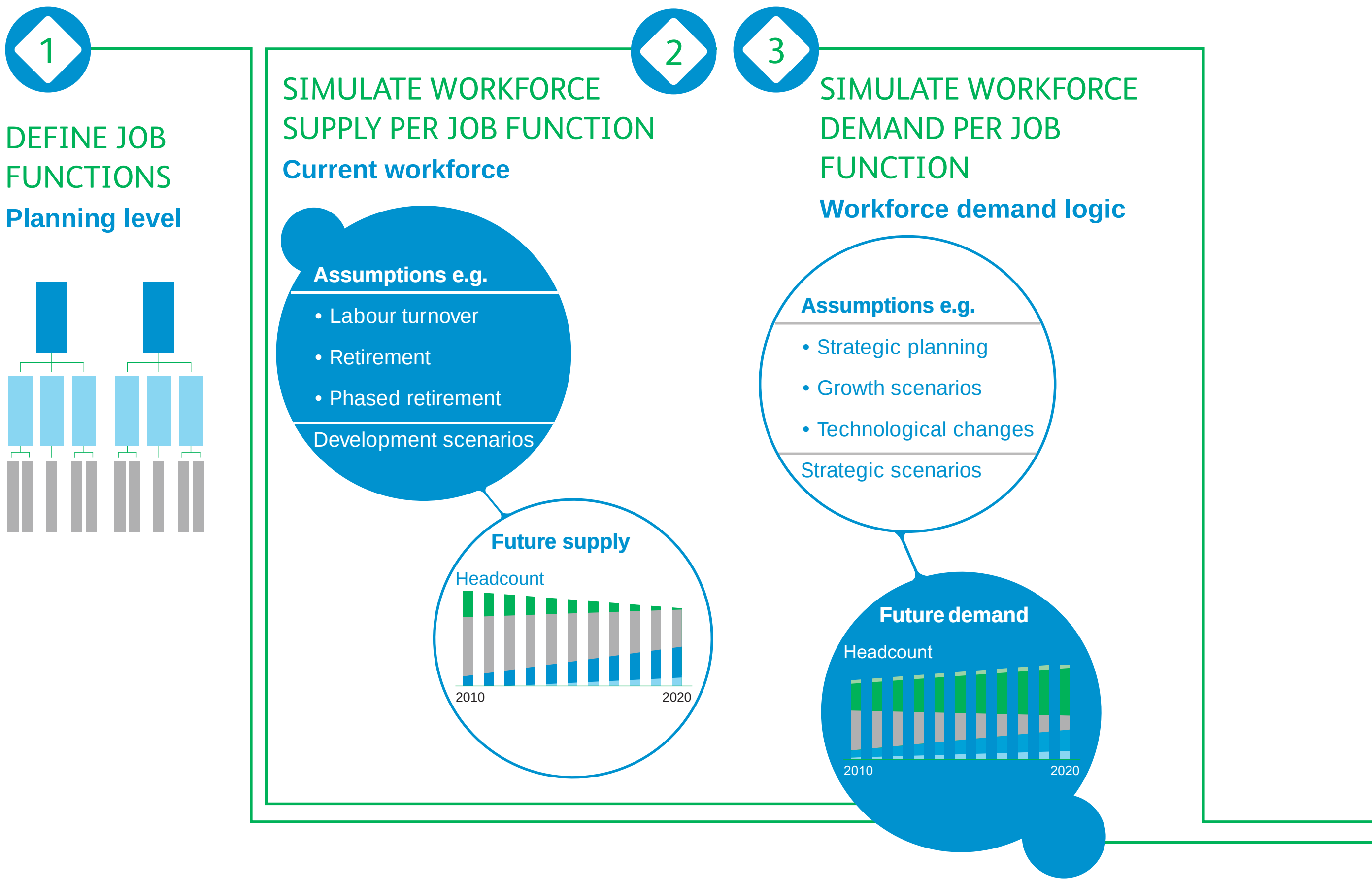
Overall, the aim of the succession planning process is to:

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

Culture and employee engagement

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

Employees identified five behaviours associated with each core value and to entrench the new values and associated behaviours, these interventions were put in place through the use of an online awareness tool, workshops and discussion sessions, and culture fit assessments.



During the year under review, top leadership was also tasked with facilitating personal transformation:

- Individual values assessment was conducted and feedback given with the aim of aligning personal values with the Group values.
- Individual 360 degrees leadership values assessments and feedback was conducted.
- Personal commitment plans were facilitated where personal areas of concern were addressed.
- Team cohesion workshops were held.

During the course of 2011, 48% of our employees participated in a Group-wide culture values assessment to determine our current and desired culture along with the identification of non-productive or limiting aspects of the current culture (entropy). There was a slight decrease in the entropy of the current culture from 29% to 30% but this is still far away from the 10% level which is regarded as 'healthy' and necessary for a common corporate culture.

The finding of our study conducted during 2012 on employee engagement in the common corporate culture, compared to other South African companies and global ICT companies is shown below.

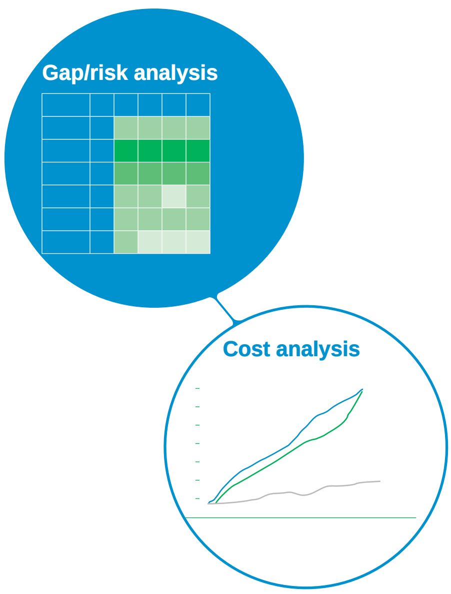
	Telkom %	**SA benchmark %**	**Global industry benchmark %**
Disaffected	27	27	17
Agnostics	60	60	52
True believers	13	13	31

Based on the results and the entropy percentile per level and business unit, we put processes in place to address the required actions to help us decrease entropy, increase engagement levels and resolve potentially limiting values. This process will continue in the next financial year and will include:

- presenting Cultural Values Assessment (CVA) engagement results;
- obtaining buy-in from managing executives to commit to the CVA/engagement plan;
- conducting focus groups and entropy workshops; and
- continuing with the team cohesion workshops.

4

IDENTIFY GAPS AND COSTS



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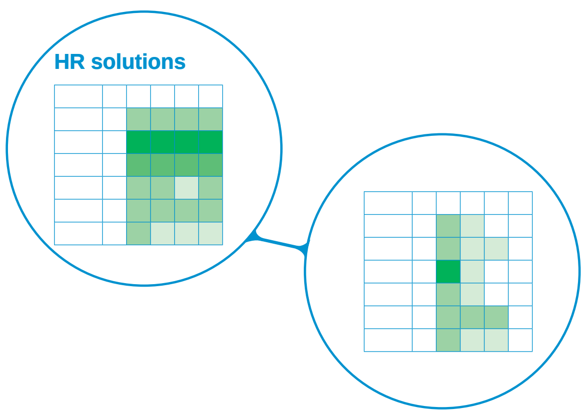
DEVELOP HR MEASURES



Our workforce (demographics)

Over the past few years our total workforce was gradually managed down as a result of efficiencies, technological changes and market share loss. Our permanent headcount has over the past five years declined from 24,879 in 2008 to 20,939 as at 31 March 2012. Of this, 65.7% work in operational and support roles, while management accounts for 12.2% of permanent headcount and first line supervisory roles account for 22.2%.

The reduction in staff over the past years was achieved by limiting recruitment to less than the low natural attrition rate and the offering of voluntary severance packages. No forced retrenchments were undertaken.

During the period under review a voluntary severance offer was made to bargaining unit employees between April and May 2011 and as a result, a total of 1,873 bargaining unit employees left the Company. The cost of this voluntary severance and early retirement package was R739 million for the year ended 31 March 2011.

The age of an average employee has gradually risen to 42 (female 40, 44 male) with the average length of service being 18 years (female 14, male 19). We therefore have an experienced, mature workforce with a proven track record.

Staff trends in Telkom SA

	2008	2009	2010	2011	**2012**
Opening balance	25,864	24,879	23,520	23,247	**22,884**
Employee gains	918	1,047	592	439	**435**
Appointments	891	1,034	584	428	**428**
Re-instatement	27	13	8	11	**7**
Employee losses	1,903	2,406	865	802	**2,380**
Employee retrenchments (employee initiated)	4	10	1	191	**1,873**
Voluntary early retirement	2	5	1	110	**1,013**
Voluntary severance	2	5	0	81	**860**
Involuntary reductions	0	0	0	0	**0**
Natural attrition	1,899	2,396	863	611	**507**
Closing balance	24,879	23,520	23,247	22,884	**20, 939**
Other employees*	3,801	4,307	3,557	2,550	**3,028**
Total headcount	28,680	27,827	26,804	25,434	**23,967**

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

GRI and King III

Employee trends in subsidiaries

Description	Trudon	Swiftnet
Opening balance	**506**	**110**
Employee gains	**88**	**15**
Appointments	88	15
Re-instatement	0	0
Employee losses	**90**	**20**
Employee retrenchments (employee initiated)	0	0
Voluntary early retirement	0	0
Voluntary severance	9	0
Involuntary reductions	0	0
Natural attrition	81	20
Closing balance	**504**	**105**
Other employees*	27	45
Total headcount	**531**	**150**

Currently we operate six business units and a corporate support centre, with approximately half of our total staff being based in Gauteng.

Employees by business unit for Telkom SA

Business unit	Permanent employee
Corporate Centre	1,791
Networks and Wholesale	14,265
Telkom Business	821
Consumer Services and Retail	3,144
Telkom Mobile	355
Telkom Data Centre Operation	538
Telkom International	25
Total	**20,939**

Distribution of employees in South Africa

Political region	Number of Telkom employees	Number of Trudon employees	Number of Swiftnet employees
Eastern Cape	1,314	26	2
Free State	761	13	0
Gauteng	11,239	331	98
KwaZulu-Natal	2,490	53	3
Limpopo	443	0	0
Mpumalanga	514	0	0
North West	429	0	0
Northern Cape	255	0	0
Western Cape	3,494	81	2
Grand total	**20,939**	**504**	**105**

Distribution of employees age group

Age group	Number of Telkom employees	Number of Trudon employees	Number of Swiftnet employees
20 – 30	1,572	104	37
30 – 40	6,228	187	48
40 – 50	8,452	136	17
50 – 60	4,458	67	3
60 – 70	229	10	–
Grand total	**20,939**	**504**	**105**

The map indicates the distribution of our employees located in each of the nine provinces.

GRI and King III

Our natural attrition rate decreased from 2.7% in 2011 to 2.3% in 2012 (2010: 3.7%), of which resignations dropped from 1.7% in 2011 to 1.6% in 2012. (2010: 2.5%). Our natural attrition rate, coupled with a reduced need for employees (except targeted growth areas such as Mobile, Telkom Business and Data Centre Operations, which resulted in recruitment rates of 2.0% for the 2012 year (2011: 1.9%).

This low attrition rate and limited recruitment needs will continue to constrain our ability to significantly transform the demographic profile of our workforce. As indicated in the table below, black representation is 64% (2011: 63%) while female representation is 30% of the permanent workforce (2011: 29%).

Telkom SA current status

Grades	Black Male	Black Female	White Male	White Female	Foreign nationals Male	Foreign nationals Female	Grand total	Black Total	Female Total
Top management	4	2	2	0	0	0	8	6	2
	50%	25%	25%	0%	0%	0%		75%	25%
Senior management	48	27	58	9	0	0	142	75	36
	34%	19%	41%	6%	0%	0%		53%	25%
Middle management	806	309	976	283	18	5	2,397	1,115	597
	34%	13%	41%	12%	1%	0%		47%	25%
Junior management	8,053	3,436	4,309	1,518	25	2	17,343	11,489	4,956
	46%	20%	25%	9%	0%	0%		66%	29%
Operational	304	360	80	267	0	1	1,012	664	628
	30%	36%	8%	26%	0%	0%		66%	62%
Support	18	16	1	1	1	0	37	34	17
	49%	43%	3%	3%	3%	0%		92%	46%
Total	**9,233**	**4,150**	**5,426**	**2,078**	**44**	**8**	**20,939**	**13,383**	**6,236**
	44%	**20%**	**26%**	**10%**	**0%**	**0%**		**64%**	**30%**

Within these constraints we did manage to positively influence the demographics of the workforce with the limited movements that took place, as is evident from the following table.

GRI and King III

Employee gains and losses (Telkom SA)

EE Group	Losses 2011	Appointments 2011	Internal promotions 2011	**Losses 2012**	**Appointments 2012**	**Internal promotions 2012**
Black	54.7%	77.6%	77.5%	**57.9%**	**82.7%**	**77.8%**
Female	24.2%	37.6%	38.7%	**25.6%**	**50%**	**47.3%**

Employee gains and losses (Trudon)*

EE Group	Losses 2012	Appointments 2012	Internal promotions 2012
Black	**70.1%**	**67.3%**	**100.0%**
Female	**55.7%**	**54.8%**	**57.1%**

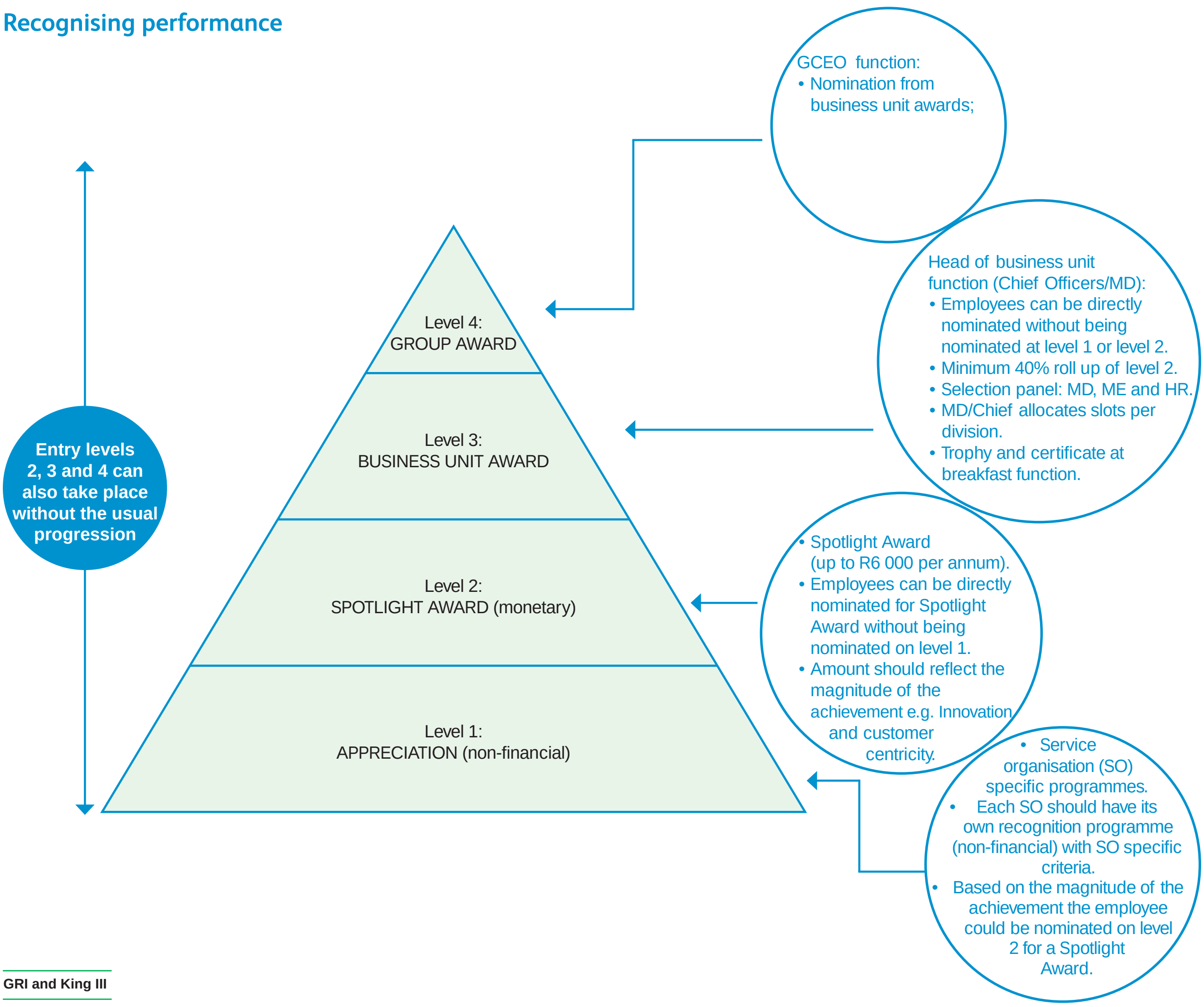
* *Information is only available for 2012 as this is the first year that the subsidiary is being included in the Telkom Group reporting*

Employee gains and losses (Swiftnet)*

EE Group	Losses 2012	Appointments 2012	Internal promotions 2012
Black	**14.1%**	**7.8%**	**3.1%**
Female	**19.2%**	**–**	**–**

* *Information is only available for 2012 as this is the first year that the subsidiary is being included in the Telkom Group reporting*

Recognising performance



GRI and King III

All employees undergo regular performance assessments, a process that involves regular feedback and review session and which provides performance and development plans.

A short-term incentive plan to reward the achievement of annual performance targets has been in place for a number of years. The level of payment is determined by the performance of the business unit/s and the Group against weighted performance measures. A balanced set of indicators – financial, customer, internal processes and human capital measures – is used.

In addition, we embarked on a process to develop a differentiated regard model, which is more finely attuned to the competitive market environment for skilled and experienced staff. This will in time differentiate rewards based on market value/scarcity, competence and performance.

Read more: for the Remuneration report see page 116

Our 'Name In Lights' programme, which recognises outstanding achievements by employees or teams, has been revamped.

Training and development

Our training department, through its six regional campuses, is dedicated to unlocking the potential of all our employees through flexible and relevant development solutions. In addition to the courses offered on these campuses, we also offer computer-based training and to some extent specialised training provided by external vendors. For the year under review, 101,628 person days were devoted to training of our staff.

Comparison of training days for the 2011 and 2012 financial years (Telkom SA only)

	2011	**2012**
Total training days permanent employees	93,845	**85,785**
Internal training days permanent employees	80,082	**83,930**
Total training days	114,500	**101,628**

Average number of training days per employee, per category for the 2012 financial year

Employment category	**Telkom SA**	**Trudon**	**Swiftnet**
Management	3.3	5.0	0.03
Specialists	4.0	4.1	–
Operational	4.2	4.2	0.02

These training initiatives, in which we invested R245 million during 2012, are aligned with and form part of the Government's Jobs Initiative on Priority Skills Acquisition (JIPSA). To date, 2,150 students completed a 12-month programme (1,846 Internships, 304 Learnerships). Of these, 495 have been appointed by Telkom.

Graduate development schemes

Telkom is committed to the growth and development of its employees, their immediate dependant children, and external applicants to meaningfully participate in the mainstream of Telkom's business, the ICT sector and the South African economy at large. Telkom therefore invests in the training and development of its future leaders, professionals and workers through its comprehensive bursary programme.

In line with the national agenda for job creation and employment, over the past financial year Telkom has engaged in a dedicated focus to secure young talent resources and build an ICT skills pipeline. At the end of 2012, 130 full time bursary students were offered employment. These graduates hold diplomas or degrees from the electrical/electronic/computer engineering, computer science, information technology, marketing and accounting disciplines at tertiary institutions throughout South Africa.

Centre of Excellence programme

This programme is a collaborative programme between Telkom, academia, the telecommunications industry and Government to promote research in communication technology and associated sciences. 16 Centres of Excellence have been established across the country, making it the largest coordinated research effort in ICT in South Africa. Telkom participate in this collaborative programme by means of granting full time bursars the opportunity to continue their studies and research via the Telkom Centres of Excellence programme. At 31 December 2011, 53 Telkom bursars conducted their research at the various Centres of Excellence.

In addition, Telkom provides sponsorship to three Universities (KZN, North West and Limpopo). This commitment assists in ensuring that previously disadvantaged students who did not meet the entrance requirements for engineering at universities are now eligible to study engineering via the bridging programme.

Telkom Touch

This programme was re-activated during the course of the year, giving employees access to 10 types of services. The value proposition of the program can be summarised as follows:

1. Productivity gains as employees can focus on their job and do not have to take time off to attend to personal matters.
2. Attraction and retention – research indicated that especially the new generation employee (X,Y, Millenniums) is attracted to companies providing lifestyle benefits, flexible work arrangements and having the freedom to use social media at work. They are prepared to work for less if an employer offers work/life balance benefits. Telkom Touch is therefore a key element of the Telkom employee value proposition.
3. Enhanced motivation to work for caring employer. Being able to engage the workforce with a powerful good news message drives their engagement and can ultimately improve morale.
4. Access to critical services e.g. financial/debt counselling, legal assistance as approximately 12% op employees have garnishing orders against them. This is augmented by a financial management training course, which employees are now able to attend to help them manage their own financial situation.

GRI and King III

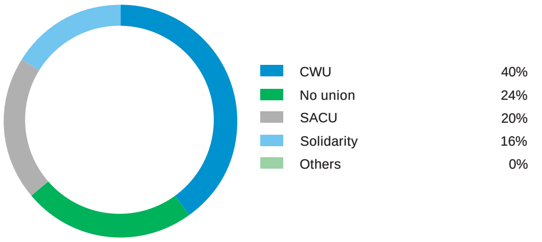
Centre for Learning's prizegiving for Diploma in Telecommunications Management graduates

Employee relations

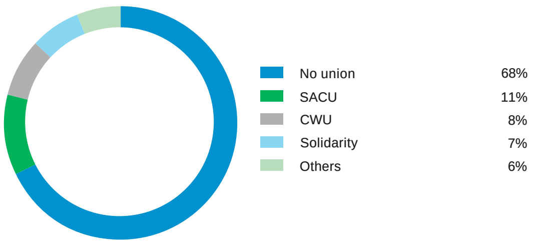
In pursuit of harmonious relationships, regular engagement takes place with organised labour on various levels. When required, top management engage with labour on a strategic level at the restructuring forum. Regular engagement takes place via the Company Forum where issues of national concern is discussed and consulted on. Regional issues are addressed at regional forums. In Telkom SA for the period under review a two-year substantive agreement was signed covering the period from April 2011 to March 2013. This was achieved without any strike action. We lost only 912 man-days through industrial action, of which 98% was due to the e-toll strike early in March 2012, with 922 employees participating.

Union membership

Bargaining unit



Management levels



Type of employees	Union	Total	%
Bargaining unit	CWU	7,414	40.3
	SACU	3,729	20.3
	Solidarity	2,904	15.8
	Others	56	0.3
	No union	4,289	23.3
	Total	18,392	100.0
Management	CWU	192	7.5
	SACU	273	10.7
	Solidarity	188	7.4
	Others	162	6.4
	No union	1,732	68.0
	Total	2,547	100.0
Grand	**Total**	**20,939**	

None of Swiftnet's staff are covered by collective bargaining agreements. 31% of Trudon employees are covered by collective bargaining agreements.

OCCUPATIONAL HEALTH AND SAFETY

Workplace safety

Telkom has put in place occupational health and safety (OHS) performance targets for all business units. These are legally compliant with regard to appointments, structures and scheduled activities surrounding the broader health and safety environment (HSE). Core to these targets is the ultimate goal of maintaining an incident frequency rate below four per 100 employees and a lost-time-injury-frequency-rate of below two per 100 employees.

Telkom OHS performance targets

Number	Target
1	Visible leadership/commitment (health and safety appointments in writing)
2	Roles and responsibilities (Health and Safety Committees and quarterly meetings)
3	Hazard identification and risk management (applicable risk documentation)
4	Legal requirements (inspections, audits, emergency evacuation done)
5	Training, awareness and competence (four knowledge reviews undertaken per annum)
6	Communication, consultation and involvement (four job observations per annum)
7	Crisis and emergency management (safety plan, briefings on duties and job outputs)
8	Incident management (incident management, near miss and incident investigations)
9	Monitoring audits and reviews (legal compliance audits – health and safety done by management)
10	Occupational health and hygiene (periodical medical examination and entry/exit medicals)

From an HSE governance perspective it is imperative to ensure overall compliance towards prescribed health and safety legislation. Periodic HSE audits are therefore conducted on a stratified sample of operational representatives within the organisation. This intervention allows for the measurement of compliance towards prescribed Telkom HSE objectives, as determined annually, based on identified emerging trends.

During this reporting cycle, the HSE Compliance Audit Programme identified various concerns, and onsite education and awareness opportunities were provided to the respective operational representatives. Emerging trends regarding the management of specific HSE-related risk training requirements – relative to service delivery risk and medical screening compliance – were identified as areas requiring further intervention. From the stratified audit sample, taken from service organisations across the Telkom group, we received a 93.25% achievement against Telkom's Health and Safety Committee structural compliance guidelines.

The statistical data collected from the HSE audits provided significant insight for Telkom's HSE governance – allowing the Group to implement a three-year strategic plan in order to improve HSE compliance across the organisation. Key focus areas will be to ensure comprehensive knowledge, training and skills towards the application of service delivery, specific risk management, HSE data integrity, incident management and medical surveillance protocols.

GRI and King III

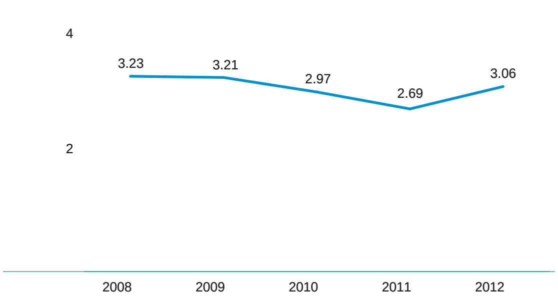
Injuries on duty (IOD)

It is with deep regret that we report that two Telkom employees lost their lives as a result of work-related accidents during this reporting cycle. The Telkom Board and executive management extended their condolences to the employees' families and colleagues. Through Telkom's Retirement Fund the necessary financial support to the deceased family as per rules of the fund were made. Their names and details are recorded below:

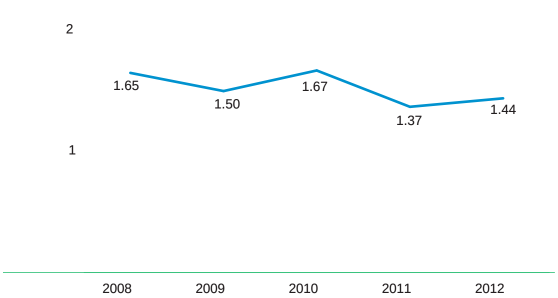
Name	Region	Cause of fatality
LJH Steenekamp	Gauteng Central	Fell from eigth floor to first floor
SI Bokala	Gauteng Central	Vehicle accident

While some of these events may seem beyond our control, no fatality on duty is acceptable and Telkom will continue to work with all employees, unions and stakeholders to reduce the number of fatalities to zero. In due course we intend to be in a position to sustain a zero-fatality performance on an ongoing basis. In this context it is encouraging that over the past five years our lost-time-injury-frequency-rate has shown consistent, if marginal, improvement. This overall performance must be considered in the context of continued staff reductions and the workplace changes associated with implementation of new technologies over the same period. Data for 2012 includes Trudon and Swiftnet.

Incident frequency rate



Lost time incident frequency rate



Workplace interventions addressing key occupational health and safety risks have been designed to acknowledge the context of a steady reduction in the workforce over the past five years. In order to take stock of the effect of our long-term achievements, Telkom reviewed the longer-term trends of our injuries on duty and the effectiveness of our efforts to tailor our activities and training towards those areas showing the highest risk. The trends of the six principal injury categories are shown below.

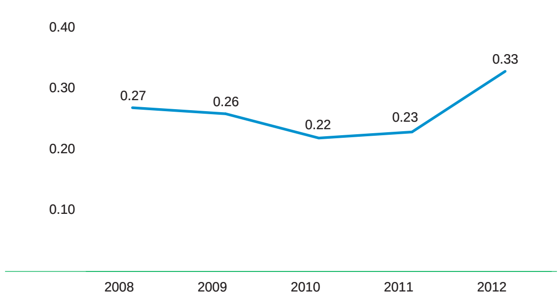
While it is important to note the absolute numbers of such incidents, it is the relative trends, in other words the respective ratios of such incidents per 100 employees, that we believe provides the best guidance on the sustained effect of our interventions. Data for 2012 includes Trudon and Swiftnet.

GRI and King III

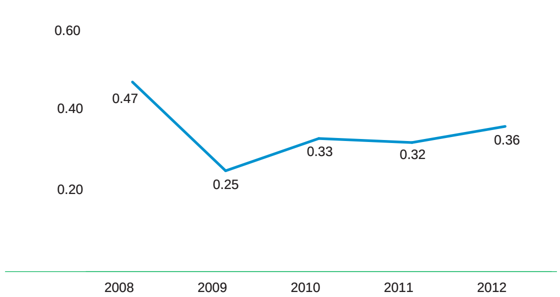
Injuries on duty 2008 to 2012

	2008	2009	2010	2011	**2012**
Fell from ladder	71	64	53	55	**72**
Lifting/pushing	122	62	81	76	**80**
Slip/falls	221	137	157	95	**117**
Struck by/ against object	222	206	118	120	**118**
Vehicle accidents	148	110	107	94	**91**
Other (eg. being hijacked while on duty)	45	14	59	52	**21**

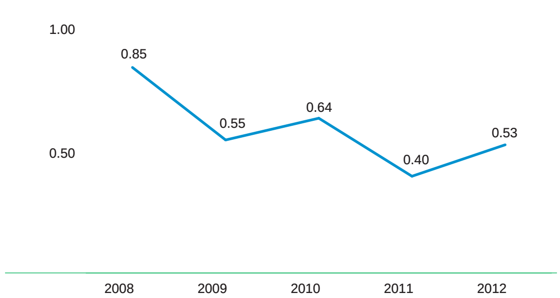
Fell from ladder per 100 employees



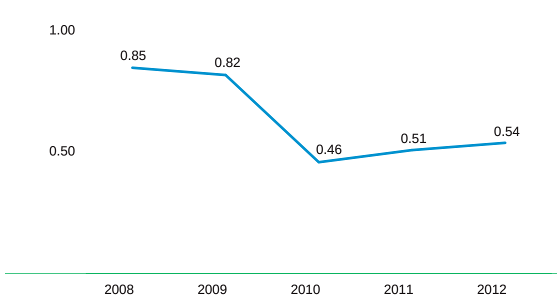
Lifting/pushing per 100 employees



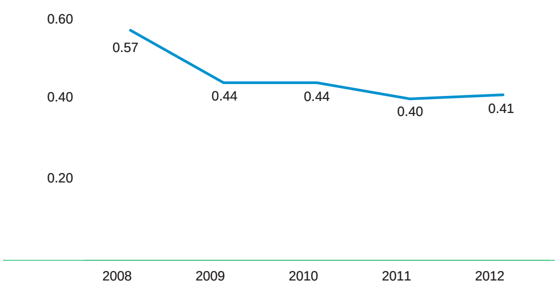
Slip/falls per 100 employees



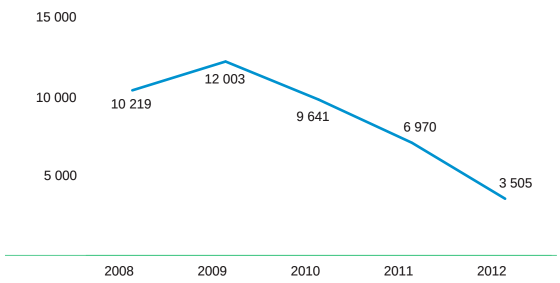
Struck by/August per 100 employees



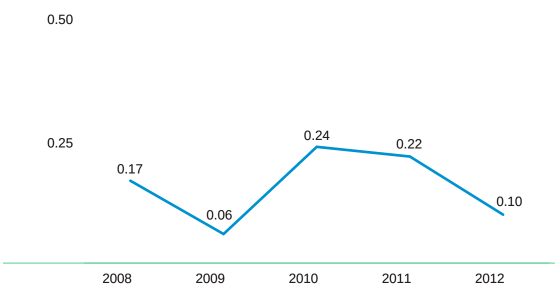
Vehicle accident/100 employees



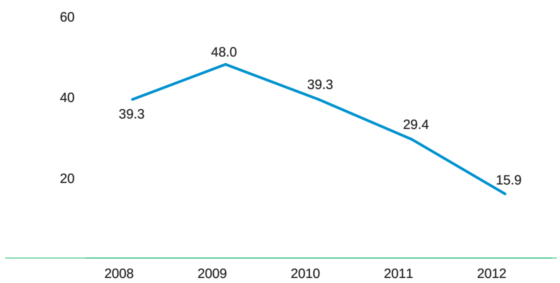
Number of lost days as a result of IOD



Other (e.g hijacking)/100 employees



Number of lost days/100 employees



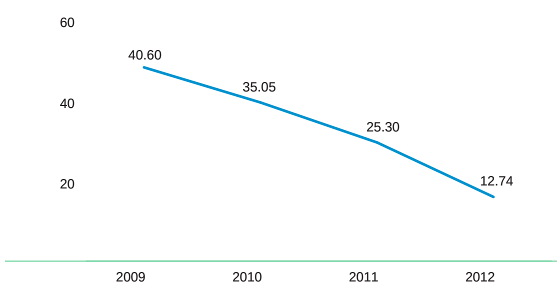
Based upon the data in the aforementioned tables, fall from heights (ladders) and slips and falls will be strategic focus areas for the next three years as we seek to reverse these unfavourable trends. This prioritisation will not impact the other focus areas and will be prioritised over and above our existing goals. On average, fall from heights and slips and falls resulted in 9.6 days and 5.1 days lost per incident, respectively. An improvement to the incident on duty (IOD) management system – to track and control incidents more effectively – and the associated risk assessments will be conducted and improved where applicable. From our incident investigations to date, it is also apparent that the Group needs to do more to improve workers' understanding of the importance of their actions. Empowering staff to take greater responsibility in the identification and avoidance of potentially unsafe situations will be a significant contributor to improving these incident trends.

Two areas in which sustained and improved control measures have led to better performance are those of hijackings and vehicle accidents. In both cases, Telkom staff members were empowered to implement the principle: 'if the environment is not safe, don't execute'. This has led to better co-ordination with our security contractors – in protecting Telkom staff in areas of greater risk – as well as reduced incidents arising from driver fatigue as staff availed themselves increasingly of the defensive-driving and driver-fatigue-management training offered. This emphasises one of the core values of Telkom's health and safety policy, to ensure employees go home as healthy as they were when they reported for duty.

While some of the trends in incident categories still require renewed focus and effort, the overall severity of incidents over the past five years shows improvement, which is encouraging. Data for 2012 includes Trudon and Swiftnet.

There was a 27.7% improvement in lost days, overall this data points indicate a marginal improvement in our incidents. The absolute number of incidents has not declined in a steady manner (2011: 777; 2012: 770), however, the seriousness of the injuries and the lost time associated with them has declined. This indicates that as the frequency of serious incidents is reduced, the nature of incidents being reported is less severe. Data for 2012 includes Trudon and Swiftnet.

IOD costs (R million)



Having recorded fewer lost days per incident – that were less severe in nature – this has led to a decrease in the total cost-to-company as a result of incidents on duty. This is also due to the fact that there has been a 44% improvement in total lost days per employee. These cost savings justify the resources that Telkom has devoted to these issues during previous years. It needs to be emphasised that the longer-term trends and managing the risks of smaller workforces allow for greater focus at individual level. For example, statistics relating to injuries as a result of employees falling from a ladder cannot be reduced further if the one-person team policy for repair teams is maintained. This is a trade-off that needs to be discussed within Telkom and linked to overall training and initiatives to further strengthen corporate culture within the organisation.

GRI and King III

There were no days lost due to occupational diseases – as defined by the Compensation of Injuries and Diseases Act – nor were there any incidents reported in this category during this reporting cycle.

Occupational health review

Occupational hygiene

During the period under review, we conducted a total of 36 surveys to monitor the potable water quality of the water that our employees have access to at their place of work. 20 of these surveys were scheduled and 13 were ad hoc requests from line management.

Criteria analysed:

- Tests conducted for physical analysis: total suspended solids, turbidity and PH;
- Tests for chemical analysis: iron, chlorine, chemical oxygen demand; and
- Tests for bacteriological analysis: E.coli.

Of the 36 test samples, 34 complied with the analysed parameters within the "South African National Standards for Drinking Water", SANS 214-2006 limits for class-1 water. The remaining two samples indicated a presence of E.coli in samples taken from the inlet. In these instances employees were provided with portable water from water coolers or bottled water until rectifying measures could be taken. Corrective measures at one of two the sampling points included cleaning and disinfecting the water-holding tank to eliminate microbiological growth. At the other sampling point we requested the local municipality to provide us with a water report for the town in question in order to understand the rectifying measures taken by third parties.

Occupational health

Telkom's Medical Surveillance Program (MSP) and incapacity management process (IMP) is driven mainly by risk-related and physical environmental factors such as noise, vibration, lighting, thermal environment and hazardous chemical substances, and agents such as non-ionising radiation.

As a result of the MSP, a comparatively high disease burden emerges among the assessed workforce. The following diagnoses were the most prevalent on clinical case management referrals:

Epilepsy	20%
Mental and psychiatric illnesses	16%
Injuries on duty (IODs)	36% made up of all musculoskeletal disorders including body joints such as ankle joints, shoulder joints, lower back falls and injuries
Ill-health incapacity	28% mainly consist of chronic disease profile and prolonged absence from work, indicating evidence of an aging population

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

GRI and King III

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

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

Based upon the results of this medical surveillance programme, the Group's three-year plan includes:

- Reviewing all risk profiles (to ensure control measures address risk exposure);
- Focusing on pregnant and breastfeeding technicians (type of medical and reasonable accommodation); and
- Conducting targeted health risk assessments for the coin-counting and forklift-driver environments.

Electromagnetic fields (EMF)

Telkom recognises that non-ionising electromagnetic waves – as emitted by radio equipment – can have a thermal effect on the body under conditions of intensive usage. As a result, employee screening systems have been implemented to ensure that we meet the South African Government Department of Health exposure guidelines, which specify the acceptable limits for human exposure to EMF. The potential risk to our employees and the general public arising from EMF exposure is managed as an occupational health and safety issue and includes monitoring of base stations and other non-ionising EMF emitting equipment. In addition, all Telkom infrastructure is designed to ensure that non-ionising EMF exposure levels are well within International Commission on non-ionising Radiation Protection (ICNIRP) limits.

HIV/Aids*

The Thuso HIV/Aids and TB Workplace Programme has been in operation at Telkom since 2004, when Telkom became one of the first companies in South Africa to provide a comprehensive testing, care and treatment programme for HIV/Aids to its employees and their immediate dependents. Under this programme, employees are able – at no cost to themselves – to determine their medical status in terms of these opportunistic diseases. All of this voluntary testing takes place at Telkom's offices of a contracted external service provider on condition of complete anonymity. We are proud to report that, to date, no single case has been recorded were the privacy of those choosing to test their status has been violated.

Since 2004, the Thuso HIV/Aids and TB Workplace Programme has grown in brand recognition at Telkom. Employees and their families now know that help on any medical condition is just a phone call away. The overall perception of Telkom employees is that Telkom has provided them with a superb benefit through

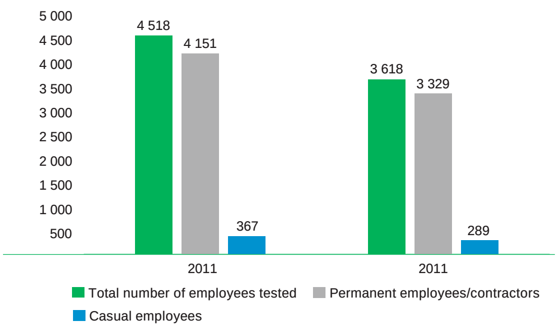
* *Trudon and Swiftnet rely on separate commercial external service providers for HIV/Aids VCT as part of employee medical aid arrangements.*

the Thuso programme and that this differentiates Telkom as an employer that cares. We are also proud that since September 2004 a total number of 31,824 employees voluntary tested to know their HIV status.

Telkom recognises that despite significant campaigns by state- and private-sector organisations to de-stigmatise such conditions, this remains a controversial topic creating disincentives for voluntary testing. As testing for these opportunistic diseases remains strictly voluntary, and takes place on the premises of our external service provider, Telkom has no control over the numbers of individuals who choose to undergo voluntary counselling and testing. The Group nevertheless actively and consistently encourages all its employees to avail themselves of these services.

HIV voluntary counselling and testing (UCT)

Number of employees tested for HIV



During the year under review 3,618 employees were screened. This included 2,857 permanent employees, 472 contractors and 289 casual workers – such as security and cleaning staff. During this period, 92 employees (59 permanent employees, 22 contractors and 11 casual workers) tested positive for HIV. This equates to an HIV-tested-prevalence of 2.54% for all employees, 2.43% for permanent and 3.80% for casual workers for the period.

All employees that undergo wellness screening also undergo TB-risk screening. Individuals that are at risk of having TB are referred for TB diagnosis and treatment.

Thuso 24-hour medical call centre

The Thuso 24-hour medical call centre plays a vital role in the provision of HIV/Aids and TB treatment. They also provide care and support to Telkom employees and their immediate dependents. The call centre is staffed by qualified medical professionals that can assist individuals on any health matter. This would include emergencies such as rape or a cardiac incident. Individuals can contact the call centre via a toll-free Telkom line, a short code for SMS, by sending a "please call me" on a cellular phone number, or by sending an e-mail.

Call centre activity	Number of calls
Total number of calls	3,973
Total number of inbound calls (from the patient)	819
Total number of outbound calls (to the patient)	3,263
Total number of unsuccessful calls*	791
Total number of SMS please call me	39

* *Unsuccessful calls are where the case manager tries to get hold of the patient, but the patient is not able to take the call. The case manager would then leave a voice mail message, or send an SMS.*

GRI and King III

A comprehensive HIV/Aids and TB treatment programme is also offered through the Thuso programme and this incorporates treatment strategies that are in line with the World Health Organisation's treatment protocols. The programme offers 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, as well as a drug delivery mechanism that is both confidential and convenient. All services are provided at no cost to Telkom employees and their immediate dependents.

Some Telkom 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 are complying with their respective treatment programmes.

Treatment profile of individuals	Number
Total number of individuals on Thuso programme	674
Number of individuals receiving treatment through Thuso	362
Number of individuals on Pre-HAART	109
Number of individuals on HAART	234
Number of individuals on PMTCT	1
Number of individuals on PEP	1
Number of individuals that have stopped their anti-retrovirals	17
Number of Individuals receiving treatment through other programmes	227
Number of individuals not yet on treatment	85

Prevention programme

The Thuso HIV/Aids and TB Workplace Programme prevention strategies are based on existing behaviour and behaviour modification in terms of education and awareness. Telkom's HIV/Aids prevention strategy includes a nationwide free condom dispensing programme. For the 2012 reporting cycle this programme dispensed 254,287 condoms nationally.

Education and awareness

As part of the education and awareness strategy; the Thuso HIV/Aids and TB Workplace Programme is included in the Company's induction programme. Various sessions were conducted for all newly appointed or recently promoted employees to educate them about the objectives, roles and benefits of the programme.

Employee wellness

Telkom hosts a series of wellness days across its operations on a regular basis in order to facilitate employee wellness and to monitor the employee lifestyle trends that have a direct bearing on employee health and workplace productivity. Employees are encouraged to participate in such events, to access the information available concerning healthy living, and to complete lifestyle questionnaires that allow the Group to track the impact of its interventions and its service offerings. These questionnaires provide information on issues such as alcohol consumption, smoking habits, the presence of chronic diseases, dietary habits, and physical activity among our employees.

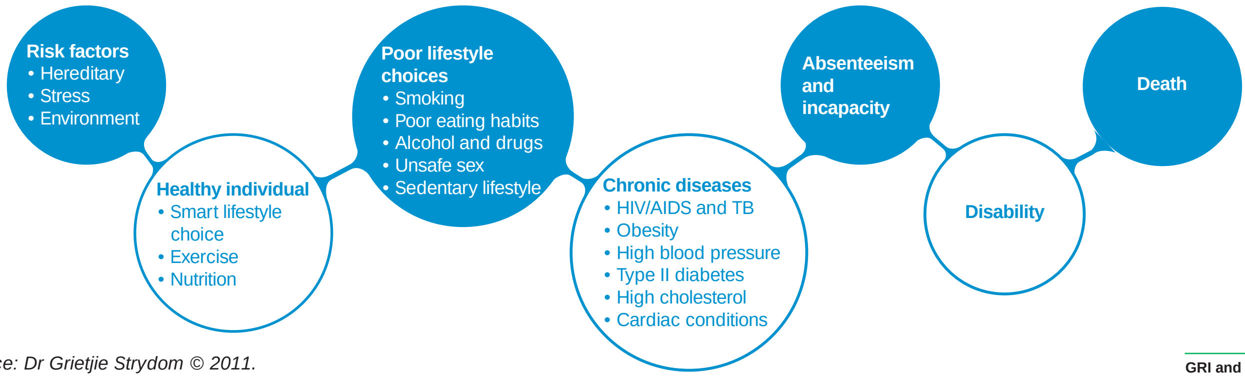
The Thuso Employee Wellness offering has been designed to measure lifestyle factors across the four inter-related health risk areas (diabetes, cholesterol, blood pressure and body mass index (BMI), HIV and TB). These on-site health risk assessments are offered during wellness days to all employees, their families and contract workers. Through these interventions certain high-cost, high-risk conditions are identified and managed by providing employees access to care, counselling and treatment through the Thuso Employee Wellness and Thuso HIV/Aids and TB Workplace Programme. Health data is also collected annually from voluntary participants in Telkom's annual lifestyle survey. Evaluation of the Thuso programme is done through regular monthly reporting on the outcomes of the programmes, as well as an annual absenteeism analysis and a Knowledge Attitudes and Practises (KAP) survey amongst the recipients of the services of the Thuso programme.

Telkom believes that employees who are physically and emotionally well, and have a positive and committed attitude, are more motivated to achieve business success. This, in turn, can greatly influence productivity. It is therefore the objective of the Thuso Employee Wellness and Thuso HIV/Aids and TB Workplace Programme to keep healthy employees healthy as demonstrated in the healthcare continuum below. This is accomplished by reinforcing the importance of their health status through education and regular screening, and to assist employees that are already at risk of developing chronic lifestyle conditions to adjust their lifestyles and move back towards the "healthy" side (indicated on the left side of the graphic below) of the healthcare continuum.

As the completion of questionnaires is voluntary, the results of the approximately 3,100 completed questionnaires can only be regarded as indicative. Nevertheless, the results indicate that the Telkom workforce is increasingly aware of the health implications of lifestyle choices. According to the employees lifestyle survey, alcohol consumption and rates of intake decreased between 2005 and 2010. Smoking appears to be declining marginally; the number of cigarettes smoked per day has reduced, while the number of people describing themselves as ex-smokers has increased. The survey also recorded a downward trend in cholesterol levels, high blood pressure and the use of nutritional supplements – 2005 results showed that more than half of those surveyed used nutritional supplements while in 2010 the results showed that only 46.2% of those surveyed reported doing so.

Unfortunately the majority of respondents still reported doing no regular physical exercise, with three quarters of this group recording a body mass index figure indicating that they were overweight or above. We acknowledge that the sedentary lifestyle of the office environment can be a contributing factor to such conditions but we also maintain that employees have been sensitised to this and must retain the responsibility to actively inform themselves about lifestyle choices that affect their health. Survey tests indicated an increase in the number of employees that have a glucose reading placing them at risk for type II diabetes: 6% in 2009 as opposed to 11.5% in 2012.

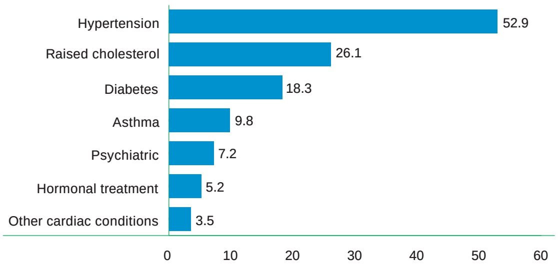
An area of concern relates to self-reported chronic diseases as 24% of employees who responded to the questionnaires at wellness days reported suffering from at least one chronic disease, with 50% reporting a family history of some form of chronic disease.



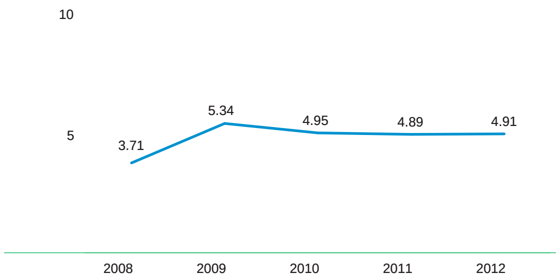
Source: Dr Grietjie Strydom © 2011.

GRI and King III

Distribution of chronic diseases (%)



EAP per 100 employees



With more than half the deaths in South Africa having been caused by a chronic disease occurring before the age of 65, such findings have the potential to impact Telkom's workforce productivity as well as the country's economy. Premature deaths in South Africans aged 35 to 65 are expected to increase by 40% between 2,000 and 2,030. Studying the results of these questionnaires will assist Telkom in guiding the strategic interventions aimed at improving staff wellness in years to come.

The fact that the individual risk profile (except for risk of type II diabetes) of employees has improved, but that the profile of employees that have three or more co-morbid conditions have increased, means that there are a group of employees that are steadily declining in terms of weight and lifestyle conditions. These employees are, therefore, not responding to health messages from the Thuso Wellness Programme. A physically active and integrated programme; for example a walking-related fitness programme and nutritional counselling sessions, may be an effective intervention. However, culturally sensitive methods will need to be devised to integrate these employees into the programme.

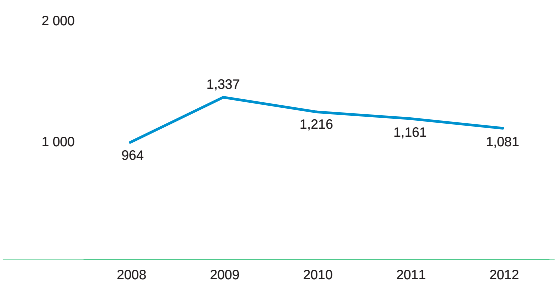
Employee assistance programme (EAP)

Many non-medical factors, behaviour patterns and circumstances have the potential to affect the medical and psychological wellness of individuals. This has a negative impact on the individual's ability to perform his/her line functions in an effective and efficient manner. Telkom's employee assistance programme (EAP) was established in 1998 to provide psychological care and support the employee and his family, to enable the employee to optimise his or her competencies in the workplace.

Factors that influenced the psychosocial well-being of the employees include psychological problems e.g. depression, stress, anxiety and marital or work-related relationship problems. Further psychological issues affecting employees include those related to trauma and crises caused by vehicle hijackings, accidents, robberies and personal matters.

Referrals to the EAP office

EAP referrals



GRI and King III

During the period under review, 1,081 employees and their family dependants were referred to psychologists and social workers. An average of 76 new individual and group cases were registered per month. A total of 3,176 counselling sessions were conducted at a cost of R2.1 million for the this period. Of this, 27% of the cases were crises- and trauma-related while a further 24% were family- and marital-related problems. A significant percentage (23%) of the referrals were of such a sensitive nature that the employees were not willing to indicate what the problems were. Stress, depression and other psychological problems that were treated made up a further 14% of the total referrals during the above-mentioned period. 9% of the employees were counselled for work related problems, e.g. poor work performance, incapacity and absenteeism. The remaining 3% were problems such as substance abuse, work/life balance issues and serious psycho-pathological cases.

Having determined the impact of these problems on workplace productivity, the EAP has put in place a series of training and awareness programmes to enable the employees to confront and address some of these challenges. Preventative initiatives; for instance, stress management, work/life balance training, substance abuse awareness interventions and emotional resilience workshops, were conducted.

A recent wellness survey indicated that financial stress was a major contributor to the overall stress and emotional wellbeing of the employees. At the root of these problems, is the financial challenge that individuals face as the sole breadwinner in large or extended family. This is particularly relevant in a country such as South Africa, where rural poverty remains a reality, where the temptations to spend and consume in the urban setting are often overwhelming, and where the educational system generally does not provide school leavers with adequate financial literacy to navigate the challenges of a modern economy. A particular challenge common to employees of larger organisations involves the burden of debt. This relates to situations in which third parties are able to convince consumers – with full-time employment – into taking out loans that have astronomically high interest rates, which the individuals may not initially anticipate. Garnishee orders to the amount of R6.9 million were issued against Telkom employees. The salary section dealt with an average of 1,261 orders per month and an average of 863 employees were affected by these orders.

Over the course of the next year, Telkom intends to grow the EAP wellness programme in order to better match the footprint of its national network. This will be accomplished on a cost-effective basis to ensure that more employees have access to psychologists and social workers. A further focus will be on preventative interventions in order to promote healthy living. This will concentrate specifically on the enablement and promotion of psychological health competencies.

EMPOWERMENT

Broad-Based Black Economic Empowerment

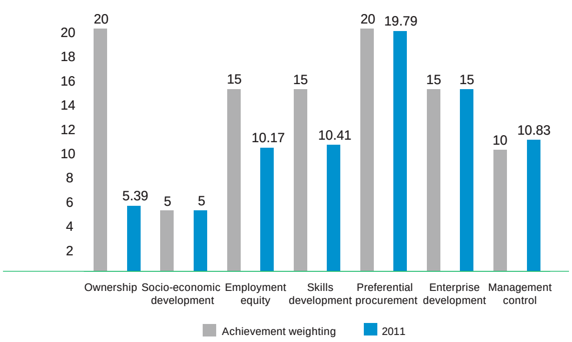
At Telkom, our commitment to Broad-Based Black Economic Empowerment (B-BBEE) goes beyond purely transforming the organisation's culture and staff profile. Through our business dealings, our procurement and our engagement with stakeholders we aim to promote a sustainable empowerment process that benefits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

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

The categories listed below show how we scored against our transformation objectives over the 2011 financial period. Contributions have been verified on a retroactive basis. We will be undergoing verification for the 2012 financial year in June 2012.

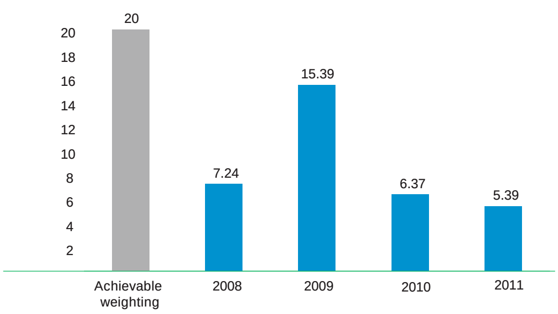
Employment equity, skills development and preferential procurement targets have been set at business unit level – Telkom South Africa, Telkom International, Data Centre Operations and the Corporate Centre. All targets are monitored monthly at business unit level while at Group level this is done quarterly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

Telkom group BBBEE-sustainability performance (Points)



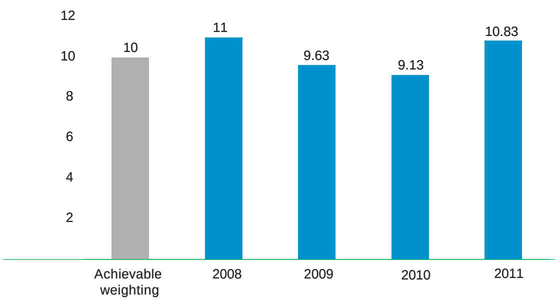
The Telkom subsidiaries Trudon and Swiftnet achieved level 5 and level 6 contributor status respectively. Telkom will continue to work with the management teams of both subsidiaries to support their efforts in improving their overall scores going forward.

Ownership (Points)



Our equity ownership contribution declined marginally from 6.37 points in 2010 to 5.39 in 2011 as a result of share dealing by black beneficiaries holding Telkom shares directly or indirectly. Our Board recognises that with the exit of our BEE partner, Newshelf 772 (Pty) Limited in 2010, it is now imperative that Telkom identifies and negotiates a new B-BBEE ownership transaction when it is feasible and mutually beneficial.

Management control (Points)

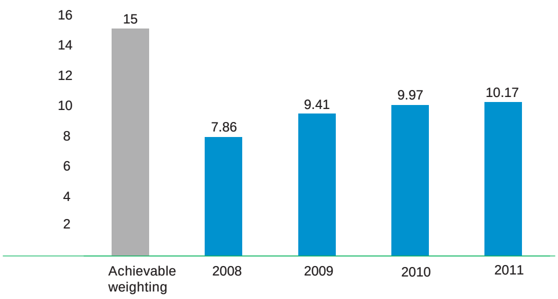


The management control element rose marginally from 9.13 in 2010 to 10.83 following a change in the number of black directors, which increased from six to seven. The number of black female directors has risen from three to four.

Telkom's vision to maintain a balance of competent members of the Board and top management, which is reflective of the country's demographics, has been achieved by the appointment of a black male Chairman and black female chief executive officer.

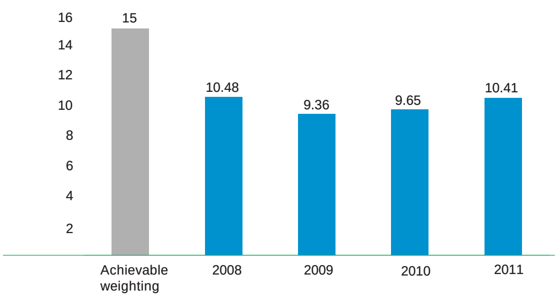
Furthermore Telkom has since appointed three black independent non-executive directors, two black females and one black male and these appointments will be reflected in the annual verification for the 2013 financial year. Upon self-assessment Telkom may see the attainment of maximum points on the management control scorecard including the bonus point.

Employment equity (Points)



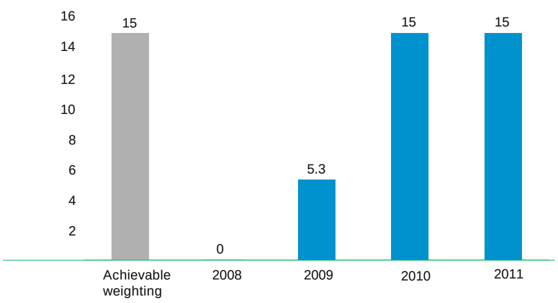
Our employment equity performance for 2011 improved to 10.17, from 9.97 in 2010 as a result of increased recruitment at middle management level as well as a marginal improvement in the female to male employee ratio at this level. We will continue to focus on these areas while particular attention will need to be placed on the disabled employee category as we continued to score poorly in this area.

Skills development (Points)



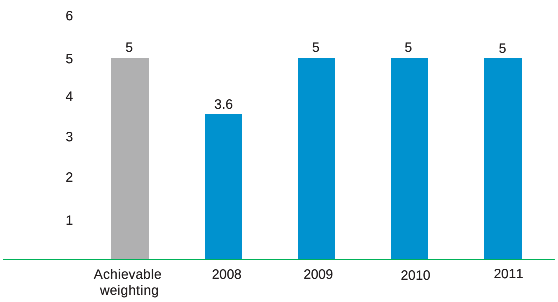
Our skills development score has continued to improve from 9.65 in 2010 to 10.41 in 2011, in line with our ongoing investment in staff training through the Centre of Learning and Centre of Excellence. Total skills development spend on black employees rose from R193.7 million in 2010 to R219.7 million in 2011, after the adjustment for gender. An increase in the number of employees now classified as learners has led to an increase in the overall skills development score.

Enterprise development (Points)



Telkom maintained a maximum score of 15 points for enterprise development, spending a total of R76 million on enterprise development initiatives during 2011. As can be seen in previous reports, most of the points were claimed from the shorter payment periods for payments to our suppliers (10 to 15 days from invoicing) as well as the range of free professional support and training services we offer to qualifying small enterprises (QSE) and exempt micro enterprise (EME) suppliers – these terms are defined within the B-BBEE Codes of Good Practise.

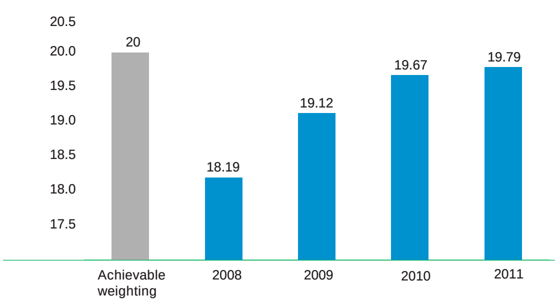
Socio-economic development (Points)



We maintained our maximum score in the socio-economic development category. The Telkom Foundation spent a total of R43 million on corporate social investment (CSI) projects in 2011. This equated to socio-economic spend of 2.71% of net profit after tax against a target of 1%. For more details see the Telkom Foundation section.

Read more: for more information on the Telkom Foundation see page 97

Preferential procurement (Points)



GRI and King III

We were very pleased to record that our consistently high preferential procurement score improved marginally to 19.79 out of a possible 20, during the period under review. With the recent introduction of the SAP system to manage centralised procurement we are now in a better position to engage with qualifying small enterprises (QSEs) and the exempt micro enterprise (EME) categories.

Telkom BEE procurement 2012 financial year for different supplier categories

Category	Rm	%
BEE procurement spend on supplies as a % of total measureable procurement spend	**10,539**	**85.2**
BEE procurement spend on QSE/EME suppliers as a % of total measureable procurement spend	**1,150**	**9.3**
BEE procurement spend on black owned suppliers as a % of total measureable procurement spend	**3,536**	**28.6**
BEE procurement spend on black women owned suppliers as a % of total measureable procurement spend	**780**	**6.3**

Going forward

Going forward our efforts will remain focused on addressing underperformance in certain areas within the B-BBEE category, including equity ownership. We remain intent on maintaining or improving our high scores in all other categories.

PROCUREMENT

During the year under review, Telkom spent a total of R14.9 billion on the procurement of capital items, goods and services. Telkom remained committed to upholding solid Corporate Governance in terms of fair, transparent, responsible and accountable tendering processes, which ensured that, where appropriate, tender requests were published weekly on our tender bulletin on the Telkom website. During the past year we launched a stand-alone e-sourcing/auction platform, which resulted in more competitive bidding, efficiencies as well as a reduction in the use of paper as part of the administrative process.

With the exception of requests for quotations (RFQs) and emergency purchases, in the majority of cases the tender process is initiated at business unit level where the specifications of goods or services required are formulated. The most suitable sourcing processes are determined by subject-matter specialists from which the appropriate critical criteria, high-level criteria and associated weightings are set. Prior to publication, a recommendation to publish is channelled to the relevant cross-functional sourcing team (CFST) for their support before being approved by the Group procurement council (GPC).

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

During the period under review there were approximately 8,000 trade vendors on the Telkom database. The number of active contracts was in the order of 800.

Engaging with suppliers and building their capacity

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

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

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

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

- Inability to deliver on time;
- E-auctions and their impact;
- Litigation issues;
- Guidance on ethical business practices;
- Correct and timely payments;
- Strategic partnerships and B-BBEE compliance;
- Guidance on procurement governance issues; and
- Supplier development with specific focus on quality assurance through a program called PCR (process controlled release).

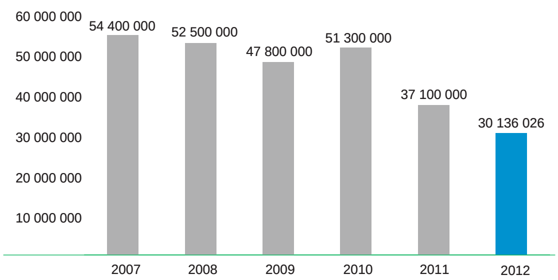
In line with the Group's broader developmental mandate Telkom continues to expand on implementing BEE commitment plans to ensure that our suppliers are contracted on all BEE aspects to achieve meaningful transformation in the industry.

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

THE TELKOM FOUNDATION

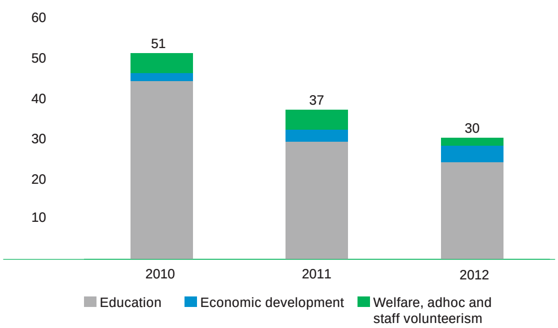
Our corporate social investment initiatives are conducted through the Telkom Foundation – an organisation established in 1998 and registered as a trust in 2002 for this purpose. Over the years, the foundation has made meaningful contributions to disadvantaged communities by providing to the improvement of their livelihoods through a range of structured programmes. The Foundation committed itself to making meaningful contribution to these communities through investment in education, community relief programmes and contribution to the development of emerging entrepreneurs.

Telkom Foundation total actual spend on projects



During the current reporting period, the foundation focused its efforts on three core areas; namely, education, entrepreneurship support (also referred to as economic development) and emergency relief programmes. Because the foundation believes that in order to eradicate social inequalities, a long-term approach must be adopted in order to assist with the development of critical skills for the economic benefit of the country, education has seen the highest CSI expenditure over the past few years. This is also in line with Telkom's broader business strategy and the South African Government's socio-economic development priorities.

Telkom Foundation disbursements by focus area (Rm)



GRI and King III

The project selection process largely driven by community needs and such are often brought to the Foundation by communities themselves, non-governmental organisation (NGO) partners, customers, suppliers; Telkom Foundation employees identifying potential beneficiaries, referrals by Telkom staff, as well as in response to direct approaches from third parties. Projects must fall within the foundation's mandated scope and should directly benefit disadvantaged communities.

During 2012, the Foundation reviewed its strategy and shifted its focus to ensure a closer alignment of its support programmes to Government's socio-economic priorities, as well as Telkom's business strategy. This enables the foundation to show measureable impact on communities and to provide volunteer opportunities for Telkom staff.

The Telkom Foundation supports:

- Primary institutions in their ability to provide a foundation for producing maths, science and technology students through numeracy and literacy programmes.
- Secondary and tertiary educational institutions in their ability to produce maths, science and technology graduates with entrepreneurial capabilities.
- Small business development and entrepreneurship training initiatives within which competent individuals can become economically active.
- Identified crisis appeals (Blue Flag emergencies) in South Africa and Africa.

This focus is better aligned with Telkom's overall business strategy and the needs of the South African Government. As a result of this strategic review; the Foundation has decided to rely more actively on partnerships and for this purpose recruit additional staff in 2012 to increase its national footprint. The Foundation's increased capacity will be used to improve its post-intervention project evaluation process to ensure that project sustainability is enhanced and that the foundation is effectively targeting the most relevant projects, in line with its mandate.

Schools and education

Education remained the Foundation's main focus area during the year under review; both in terms of projects and scale of support. It accounted for more than two-thirds of the foundations budget.

This year Telkom maintained its investment in bursaries, supporting 243 bursaries at a cost of R33 million as well as 52 post graduate students via our Centre of Excellence program at a cost of R13 million.

During 2011 the Telkom Foundation, in conjunction with Department of Basic Education, identified 45 schools in five provinces and supplied them with fully equipped computer laboratories for which the foundation also covered the internet access costs for the year. In order to ensure the longer-term sustainability of this investment, the foundation, together with the Telkom Centre for Learning, provided a seven-day general computer skills course to 88 teachers from these schools. After-care support is presently provided to these teachers to ensure that they maximise the benefit of these labs to improve the quality of teaching and learning.

In addition, the Telkom Foundation has had discussions with the schools around utilising these facilities as possible income generation. For example, certain schools have been successfully encouraged to make use of the computers that they have received by opening an internet cafe in order to generate additional income from the community to the benefit of the school.

GRI and King III

To support and sustain these initiatives across more rural parts of the country, the foundation also provided support to schools through mobile libraries and mobile science laboratories. The libraries, called Willie Wagons, are mobile containers filled with various non-literature books for grade R through to grade 7. They help to promote reading and address the literacy issues prevalent in these schools. The laboratories, which are also mobile containers, feature chemistry sets and are used to train teachers and raise the participation and performance of senior certificate learners in maths, science and technology.

In partnership with the Department of Education in the Free State, the foundation sponsored a programme that seeks to develop, train and encourage maths, science and technology teachers through a structured mentorship programme. Many of the programme's mentors are retired educators. The project currently runs as a pilot in three primary schools in Mangaung. Through this investment, the foundation seeks to inspire and demystify maths and science – not only for learners but for the teachers who teach these subjects as well.

Beacon of Hope

Since its launch in 2007 Telkom's Beacon of Hope bursary programme has supported just under 200 learners across the country. By placing certain learners from underprivileged communities, who have shown promising potential, in well-equipped and well-resourced boarding schools, the programme affords a better opportunity for these learners to realise their dreams. Some of the learners have, unfortunately, had to leave the programme as a result of unplanned pregnancies.

The programme assists its candidates by funding their tuition, boarding fees, uniforms, books, stationary, sports equipment and pocket money. Following a rigorous assessment processes during grade 7 and grade 8, successful students are supported in their studies until the completion of their matric. A number of partner schools were identified and have entered into a contractual agreement with the foundation and the learners for effective management of this programme.

Of the 35 Beacon of Hope learners who wrote their matric examinations in 2011, all of them passed; 28 received university exemption and there were nine distinctions amongst these learners. The partner schools are engaged in order to ensure that the required level of support is given to learners and, where there may be challenges, they are encouraged to approach the foundation with requests relating to possible areas of additional support.

Telkom ICT Career Expo for grade 10 to 12 learners

As part of the foundation's efforts to demystify science and maths, we have successfully hosted two major ICT career expos in the rural Eastern Cape and KwaZulu-Natal provinces. The expos were targeted at grade 10 learners to ensure that their subject choices are geared towards enabling them to make the correct career choices. Over 2,500 learners attended the expos and a number of companies participated, besides Telkom, to better explain ICT and to indicate career opportunities available in for the learners.

Rally to Read

Rally to Read was a large-scale partnership project between the foundation, an NGO called Read as well as McCarthy Motors supported in the current financial year. Together the foundation sponsored a total of 89 schools with the total number of learners at 34,694. In addition, the foundation exclusively sponsored 14 schools in Limpopo, targeting 4,974 grade R learners.

The idea behind this powerful project and the targeted beneficiaries, grade R is to provide them with reading material prior to entering formal schooling. In rural areas, many learners in grade 1 are exposed to books and other educational material for the first time only when they enter formal schooling. The foundation has decided to provide the books and other educational material to these children to prepare them but importantly to foster a culture of reading – this is essential to promoting literacy in South Africa.

Partnership on teacher mentorship and development

The foundation continues to support the development of teaching skills through projects such as the pilot mentorship programme mentioned above with the Central University of Technology, in the Free State, as well as the Sediba Project, which is run in partnership with the University of Potchefstroom to train teachers in science and technology across the country. To date, more than 25 teachers and 2,009 learners are benefitting from the project.

Beyond this support the foundation recognised the importance and the critical role that teachers play in our society, especially in educating young minds. It is for this reason that the foundation supported the 2012 National Teacher's Awards in partnership with the Government's Department of Basic Education. The awards were broadcast live on SABC and presented a platform for the country to honour and cherish the great work done by these committed teachers.

Supporting entrepreneurship

The foundation, during 2012, decided to limit its support in entrepreneurship to the ICT sector. As part of this process; the foundation has – in partnership with the University of Johannesburg – reached out to a broader range of SMMEs to train them on ICT-related programmes as key enablers to these businesses.

A total of 340 SMMEs benefitted from this programme. It is Telkom's belief that capacity building programmes and other forms of support ensure that they are able to effectively manage their business and remain competitive. Through the foundation's broader enterprise development strategy, priority is given to black suppliers. These suppliers are paid within 10 days, in support of these emergent entrepreneurs.

We believe that entrepreneurship is something that that can only partially be taught and substantially remains dependent upon the disposition if the individual.

Embedding the culture of giving amongst Telkom's executives and staff

Adopt a project programme

In order to develop, encourage and embed a culture of giving among the senior leadership within Telkom, the foundation encourages these managers to identify community projects that appeal to them. The foundation then makes a financial contribution towards the chosen project while the senior managers are encouraged to share their skills, time and personal resources – such as personal interventions, mentoring, facilitation to additional resources, and on-site motivational visits. To date, a total of 32 projects have been successfully adopted by these leaders.

This programme is not simply about the disbursement of funds and resources; it is about ensuring that interventions are sustained. Telkom's executives have embraced the part that they can play as mentors and role models in such projects. The scope of these projects is beyond that of the identified focus areas; as a result Executives are encouraged to choose projects they are passionate about without being limited to the focus of the foundation.

Telkom employees are also encouraged to contribute to community development projects and to support national initiatives that seek to encourage and promote volunteerism. For this year's Nelson Mandela Day, employees supported the Banareng Primary School, in Atteridgeville, as one of the events on the day. Telkom staff were involved in a range of activities including reading and feeding the children.

In certain instances, the foundation will match any donations that staff make to a given charity event

The projects under this programme have reached many of the more destitute members of South Africa. Through this initiative, Telkom seeks to introduce disadvantaged people into the mainstream economy by providing accesses to vocational skills training and development, job creation and workplace skills development.

Telkom Blue Flag

During the year under review approximately 3% of Telkom Foundation's allocated funds were not spent. This was partly due to the re-active crisis response programme, Blue Flag, not identifying suitable crisis response opportunities that matched its mandate. Upon review, trustees felt that the Blue Flag programme, which delivers effective, targeted relief to disaster victims, was too re-active in nature and was thus limiting the disbursement of the allocated funds. The foundation also sought to free up funds for sustainable interventions away from dependency-creating welfare, except in emergency situations. By broadening the Blue Flag programme's mandate the foundation will be able to link disaster relief initiatives to smaller, more practical needs within the socio-economic development and education programmes. As of this year, Blue Flag will be able to respond to specific needs such as repairs of individual schools affected by extreme weather events or fire.

Investing in the Telkom Foundation brand

Over the coming years, the Telkom Foundation intends to build its brand identity and increase awareness around the community projects in which it is involved. In addition to using the informal outreach method provided by staff volunteer initiatives, the foundation will also explore promotional advertisements and SMS campaigns to alert the public as to the valuable initiatives that the foundation is involved in.

In addition to the Telkom Foundation's CSI work, the Telkom subsidiaries covered in this report, Trudon and Swiftnet, also operate their own CSI programmes. Both do so with a similar focus on supporting education, often via donations of computer equipment to schools or other beneficiary organisations. For the year ending March 2012, Trudon's CSI spend amount to R4,917,000, while Swiftnet supported beneficiaries to the tune of R115,600.

GRI and King III

Looking forward

The foundation will continue to invest in community development and look for opportunities to make a meaningful investment in communities. Moving forward a much broader approach to poverty relief, will be explored to avoid the foundation from only providing relief to areas of disaster, and ensure that needy areas are also catered for. Entrepreneurship will continue to be a focus as a pillar to job creation especially for the jobless youth.

ENVIRONMENTAL MANAGEMENT

Environmental policy statement (EPS)

During the previous year, Telkom's environmental policy statement (EPS) was reviewed in order to demonstrate our commitment towards the ongoing improvement of the systems currently in place.

The EPS also ensures that Telkom is committed to continued improvement in its resource use and in its recycling activities. Most importantly, it ensures that we follow a transparent approach towards engaging with stakeholders on matters of environmental concern. Our environmental policy can be viewed at (URL for Telkom Env Policy Statement).

Web: visit www.telkom.co.za/ir for the environmental policy

ISO 14001 certification

Telkom's environmental management system (EMS) is subjected to an external audit conducted by Dekra Certification every three years. As part of this process, surveillance audits are conducted annually to review the continued improvement of the system and, furthermore, to ensure that required corrective actions are implemented relating to any findings that may have been identified. During 2011, the first surveillance audit of the current three-year certification period, it was identified that further planned environmental audits would need to be undertaken to address observations noted during the audit. It remains that Telkom achieved the requirements to pass the audit and therefore remain certified.

Telkom's EMS supports processes whereby all environmental incidents are identified, investigated and the desired corrective measures implemented to proactively prevent the recurrence of future, related incidents, where it is reasonably practical.

GRI and King III

Due to the nature of the Telkom network, we are considered to be a low- to medium-impact organisation. Telkom's most significant direct impact is that of the visual intrusiveness of its above ground fixed network infrastructure. All high sites (masts and towers) are subjected to strict environmental impact assessment studies, aligned with the prescribed regulatory requirements. This infers that all environmental protocols are adhered to for any sites anticipated for communication links situated in or near to geographically sensitive areas.

Environmental training

The education and competence of our staff and our contractors is critical to Telkom achieving solid environmental commitment and performance. Training is provided at two levels. Environmental awareness training takes place at a basic level to ensure that all staff and contractors understand the purpose of environmental management requirements and thus avoid and reduce any negative environmental impacts resulting from their everyday behaviour. Beyond this, there is competence training which is task-specific and trains those Telkom employees whose work, based on a training needs analysis, could have a more direct impact on the environment.

Compliance

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

Biodiversity

Telkom's geographic footprint covers the entire country; as a result, our infrastructure is in some instances located in sensitive habitats. This requires that the owner of the land or the infrastructure must take active steps to minimise the impact of their activities on these sensitive environments.

In virtually all instances in which Telkom's infrastructure has an impact on sensitive surrounding environments, it is in the form of telephone lines.

Case study

Hartbeeshoek earth satellite station

One of Telkom's strategic sites, the Hartbeeshoek Earth Satellite Station, is situated in the Cradle of Humankind, which is classified as a conservation area. The site is subjected to stringent environmental management initiatives, which include the services of horticulturists to assess the site annually to identify the encroachment of invasive plant species. Garden waste is processed using onsite composting beds and reused to sustain the indigenous vegetation within the site perimeter. The site also hosts bat houses to prevent bats from inadvertently colonising the infrastructure and thus interfering with its operation. Owl boxes have also been installed with the intention of encouraging the conservation of owls within the area.

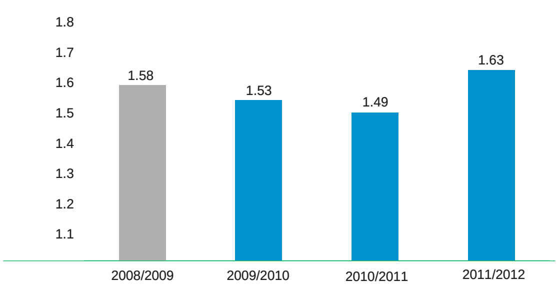
Since its opening in 1975 it has relayed literally billions of signals from two satellites deep in space to South Africa's data, television and voice units, 24 hours a day, seven days' a week.

Water

South Africa is a water-scarce county and limited access to suitable water quality is increasingly seen as a constraint on the country's economic growth. While Telkom uses only water from municipal sources, we are aware of our responsibility to use this scarce resource responsibility and explore ways in which to reduce our consumption, something often made difficult by the dispersed nature of especially Telkom SA's operations. This year we did not manage to improve our water efficiencies in part due to facilities and infrastructure changes. Through our facilities management company, Total Facilities Management Company (Pty) Limited (TFMC), continue to invest in better monitoring systems to understand and improve our water usage. Although no targets have been set, Telkom is currently in the process of developing these for water usage.

Water consumption for Telkom subsidiaries Trudon and Swiftnet for the 2012 financial year amounted to 0.045 KL million and 0.006 kl million respectively.

Water consumption (Kl million)



Despite the increase in absolute water usage this year, Telkom continues to run water awareness campaigns among its workforce to highlight the importance of water conservation both at work and at home. And while we recognise that our growth plans in mobile and data transfer infrastructure may in the medium-term increase our absolute water consumption, we will continue to explore ways in which we can reduce unit-based water usage as well as initiative projects to protect some of the country's water resources around which we operate.

Integrated waste management and recycling

Due to the dispersed nature of much of Telkom SA's infrastructure, the scope for waste management falls into two areas. The waste managed by Telkom's facility management company TFMC, which includes the normal office type waste streams and non-telecommunication waste. TFMC manages the collection, separation and disposal of all the non-telecommunications waste types as well as all recycling initiatives pertaining to such waste. Separate from this, are the Telkom managed, revenue generating waste streams, which include copper cable, optic fibre, batteries, e-waste and other redundant telecommunication waste. These products are consolidated at Telkom's six main material centres from around the country. It is from these centres that the revenue generating waste is picked up by appointed vendors for processing. Supporting guidance documentation sets out in detail the Group's requirements for the handling of waste streams as well as the recycling of materials where this is possible.

(Trudon and Swiftnet do not contribute to these waste streams)

Waste stream	2009	2010	2011	2012
Copper	1,301	2,210	1,387	**1,279**
Optic fibre	282	234	203	**251**
Batteries	349	344	348	**293**
E-waste				**297**

It is important to note that while these materials constitute the majority of Telkom's recyclable revenue generating waste stream by volume, their quantity is not necessarily influenced primarily by our resource efficiency initiatives. In the case of copper and optic fibre recycling volumes are driven primarily by the amount of damage inflicted upon our infrastructure during the theft of copper cable. In the case of batteries these are used at some of our more remote sites where electricity is not accessible and their use will thus be dependent upon the extent to which such sites will in future have access to electricity.

Climate change and energy

There are a number of risks associated with climate change that may impact Telkom now and into the future. The telecommunications sector is an expanding sector, with energy demands that will continue to grow. As the regulatory environment in South Africa changes with respect to energy and climate change, Telkom faces increasing pressure to improve its energy efficiency and manage its greenhouse gas emissions. Changing climatic conditions and extreme weather events may also pose risks to Telkom's infrastructure, potentially increasing service downtimes and increasing maintenance and operational costs. While Telkom faces a suite of potential risks, the telecommunications sector is well placed as a solution provider to other sectors. Telkom's infrastructure and services create opportunities for private and corporate customers to dematerialise parts of their processes and services as well as opportunities to reduce the need for travel through other communication methods, thereby reducing travel-related emissions.

As part of managing our contribution to climate change, Telkom has measured and calculated its carbon footprint for the second year. The 'Greenhouse Gas Protocol – a Corporate Accounting and Reporting Standard, Revised Edition' (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 – three scopes – has been externally assured by CA-Governance according to the ISO14064-3 standards.

The boundary for the carbon footprint is Telkom South Africa; as well as the South African operations of the subsidiaries Swiftnet and Trudon. Swiftnet and Trudon are included in the current year carbon footprint for the first time. The carbon footprint includes the following scopes as per the GHG Protocol:

Scope 1: Direct greenhouse gas emissions (GHG) from sources owned or controlled by Telkom;

Scope 2: Indirect GHG emissions from the generation of electricity consumed by Telkom; and

Scope 3: Other indirect GHG emissions as a consequence of the activities of Telkom, but not from sources owned or controlled by Telkom. Additional scope 3 emission sources were included in this year's carbon footprint. Refer to the following table.

The carbon footprint was calculated using emission factors provided by the United Kingdom's Department for Environment, Food and Rural Affairs (DEFRA). Our overall (scope 1, 2 and 3) carbon footprint is 784,543 tCO_2e. The following table provides a breakdown of emissions per scope.

GRI and King III

Scope 1 emissions Activity	Activity data		Carbon emissions (tCO_2e)		
	2011	2012	2011	2012	% change from previous year
Diesel [1]	2,358,809 litres	2,241,248 litres	6,274	5,979	(4.70)
Refrigerant gases [2]	24,463 kg	24,894 kg	44,243	44,964	1.63
Swiftnet travel in motor vehicles [3]	–	35,843 litres	–	84	–
Telkom travel in motor vehicles: Stannic fleet cards [4]	–	20,193 litres	–	54	–
Total scope 1 (tCO_2e)			**50,517**	**51,081**	**1.12**
Scope 2 emissions Activity	**Activity data**		**Carbon emissions (tCO_2e)**		
Electricity consumption: Telkom SA [5]	700,940,529 KWh	669,235,368 KWh	686,922	662,543	(3.55)
Electricity consumption: Trudon and Swiftnet [6]	–	3,418,553 KWh	–	3,384	–
Total scope 2 (tCO_2e)			686,922	665,927	(3.06)
Scope 3 emissions Activity	**Activity data**		**Carbon emissions (tCO_2e)**		
Air travel [7]	–	90,028,744km	–	10,526	–
Car hire [8]	1,382,349 km	1,192,094km	281	234	(16.73)
Telkom employee business travel: reimbursive claims for travel [9]	27,829,356 km	27,514,411 km	8,161	8,011	(1.84)
Telkom employee business travel: Stannic fleet cards [10]	–	1,419,678 litres	–	3,387	–
Telkom employee business travel: Debis fleet [11]	144,263,559km	132,629,062 km	35,360	32,766	(7.34)
TFMC fleet [12]	2,593,085 litres	1,932,950 litres	6,897	4,973	(27.90)
Logistics [13]	935,627 litres	1,363,406 litres	2,488	3,637	46.18
Trudon travel in delivery motor vehicles: [14]	–	1,500,012 litres	–	4,001	–
Total scope 3 (tCO_2e)			**53,187**	**67,535**	**25.68**
Total scope 1, 2 and 3 emissions (tCO_2e) [15]			**790,626**	**784,543**	**(0.77)**

[1] *Diesel used in generators is based on issued quantities for use in generators and forklifts.*
[2] *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).*
[3] *Swiftnet fleet is included in the boundary for the 2012 financial year for the first time, and as such there is no comparative data.*
[4] *Stannic fleet cards value provided is the total litres of petrol or diesel consumed in Telkom owned motor vehicles. These are included in the boundary for the 2012 financial year for the first time, and as such there is no comparative data.*
[5] *Electricity consumption for the 2011 financial year is restated using the Eskom 2010 generation emission factor of 0.98tCO_2e/MWh producing carbon emissions of 686,922tCO_2e. The previous Eskom sold emission factor of 1.03tCO_2e/MWh was used in the F2011 carbon footprint producing carbon emissions of 721,969tCO_2e.*
[6] *Electricity consumption for Trudon and Swiftnet is included in the boundary for the 2012 financial year for the first time, and as such there is no comparative data.*
[7] *The air travel value provided is the total passenger kilometres travelled, which is split between long-haul and short-haul flights and the specific flight class when calculating the associated carbon emissions. Air travel is a new addition into scope 3 emissions for the 2012 financial year, and as such there is no comparative data.*
[8] *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.*
[9] *The Telkom employee business travel value provided is the total kilometres travelled in employee owned motor vehicles, which is split according to fuel type and engine size when calculating the associated carbon emissions.*
[10] *Stannic fleet cards value provided is the total litres of petrol or diesel consumed in Telkom employee owned motor vehicles for business travel. These are included in the boundary for the 2012 financial year for the first time, and as such there is no comparative data.*
[11] *The Debis vehicle fleet value provided is the total kilometres travelled by Telkom employees in Debis fleet vehicles, which is split according to fuel type and engine size when calculating the associated carbon emissions.*
[12] *The TFMC fleet value provided is the total litres of fuel used in TFMC fleet motor vehicles, which is split according to fuel type when calculating the associated carbon emissions.*
[13] *Logistics sub-contractors have been included in the boundary for the 2012 financial year for the first time, comparatives have not been restated. 46.18% of the increase relates to the inclusion of sub-contractors, primary distribution comparison to prior year equates to a 2.05% increase.*
[14] *Delivery vehicles for Trudon are included in the boundary for the 2012 financial year for the first time, comparatives have not been restated.*
[15] *Refer to footnote 5 for the restatement of the 2011 financial year's electricity consumption. The total carbon footprint as previously reported for the 2011 financial year was 825,673tCO2e, however, the restated 2011 financial year total carbon footprint is now 790,626tCO_2e.*

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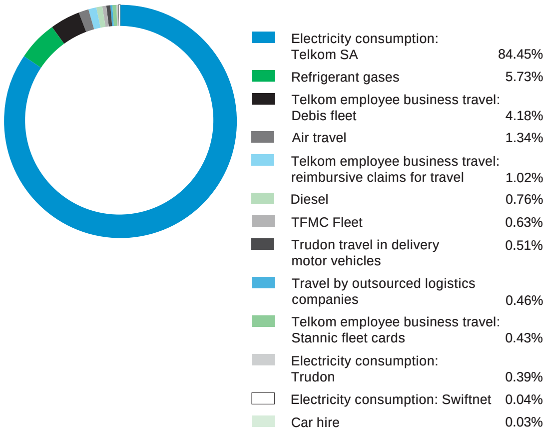
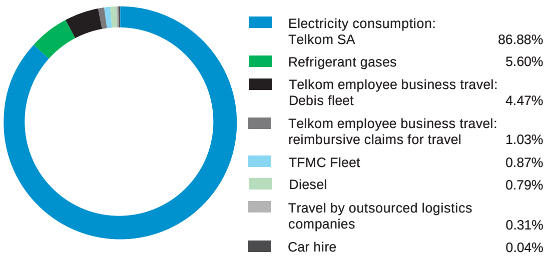
Sustainability review *(continued)*

Electricity contributes the majority (84.48%, 2011: 86.89%) of our carbon footprint as illustrated in the chart below:

Carbon footprint 2012 (%)



Carbon footprint 2011 (%)



Initiatives to reduce greenhouse gas emissions and reductions achieved

We are aware that as a growing sector, and as a solutions provider to other sectors, our energy demands will increase. Improving our energy efficiency and managing our greenhouse gas emissions is important to us, and we have, despite the inclusion of local subsidiaries in this year's reporting, managed to reduce our electricity consumption from last year through a number of initiatives. TFMC and Telkom have embarked on a national roll-out of energy optimisation initiatives in Telkom facilities, including the phased roll-out of energy efficient lighting interventions. A pilot intelligent metering programme has also been implemented in some of Telkom's buildings to improve our understanding of our electricity consumption, and allow for improved utility budget management. Our Network and Wholesales team have also embarked on retiring some digital secondary switching units and digital primary switching units from Telkom's legacy network, thereby reducing our electricity consumption. Telkom views its employees as important stakeholders in managing our greenhouse gas emissions. Quarterly newsletters are sent to Telkom employees via the corporate communication channel, highlighting initiatives that employees can take part in to reduce energy consumption. Although no targets have been set for emissions reduction Telkom is currently in the process of developing these.

Telkom has also embarked on a number of initiatives to reduce our travel related emissions. Telkom's subsistence and travel policy requires employees to consider video-conferencing or tele-conferencing as an alternative to travelling. The policy also encourages sharing car rental and shuttle services; and using public transport where possible. Another travel-related initiative is Project Falcon, a Telkom developed programme, which allows for vehicle fleet to be tracked and their utilisation monitored, based on information stored and provided by Debis Fleet Management. The programme allows for smarter dispatching of vehicles and improved management of technician-related travel. Debis Fleet Management has also replaced approximately 100 one-ton-vehicles with half-ton light delivery vehicles, thereby reducing travel related emissions.

GRI and King III

PRODUCT RESPONSIBILITY

Electromagnetic fields

Due to a rapid proliferation of products within the mobile phone sector, there are now an estimated 4.6 billion mobile phones in use globally. This has prompted increased research into the possible adverse health effects resulting from exposure to non-ionising electromagnetic fields (EMF) emitted by mobile phones and their associated base stations. The World Health Organisation (WHO) began conducting research in the mid-1990s to determine the possible health risks of EMF exposure. Over the last decade, Telkom has begun addressing the relevant EMF matters as they relate to its own operations.

The South African Government's Department of Health (DoH) Directorate of Radiation Control is responsible for regulating the human health aspects of electronic products producing non-ionising EMF. Non-ionising EMFs are classified as electromagnetic waves operating in the radio frequency band below 300 GHz and are incapable of breaking down electron bonds within the atom (i.e. of producing ions) and include ultra violet, infrared and microwave frequencies. At present, the DoH Directorate of Radiation Control has safety standards in place, which specifies human exposure limits for radio frequencies applicable to both the general public and occupational users. These standards are in line with the International Commission on Non-ionising Radiation Protection (ICNIRP) guidelines, which were developed in collaboration with the WHO. Telkom adheres to the ICNIRP guidelines as prescribed by the DoH.

The potential risk to Telkom employees and the general public arising from EMF exposure is managed as an occupational health and safety issue and includes monitoring of base stations and other non-ionising EMF emitting equipment. In addition, Telkom's infrastructure is designed to ensure that non-ionising EMF exposure levels are well within ICNIRP limits.

Through our membership to the South African Cellular Telecommunication Association (SACTA) (an industry association comprising all providers of mobile services in South Africa), Telkom will continue to monitor all scientific information relating to this issue and will continue to participate with SACTA on the basis of shared information. We will continue to engage with all stakeholders on this matter, both through SACTA and via direct channels, to ensure that all decision-making is based on robust; widely shared and internationally accepted scientific data. More information on this matter is available from: ICNIRP (www.icnirp.de), WHO (www.who.int/peh-emf/) and SACTA (http://www.sacta.co.za/).

Product and service labelling

Telkom no longer manufactures or assembles the products that it sells. Telkom, however, relabel or rebrand entry level phones and data dongles in the mobile space. Nevertheless, the Group still operates Telkom Laboratories, which remain an accredited institution for the testing and certification of fixed-line equipment such as fixed-line phones and fax machines according to the standards set out by SABS.

Customer privacy

South African legislation governing consumer protection and customer privacy has evolved rapidly in the past few years and Telkom is focused on aligning its business practises with the resultant requirements.

Telkom's primary obligation to respect customer privacy emanates inter alia from the provisions of the Electronic Communications Act, 36 of 2005 and Code of Conduct, End-User and Subscriber Service Charter.

Telkom conducts regular customer satisfaction surveys by means of targeted and random telephone interviews. These reach approximately 120,000 people per annum. By their very nature, random surveys may reach some customers whose numbers are not listed for such purposes, potentially giving rise to concerns about breaches in the security of customer data privacy.

Since 1997, all surveys have been conducted by SA Marketing Research Association (SAMRO) accredited research providers whose code of conduct commits all practitioners to never allow personal data collected in the process of market research "to be used for the purpose other than the market research". All market research survey work and the statistical results generated are audited on a random basis by third parties for purposes of data quality and data security.

The information generated by market research surveys is used to inform Telkom's advertising tracking programmes, sponsorship and branding initiatives.

Telkom has a national customer care management centre to deal with customer complaints that may have been received through Telkom's call centres. These complaints are then handled by escalation advisors.

Any request for information from an outside party is governed by the Promotion of Access to Information Act, which gives effect to the public's right of access to information from public and private bodies; taking into consideration appropriate provisions within the act. Telkom keeps a record of the requests received each year and it reports annually to the Human Rights Commission with regards to these requests.

Telkom's legal services litigation division keeps a litigation register at the Telkom head office, which records all documents, including summonses and applications, served on the Company. All CPA complaints are captured on a register. The CPA deals extensively with product liability and labelling. Telkom's legal management system is also used by regional legal services to capture information on litigation matters for and against Telkom, CPA and NCA complaints.

Requests for any confidential information relating to a customer's personal details are handled by each of Telkom's regional nodal points. These nodal points deal with any requests or subpoenas for customer information.

Changing customers' perceptions

There is a lasting belief from parts of the customer base that Telkom should continue to provide telephone and internet services as if it were still a state-owned enterprise, this is despite the fact that Telkom has been a publicly listed company since 2003. We are therefore often confronted with customer resistance when proposing slightly more expensive alternative communications solutions as a means of addressing disruptions from copper cable theft due to the belief that these alternative solutions should be provided at the old fixed-line costs. In the case of rural areas with low customer densities this is often not commercially viable. Unfortunately it is precisely in these areas of poor customer density that copper cable theft appears to be most persistent and prevalent.

Conclusion

The longer-term solution undoubtedly involves a move away from copper cable and the increasing use of other technologies including fibre optic cable, satellite and wireless solutions. In addition to this, Telkom continues to strengthen and review all security initiatives outlined in our previous public reports to stabilise and reduce the current high number of copper cable theft incidents.

All members of the public are encouraged to report any suspicious incidents that may involve cable theft to Telkom's Crime Hotline **(080 012 4000)** or via Hotfax **(080 020 0796).**

Infrastructure-related theft affects us all

Theft of infrastructure components is a nation-wide problem plaguing other infrastructure providers as well as Telkom. In the case of Eskom and certain regional municipalities it is primarily the theft of electricity, power cables and associated infrastructure that poses the greatest threat; whilst Spoornet and Metrorail have had to contend with the ongoing theft of railway service components. In all cases the impact of this theft goes far beyond the financial loss to the entity – it has serious implications for the end-user:

- Theft on a large-scale disrupts the provision of essential services to hospitals, police stations and private business.
- It affects the delivery of employees to their place of work in the case of transport-related services being disrupted.
- It places a financial cost burden on businesses, private customers and ultimately the taxpayer.
- There is a very real risk of injury from the use of damaged equipment.
- The violence and criminality that accompanies the more organised aspects of the theft of copper and other metals poses a real threat to building a safer South Africa.

GRI and King III

Case study

Copper cable theft

For years Telkom has been affected by the theft of metal components of its telecommunication network infrastructure.

In the case of Telkom this problem is concentrated in the theft of copper cable, and has, to a lesser degree, resulted in collateral damage to fibre optic cables.

Each year, it costs Telkom millions to repair and replace stolen copper and damaged fibre. For this current financial year alone the costs were over R200 million. In addition to this, Telkom spends in excess of R150 million annually on the protection of its own infrastructure through in-house security, contracted armed-response teams, the expansion of the in-house alarm, the surveillance of our cable network and increasing the robustness of the infrastructure. Beyond that, the disruption caused by the theft of copper cables invariably leads to a loss of call and rental income derived from Telkom customers whose services have been interrupted. All of these factors, in addition to the disruptive effect on Telkom's management capacity, result in the real, holistic cost of copper cable theft to Telkom being many times the value of the stolen copper.

The ultimate cost reaches far beyond Telkom, as it affects the security and well-being of our staff and virtually every aspect of our country's society and economy. Telkom effectively provides the backbone of the national telecommunications infrastructure including the network that mobile operators rely upon to provide services to their own customers. The theft of copper cable affects the ability of businesses to operate and to compete both nationally and internationally thus creating a direct impediment to our country's economic growth. Beyond that there are the very real costs to society measured in terms of human tragedy – when ambulances cannot be called, hospitals cannot source vital blood supplies or police stations are isolated by the theft of copper telephone cable.

Copper theft challenges not only our own sustainability as a business but the long-term sustainability of South Africa's economy as we seek to compete in a globalised world. At a national level, the public policy response to this challenge should reflect the threat it poses.

What drives copper cable theft?

The key driver of copper cable theft is the rising demand for copper, which has resulted in an increase in the copper price. Since the 2006 financial year, the copper price has risen from US$5,000 per ton to around US$8,100 in early 2012. Some of this theft is opportunistic in nature, driven largely by poverty. However, a large and growing percentage of this theft is conducted under the guidance of crime syndicates. These highly organised syndicates direct individuals to steal network components in a targeted manner, which should be construed as economic sabotage. Generally the cable is stripped of its outer sheeting and then burnt to get rid of the remaining plastic insulation as well as to render the copper unidentifiable in terms of the original owner. This is then sold to unscrupulous scrap metal merchants who often apply a range of measures to further render the stolen material unidentifiable. Virtually all of the stolen copper is exported.

Copper theft losses amounted to R204 million.

Protection costs of R153 million

What is Telkom doing to combat cable theft?

Together with other affected entities, Telkom has long co-operated with the South African Police Services (SAPS). The focus of this partnership is to assist with the effective enforcement of the newly introduced Second Hands Goods Act. On an ongoing basis, Telkom shares intelligence; trains SAPS officers in recognising stolen Telkom property; and accompanies SAPS personnel on raids of illegal scrap metal dealers. Further steps include ongoing assistance to the prosecuting arm of the Department of Justice in obtaining better conviction rates through training interventions and briefings on the national significance of theft of infrastructure such as Telkom's copper cables.

The introduction of the new Second Hand Goods Act has been eagerly awaited. Certain parts of the act have come into force during mid 2012. The act requires traders in second-hand goods, such as scrap metal to be registered and to apply self-regulation in terms of ensuring that goods purchased are not stolen. Registered dealers are required to operate within the regulations governing the handling of all second-hand goods on their premises or within their trading activities.

How will Telkom tackle cable theft going forward?

It is often assumed that a switch to a fibre optic cable network would eliminate the scourge of copper cable theft. While it is correct that the incidents of fibre optic cable theft are a fraction of the number of copper cable theft incidents; it is not a simple exercise of converting infrastructure from one technology to another. Fibre optic cables currently form the national layer of the telecommunications infrastructure – connecting most large and medium-sized South African cities. Extending the use of fibre optic cable from the local exchanges to a point that is closer to the customer has for some time been part of Telkom's business strategy – especially where traffic volumes and bandwidth demand are high. However, while fibre optic cable may appear cheap on a 'bandwidth comparison' basis, the cost of bringing fibre optic infrastructure closer to the individual customer is significant. In areas where customer densities are low, this may not be immediately justifiable on a commercial basis and will thus require the adoption of a range of alternate communications solutions, including wireless and satellite.

GRI INDEX TABLE

Indicator name	Indicator description	Page number	Fully met/partially met/ narrative only
1.1	**Profile disclosures** Statement from the most senior decision maker of the organisation (e.g., CEO, Chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy. The statement should present the overall vision and strategy for the short-term, medium-term (e.g., three to five years), and long-term, particularly with regard to managing the key challenges associated with economic, environmental, and social performance. The statement should include: • Strategic priorities and key topics for the short/medium-term with regard to sustainability, including respect for internationally agreed standards and how they relate to long-term organisational strategy and success; • Broader trends (e.g., macro-economic or political) affecting the organisation and influencing sustainability priorities; • Key events, achievements, and failures during the reporting period; • Views on performance with respect to targets; • Outlook on the organisation's main challenges and targets for the next year and goals for the coming three to five years; and • Other items pertaining to the organisation's strategic approach.	8 – 10 12 – 15	Fully met
2.1	Name of the organisation.	Front cover	Fully met
2.2	Primary brands, products, and/or services. The reporting organisation should indicate the nature of its role in providing these products and services, and the degree to which it utilises outsourcing.	7	Fully met
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	7	Fully met
2.4	Location of organisation's headquarters.	6	Fully met
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	2 and 7	Fully met
2.6	Nature of ownership and legal form.	The Group is domiciled in South Africa and listed on the JSE Limited	Fully met
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	7	Fully met
2.8	Scale of the reporting organisation, including: • Number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalisation broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided. In addition to the above, reporting organisations are encouraged to provide additional information, as appropriate, such as: • Total assets; • Beneficial ownership (including identity and percentage of ownership of largest shareholders); and • Breakdowns by country/region of the following: – Sales/revenues by countries/regions that make up 5% or more of total revenues; – Costs by countries/regions that make up 5% or more of total revenues; and – Employees.	6 & 32 – 35	Fully met

Sustainability review *(continued)*

Indicator name	Indicator description	Page number	Fully met/partially met/ narrative only
2.9	Significant changes during the reporting period regarding size, structure, or ownership including: • The location of, or changes in operations, including facility openings, closings, and expansions; and • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations).	N/a	Fully met There have been no significant changes to the reporting organisation size structure apart from those relating to the sale of Multi-Links on pages 9, 12 and 13.
2.10	Awards received in the reporting period.	31	Fully met
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Scope of the report	Fully met
3.2	Date of most recent previous report (if any).	Scope of the report	Fully met
3.3	Reporting cycle (annual, biennial, etc.)	Scope of the report	Fully met
3.4	Contact point for questions regarding the report or its contents.	Back cover	Fully met
3.5	Process for defining report content, including: • Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report. Include an explanation of how the organisation has applied the 'Guidance on Defining Report Content' and the associated principles.	76 – 77, and 72	Fully met
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Scope of the report	Fully met
3.7	State any specific limitations on the scope or boundary of the report. If boundary and scope do not address the full range of material economic, environmental, and social impacts of the organisation, state the strategy and projected timeline for providing complete coverage.	Scope of the report	Fully met
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Scope of the report	Fully met
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such restatement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	103	Fully met
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	N/a	Fully met There have been no significant changes to the measurement methods utilised in 2012.
3.12	Table identifying the location of the standard disclosures in the report. Identify the page numbers or web links where the following can be found: • Strategy and analysis 1.1 – 1.2; • Organisational profile 2.1 – 2.10; • Report parameters 3.1 – 3.13; • Disclosure of management approach, per category; • Core performance indicators; • Any GRI additional indicators that were included; • Any GRI sector supplement Indicators included in the report; and • Governance, commitments, and engagement 4.1 – 4.17.	107 – 111	Fully met

Indicator name	Indicator description	Page number	Fully met/partially met/ narrative only
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight. Describe the mandate and composition (including number of independent members and/or non-executive members) of such committees and indicate any direct responsibility for economic, social, and environmental performance.	49 – 55	Fully met
4.2	Indicate whether the Chair of the highest governance body is also an Executive Officer (and, if so, their function within the organisation's management and the reasons for this arrangement).	50	Fully met
4.3	For organisations that have a unitary Board structure, state the number of members of the highest governance body that are independent and/or non-executive members. State how the organisation defines 'independent' and 'non-executive'. This element applies only for organisations that have unitary Board structures. See the glossary for a definition of 'independent'.	50	Partially met
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. Include reference to processes regarding: • The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and • Informing and consulting employees about the working relationships with formal representation bodies such as organisation level 'work councils', and representation of employees in the highest governance body. Identify topics related to economic, environmental, and social performance raised through these mechanisms during the reporting period.	57	Fully met
4.14	List of stakeholder groups engaged by the organisation. Examples of stakeholder groups are: • Communities; • Civil society; • Customers; • Shareholders and providers of capital; • Suppliers; and • Employees, other workers, and their trade unions.	73 – 75	Fully met
4.15	Basis for identification and selection of stakeholders with whom to engage. This includes the organisation's process for defining its stakeholder groups, and for determining the Groups with which to engage and not to engage.	72	Fully met
	Indicators		
Environment			
EN3	Direct energy consumption by primary energy source.	103	Fully met
EN4	Indirect energy consumption by primary source.	103	Fully met
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	104	Partially met
EN8	Total water withdrawal by source.	102	Fully met
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	100 – 101	Fully met
EN16	Total direct and indirect greenhouse gas emissions by weight.	103	Fully met

Indicator name	Indicator description	Page number	Fully met/partially met/ narrative only
EN17	Other relevant indirect greenhouse gas emissions by weight.	103	Fully met
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	104	Partially met
EN22	Total weight of waste by type and disposal method.	102	Partially met
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	100	Fully met
Labour practices and decent work			
LA1	Total workforce by employment type, employment contract, and region.	82 – 84	Fully met
LA2	Total number and rate of employee turnover by age group, gender, and region.	85	Fully met
LA4	Percentage of employees covered by collective bargaining agreements.	88	Fully met
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.	89 – 92	Fully met
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	92 – 94	Fully met
LA10	Average hours of training per year per employee by employee category.	86	Fully met
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	86	Fully met
LA12	Percentage of employees receiving regular performance and career development reviews by gender.	86	Fully met
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	16 – 19 & 84	Fully met
Product responsibility			
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	104 – 105	Partially met
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	105	Fully met
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	105	Partially met
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	105	Partially met
Economic			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	70	Fully met
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	104	Partially met

Indicator name	Indicator description	Page number	Fully met/partially met/ narrative only
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	96 – 97	Partially met
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	98 – 99	Fully met

The Phantom of the Opera

The hugely popular Phantom of the Opera musical, which Telkom sponsored, continued to play to packed audiences.

More than 200,000 tickets have been sold for the Johannesburg season, which opened at the Teatro theatre in Montecasino on 31 January 2012 and ran until 3 June. This is believed to be a box office record for theatre in South Africa.

Apart from selling a record number of tickets, Phantom has so far attracted publicity to the value of R31 million – a massive amount, and all of it positive.

The Phantom of the Opera is the second enormously successful musical that Telkom has sponsored. In 2006 and 2007, we helped bring The Lion King to South Africa. This sponsorship earned Telkom an award from Business and Arts South Africa (BASA).

Case study

Cape epic

Telkom Business and 8•ta have set new standards of service delivery at the high-profile Absa Cape Epic mountain bike race. That's not just their opinion but also that of media representatives who covered the recent eight-day race.

"I've been all over the world and sometimes I battle for 15 to 17 minutes to upload a two-minute package. This time, it took me two or three minutes," said a member of the SuperSport Blitz team, commenting on the speed of Internet access that Telkom Business, as official communications partner, provided during the race. "I am really, really happy."

"I wish the link was as quick at home as it is here!" said a photographer, asked to comment on her experience of Telkom's service at the Cape Epic. "We were in really isolated places and I'd e-mail out and literally three seconds later, it was gone. I'm really impressed." She also complimented the Telkom team at the event, saying they had been "friendly, chatty and helpful the whole week, even at the crack of dawn".

A United Kingdom cyclist who withdrew from the race after hurting his shoulder said he had been using Telkom's media centre facilities to file daily reports to the UK. "It has been pretty cool," he said. "It has all worked and been pretty slick. All the people at home looking at our stuff have had a real-time view of what's been going on."

Asked to comment on the quality of communications at the Epic's Media Centre, Rinette van Rensburg from SABC News said: "We have fast internet connection and haven't had any problems so far. To cover a challenging event like the Absa Cape Epic, it's important to have good reliable internet facilities to be able to meet deadlines. Overall it's been a very positive experience with Telkom, and the staff has also been very friendly and helpful."

Tanya Odendaal, 2012 Absa Cape Epic Marketing and Communication Manager, also complimented Telkom. "I'm really surprised by the level of support received from Telkom. Without them, the Media Centre would definitely not run as smoothly. Not only do they supply a technical service, they're also a great addition to our team."

Telkom seamlessly connected all the riders, media, organisers and sponsors to the outside world for the duration of the race. This included the bandwidth for all local and international television and radio coverage.

This is the second year that Telkom Business has been the official communications partner of the Absa Cape Epic, and the Telkom team on duty are well aware that they have a reputation to maintain and build on. Over and above the approximately 80 media representatives covering the event, the race has attracted many top businesspeople who are participating as riders. Among them are more than 300 CEOs, directors and senior managers from various companies.

"It's very stressful, very demanding and the hours are very long, but spirits are high and the team love the challenge," said Achmat Mathews, Data Networking Solutions Architect at Telkom Business.

He was speaking from Robertson in the Western Cape, where he and 17 technical people from Network Field Services in Cape Town were taking care of the communications requirements of the riders, organisers, media, race crew and sponsors. This includes Internet connectivity, Wi-Fi, mobile services and dedicated bandwidth for media broadcasts and for various special applications such as point-of-sales and race timing services.

The Telkom team expects a week of excitement but very little sleep. Achmat says they started work at Meerendal in Cape Town at 05:00 on Sunday morning, packed up 16 hours later at around 23:00, and then drove straight through to Robertson for the next stage of the race. Arriving at 01:30, today, they caught a few hours of sleep and were up again at 05:00 to make sure all the communications services were up and running two hours before the riders set off.

When the first cyclists triumphantly crossed the finishing line at the Absa Cape Epic the Telkom Business team had every reason to applaud. Their multi-faceted involvement with the eight-day race was a victory on all sides.