

2020

Telkom SA SOC Ltd

# Integrated Report

for the year ended  
31 March 2020

Telkom

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### The following icons provide more insight

- Refers to King IV<sup>1</sup> recommended disclosure. The number inside the icon refers to the King IV principle applied.
- Indicates where non-financial indicators were externally assured.
- Refers the reader to online information

## The Telkom group

Telkom's purpose is to seamlessly connect our customers to a better life. We aim to provide our stakeholders with transparent, relevant and integrated information to enable them to make better and more informed decisions about Telkom – connecting our reporting with their expectations.

This integrated report (this report) covers the financial year 1 April 2019 to 31 March 2020 (FY2020 or the year) and includes significant subsequent events up to the date of approval of this report. The reporting boundary covers Telkom SA SOC Ltd, which represents the Telkom group (Telkom or the group), which comprises Telkom company (the company) and its subsidiaries.

The Telkom company consists of divisions, namely corporate centre, Openserve, Telkom Consumer and Telkom Small and Medium Business (Telkom SMB). The group's subsidiaries are BCX, Gyro and Yellow Pages<sup>2</sup>. Telkom's business units are made up of these divisions and subsidiaries.

Telkom Small and Medium Business (Telkom SMB) is a division of Telkom. Yellow Pages is a wholly owned subsidiary. The Competition Commission approved the sale of the 35.1% stake of Yellow Pages by minority shareholders to Telkom SA SOC Ltd without conditions during the year. The business unit is now optimally resourced. The process of the financial separation is currently underway.

### Board approval

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

The board is of the view that Telkom's integrated report addresses all matters material to its stakeholders' decision-making and concluded that the information herein is materially presented in accordance with the IIRC <IR> Framework<sup>3</sup>. The board approved the integrated report on 24 July 2020.

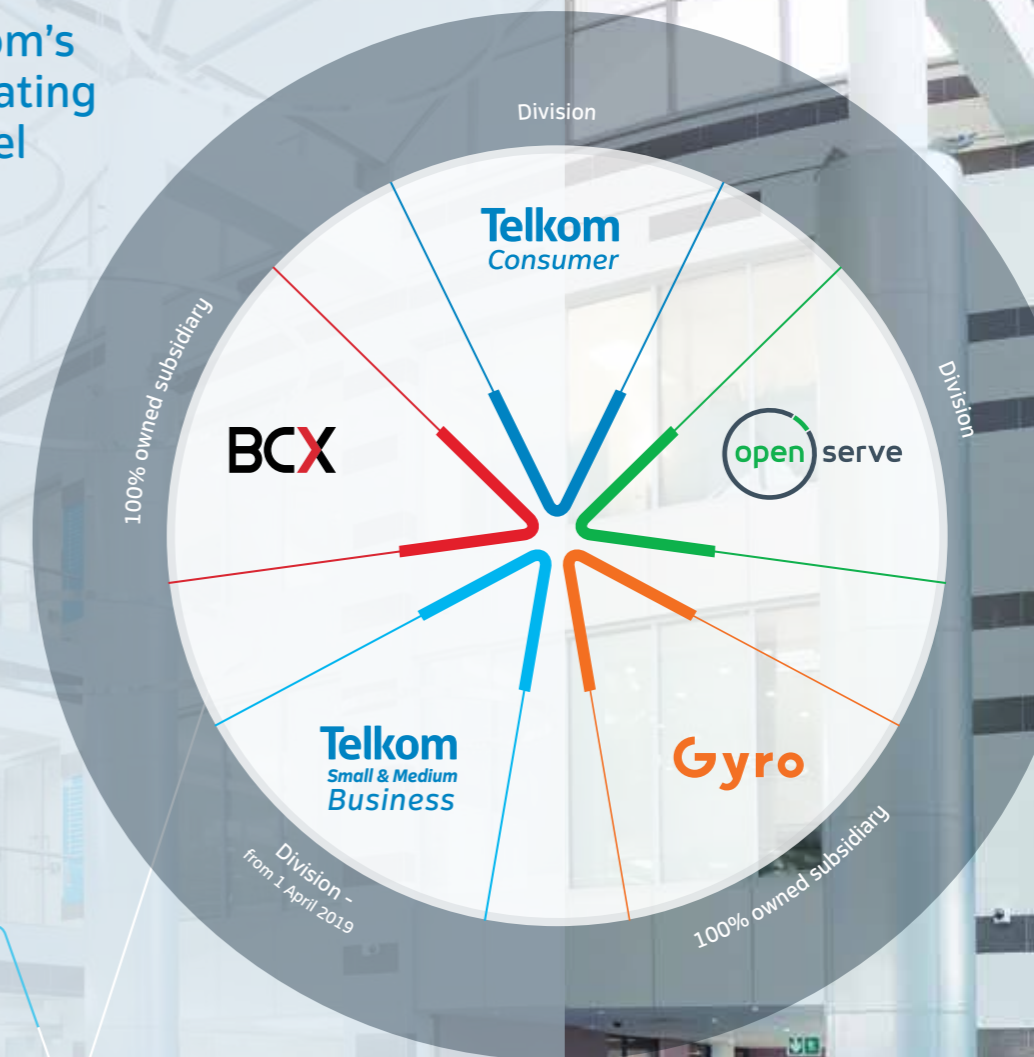
**Sello Moloko**  
(Chairperson)

**Sipho Maseko**  
(Group Chief Executive Officer)

**Tsholofelo Molefe**  
(Group Chief Financial Officer)

Santie Botha  
Keith Rayner  
Navin Kapila  
Khanyisile Kweyama  
Sibusiso Luthuli  
Dolly Mokgatle  
Kholeka Mzondeki  
Fagmeedah Petersen-Cook  
Sibusiso Sibisi  
Rex Tomlinson  
Louis Von Zeuner

## Telkom's operating model



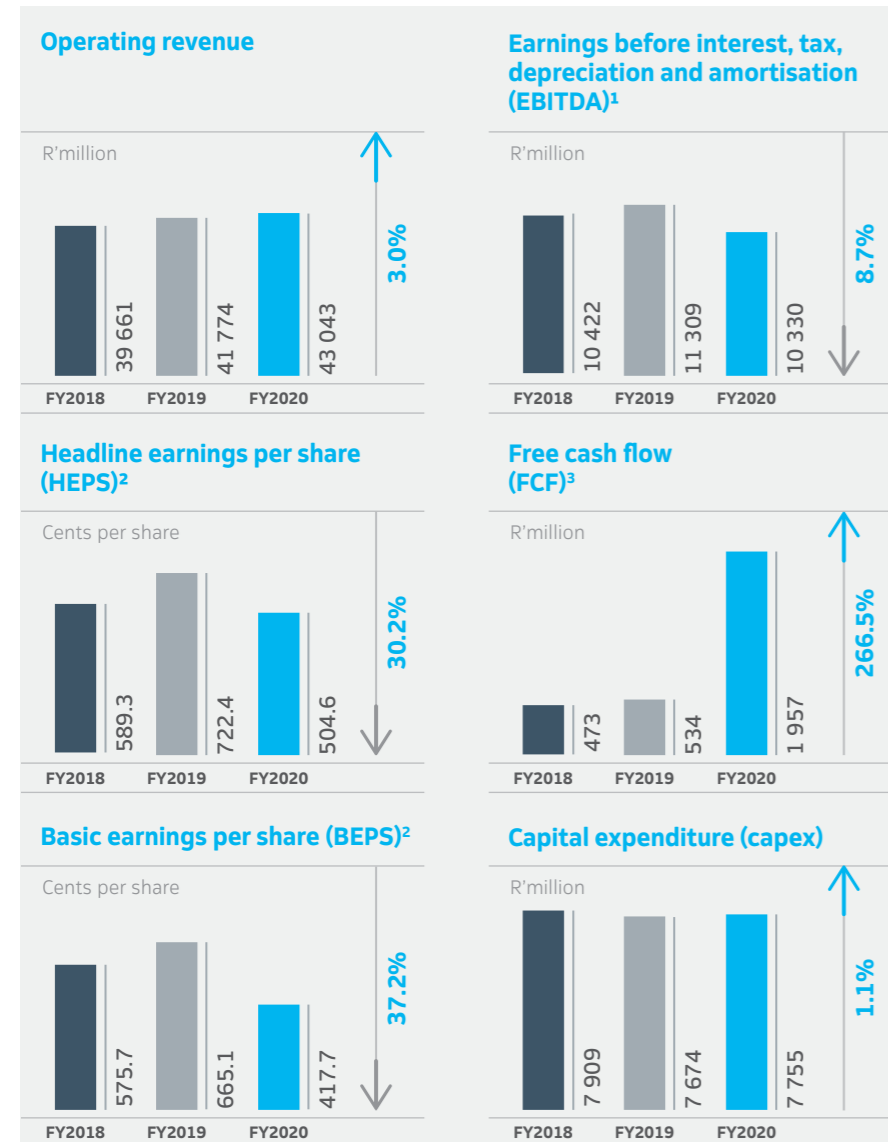
<sup>1</sup> King IV Report on Corporate Governance™ for South Africa, 2016 (King IV). Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.  
<sup>2</sup> Yellow Pages is known as Trudon.  
<sup>3</sup> International Integrated Reporting Council's (IIRC) International Integrated Reporting <IR> Framework.

# Integrated performance snapshot



## Financial capital

The financial capital available to maintain and grow our business.



All commentary, messaging, and indicators in this report for the year ended 31 March 2020 are presented on an International Accounting Standard (IAS) 17 basis for comparative purposes and exclude voluntary severance package (VSP) and voluntary early retirement package (VERP) costs of R1 186 million and the related tax impact of R332 million and the additional impairment of financial assets as a result of COVID-19 of R626 million and the related tax impact of R175 million. FY2019 excludes VSP, VERP and section 189 costs of R728 million and the related tax impact of R215 million.

<sup>1</sup> EBITDA is defined in the IFRS 8 segment note in the consolidated financial information and includes the pro forma adjustments. Refer to pages 140 and 141 for the reconciliation of the reported figures to the adjusted figures.  
<sup>2</sup> Based on pro forma financial information. Refer to pages 140 and 141 for the reconciliation of the reported figures to the adjusted figures.  
<sup>3</sup> Excludes R175 million paid for VSP, VERP and section 189 costs during FY2020 and R566 million paid during the comparative year.  
<sup>4</sup> Spectrum comprises the set of invisible radio frequencies that travel through the air.



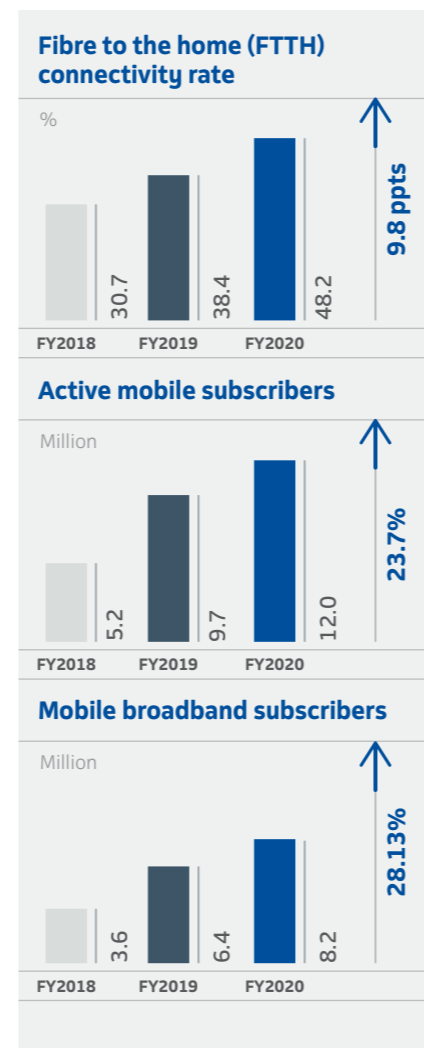
## Productive capital

**Fixed and mobile network** includes copper and fibre-optic cables that support fixed-line services to retail, business and wholesale customers

**Three major earth stations** providing satellite services to Africa

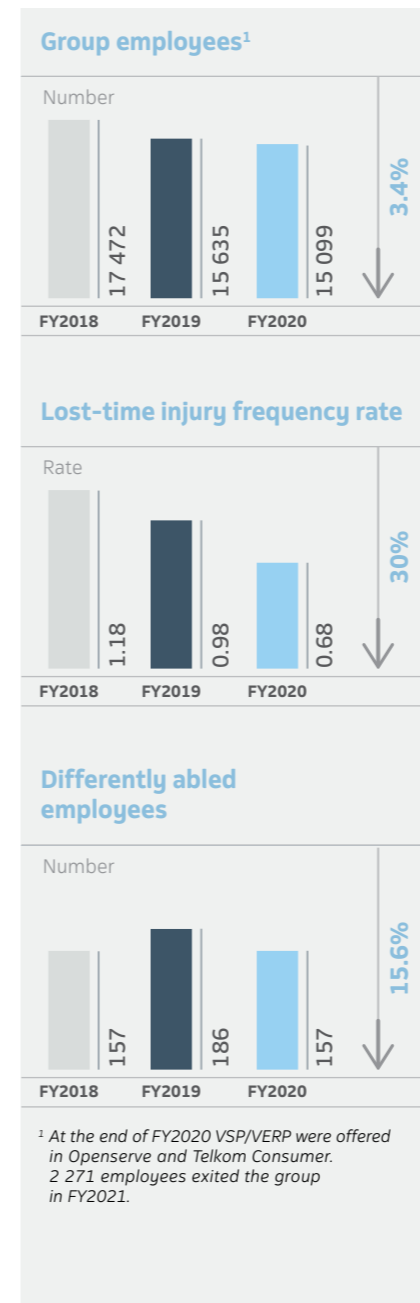
**Towers that transmit** our radio spectrum<sup>4</sup> and support the delivery of mobile voice and data services

**Data centres** that provide hosting, disaster recovery services and cloud services to business customers



## Human capital

Contributors to human capital include our employees' individual skills, competencies, experience, motivation to innovate and be productive, and their health and wellbeing. Our people create value and enable us to deliver against our strategic objectives.

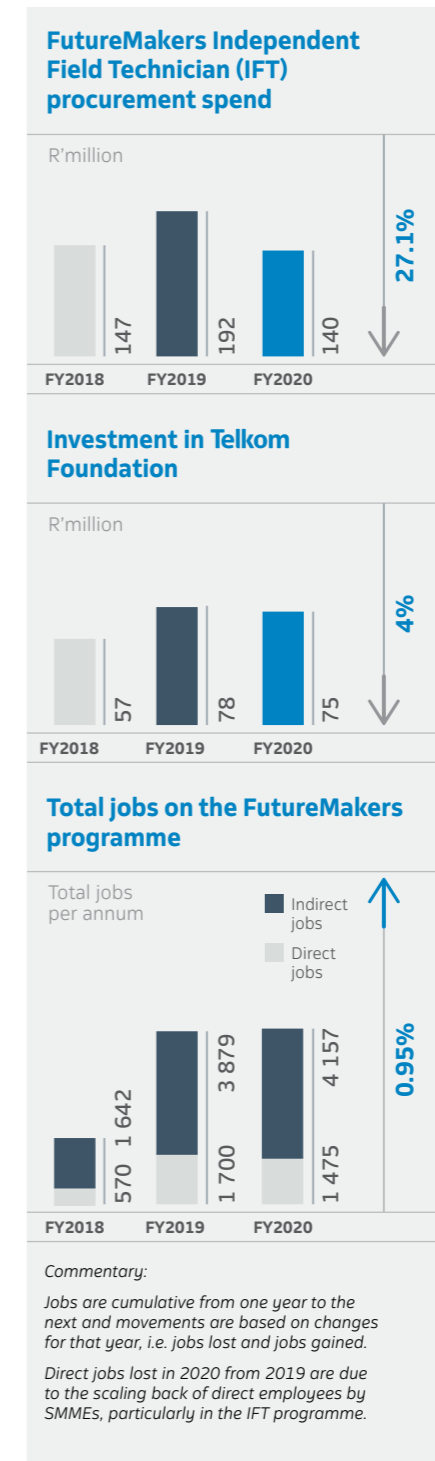


<sup>1</sup> At the end of FY2020 VSP/VERP were offered in Openseerve and Telkom Consumer.  
<sup>2</sup> 271 employees exited the group in FY2021.



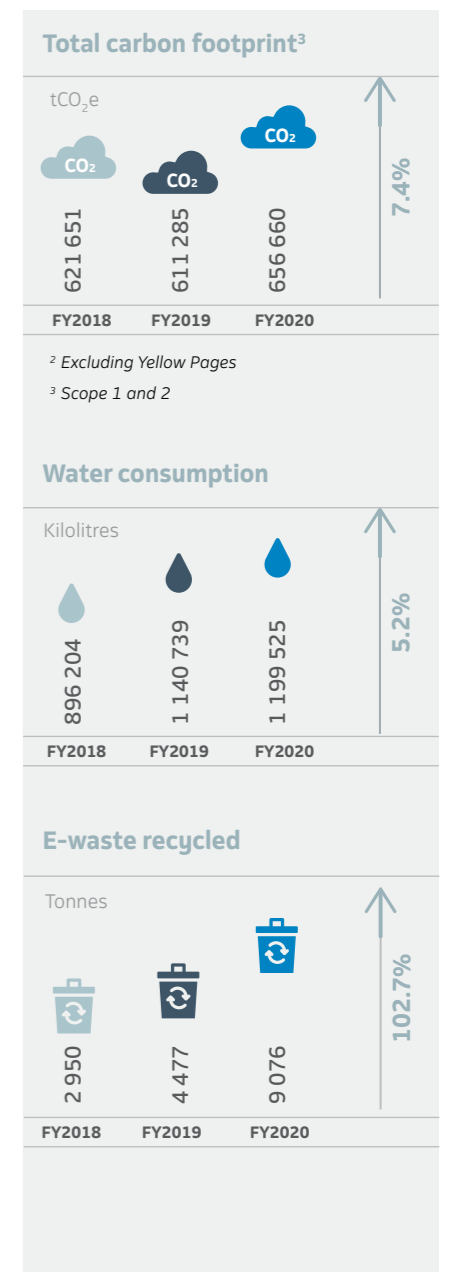
## Social and relationship capital

The social and relationship capital reflects our contribution to the South African society.



## Natural capital

This includes using natural resources, comprising renewable energy sources, such as solar energy, and non-renewable resources, such as water and natural gas. It includes the impact we have on the environment through the waste the business produces in doing business such as e-waste and carbon emissions



<sup>2</sup> Excluding Yellow Pages  
<sup>3</sup> Scope 1 and 2



# A Telkom snapshot

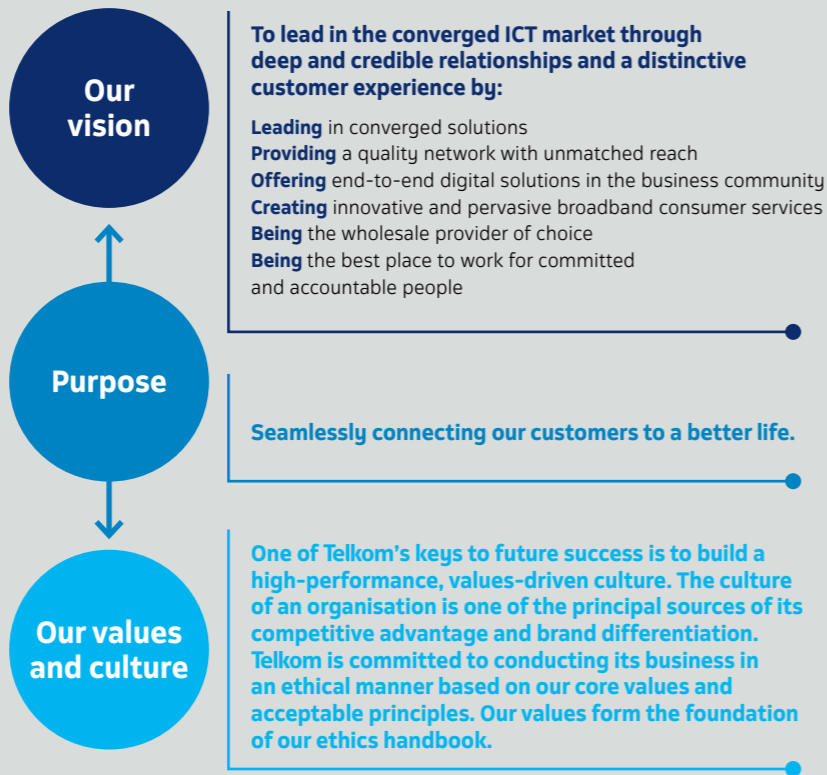
Overview of our business 4

Telkom's business units 6

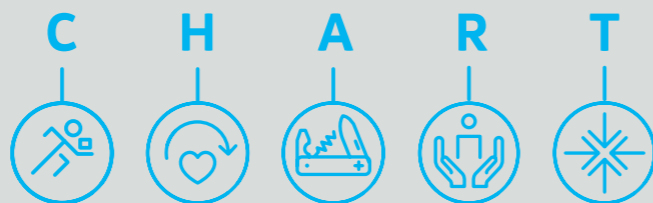
## Overview of our business

Telkom is a leading information and communications technology (ICT) services provider in South Africa. Our offering includes fixed-line, mobile and data services, and information technology (IT) services. Telkom is listed on the Johannesburg Stock Exchange (JSE) with the share code TKG. The South African Government owns 40.5% of Telkom, and 51.6% of our shares are held by institutional shareholders<sup>1</sup>.

## Telkom's purpose, vision and values



Telkom has five core values:



## Telkom's operating structure, products and services

This matrix sets out our operating structure and the products and services provided by our business units. The pages that follow contain further information.

### Products and services provided by Telkom's five business units:

#### Connectivity

Connectivity through ducted and aerial copper and fibre, mobile and wireless transmission

#### Infrastructure

Property, masts and towers solutions to Telkom and third-party clients, data centres, fibre

#### Next-generation network

Allows wholesale customers to connect their own customers

#### Converged ICT solutions

Provide ICT converged services and products which include cloud, Software-Defined-Wide Area-Network (SD-WAN), Augmented Reality (AR), Virtual Reality (VR), blockchain, Artificial Intelligence (AI), Robotics

#### Digital presence and e-commerce

The e-commerce platform supports integrated business solutions for small and medium business customers

	Openserve (division)	Telkom Consumer (division)	Telkom SMB (division)	BCX (100% owned subsidiary)	Gyro (100% owned subsidiary)
<b>Connectivity</b>	•	•	•	•	
<b>Infrastructure</b>	•			•	•
<b>Next-generation network</b>	•	•			
<b>Converged ICT solutions</b>			•	•	
<b>Digital presence and e-commerce</b>			•		



#### Continuous improvement

Listen, act, learn and innovate.

We seek continuous improvement and do things quickly, effectively and innovatively. We learn from our mistakes to enhance our performance and become more responsive to customer needs.



#### Honesty

Be real, open and truthful.

We keep our promises and commitments. We tell the truth and are open and transparent in all our dealings with each other, our customers, our stakeholders and the broader community.



#### Accountability

"If it is to be, it is up to me."

We take full ownership of our actions and deliverables. We do not blame others and always give our best. We are passionate and walk the extra mile for customers.



#### Respect

Ensure dignity to all.

Protect the environment. We treat people with courtesy, politeness and kindness, and actively listen to others. We value diversity and always seek to understand others.



#### Teamwork

Together we win.

We are team players with a common goal and shared vision. We deliver business results through co-operation and share our knowledge and resources to the benefit of the business and stakeholders.

<sup>1</sup> Refer to page 134 for more information on Telkom's equity and debt holdings.

# Telkom's business units



Refer to page 48 for Openserve's performance.



Refer to page 52 for Telkom Consumer's performance.



Refer to page 56 for Telkom SMB's performance.



Refer to page 58 for BCX's performance.



Refer to page 62 for Gyro's performance.

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

TELKOM CONSUMER is South Africa's largest fixed broadband provider measured by network deployed internet service provider and, together with its mobile network, a converged communications provider.

TELKOM SMB is a leading digital solutions company providing converged communication and intern service and technology solutions to small businesses in South Africa.

BCX is a state-of-the-art technology company that provides ICT solutions and an integrated portfolio of technology solutions in South Africa.

GYRO manages Telkom's properties and masts and towers portfolio to optimise and unlock asset value.

Customer/market segmentation

**Our open-access model allows us to provide broadband, enterprise, optical and carrier solutions to wholesale clients across segments:**

- Consumer** – addresses the broadband connectivity needs of end customers through multiple Internet service providers (ISPs)
- Enterprise** – enables business-to-business connectivity through high-bandwidth connectivity products and solutions
- Carrier** – comprises of client-specific high-capacity backhaul and managed connectivity services for network service providers
- Global** – provides network infrastructure connectivity, for example submarine cables and satellite

Telkom Consumer operates in the following segments:

- Consumer mobile
- Fixed-line residential
- Enterprise mobile



Served by the following access mediums:

- Owned mobile network
- Owned content platform
- Owned ISP
- Fixed services provided on a reseller basis



Products and services

**Broadband solutions** include next-generation access<sup>1</sup> across fibre and the optimal use of copper networks to enable high-speed internet connectivity

**Optical and carrier solutions** provide client-specific high-capacity backhaul and managed connectivity, assuring quality and reliability

**Enterprise solutions** enable business-to-business connectivity underpinned by ethernet-based products

**Global solutions** connects the world to South Africa by providing secure connectivity and networking solutions to international carriers and enterprises



Differentiators

**The comprehensive internet protocol (IP) based network** spans core, aggregation and access, making Telkom's next-generation network a unique wholesale market differentiator

- Largest wholesale open-access infrastructure** connectivity provider in South Africa
- The largest high-speed fixed broadband** connectivity provider in South Africa
- Capacity to grow network** infrastructure connectivity across all segments
- Rich experience and skills capacity** across network communication and connectivity services
- Extensive experience** in network design and deployment

- Data-led** mobile network
- Market-leading capability** across fixed and mobile, including content and gaming
- Broadband-led** proposition
- Fibre** backhaul base stations
- Higher data** propensity customer base

**The SMB customer segments comprise:**

- Single-owned businesses
  - Small businesses
  - Medium-sized businesses
- in all verticals and industries of the economy

**Our businesses provides the following services to small and medium businesses:**

- Fixed-voice, broadband and PBX solutions
- Mobile connectivity solutions
- IT solutions
- Payment and business lending
- A digital marketplace for small and medium businesses

Telkom SMB and Yep e-Marketplace for business focus on creating a digital platform business to improve customer experience across the value chain

Yep our intuitive **e-commerce platform** allows customers to complete a needs analysis, purchase, explore and buy conveniently, using their chosen payment method

Our **Yep e-Marketplace** enables small and medium businesses to sell, buy and bid for work opportunities in the marketplace

Our capabilities also include:

- Strong partnerships with OTT players on our online platforms
- Large customer base with long-standing relationships
- A regional sales force
- Digital first approach and an online service portal



**BCX customer segments comprise:**

- Corporate (retail, mining, banking, financial services and healthcare)
- Public sector
- Large business

Our diversified technology product portfolio provides a wide range of solutions, namely:

- Telecommunications solutions** including voice, Software-Defined Wide-Area Network suite, ethernet and over-the-top (OTT) solutions
- IT solutions** including digital, enterprise applications, customised industry-specific offerings, enterprise cloud and infrastructure, and field services management

Our capability to provide **end-to-end ICT solutions** **Market leader** with strong presence in connectivity, end devices, applications and other IT services markets

Largest Tier 4 **data centre** footprint

**Industry-specific** expertise

**Strategic vendor** relationships

Develops **customised applications**

- Mobile network operators
- Wireless ISPs
- Broadband providers
- Public sector
- All property segments (retail, office, industrial, residential, student accommodation and data centres)

- Masts and towers** with multi-tenant leases on existing and new towers
- Property development** includes new developments and repurposing and refurbishing existing buildings
- Property services** with real estate and tower management services include:
  - Asset management
  - Development management
  - Programme and project management
  - Property management
  - Facilities management
  - Space user-demand management

- Large independent, South African-based tower portfolio**
- National footprint** of properties, masts and towers
- Capacity and readiness** to become the preferred real estate solutions provider for non-mainstream large space users and real estate portfolio owners
- Leveraging the group's technologies** to implement smart-enabled buildings and next-generation property and facilities management solutions

<sup>1</sup> Next-generation access refers to a premium networking service which provides higher bandwidth compared to traditional access options.



# 2

## Value creation

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## How our leadership supports value creation: Chairperson's report

Telkom's group governance model supports value creation in the short, medium and long term, and ensures the board takes accountability and responsibility to direct, steer and monitor the group.

### Key themes



## The past year has been challenging and characterised by high levels of change and uncertainty. We have responded to our external environment and made difficult decisions to position Telkom for success in a dynamic market

The impact of COVID-19 and the national lockdown have dominated the news in a year where we were already facing macro-economic challenges, regulatory uncertainty, technology disruption and increasing competition.

Telecommunications is an essential service. The group has a duty to provide a stable network and ensure reliable connectivity into the marketplace.

Our number one priority is the health and safety of employees and we reconfigured how we do business during the lockdown period, with over 80% of our workforce working remotely. The group has taken a dynamic approach to the COVID-19 pandemic, which continues to disrupt every aspect of our lives and business operations. Refer to the Group Chief Executive Officer's (GCEO) report for more detail on our COVID-19 response.

The South African economy remains challenging with gross domestic product (GDP) growth contracting in the last two quarters of the year, increased government debt and Moody's ratings downgrade to sub-investment grade status. These factors place consumers under great financial pressure, impacting their ICT spend. This could worsen as the impact of COVID-19 becomes clearer. Telkom's own credit rating was also downgraded by Moody's and Standard & Poor's (S&P) due to the rating's link to the sovereign rating.

We operate in a highly regulated environment, which has been dominated by engagement over the Independent Communications Authority of South Africa's (ICASA) proposed framework for the allocation of spectrum, and the Competition Commission's Data Services Market Inquiry Report, which resulted in lower data costs.

Our industry remains highly competitive with a continuous stream of technology developments and disruptions to the industry.

The unfavourable economy and technology advances have driven a change in customer preferences to mobile, fibre and other lower-margin products and services. This contributed to the rapid decline in our high-margin fixed-voice business.

## We need to retain the right people and have the right skills in place to support our strategic goals

Succession planning for executive directors and critical roles was assessed by the board and the nominations and remuneration committees respectively.

We are satisfied with the talent we have in place, and the respective interventions that we have implemented. We have assessed the group executive committee (exco), subsidiary and business unit leadership skills and implemented development plans and retention mechanisms to ensure they are engaged and committed to remaining within the employ of the group. There were several factors that were considered by the board in succession planning for senior executives. These included:

- Consideration of the state of the business
- The current shift in the telecommunications space
- The current restructuring of the group
- The outstanding implementation of strategic matters

## We are committed to board diversity and ensuring the appropriate skills and experience on our board

Our board skills assessment identified the need for greater expertise in the areas of telecommunications, technology and market disruptors. To capacitate the board in these areas, training and upskilling members, we appointed Sibusiso Sibisi as an independent non-executive director with effect from 1 April 2019 to provide. Sibusiso is a leading expert in ICT, business-to-business intelligence skills and the fourth industrial revolution and he strengthened our knowledge base in these areas.

Keith Rayner was appointed as an independent non-executive director with effect from 15 July 2019, and he was elected as chairperson of the audit committee at the annual general meeting (AGM) on 27 August 2019. Keith is a seasoned director with deep technical knowledge of the JSE Listings Requirements and brings a wealth of corporate governance skills onto the board. Keith's skills in corporate finance, accounting, auditing and mergers and acquisitions identified him as the perfect candidate to replace Graham Dempster, who resigned as the audit committee chairperson at the annual general meeting (AGM) in August 2019, and from the board on 30 November 2019.

On behalf of the board, I welcome Sibusiso and Keith and look forward to working with them. We wish Graham well for his future endeavours, and thank him for his counsel and dedication over his five-year tenure.

We monitor director tenure and conduct an independence test in appearance and judgement on long-standing directors to ensure we have an independent board. We conducted an independence test for Navin Kapila during the annual board evaluation process. The results indicated that the board is satisfied with his level of independence and objectivity, and it recommended that he be re-elected at the next AGM.

We have a recruitment plan to manage director rotation and engaged an executive search service provider to address our identified skills gaps. The recruitment approach considers the talent required by Telkom and our race and gender diversity. We target credible directors who best fulfil the required criteria.

## Governance is key to ensuring Telkom remains a trusted provider of telecommunication services. Our clients must trust us to provide a stable and reliable network and protect their information

As the biggest provider of telecommunication infrastructure and related services in South Africa, with significant government ownership, it is imperative that our directors, executives, and employees subscribe to the highest levels of standards and conduct.

As a board, we believe a strong group governance framework ensures effective ethics management and accountability for all Telkom's employees. This framework assists us in our duties to ensure the effective provision of communication services, to protect information and to appropriately manage risks.

In support of ethics within the group, Telkom's new group ethics handbook was launched during the international fraud awareness week in November 2019, and there have been numerous awareness campaigns group-wide. The purpose of the group ethics handbook is to have a one-stop integrated policy to further embed strong ethical leadership.

## Transformation

Telkom SA achieved B-BBEE level 3 status largely impacted by the ownership score. Ownership was adjusted following a recent decision by the High Court in which it set aside the decision of Minister Rob Davies to grant facilitator status to government in respect of its shareholding in Telkom. The court ruled, however, that the setting aside of the Minister's decision would not affect the B-BBEE status of Telkom and its subsidiaries for the purposes of any tender or contract awarded and/or concluded after 7 May 2019 and prior to the date of the judgment, which was 8 July 2020. The court further ruled that, for the purposes of the aforementioned tenders and contracts, the B-BBEE status of Telkom and its subsidiaries shall continue to be treated as though government's facilitator status remained valid until the date of termination of the respective contracts, provided that the court's order shall have no application in respect of any renewal or extension of such tenders or contracts.

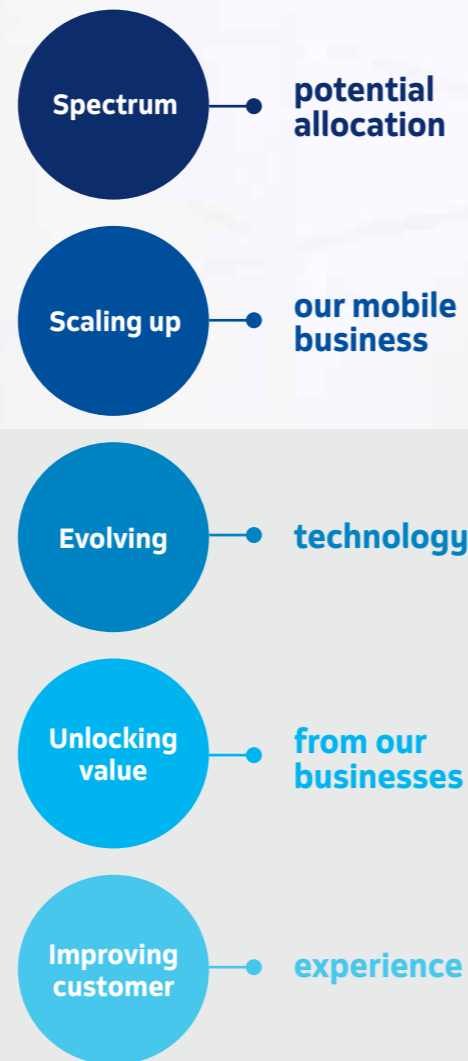
The above decision by the court necessitated the resubmission of BCX's BEE rating to the verification agency for reverification. BCX has subsequently achieved B-BBEE level 2 status.

Consequently, the ownership score has decreased from 52.45% to 27.84% and black women ownership from 20.92% to 13.41%. Management control points improved significantly due to several workforce transformation initiatives that were implemented during FY2019 and FY2020 as contained in the employment equity plan. A group-wide campaign to encourage differently-abled persons to declare their status kicked off in September 2019 and yielded some positive results in the management control scorecard. As part of our governance practice, this element is monitored monthly by the business units, and consolidated at a group level. The section 189 process may affect the management control score going forward.

## Board focus areas

The board drives Telkom's strategy and ensures that the appropriate operating model and resources are in place to meet current and future business requirements. Telkom's evolving operating model supports that strategy and improves Telkom's competitiveness by addressing accountability, governance and innovative ways of working.

The following operational and strategic matters were material in our board discussions, and are elaborated on throughout the integrated report:



## My induction to Telkom

Since joining Telkom as an independent non-executive director in March 2018 and my subsequent appointment as the board Chairperson in June 2019, I have completed a comprehensive induction.

This included internal briefings with the GCEO, directors and executives; site visits to the group's operations; and a governance roadshow with shareholders in August 2019 in preparation for the AGM.

These engagements served to expand my knowledge of the telecommunications industry and the key issues the business faces; strengthened my understanding of Telkom's operations and the technology behind the provision of our services; and provided insights into the concerns and information needs of shareholders.

Key governance themes from the shareholder roadshow have been noted and measures were implemented to address these, where possible. These included:

- Free cash flow (FCF) to form part of short and long-term incentives. *Refer to the remuneration committee report, page 108*
- Appropriate skills and diversity on the board and its committees. *Refer to the governance report, page 94*
- Succession planning for key executives
- Telkom's engagement with the regulatory bodies. *Refer to the GCEO's report, page 34*
- Government shareholding

I appreciate the insights received from all parties and look forward to future engagements to keep abreast of stakeholder views.

I would like to thank management for the co-ordination of my induction and support of my leadership role.



## Appreciation

I wish to thank my fellow directors for their hard work and input into the big strategic decisions we faced.

On behalf of the board, I thank Siphosiso Maseko and the group exco team for their energy and resilience in a tough year.

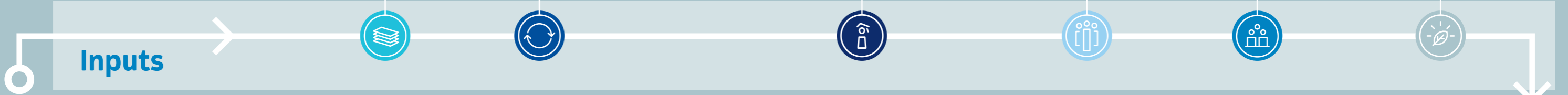
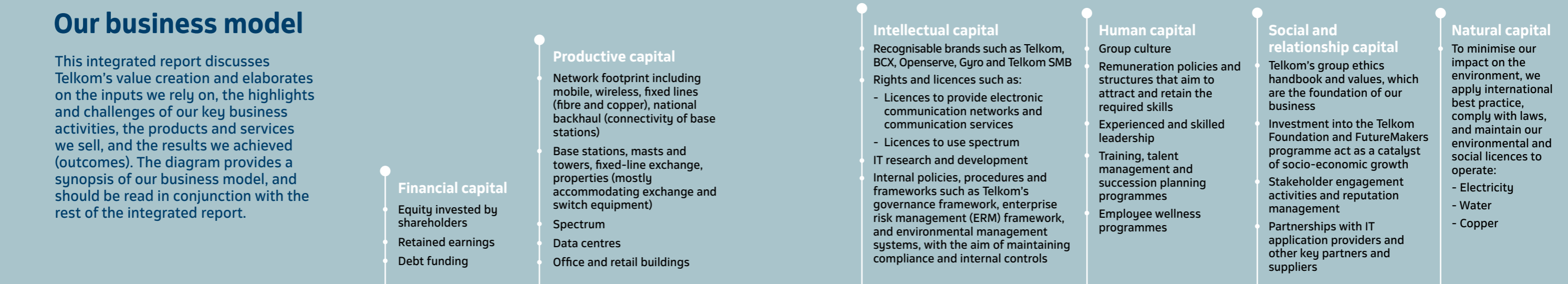
Over and above the challenges of the organisational restructure, they tirelessly ensured employee safety and a reliable network during COVID-19. We also deeply appreciate the continued support from organised labour, our employees, customers, service providers and suppliers.

I also thank my predecessor, Jabu Mabuza, for the proper governance tone and framework he established. His leadership demonstrated flawless ethics and fiduciary responsibility and set the standard for good governance into the future.

**Sello Moloko**  
Chairperson

# Our business model

This integrated report discusses Telkom's value creation and elaborates on the inputs we rely on, the highlights and challenges of our key business activities, the products and services we sell, and the results we achieved (outcomes). The diagram provides a synopsis of our business model, and should be read in conjunction with the rest of the integrated report.



## Outcomes

**Financial capital**

Refer to the Group Chief Financial Officer's (GCFO) report (page 43) for more on this capital.

- Operating profit on IAS 17 basis of R2 775 million (FY2019: R5 495 million) of which 47.7% (FY2019: 60.8%) was retained for future growth (retained earnings)
- Cash generated from operations of R12 756 million
- Annual dividend of 122 cents per share (FY2019: 362 cents per share)
- Repayment of debt of R1.2 billion and interest paid of R1 374 million
- Net debt/EBITDA ratio of 0.7x

**Human capital**

Refer to the human capital section for more information (page 70).

- R9 527 million (FY2019: R10 049 million) paid to employees and directors in remuneration and benefits, creating local employment
- Group employees 15 099 (FY2019: 15 635)
- Investment in employee training and development, including female leadership, enhances our human capital and contributes to increased diversity
- Talent and skills attraction programmes contribute to Telkom's pipeline of young, diverse talent, which is essential for future sustainability

**Social and relationship capital**

Refer to the social and relationship capital section for more information (page 80)

- Education initiatives through the Telkom Foundation reach learners and teachers
- Small business development through the FutureMakers programme – R140 million in procurement opportunities accessed by businesses (FY2019: R192 million), contributing to transformation in South Africa

**Natural capital**

Refer to the natural capital section for more information (page 90).

- Telkom's environmental impact categorises it as a low-risk organisation
- Environmental management programmes reduce water and electricity usage, and increase the use of renewable energy to support the future availability of these resources
- Total carbon footprint of 656 660 tCO<sub>2</sub>e (FY2019: 611 285 tCO<sub>2</sub>e)

**Productive capital**

Refer to the productive capital section for more information (page 56).

- 23.9% increase in active mobile subscriber base to 12 million
- 28.0% increase in mobile broadband subscribers to 8.2 million
- More than 165 900 kilometres of fibre deployed (FY2019: 163 800 kilometres)

**Intellectual capital**

Refer to the intellectual capital (page 66) and ERM and compliance (page 26) sections for more information.

- Our ICT solutions provide state-of-the-art converged solutions to customers and update our customer knowledge on our projects and services
- Compliance with licence requirements and other laws and regulations provide our legal licence to operate

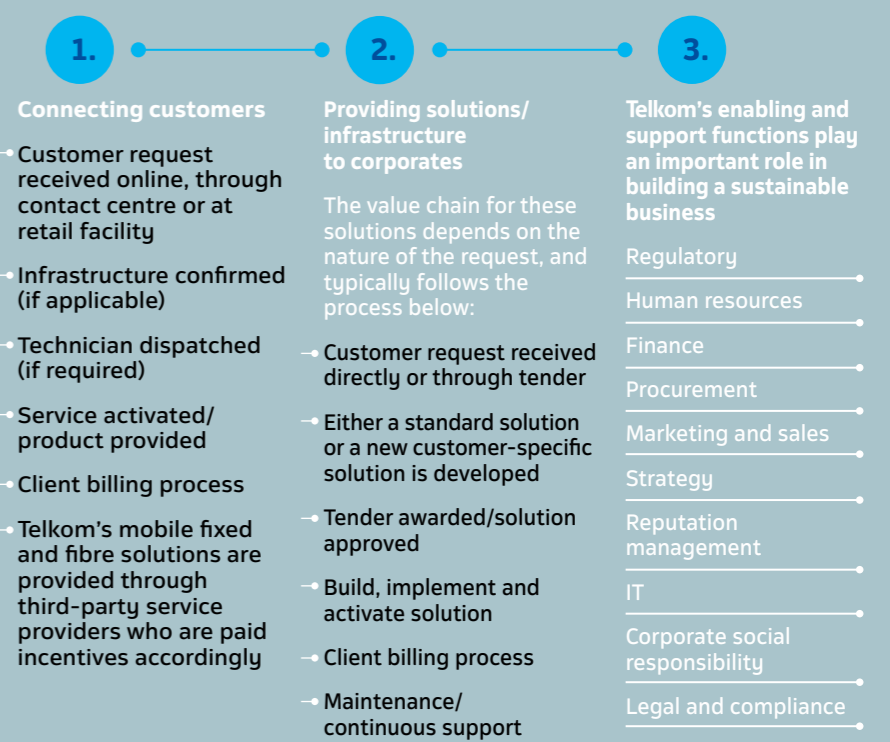
## Outputs

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

- Connectivity
- Infrastructure
- Next-generation network
- Converged ICT solutions
- Digital presence and e-commerce

## Business activities

**Ongoing planning, building and maintaining infrastructure**  
Network planning is the basis from which infrastructure is developed, expanded, improved and maintained. Various licences, assessments, commercial negotiations, compliance to regulations and laws, amongst others, are required during this process.





## Material aspects of our value-creation process

We define our material themes as the factors that substantively affect our ability to create value for our stakeholders over time. Our material themes determination process is set out below. Management's materiality determination process and the material themes were approved by the group exco and the audit committee on behalf of the board.

### Materiality determination process



## Understanding our operating environment

We monitor local and global trends to assess the potential impact on our markets and customers. As the external market and environment change, we review our strategy to capture new opportunities and to mitigate emerging risks.

For each key external factor, we indicate the timeframe in which we estimate it will significantly impact Telkom. For this integrated report, short term is the next financial year (ending 31 March 2021), medium term is the period to 31 March 2023, and long term is beyond April 2023.

### Key external factors

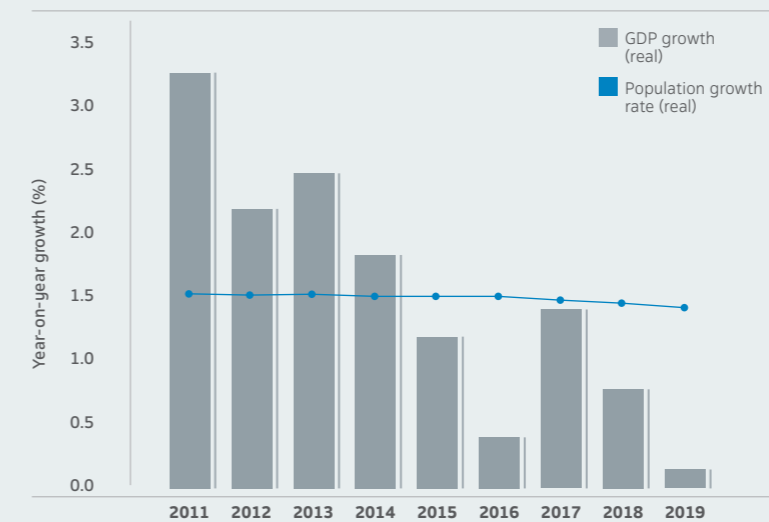
#### Local economic headwinds (short/medium)

Even before the negative impact of COVID-19, South Africa's economic growth remained constrained. It continued to trend below the population growth rate of 1.6% as shown in the graph below.

Moody's downgraded South Africa to junk status in March 2020, with government debt expected to reach 91% of GDP by 2023, and the government deficit to widen to 8.5% of GDP in 2020\*.

Economic growth is hampered by electricity cuts and a looming global recession. South Africa's economic recovery depends on government's plans to introduce structural reforms to stimulate growth, curb state expenditure and encourage investment.

Comparison of GDP growth (real) versus population growth



Source: Stats SA website. GDP growth (real) at 2010 prices

\* "Moody's downgrades SA to junk", Business Day, 28 March 2020



### COVID-19 pandemic

South Africa and the rest of the world were severely impacted by the COVID-19 pandemic and ensuing social and economic disruptions. While these are mentioned in this overview of Telkom's operating environment, the full impact will only be experienced in FY2021 and beyond.

#### Implications for our strategy

Telkom will continue with its sustainable cost management and focused capital investments to mitigate the downside risk of lower economic growth and the limited spending capacity of customers.

Initiatives to improve operational efficiency will enable us to offer products, services and solutions that are cost-effective and provide superior value to customers as they navigate economic difficulties.



Related material theme

Economic climate

## Key external factors continued

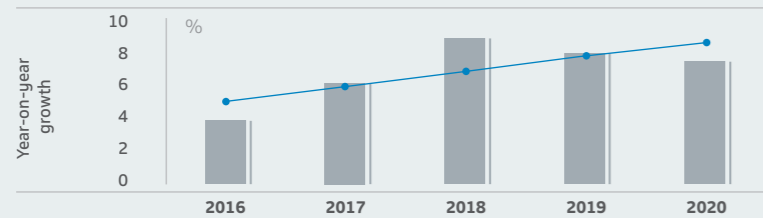
### ICT sector and technology (short/medium term)

Despite the economic downturn, we anticipate that the ICT sector will continue growing in FY2021, fuelled by increased demand for digital and telecommunication services on the back of measures to combat COVID-19 by reducing human contact.

We expect digital adoption to grow, driven by the increase in people working from home on fixed broadband, deeper penetration of smart mobile devices and access to cheaper data, with video services driving increasing data traffic.

The enterprise segment is experiencing weak demand and a shortage of digital transformation skills to implement cost-cutting technology. The consolidation of ICT companies is expected to continue through FY2021.

#### Projected growth South African fixed data traffic PB (petabytes)



Source: BMI-T 2019

### Implications for our strategy

Telkom is developing integrated solutions for selected vertical markets, including health and retail. These are combining connectivity with additional ICT services to expand South Africa's digital footprint. Specifically, in healthcare, we are supporting various government initiatives to use ICT in the management of the spread of COVID-19, such as partnering with the National Institute for Communicable Diseases (NICD) to develop a track and trace tool. We continue to focus on developing digital skills.

Telkom will achieve growth organically and through partnerships and acquisitions. Along with digital solutions, cloud and cybersecurity services remain focus areas.



Related material themes

- Customer expectation and experience
- People skills and expertise
- Evolving technology and ICT market trends

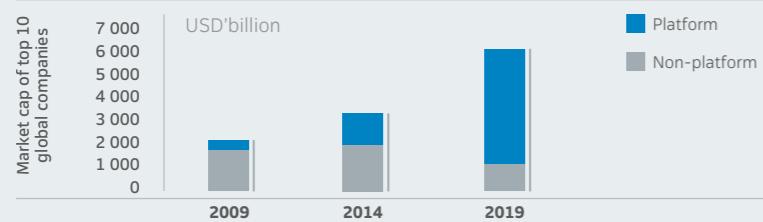
### Digital ecosystems

New technology drives the rise of digital ecosystems, comprising diverse companies from the telecom, technology and media industries. They combine their products and services into new business models to disrupt existing value chains, and to create new ones.

This is done by creating new revenue sources through digital transformation, lowering costs via the digitalisation of internal business processes, and accelerating the speed of technology adoption by enterprises and their end customers.

Locally developed digital platforms are increasingly becoming the primary channel to serve customers in banking, content, travel, health and education.

#### Platform companies dominate the top 10 global companies



As part of the strategy to diversify our portfolio, Telkom will continue investing in the digital e-commerce ecosystems developing around ICT services, financial services and electronic marketing. This is especially relevant for Telkom SMB, with the launch of its digital-first e-commerce platform for small and medium enterprises in May/June 2020.

We seek to find the optimal balance between crafting meaningful partnerships and developing internal capabilities.

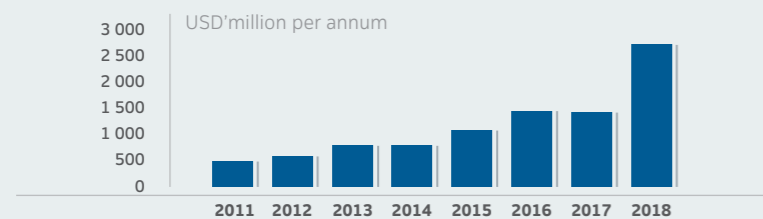
Source: Accenture: Platform Business Models (Oct 2019) p28 (Platforms package products and services into a single solution to drive seamless customer experience. The largest examples includes Microsoft, Apple, Amazon, Alphabet and Facebook)

### Cybersecurity threats

As digital transformation initiatives increase, so does the sophistication of cybersecurity threats. This requires enterprises to develop a layered, holistic and proactive approach to mitigate cybersecurity and digital risks.

Furthermore, as infrastructure and services are provided beyond the corporate network parameter (for example, in the cloud), we require new security approaches to ensure effective prevention, detection and response to threats.

#### Growing cost of cybercrime reported to the Internet Crime Complaint Centre



Source: Statista 2019 (From FBI, IC3, US DoJ data)

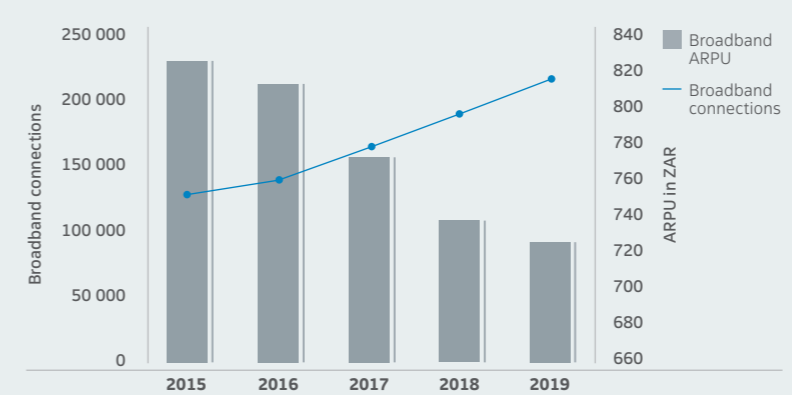
Telkom invests in people, processes, technology, partnerships, solutions and intellectual property to remain at the forefront of cybersecurity capabilities. This enables us to effectively safeguard the confidentiality, integrity and availability of our own and customers' digital workloads and data.

We invest in operationalising the security operations centre, powered by in-house intellectual property and vendor technologies. This is a central component of our internal security processes and the managed security services provided by BCX.

### Intensified competition (short/medium term)

Competition is robust in the South African ICT industry. Traditional market players are being challenged by the emergence of new service providers who are rolling out fibre and wireless infrastructure based on start-up operating models, and regional service providers focusing on niche locations. Price remains a key measure of value for customers, driving down traditional voice and connectivity revenues.

#### Fall in fixed broadband average revenue per user (ARPU), despite growth in broadband connections



Source: Analysys Mason Datahub (30 March 2020)

### Implications for our strategy

Telkom is committed to product innovation through data-led offerings such as FreeMe, SmartVoice and pre-paid broadband.

We continue strategically planning and responding to new regulatory frameworks aimed at driving increased competition through lower effective prices. New innovative platforms, such as Mo 'Nice, utilise advanced analytical modelling to personalise offers to mobile customers, driving increased revenues and retention.



Related material themes

- Intense competitive landscape
- Customer expectation and experience

### Regulatory environment (short/medium term)

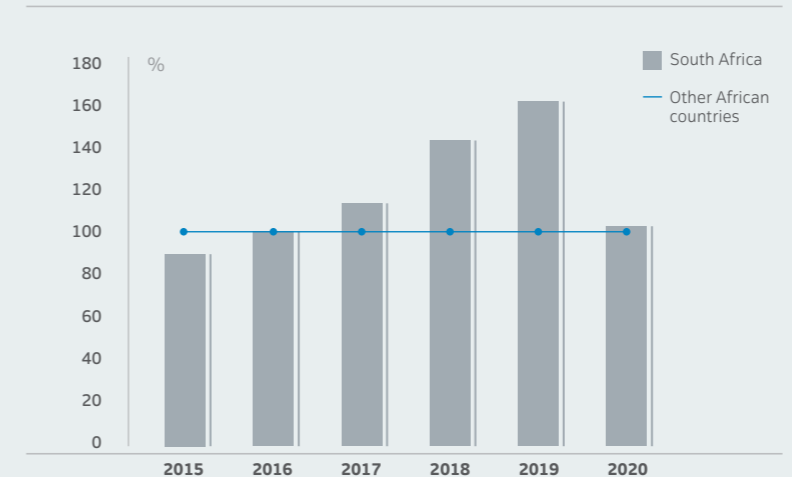
The release of high-demand spectrum is imminent and will impact the future mobile market structure.

ICASA has issued an information memorandum setting out its proposed framework for licensing. It has undertaken to auction spectrum before the end of 2020, and to license the wireless open-access network (WOAN) in 2021. In April 2020, the mobile service providers (including Telkom) were granted temporary spectrum licences in response to the COVID-19 national disaster regulators.

The Competition Commission's Data Services Market Inquiry report led to a decrease in 1 GB data bundle prices and an increase in the provision of zero-rated services in March 2020. Telkom altered the IP connect product offering to provide better value to ISPs.

The results of the ICASA Priority Market Inquiry into the efficacy of competition in the mobile broadband market are expected later in 2020.

#### Price of 1 GB data in South Africa compared to median of 36 African countries



Source: SA Competition Commission - Data Market Services Enquiry December 2019

### Implications for our strategy

Although Telkom believes that the price remedies imposed by the Competition Commission did not address the competitive failings in the mobile market, overall the regulatory developments in FY2020 were largely consistent with Telkom's expectations, and are factored into our commercial strategies and plans.

Our ambition to win in broadband is affected by access to spectrum, and we continue to participate in the regulatory processes for spectrum auction and establishment of the wholesale open-access network.

Lower data prices provide less room for Telkom to differentiate based on price. We extended our network coverage through an enhanced roaming agreement and introduced the YQ self-service capability to improve customer experience.

Telkom continuously engages with regulators and policymakers on levelling the playing field in the mobile sector and on measures to improve competition.



Related material theme

- Regulatory environment

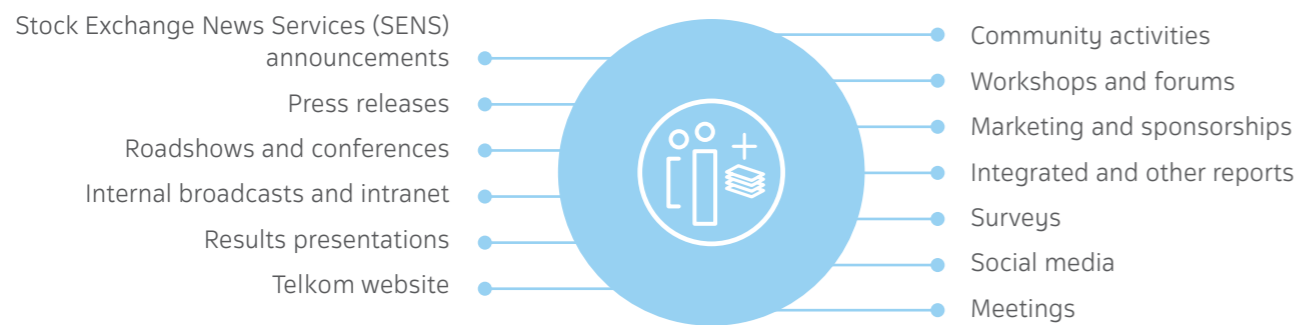
## Engaging with our stakeholders

Stakeholder engagement is fundamental to a successful business. We aim to create value for Telkom and the society through active stakeholder engagement. Strong and constructive stakeholder relationships, built on trust, respect, transparency, constructive engagement and ethical business practices are important.

Telkom commits to open communication with stakeholders. This entails listening to them, keeping them informed, and transparently disclosing how we use their suggestions or address their concerns.

Our stakeholder engagement framework and policy guide us regarding stakeholder engagement. Our stakeholder management programme involves identifying stakeholders, engaging with them, understanding their challenges and expectations, and aligning these to Telkom's strategic and operational objectives and targets.

Our key stakeholder groups are consistent with FY2019. We expanded the definition of suppliers to include business partners. The definition of media now includes opinion makers and influencers. We engage with stakeholders regularly through:



## Governance structure



## Monitoring and reporting

Properly assessing stakeholder relationships is critical and allows Telkom to prioritise resources. A key focus going forward will be to assess the effectiveness of stakeholder engagements and relations through key performance

indicators (KPIs) that are linked to value creation and the relationship quality. We will ensure this is measured accurately and consistently across the group. We report on the most material stakeholder concerns that impacted Telkom in FY2020 (refer to page 23).

## The value we create for stakeholders

### Investor community

<p><b>How investors create value for Telkom</b></p> <p>The investor community creates access to equity and debt markets. It drives demand for Telkom shares, thereby impacting our market capitalisation.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>Long-term sustainable return on investment</li> <li>Stabilisation of debt levels</li> <li>A relationship of trust and transparency</li> <li>Access to management</li> <li>Clearly articulated investment case</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>Telkom provides a sustainable return on the investments of providers of financial capital through dividend payments, share price appreciation, capital and interest payments on bonds and interest repayment on loans</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>Access to equity and debt markets</li> <li>Investor confidence</li> <li>Fair valuation of share price</li> <li>Positive credit rating</li> </ul>

### Customers

<p><b>How customers create value for Telkom</b></p> <p>Customers underpin our existence and drive our reputation and brand. They consume the products and services from which we generate revenue. Customer requirements guide product or service development in terms of new trends.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>A relationship of trust and transparency</li> <li>Reliable and affordable products and services</li> <li>Value-rich products and services</li> <li>Solutions that support cost management</li> <li>Timeous resolution of complaints and issues</li> <li>Effortless transactions</li> <li>Secure information</li> <li>Responsive communication on relevant products and services</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>Connectivity provides the opportunity to improve the lives and businesses of South Africans</li> <li>Telkom's affordable and innovative data packages for the individual, including access to affordable entertainment platforms, provides people with the opportunity to enrich and improve their lives</li> <li>Selling space on our communications towers enables communications businesses to access their customers without incurring passive infrastructure development costs</li> <li>By taking cost and complexity out of our customers' ICT environments, we provide a launchpad for their digital transformation. Through our expertise and experience, we design, implement and manage our customers' operational and technology environments</li> <li>By investing in e-commerce marketplace platforms, we support and help small and medium businesses to grow, which supports local employment and economic growth</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>Affordable products and services</li> <li>Quality network</li> <li>Provide good customer experience</li> <li>Customer retention</li> <li>Increase in market share</li> </ul>

## Government and regulators



<p><b>How government and regulators create value for Telkom</b></p> <p>Government and regulators publish policies, legislation and regulations that impact the cost of doing business and our ability to derive a reasonable return on investment. They are authorised to penalise the group through fines for non-compliance with legislation and regulations. They provide a regulatory and disclosure framework that provides confidence to providers of capital.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>• A relationship of trust and transparency</li> <li>• Compliance</li> <li>• Quality and affordable products and services across South Africa</li> <li>• Effective competition in the market</li> <li>• Confidence of providers of capital in the market</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>• Support South Africa's economic growth to enhance GDP through financial contributions such as tax payments, licence fees, contributions to the Universal Service and Access Agency, and investment in networks and infrastructure</li> <li>• Support local procurement and employment and value-adding corporate social initiatives (refer to suppliers and business partners and communities, pages 21 and 22)</li> <li>• Enable government's social and economic development mandate through access to secure telecommunication products and services</li> <li>• Shape government policies through robust engagement with government regulators and competition authorities, and participation in industry forums. This engagement helps shape national and international policy and regulatory frameworks, providing technical expertise and industry perspective on regulatory developments and customer needs and concerns</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>• Fair regulations/policies that encourage investments</li> <li>• Effective competition</li> </ul>

## Employees



<p><b>How employees create value for Telkom</b></p> <p>Employees possess the intellectual capital required for all core and supporting business processes. They are our strategic partner in ensuring the group's sustainability through performance, culture and skills.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>• A relationship of trust and transparency</li> <li>• Job security</li> <li>• Fair remuneration and recognition and reward for performance</li> <li>• Development and career progression</li> <li>• A non-discriminatory and safe work environment</li> <li>• Flexible work environment</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>• Employment and career development opportunities in a non-discriminatory environment, supported by an integrated, accessible and flexible employee wellness programme that extends to employees' families</li> <li>• Remuneration includes benefits to enhance value to employees</li> <li>• Skills development programmes, such as internships and learnerships, extend to both the employed and unemployed. Employees benefit by broadening their skill base while the unemployed gain employment for the duration of the programme while broadening their skill base, which in turn improves their chances of securing permanent employment with Telkom or other entities</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>• Productive, efficient and competent workforce</li> <li>• Talent attraction and retention</li> <li>• An innovative workforce</li> <li>• Ethical leadership</li> </ul>

## Organised labour



<p><b>How organised labour creates value for Telkom</b></p> <p>Organised labour supports sound labour practices and assists in communicating labour-related matters. It is a strategic partner in shared value between Telkom and our employees. This relationship can influence the group's strategic plans and operations through industrial action.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>• A relationship of trust and transparency</li> <li>• Proactive consultation on business changes that impact employees and collaboration on agreements</li> <li>• Stable workforce</li> <li>• Continuous commitment to drive skills development and employment equity progress</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>• Employees allowed to exercise their right to freedom of association</li> <li>• Access to the workforce</li> <li>• Support for shop stewards</li> <li>• Facilitate fee deduction</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>• Constructive relationships</li> <li>• Satisfactory solutions to disputes</li> </ul>

## Suppliers and business partners



<p><b>How suppliers and business partners create value for Telkom</b></p> <p>We create value-adding partnerships with our suppliers and business partners to deliver high-quality products and services to customers. Suppliers underpin our value chain and directly influence raw materials and other input costs.</p> <p>Business partners often represent Telkom to customers. Suppliers and business partners impact our ability to meet customers' expectations.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>• Timely payment</li> <li>• Adherence to payment terms</li> <li>• Effortless transactions</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>• Suppliers and business partners generate revenue through their products and services to Telkom</li> <li>• Telkom provides a platform to make products available to the market and their brand is strengthened through association with and/or accreditation by Telkom</li> <li>• Training and support are provided where relevant</li> <li>• Our enterprise and supplier development (ESD) and transformation programmes support local procurement as far as possible. We also support local employment through supporting and developing local contractors</li> <li>• We purchase raw materials and products at fair terms to support individual businesses</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>• Supporting local procurement, employment and upliftment of small and medium businesses</li> <li>• Leading B-BBEE status</li> <li>• Joint market opportunities</li> </ul>

## Communities



<p><b>How communities create value for Telkom</b></p> <p>Our communities drive our social licence to operate and we have a responsibility to contribute to the socio-economic environment in which we operate. Civil society and forums can impact our operations.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>Affordable products and services</li> <li>Access to communication</li> <li>Financial support</li> <li>Access to servitude</li> <li>Job creation and business opportunities</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>The nature of Telkom's products and services allows it to add value to communities in a broad context</li> <li>Our infrastructure allows any person to transact through electronic banking, either from an ATM or a point of sale</li> <li>Providing affordable internet connectivity to individuals as well as small, medium and big businesses supports local employment and economic growth. This is further enhanced by skills development and ESD programmes</li> <li>The Telkom Foundation and other initiatives support communities, with a focus on education</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>Partnerships with communities</li> <li>Good corporate citizen status</li> <li>Youth empowerment</li> <li>Enabling small and medium-sized enterprises (SMEs)</li> </ul>

## Media, opinion makers and influencers



<p><b>How media, opinion makers and influencers create value for Telkom</b></p> <p>Media, opinion makers and influencers drive reputation and brand perception.</p>	<p><b>Interests, needs and expectations</b></p> <ul style="list-style-type: none"> <li>Access to information</li> <li>Responsiveness</li> <li>A relationship of transparency and trust</li> <li>Educating the public</li> </ul>
<p><b>The value Telkom creates</b></p> <ul style="list-style-type: none"> <li>We provide information and context on technical and operational developments as well as thought leadership on issues affecting our industry</li> </ul>	<p><b>Telkom's desired outcomes</b></p> <ul style="list-style-type: none"> <li>Enhanced reputation</li> <li>Positive brand positioning of Telkom's products and services</li> </ul>

## Material stakeholder concerns

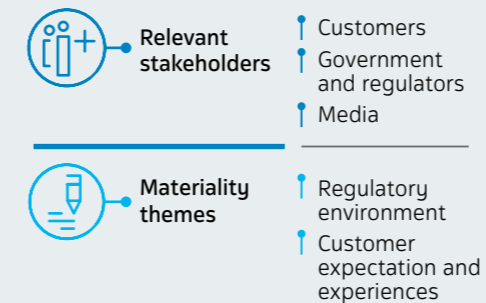
We report on the most material stakeholder concerns in FY2020. They are overarching key themes that emerged from our stakeholder engagements.

### Material engagement theme

#### Lower cost to communicate

The Data Services Market Inquiry identified the duopoly structure of the mobile market as being the greatest bottleneck to competition and lowering costs to communicate. The inquiry found that mobile data prices were too high and required commitments from the largest players to reduce prices. There were no findings against Telkom Mobile.

The Competition Commission Data Services Market Inquiry recommended that Telkom address wholesale connectivity pricing based on prima facie evidence that Openserve's IP Connect product was excessively priced.



### Telkom's response

Telkom has always been committed to providing cost-effective mobile solutions. For this reason, the Competition Commission did not require any commitments from Telkom to lower its prices for mobile data. In striving to ensure that customers can make informed choices when purchasing data services Telkom notifies customers of the in-bundle effective rate per megabyte in its purchase confirmation messages to subscribers.

Telkom is committed to assisting in narrowing the digital divide by extending zero-rated access to essential government services and educational institutions to its mobile subscribers. This includes access to the primary URLs of more than 389 educational sites including universities, further education and training institutions, websites such as Wikipedia, Everything Science, Everything Maths and Department of Basic EducationCloud. Refer to page 87 for the case study on zero-rated services.

In response to customer demands and the evolution of the market, Openserve has been considering changing the way in which it provides wholesale fixed broadband for some time. The introduction of a more competitive fixed broadband end-to-end offering has removed the perceived competition concerns associated with IP Connect. Telkom and the Competition Commission have reached agreement that the new offering addresses the concerns raised during its Data Services Market Inquiry. The new IP Connect has also enabled ISPs to better manage their costs and the general feedback from industry has been positive.

### Material engagement theme

#### Spectrum

The Minister of Communications published the policy on high-demand spectrum (HDS) and policy direction on licensing of a wireless open-access network (WOAN) on 26 July 2019.

ICASA published its information memorandum (IM) on licensing HDS (five bands) on 1 November 2019 and comments closed on 31 January 2020. ICASA received more than 50 responses to the IM from a range of diverse stakeholders reflecting the interest in access to HDS and/or the WOAN.

After the declaration of the National State of Disaster, and the publication of directions by the Minister of Communications and Digital Technologies, ICASA issued temporary spectrum licences to Telkom (and others) to address the increase in data demand during the state of disaster. These licences are valid for the duration of the national disaster, but no later than 30 November 2020.



### Telkom's response

ICASA's IM does not address competition in the mobile market and in Telkom's view, it will further entrench the duopoly. Participating in the auction is necessary to acquire spectrum to compete effectively. Telkom requested ICASA to investigate and conclude on the various commercial HDS arrangements between the duopoly and smaller licensees and ICASA's Mobile Broadband Inquiry, prior to licensing spectrum.

Telkom started deployment of the temporary licensed spectrum to address the increased data traffic demands resulting from the National State of Disaster. The temporary licensing of spectrum provides insight into the upcoming auction pertaining to demand and interest in HDS. Telkom will continue to advocate for the release of spectrum to be done in a manner that reshapes the market structure and enables competition.

It is anticipated that ICASA will publish two Invitations to Apply (ITAs) for the licensing of HDS (auction) and the WOAN in the first quarter of FY2021. The auction is planned for December 2020, while licensing of the WOAN is expected to be completed by December 2021.

**Material engagement theme**

**Evolution of fixed business and its impact on the group EBITDA.**



**Telkom's response**

Our challenge for the year was the impact of the fixed-voice revenue on group EBITDA as the decline intensified. The growth in new revenue streams, which have lower margins, was not sufficient to offset the decline caused by high-margin fixed-voice on group EBITDA.

Over time, as the revenue mix evolves, we expect the contribution from the fixed-voice revenue to reduce and the contribution from the mobile business, with improved EBITDA, to increase and offset the impact of fixed-voice on group EBITDA. Until this inflection point, management will focus on sustainable cost management which includes the benefits of the restructuring programme and other levers to ensure that we offset the gap caused by the decline in fixed-voice.

In line with this technology shift, the business requires a new skill set to respond to customer needs. Telkom offered VSP and VERP to 2 271 employees as an alternative to retrenchments at a cost of R1 186 million in the current year; 75% of the employees took early retirement packages.

The company expects phase two to commence in FY2021.

The impact of fixed-voice on group EBITDA should be offset in the next 24 months.

**Material engagement theme**

**Sustainability of our mobile business given the reduction of prices by telco peers and the imminent release of spectrum.**



**Telkom's response**

The mobile business grew 54.4% in service revenue from a higher base to R12.6 billion to remain the fastest growing mobile business in South Africa, with 12 million customers. This was underpinned by our ongoing network investment and our successful broadband-led proposition, which continue to resonate well with customers.

Despite ongoing competitive threats with changes implemented by our competitors in the mobile space, our broadband-led propositions are market leading being best in class for value and effective pricing. The mobile business remains profitable, with its EBITDA margin, on an IAS 17 basis, improving from 1.4% to 14.9% over the past three years.

Our mobile business strength includes:

- Data-led network
- Spectrum, base station with fibre backhaul
- Data-led product proposition and higher data propensity customer base

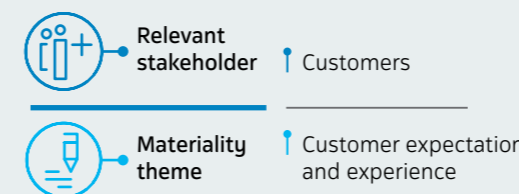
Our customer base average data usage is approximately four times higher than the dominant players.

We expect the mobile business to continue to grow, and improve EBITDA margin. It should become the number three player in terms of revenue share over the next year or so.

**Material engagement theme**

**Customer complaints**

Complaints cover network performance in terms of coverage, capacity and outages, as well as the turnaround time to resolve complaints and issues.



**Telkom's response**

Telkom's network was impacted by load shedding and vandalism during the year, resulting in cutovers to network elements that provide redundancy in case of failure. At an access site level battery theft remains a challenge that Telkom is managing by replacing batteries. Incidents where national impacts were apparent on mobile and fixed call centre platforms highlighted technical specifics that were dealt with technically to avoid a reoccurrence. The root cause analysis for these incidents is taken into consideration for operational configuration, as well as new deployments.

Regardless of the incidents, capacity management has overall assisted with minimising incidents. With the ongoing pandemic (COVID-19), the network has experienced additional high demand for capacity in residential areas as lockdown regulations restrict people to their homes.

This has not only affected the shift in normal traffic patterns, but it has also resulted in higher congestion levels in pockets of the network operating at full capacity.

To this end, government announced that temporary spectrum bands will be made available until November 2020. Subsequent to this, the regulator has issued Telkom temporary spectrum in 700 MHz, 800 MHz, 2 600 MHz and 3 500 MHz. In order to utilise this spectrum, Telkom is embarking on an ad hoc capex programme to fully utilise the bands allocated – these interventions directly address capacity and quality requirements as targeted in the business-as-usual plan. The regulator stipulates that right-of-use of the temporary spectrum will be revoked either at the end of November 2020, or three months after the end of the National State of Disaster is declared.

**Material engagement theme**

**Lack of job security**

Lack of job security following the announcement of a two-phase restructuring programme that will impact the entire organisation.



**Telkom's response**

Openserve, Telkom Consumer and Trudon embarked on a thorough process to redefine their operating and service delivery models which resulted in Telkom SOC Ltd and Trudon issuing notice in terms of section 189 of the Labour Relations Act, informing employees within these businesses of possible retrenchments. The notice further advised that the process would be conducted in two phases, with the Corporate Centre and support functions forming part of the second phase of the process. The impact of the section 189 process, including the offering of VSP/VERP packages, was a critical engagement theme.

Operational requirements, including the evolving needs of our customers, technological advancements, and the evolving world of work, are the drivers of this organisational restructure. Telkom adopts appropriate strategies and frameworks to facilitate retrenchment processes.

As an alternative to retrenchments, VSP/VERP, including a social plan, were offered to employees, and a total of 2 271 employees opted to take the offer. The social plan provides employees with an opportunity to further their studies to broaden their skills base, thereby increasing their employability.

Telkom has further announced that it will begin phase 2 of this process during the second half of FY2021. The organisation will continue to manage this process in a transparent and socially responsible manner in line with labour legislation requirements.

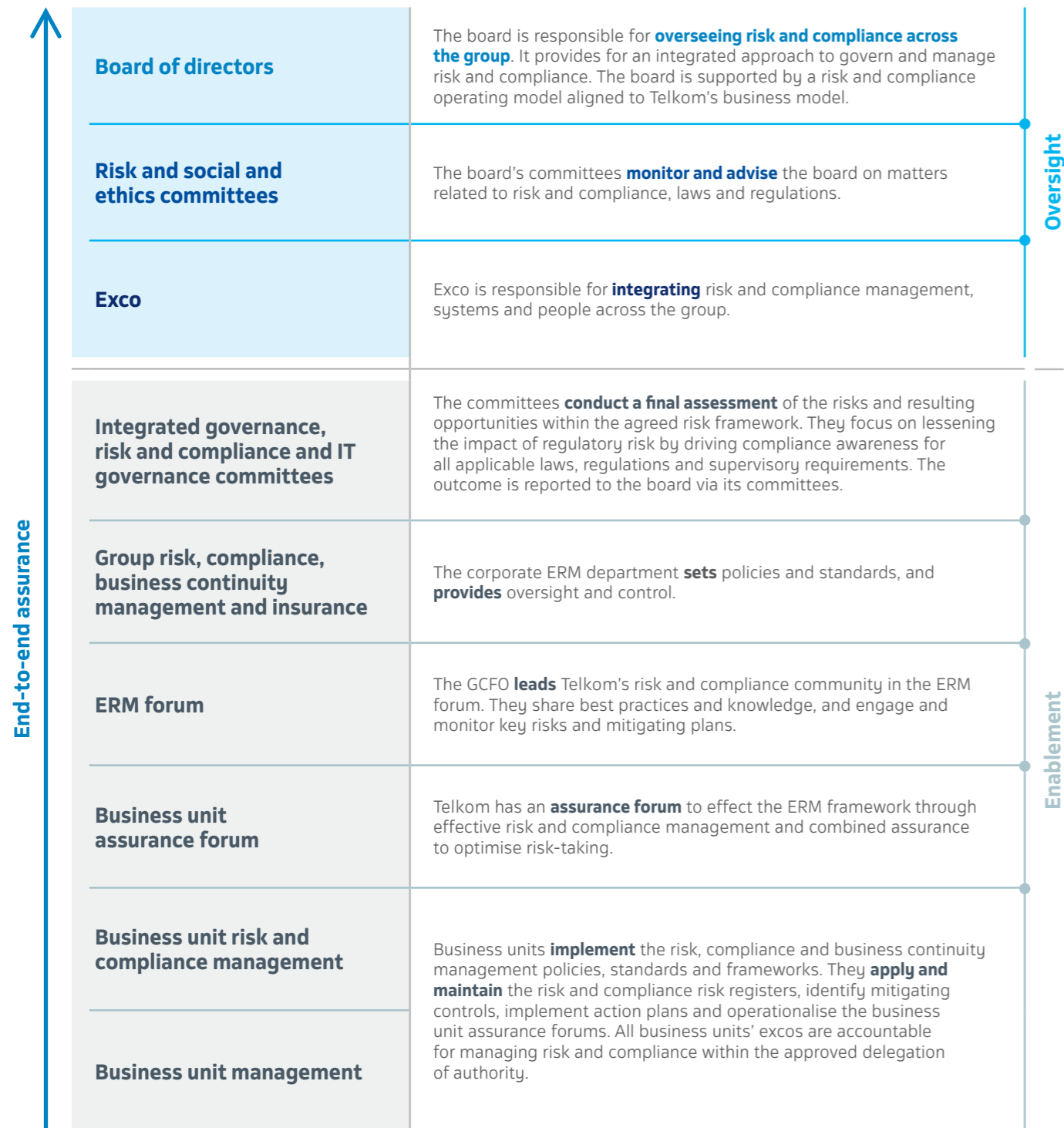
## Enterprise risk management and compliance

Telkom operates in a volatile and uncertain industry. It is difficult but critical to maintain an appropriate balance between risk and reward. Telkom recognises it needs to take certain risks to achieve sustainable growth and returns, while protecting the group and its stakeholders against avoidable risks.

Telkom's operating environment is set out on page 15 and impacts our risk management.

### Our approach to risk and compliance management

Telkom's governance structures continued to operate within the set mandate across the group.



## Our risk and compliance transformation journey

We continued progressing the previously set transformation journey to enhance the group's risk management approach and framework. Risk transformation recognises risk as a prerequisite to doing business and, as such, integrates risk oversight, governance and management into Telkom's business activities.

In managing and dealing with the group's risks, Telkom ensures:

- Risks and opportunities are transparent and concise prior to any approvals and decision-making is effective
- Risks that Telkom wants to take in pursuit of value are clear and grounded with facts
- External factors are considered (i.e. regulatory matters, supplier performance and macro-economic matters)
- People, processes and technology support the strategy underpinned by governance, risk and compliance requirements
- Group-wide interdependencies are recognised

Some improvements in FY2020 as part of the journey towards a risk intelligent group included:

- Developing the risk appetite statement that emphasises the board's interest in protecting Telkom's reputation and brand erosion
- Creating a common risk language across the group, aligned with approved frameworks across risk, compliance and business continuity management
- Strengthening the move from standalone risk and compliance management processes to integrated day-to-day decision-making in support of value creation
- Strengthening Telkom's ability to respond to disasters (i.e. prolonged electricity challenges, effects of storms and floods on the network and epidemic/pandemic crisis management)
- Business unit assurance forums, which give effect to combined assurance and the implementation of the ERM framework at a business unit level. Telkom continued its practical approach to combined assurance by embedding and combining assurance activities across all lines of defence
- Protecting the interests of all Telkom's stakeholders by maintaining sufficient levels of liquidity, strengthening the balance sheet, optimising cash flows and mitigating and monitoring the financial risks to which the group is exposed



### Our strategic risks

Our strategic risks, mitigating factors and opportunities are set out on the following pages. Refer to page 29.

The group performed a risk assessment to identify strategic risks, which are those that bear the most

significant impact on the group's ability to achieve and realise its strategic objectives. We used a bottom-up and top-down approach to ensure a holistic risk management process.

## Business continuity management

Telkom's business operations have been affected by several significant events, defined as unintended/unplanned occurrences which exposed the company to risks that have either materialised or are imminent and unavoidable. Some of these risks significantly impacted business-as-usual processes and the execution of Telkom's strategy. The current operating environment is unprecedented in a way that the following related and unrelated significant events collided within the group within a short time horizon. However, it is to be noted that the business continuity processes have been invoked to ensure continuity across the group.

Management of these significant events was done through the established Group Emergency Management structure that reports to the Telkom Group executive committee (exco). The structure's mandate is to ensure continuity of service delivery through infrastructure, buildings, equipment, processes and human capital to guarantee the implementation and effectiveness of defined emergency management procedures.

During the year we dealt with the following significant events:



### COVID-19 outbreak

The outbreak of COVID-19 interrupted businesses globally. Like any company, we are concerned about the health and safety of employees. We ensured measures were effected to curb the spread of the virus.

Before the outbreak of the pandemic in the country, Telkom proactively designed and implemented measures to mitigate the risk of the COVID-19 impact on our operations with specific focus on the health and safety of employees, continuity of supply and service to customers, supply chain, infrastructure and network, information security and liquidity. Noting that the number one priority is the wellness of our people and our business continuity, Telkom's response was to ensure that all employees are protected and supported during these extraordinary times. The following measures were immediately put in place:

- Different scenarios were developed to advise exco on the appropriate response and approach to take in dealing with the pandemic
- Approximately 80% of employees were empowered to work from home, while frontline staff and field service technicians were provided with protective clothing to enable them to continue to serve customers
- The adequacy of inventory levels for short-term and medium-term consumption was assessed to ensure stability of operations
- Ensured continuity in all services related to customers by prioritising critical services and the support that goes with it
- Cash preservation and maintaining adequate cash balances has become of the utmost importance as a result of the destructive impact of the COVID-19 pandemic on the economy. Therefore, as a priority, Telkom focused on optimising cash flows, maintaining sufficient levels of liquidity, and strengthening the balance sheet to mitigate and monitor the financial risks



### Power outages<sup>1</sup> and load shedding<sup>2</sup>

South Africa is exposed to regular load shedding. This intensified in the last quarter of FY2020 with prolonged stage 4 load shedding, and an unexpected stage 6. Stage 6 load shedding meant disruptive load shedding up to 18 times over a four-day period for four hours at a time.

Power outages pose a threat to our customers, which in turn impacts their ability to do business with Telkom. Load shedding events also cause a threat to our ability to provide uninterrupted services to customers as it results in a spike in battery theft from cell phone towers.

In managing the power outage/load shedding, we ensured that our response plans are adequate and effective across all key areas such as stakeholder management, technical (backup power, alternative power solutions, diesel, water and mobile generators) and resources where all critical resources (i.e. employees) were mapped in a plan. Telkom also developed a model at a group level to manage essential and critical services in the event the organisation is faced with various stages of load shedding thresholds (i.e. stages 4 – 8 and including blackout).



### Extreme weather conditions (floods)

KwaZulu-Natal experienced heavy rainfall and tornados between April and December 2019. This caused floods that impacted service delivery in Telkom's eastern and central regions. The first floods coincided with an Ethekwini Central Municipality district strike that prevented access to manholes and roads in Durban central, affecting fault finding and copper cable repairs. Employees were impacted in their private capacity with house and road flooding and fence and wall collapses.

Resources from other regions were dispatched to assist with service restoration. Although the GEMT monitored the incident, the regions managed the impact back to business as usual.

The GEMT ensured uninterrupted service to hospitals and other essential service providers, rapid deployment of temporary electronic communications networks where required and provision of personal protection equipment for employees in call centres and field service.

<sup>1</sup> Power outage is the loss of the electrical power network supply to an end user  
<sup>2</sup> Load shedding is the action taken to interrupt electricity supply to avoid excessive load on the generating plant.

## Risk definition and impact

### Competitive threats

Telkom operates in a rapidly changing technological environment. Pricing and product offerings are under pressure as Telkom strives to remain competitive.

Failure to swiftly respond to competitive threats could negatively impact the group's market share, revenue growth and profit margins.

The spectrum auction/ allocation also gives rise to the risk as it puts pressure on Telkom's competitiveness.



## Mitigating activities

- Continuously exploring the possibilities of investing in advanced technologies
- Perpetually reassessing and aligning of go-to-market strategy to ensure relevance
- Reviewing market performance to inform changes towards customer experience improvement
- Addressing customer feedback from stakeholder management and competitive/market intelligence studies
- Focusing on continually introducing new products to attain sustainable competitive advantage
- Ongoing review of regulations and amendments that might change the market outlook

### Key FY2020 activities

- Launched innovative price-disruptive products to attract subscribers, focusing on growing mobile data and digital voice, including SmartBroadband, SpaceStream Home and Smart, and FreeMe data bundles
- Identified key market segments on which Telkom Consumer can focus its constrained resources
- Telkom Plus, a new mobile value-added Services (VAS) aggregation content platform, was launched in December 2019, offering new mobile content services. Services were offered in phases, and later quality content was rolled out. The platform is temporarily used for video and content streaming

## Opportunities arising from managing the risk

There are opportunities to increase Telkom's market share and improve revenue growth and profitability through an increased focus on innovation, adaptation and execution of the strategy.

The IT and digitalisation strategy will leverage Telkom's capabilities, which in turn will improve the IT enablement challenges and improve competitive advantage.

Working from home has brought an increased opportunity with regard to data consumption for mobile and fixed broadband.

## Risk definition and impact

### Customer experience

Customers' experiences can be compromised by long turnaround times, unreliable networks and systems, and misunderstanding of customers' needs.

If Telkom does not meet rising customer demands for innovative product offerings, this could place the group's profit margins at risk and result in lost revenue.



## Mitigating activities

- Improving and crystallising Telkom's customer value proposition and aligning it with customers' needs and expectations
- Addressing customers' interaction with Telkom by using the customer value proposition and data collected across all customer touchpoints to:
  - Improve training for customer-facing employees
  - Refine processes that improve service delivery
  - Enhance application capabilities
- Continuous monitoring of customer experience initiatives across the group to ensure synergies across, for instance, network build, business projects, service management support model, and digital applications and systems
- Upgrading multiple elements across the data centre network and critical hardware to provide appropriate support for customer-centric applications and systems

### Key FY2020 activities

- Implemented the Click system, which optimised the dispatching process, enhanced customer centricity and improved the fault clearance rate
- Started implementing the revised customer experience strategy, enriched the customer experience lifestyle and convenience
- Modernising the network in Openserve, which has reduced assurance visits by 42% and reduced redispach rates by 42%, which has also improved service delivery
- Network projects are underway to ensure customer experience is improved, including customers in rural areas without network coverage, which are migrated to a fixed-line look-alike product. Customer disputes, billing and escalation queries have reduced
- Empowering agents resulted in 60% less disputes to the back office
- Enhanced digital platform for customers to request call-back through any Telkom app, Telkom website and WhatsApp
- Enabled customers to navigate problem resolution
- Enhanced IVR (Interactive Voice Response) with self-service capabilities

## Opportunities arising from managing the risk

There are opportunities to increase our customer loyalty, retention and satisfaction through intensified cross-selling and up-selling, and improvements in our network availability and stability, which in turn will increase revenue.



**Risk definition and impact**

**Mitigating activities**

**Opportunities arising from managing the risk**

**Technology enablement to achieve business objectives**

As a minimum, evolving our IT solutions is required to, align with the pace of customers' constantly evolving needs. Ineffective system architecture and inefficient and costly legacy IT systems pose a risk to the decentralised operating model.



- Developing and implementing an IT operating model, including an IT and digital strategy, and IT governance
- Reviewing and implementing a technology strategy that is forward-looking and will position the group for the future
- Developing, implementing and executing on an application decommission roadmap

**Key FY2020 activities**

- Developed and successfully implemented the IT operating model
- Developed the IT and digital strategy, which leverages current capabilities and will improve IT enablement challenges
- Started executing the IT transformation (operating support system) programme
- Reviewed and aligned IT governance, and ensured approval of policies, standards and framework

Through enhanced technology, there is a concentrated effort towards enhancing end-to-end service delivery. This will strengthen Telkom's value proposition to shareholders, customers and employees, improve efficiencies and allow Telkom to stay abreast of technology evolution.

**Risk definition and impact**

**Mitigating activities**

**Opportunities arising from managing the risk**

**Possible changes in legislation and regulatory requirements**

Unexpected changes in regulation, e.g. relating to spectrum (the lifeblood of the mobile industry), may negatively impact revenue growth and financial stability.

Possible non-compliance with laws and regulations could damage Telkom's reputation and incur penalties.



- Enhancing risk and compliance governance across all business units
- Regular engagements with internal and key government and regulatory stakeholders including ICASA, Department of Communications and the Competition Commission
- Continuous employee training on key legislation
- Monitoring proposed changes in legislation and regulations
- Ongoing regulatory risk assessments, control identification and compliance monitoring exercises

**Key FY2020 activities**

- Created a cross-functional team involving all business units to manage the overall process. The team reports regularly to exco and the board for decision-making and consults with the necessary technical, economic and legal experts
- Appointed spectrum auction experts to assist in updating our spectrum strategy and prepare for the upcoming spectrum auction (commercial, technical and financial modelling)

There is an opportunity to influence some regulations introduced to ensure we derive optimal outcome when engaging with internal and key government stakeholders in matters relating to regulatory changes. By so doing we will realise benefits on our revenue growth and financial stability.

Managing our compliance universe effectively has the benefit of improving our relationship with regulators.

**Risk definition and impact**

**Mitigating activities**

**Opportunities arising from managing the risk**

**Information and cybersecurity management**

Telkom has processes, controls and a robust information security governance and assurance model in place as certain malicious activities pose a risk to the group. Ineffective management of information and cybersecurity could lead to reputational damage, loss of customers and consequently, revenue loss.



- Monitoring the information security strategy
- Deploying the information security management system
- Continuously monitoring operational security management
- Conducting security assessments across the group to re-examine the information security strategy, and raise awareness on matters regarding information security

**Key FY2020 activities**

- The information security management system gained significant traction and was successfully implemented. The technology capability is currently being transitioned to a fully managed service that will provide for both proactive and reactive threat management

There are opportunities to ensure threats are handled in an integrated and cost-effective manner to ensure information protection. We can increase customer loyalty by creating customer awareness of how Telkom handles compliance with data regulations and cybersecurity requirements.

**Focus areas for FY2021**

Having established a strong risk and compliance management governance base over the past two years, our future focus is on equipping the function to continue ensuring that we are a risk intelligent organisation, adding to value creation and reshaping the future of Telkom.

The critical events mentioned on page 28 took up much of the risk structure's time in FY2020. Therefore, some activities such as strategy development and finalisation of risk tolerances were deferred to ensure that Telkom responds to the critical events affecting the group's sustainability. Our FY2021 efforts will consider the changing environment post COVID-19, and the key focus areas will include:

- Playing an advisory role by proactively providing necessary information for strategic decision-making
- Undertaking a predictive analysis or futuristic approach
- Strengthening opportunity management

COVID-19 has challenged most of the thinking and models the business has applied and put in place to date. In this regard, Telkom has embarked on a programme to proactively reflect on risk and opportunity management post COVID-19. The new normal will likely be a business environment where an economic downturn impact will be with the organisation for a prolonged period, and much learning from COVID-19 might determine the medium to long-term risk mitigation strategies. All our efforts will be more aligned with futuristic thinking to ensure sustainability.

**Compliance**

The compliance function assists Telkom in ensuring compliance with laws, regulations, rules, standards, policies and guidelines governing operations as documented in business unit-specific compliance risk management plans. Telkom's compliance framework and group regulatory universe were reviewed and approved. Various laws and regulations were signed off in FY2020 and the compliance risk management plans were updated or developed accordingly.

The telecommunications landscape is influenced by changes under the Electronic Communications Act and regulations and inquiry documents issued by ICASA. Among others, management was informed about the amendments to the JSE Listings Requirements, impact of the Carbon Tax Act and related regulations, the obligations under the Critical Infrastructure Protection Act and the Draft Constitution Eighteenth Amendment Bill which addresses the expropriation of land.

No material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations were reported.

**Focus areas FY2021**

- Support business in enhancing the risk and compliance conscious culture through training and awareness documentation
- Maintain a process with other governance support functions for regulatory input on bills before parliament, where applicable to Telkom
- Enhance focus on privacy and cybercrimes legislation throughout the group to ensure business readiness
- Conduct an internal maturity level analysis across the business units' compliance functions

## Material themes

Our material themes represent a prioritised view of our material matters as determined by the materiality determination process (page 14).

Telkom disclosed nine materiality themes in FY2019. These were confirmed and updated to reflect their current status. In reviewing the materiality themes, Telkom made the following changes:

- B-BBEE transformation is incorporated under regulatory environment as it is a regulatory agenda
- Utilities supply is included in economic climate. The impact of power supply remains a challenge for the country's economy. However, the operational impact of load shedding on Telkom is under control as demonstrated in the past two years, and the direct financial impact is immaterial in the context of group revenue

Post our materiality determination process, we considered the impact of COVID-19. We concluded that it is a material matter that significantly impacts most of our material themes.



### 1 Regulatory environment

Telkom operates in a highly regulated environment impacted by policy uncertainty and inconsistency, and continuously evolving regulations and legislation. International regulatory trends further impact Telkom, irrespective of the different operating context; the South African political environment; and the resources required to implement new or changing regulations.

- Operating environment, page 15
- Strategic risks, page 27

### 2 Intense competitive landscape

The competitive landscape includes OTT players and other non-traditional entrants disrupting the market, and the convergence of telecommunications, technology, media and consumer electronics.

This provides us with collaboration opportunities with OTT players, and requires Telkom to sharpen its focus on capital allocation, cost optimisation, business growth, innovative products and services, and customer satisfaction.

- Operating environment, page 15
- Strategic risks, page 27

### 3 Customer expectation and experience

Our customers expect a differentiated value proposition where they receive value for money. Their experience is impacted by price, available products and services, service speed and reliability, data security, and IT system stability.

In the context of Telkom's competitive landscape, customer experience impacts our reputation and customer attraction and retention. Therefore, Telkom must appropriately invest in products and services, systems and employees to ensure customer expectations are met.

- Stakeholder engagement, page 18
- Strategic risks, page 27
- Productive capital, page 48

### 4 Cyberthreats

Cyberattacks and data breaches can potentially impact Telkom's service levels, leading to client dissatisfaction, reputational damage, business disruption and loss of revenue. This requires continuous focus on cybersecurity and business continuity plans. Cyberthreats provide the group with opportunities to develop new customer solutions (cybersecurity).

- Strategic risks, page 27
- Intellectual capital, page 66

### 5 Economic climate

Local and international economies impact Telkom's ability to grow the business, the cost of doing business and customers' spending power. This is impacted by muted South African economic performance; the South African political environment and geopolitical pressures; investor and business confidence; financial risks related to liquidity and foreign exchange and interest rate exposure; effectiveness of cost-optimisation efforts; and socio-economic factors, such as the high youth unemployment rate.

- Operating environment, page 15

### 6 People skills and expertise

Telkom requires skilled employees in ICT, digital and other areas to develop products and solutions to generate future revenue and provide the expected level of service to customers. We compete for scarce, specialised and technical skills with traditional and non-traditional players, locally and internationally.

Gender and race diversity, the premium paid for skills and experience, and the anticipated future skills pipeline (fourth industrial revolution) impact our attraction and retention of talent. Telkom's focus areas are developing and refining the employee value proposition (EVP) and skills development.

- Human capital, page 70

### 7 Evolving technology and ICT market trends

Telkom needs to remain abreast of advances in ICT and disruptive technology. We need to ensure long-term viability by developing innovative products and services and enhancing the group's networks and infrastructure. This requires appropriate infrastructure, network investment and skilled employees to support product development and delivery. Focus areas include refining Telkom's capital allocation model, and monitoring the return on invested capital.

- Operating environment, page 15
- Strategic risks, page 27
- Strategy review, page 38
- GCFO report, page 43



**Our value-creation strategy:**  
Group Chief Executive Officer's report



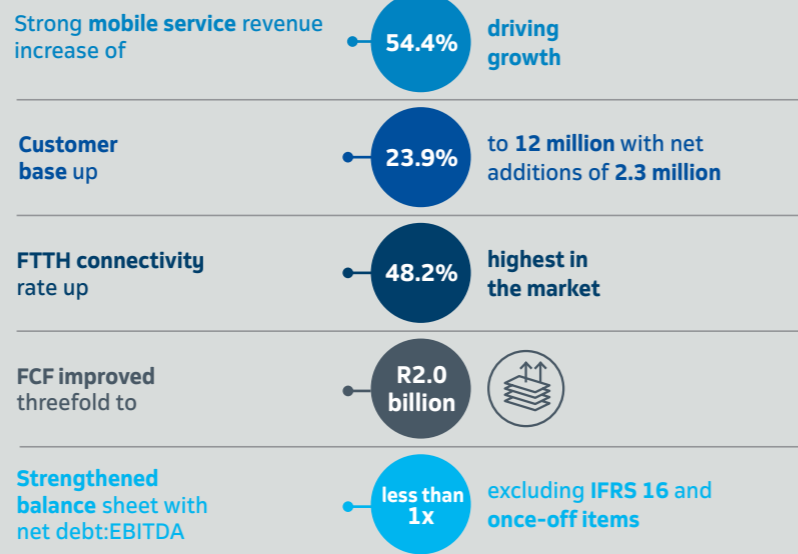
**Telkom delivered solid performance with the mobile business driving growth, FCF improved three-fold and balance sheet strengthened, notwithstanding the decline in fixed-voice revenue that impacted our EBITDA.**

**Key strategic themes impacting performance**

- Infrastructure investment
- Broadband leadership
- Evolution of fixed business
- Sustainable business

Telkom operates in a constantly evolving telecommunications environment where advances in technology and changing customer needs are impacting traditional revenue streams and requiring the business to transform for long-term growth.

**Key highlights**



**Operating environment**

This year was characterised by a tough economic environment where we saw the country slipping into a technical recession in the fourth quarter of the year and Moody's downgrading South Africa to junk status. The President of South Africa declared a national state of disaster in response to the unprecedented COVID-19 pandemic in the fourth quarter of the year.

This year also concludes a challenging decade of depressed economic growth, currency volatility, technology disruption, increasing competition and regulatory uncertainty – none of which Telkom has been spared from.

Telkom actively engages with telecommunications regulators and policymakers to motivate for a regulatory and policy framework that supports fairness and encourages competition with long-term benefits for consumers and the growth of South Africa.

The Competition Commission's inquiry into the cost of data affirmed that the South African market has no effective competition, and the recommendations have resulted in a decrease in data pricing to benefit consumers and enable greater access. We welcome this ruling and through our investments into Telkom's scalable and flexible network, we remain well positioned to offer the best value broadband propositions in the market.

The policy on high-demand spectrum was published in the first half of FY2020, providing much needed clarity for the sector. While we await ICASA to give effect to the policy, the market has proceeded with spectrum sharing agreements that have changed the nature of spectrum access.

In April 2020, as part of the national response to COVID-19. Mobile service providers were granted temporary spectrum licences to ease network concentrations during the lockdown period. Telkom benefited from the emergency spectrum assignment to support increased broadband demand brought about by South Africa's national lockdown in response to COVID-19. The spectrum is assigned temporarily to be returned no later than three months after the country's lifting of the national lockdown. We have been very encouraged with the speed and deliberateness of government's actions and decisions during this time. We are hopeful that a permanent decision on spectrum allocation will be made soon, taking the market structure into account so as to introduce competition – which will result in increased quality and decreased costs for consumers.

**Performance overview**

Our group performance depicts the evolution of technologies and revenue mix. Group revenue grew 3.0% to R43.0 billion despite a 22.2% decline in fixed-voice revenue. The ongoing capex investment enabled Telkom to grow new revenue streams and showed growth in evolving technology offsetting the traditional business decline. Mobile, IT and masts and towers contributed positively to group revenue. Capex investment of R7.7 billion, with capex to revenue of 18.0%, underpins revenue growth. We focused our investment programmes on key growth areas, and we are seeing good returns, with mobile service revenue increasing by 54.4% and the connectivity rate for FTTH improving from 38.4% in the prior year to 48.2% the current year – the highest in the market.

The mobile business grew 54.4% in service revenue from a higher base to R12.6 billion to remain the fastest growing mobile business in South Africa with 12 million customers.

This was underpinned by our ongoing network investment and our successful broadband-led proposition, which continue to resonate well with customers. Despite ongoing competitive threats with changes implemented by our competitors in the mobile space, our broadband-led propositions are market leading being best in class for value and effective pricing. The mobile business remains profitable, with its EBITDA margin improving from 1.4% to 14.9% over the past three years.

BCX IT business contributed positively to group revenue. The performance was supported by the drive to grow the industry-specific owned intellectual proprietary.

The strategy to separate our property and masts and towers portfolio to increase management focus and unlock value for the group continues to be successful. Gyro contributed positively to the group, driven by our masts and towers portfolio, as the demand for external leases increases.

Our challenge for the year was the impact of the fixed-voice revenue on group EBITDA as the decline intensified. The growth in new revenue streams, which have lower margins, was not sufficient to offset the decline caused by high-margin fixed-voice on group EBITDA. Over time, as the revenue mix evolves, we expect the contribution from the fixed-voice revenue to decrease and the contribution from the mobile business, with improved EBITDA, to increase and offset the impact of fixed-voice on group EBITDA. Until this inflection point, management will focus on sustainable cost management, which includes the benefits of the restructuring programme and other levers to ensure that we offset the gap caused by the decline in fixed-voice.

In line with this technology shift, the business requires a new skill set to service these newer technologies and respond to evolving customer needs. Telkom offered voluntary severance and voluntary early retirement packages to 2 271 employees as an alternative to retrenchments at a cost of R1 186 million in the current year. 75% of the employees took early retirement packages. There were no retrenchments in the current year.





To mitigate the pressure on free cash flow (FCF) caused by the fixed-voice decline, Telkom implemented working capital optimisation initiatives. I am pleased that, despite the margin pressure experienced, our FCF improved threefold to R2.0 billion compared to the previous year. We will continue to focus on Telkom's liquidity during the tough trading environment.

During the year we strengthened our balance sheet, refinancing debt at a cheaper rate and repaying maturing debt totalling R1.2 billion. As a result, our gearing improved in the second half of the year, with net debt to EBITDA reducing to 0.7x (1.3x on a reported basis). The net debt to EBITDA ratio was also positively impacted by the liquidation of the short-term investment of R1.5 billion to fund phase one of the restructuring programme and a significant improvement of approximately R1.4 billion in our FCF compared to the prior year.

**COVID-19 response**

We adopted the principle of saving lives and livelihoods, and prioritised the health and safety of our employees. The group has taken a dynamic approach to the COVID-19 pandemic, which continues to disrupt every aspect of our daily lives and business operations. We proactively designed and implemented several precautionary measures to mitigate the risk that will lessen the impact of the COVID-19 pandemic, focusing on the wellbeing and safety of employees; continuity of supply and service to customers; supply chain, infrastructure, and network; IT and security; and liquidity.

## Key strategic themes underlying performance

 <p><b>Infrastructure investment</b></p>	 <p><b>Broadband leadership</b></p>	 <p><b>Evolution of fixed business</b></p>	 <p><b>Sustainable<sup>2</sup> mobile business</b></p>
<ul style="list-style-type: none"> <li>- Fixed mobile network<sup>1</sup></li> <li>- Mobile network<sup>2</sup></li> <li>- Data centres<sup>3</sup></li> <li>- Masts and towers<sup>4</sup></li> </ul> <p><sup>1</sup> Refer to Openserve on page 48 <sup>2</sup> Refer to Consumer on page 52 <sup>3</sup> Refer to BCX on page 58</p>	<ul style="list-style-type: none"> <li>- High-speed broadband<sup>1</sup> (fixed)</li> <li>- Mobile network<sup>2</sup> (wireless)</li> <li>- Fibre ecosystem<sup>1</sup></li> </ul> <p><sup>4</sup> Refer to Gyro on page 62 <sup>5</sup> Refer to GCFO report on page 43 <sup>6</sup> Refer to HR report on page 70</p>	<ul style="list-style-type: none"> <li>- Evolution<sup>1</sup> of technologies</li> <li>- Evolution<sup>5</sup> of revenue mix</li> <li>- Evolution<sup>6</sup> of skills</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable financial performance</li> <li>- Good quality customers</li> <li>- Mobile business strength</li> </ul>

## COVID-19 response continued

### Safety of our employees

Telkom's focus is and will always be on the wellbeing of our employees, with approximately 80% being empowered to productively work from home. The global COVID-19 pandemic has forced us to embrace the centrality of technological advancements. The way we connect, communicate, and conduct business has forever been altered. Amid troubled times, we need to ensure full engagement from every team member, whether working from home or on the field, while reducing the stress that tomorrow may bring.

Telkom is not only providing safety gear for essential employees, but also increased education and awareness for those working from home. Telkom has an internal dashboard to track all internal positive cases. Employees have access to a dedicated COVID-19 portal which keeps all employees up to date with COVID-19 developments. Additionally, employees have access to a dedicated COVID-19 helpline to report any possible infection. Employees get free screening and testing. Should they test positive employees also get case management through our partners ICAS to ensure they get the best care possible.

While 80% can work effectively from home, our frontline employees and field service technicians continue to serve customers, and therefore are constantly exposed to the risk of transmission, especially given the rising COVID-19 cases in South Africa. Understanding the seriousness of the disease and risk our essential members are facing, Telkom is supplying all necessary personal protective equipment, such as face masks, face shields, gloves, sanitiser, personal thermometers and Hazmat suits for our field technicians.

The world is living in trepidation, surrounded by uncertainty as COVID-19 continues to loom, with no vaccine yet. At Telkom, concerns over low productivity, high absenteeism, a growing fear to engage with service providers, and the psychological impact the pandemic may have on employees is not a far-off reality.

### In memoriam

We extend our heartfelt condolences to the families, colleagues and friends on the passing of our colleagues who lost their lives due to COVID-19. May their souls rest in peace.

## Telecommunications is an essential service

It is a time of uncertainty, but it is also a time when the work we are doing is most critical. When President Cyril Ramaphosa first announced the national lockdown in March, telecommunications was declared an essential service in South Africa. As an essential service and as one of the largest telecommunications companies in South Africa, the country has been looking to us to provide support and keep them connected.

Our supply chain remains resilient during the lockdown period. We assessed the adequacy of current inventory levels for short-term and medium-term consumption. Identifying strategic suppliers ensured higher priority from them and we reviewed suppliers business continuity plans. We identified single-source suppliers and accelerated qualification of new suppliers for alternative sources of supply. Telkom also mapped its high-risk supplier footprint to manage global supply shortages caused by COVID-19.

## How Telkom is managing increased demand

The COVID-19 pandemic is fast-tracking digital transformation in companies. Businesses need to quickly adapt or risk redundancy. During the lockdown, Telkom has seen a surge in fixed and mobile network traffic for our telecommunications services, due to more people working from home.

Fortunately, Telkom has a scalable network and enough redundancy to manage the increase in demand. The significant investments we have made in modernising the network, including fibre backhaul, have enabled us to carry more traffic on our network and provided a resilient system to support growing demand. Telkom's mobile footprint capacity has been improved with new sites and increased radio capacity on existing sites. The assignment of additional spectrum, on a temporary basis, has enabled us to alleviate congestion in certain sites.

In response to COVID-19, we enhanced our broadband-led propositions across our customer segments. We took advantage of our existing copper network, where we launched broadband on copper services and utilised spare capacity ports to cater for individuals working from home and for students engaging in distance online learning with aggressive price points to ensure customers have access to broadband where it is both available and viable.

For the national lockdown, we scaled up our digital platforms as stores were closed. We launched the Telkom business e-commerce platform. This allowed business customers to purchase Telkom connectivity products online 24/7. We managed to successfully launch the platform with the help of various logistics partners and our very own Openserve for fibre-related products.

This goes to show how the role of technology has changed since the start of the outbreak, and as each day passes our dependency on technological innovation grows.

## Telkom, supporting a nation through crisis

To assist the government in its objective to contain the virus, Telkom set out on many initiatives to help combat the effects of the virus on the economy and on society. We began developing the novel track-and-trace COVID-19 system after partnering with the NICD, and donated 1 500 devices and data to the Department of Health to assist with track and trace. We zero-rated educational sites of institutions of higher learning and expanded free high school learning content through our BCXLearn platform. Telkom further pledged R15 million and formed a disaster relief fund that supports the Red Cross in support of our unsung heroes – the frontline healthcare workers.

Over and above this, we managed to convey the importance of contributing to the COVID-19 pandemic, relaying the detrimental effect it is having on communities, economies, and health systems. The public took notice and we have seen an increase in contributions as donations are being made via SMSes.

## Our "new normal" going forward

As we embrace our "new normal", we must come to terms with the fact that the pandemic has not only disrupted our lives, but permanently changed the way the world operates.

We will continue to do everything in our power to support our people and our country. As global conditions shift, we will swiftly respond to changing market dynamics, minimising impacts to our business and disruptions to our customers who depend on us.

## Compliance FY2020

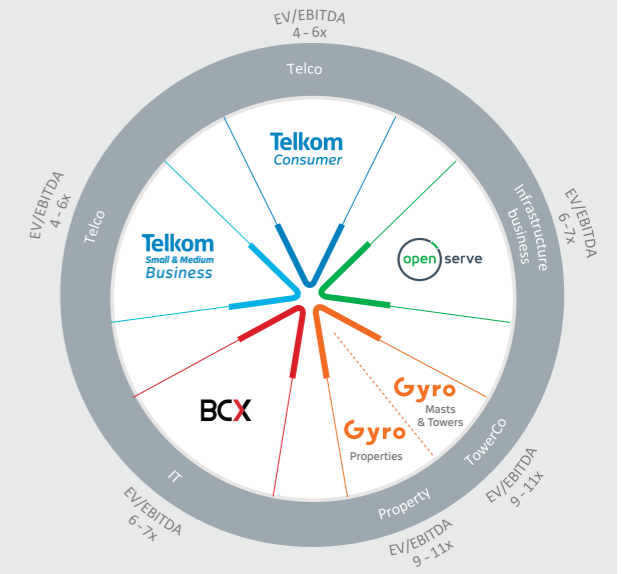
In 2015, the Competition Commission imposed various behavioural conditions on Telkom in approving the merger between Business Connection and Telkom. I can confirm that Telkom has complied with the behavioural conditions that were agreed to as part of the BCX Merger Agreement.

## Outlook

### Unlock value

We are reviewing our business portfolios and exploring how we can unlock value from these businesses over the next three years. The value unlock programme is underpinned by valuation, strategic imperatives, and capital allocation. This programme seeks to realise value for shareholders. Telkom is not a reflection of its intrinsic value and it is trading at a telco multiple, yet its portfolio of businesses consists of IT, masts and towers and infrastructure businesses which are valued at higher multiples than telcos globally.

## Valuation gap – indicative value



Potential multiples  
Market cap of R14 billion as at 19 June 2020

## Conclusion

Despite the poor economic outlook and the challenges brought about by the measures imposed to combat COVID-19, we anticipate that the ICT sector will continue growing. This demand has been spurred by the increase in people working remotely during the various levels of lockdown and their growing demand and adoption of digital and telecommunication services.

We are focused on addressing and mitigating the impact of COVID-19 on our people and the sustainability of the business. We will remain positively engaged in supporting SA Inc. as the country navigates the unfolding consequences of the pandemic.

Operationally, we will continue to transform the group to make it more resilient and effective. This involves growing the Telkom SMB business, scaling up our mobile business, continuing to transform our network, and reviewing our business portfolios to explore how we can unlock further value over the next three years.

## Appreciation

I thank my executive team and employees for their commitment and support during the year. I also thank our customers and service providers for their continued support as we position the group for long-term growth.

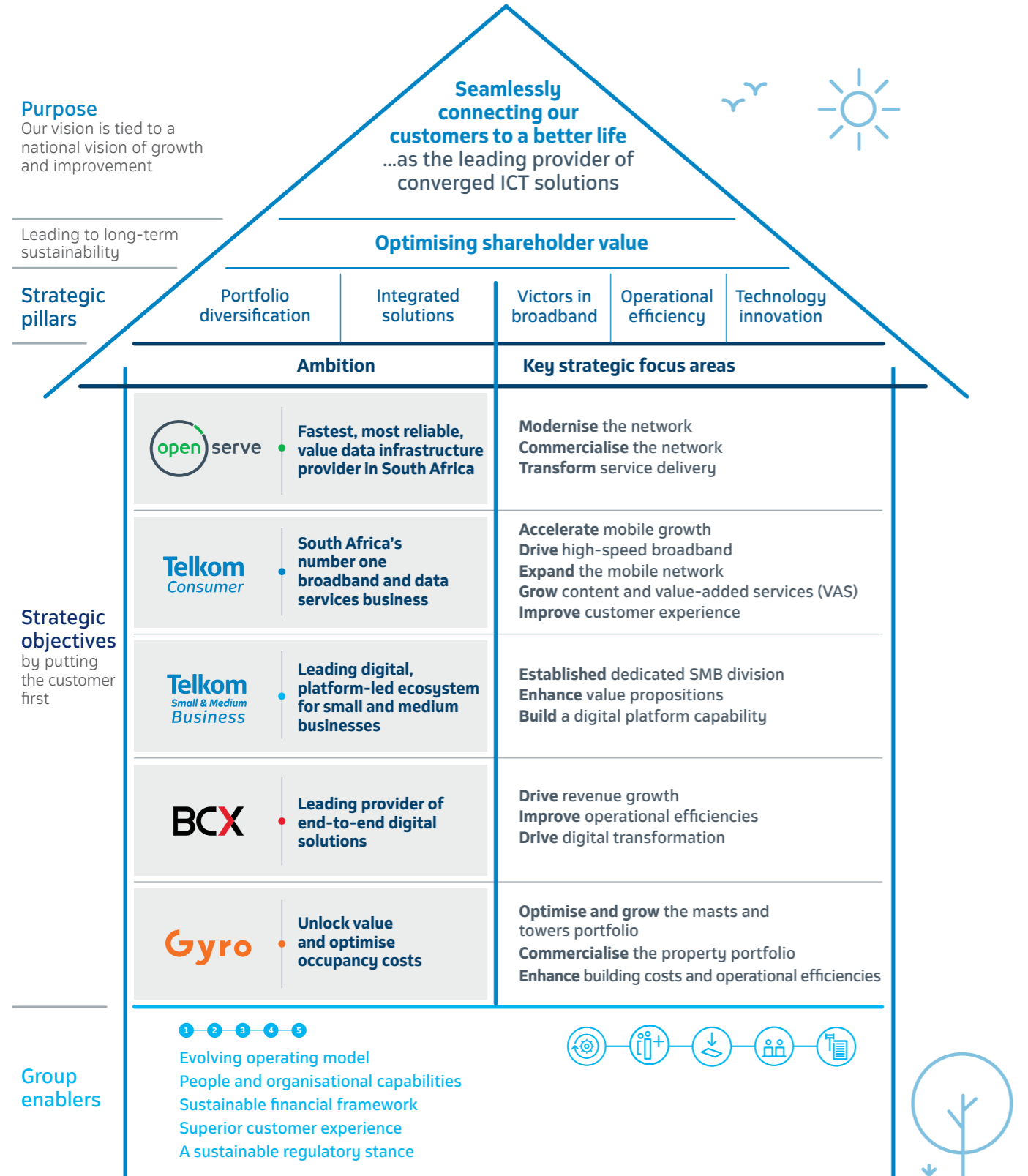
My appreciation extends to the board for providing clarity on areas of prioritisation and focus, and for their support.

**Sipho Maseko**  
Group Chief Executive Officer

# Our strategy review

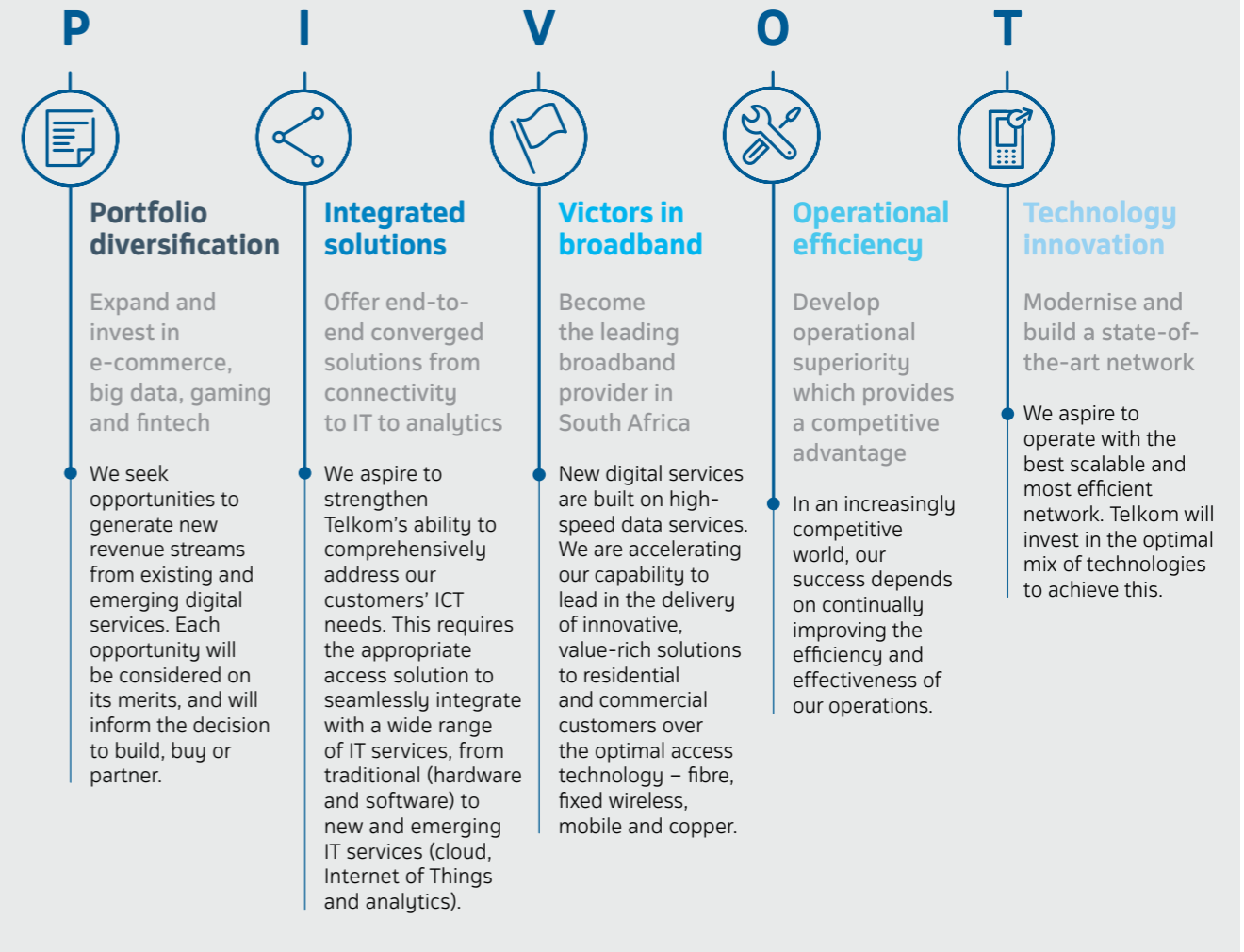
Our customers are at the heart of all we do, and this is reflected in our intent to derive value by putting the customer first.

We constantly review our strategy to ensure it remains relevant in our rapidly changing operating environment, which is increasingly complex and challenging. While specific tactics and actions may change in light of the COVID-19 pandemic, our strategy framework remains consistent.



Our purpose to “seamlessly connect our customers to a better life” speaks to our ambition to improve the lives of customers, by providing access to VAS, which are enabled through basic connectivity. This positions us for long-term sustainability through returns to shareholders, and in terms of the United Nations’ Sustainable Development Goals (SDGs) relevant to Telkom. These are discussed further in the *social and relationship capital* section on page 80.

The word PIVOT is used to capture the five strategic pillars for Telkom:



PIVOT captures the transformational changes to our core business by moving from voice to data, from legacy to fibre, fixed wireless and mobile, and from connectivity to IT services and digital ecosystems.

These changes are largely effected through the business units. Each business unit has its own strategic objectives and focus areas. Progress against these are described on the pages that follow. *Each business unit’s performance is discussed on pages 48 to 65.*

Our strategy is underpinned by group enablers with initiatives to drive continuous improvement in these areas as part of our strategic planning and execution.


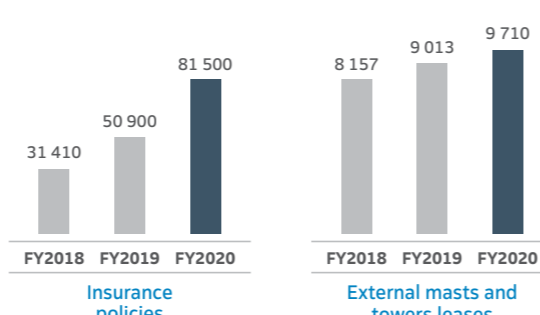

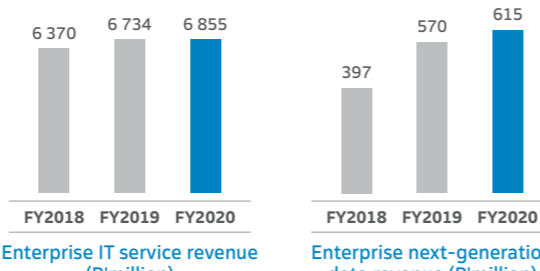

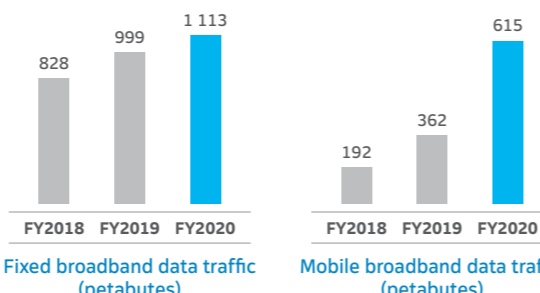

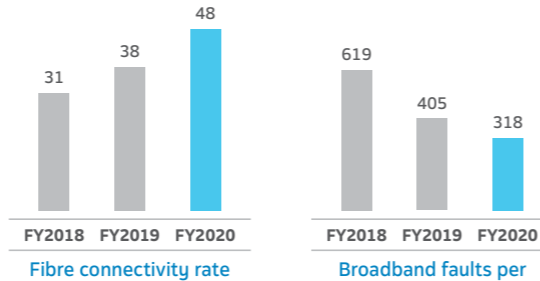

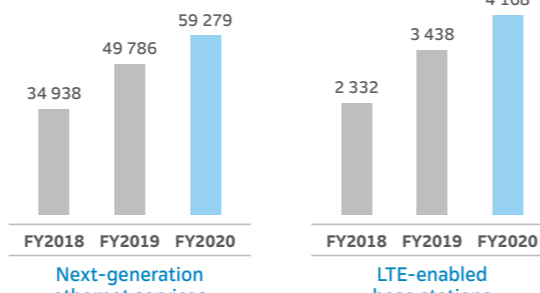
We continue strengthening the interaction and synergies between business units, while maintaining their focus and accountability. This improves our agility and responsiveness to the market, and the delivery of products and services to customers.

## Telkom operating model






We are of the view that the objectives of the separation journey, which commenced in 2014, are largely achieved. Some of our businesses are separated functionally (Openserve and Consumer) while some are separated structurally (BCX and Gyro). We are in a process of completing the balance sheet split between Openserve and Consumer. The next step is to structurally separate Openserve for a value unlock opportunity and complete the operating model.

The Competition Commission approved the sale of the 35.1% stake in Yellow Pages by minority shareholders to Telkom SA SOC Ltd without conditions during the year. Yellow Pages now forms part of our newest business unit: Telkom Small and Medium Business (SMB). This division is optimally resourced and the process of financial separation is currently underway. We believe that the SMB market is underserved yet plays a critical role in South Africa’s economic recovery. Our focus is to reduce the high churn resulting from the fragmented IT market, and the lack of revenue diversification from fixed-voice products. Our ambition is to become South Africa’s leading digital SMB platform solving business needs and driving sustainable growth for our customers.

## Our strategic pillars

<p><b>P</b></p> 	<p><b>Strategic pillar:</b> <b>Portfolio diversification</b></p> <p><b>Target:</b> Expand and invest in e-commerce, big data, gaming and fintech</p>	<p><b>Outcome</b></p> <ul style="list-style-type: none"> <li>- Strong growth seen in short-term device insurance business</li> <li>- Continued growth in external masts and towers leases</li> </ul>  <table border="1"> <thead> <tr> <th>Metric</th> <th>FY2018</th> <th>FY2019</th> <th>FY2020</th> </tr> </thead> <tbody> <tr> <td>Insurance policies</td> <td>31 410</td> <td>50 900</td> <td>81 500</td> </tr> <tr> <td>External masts and towers leases</td> <td>8 157</td> <td>9 013</td> <td>9 710</td> </tr> </tbody> </table>	Metric	FY2018	FY2019	FY2020	Insurance policies	31 410	50 900	81 500	External masts and towers leases	8 157	9 013	9 710
Metric	FY2018	FY2019	FY2020											
Insurance policies	31 410	50 900	81 500											
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<p><b>I</b></p> 	<p><b>Strategic pillar:</b> <b>Integrated solutions</b></p> <p><b>Target:</b> Offer end-to-end converged solutions from connectivity to IT</p>	<p><b>Outcome</b></p> <ul style="list-style-type: none"> <li>- External IT revenues are growing in a challenging economic environment</li> <li>- Enterprise next-generation network data revenues are showing consistent growth</li> </ul>  <table border="1"> <thead> <tr> <th>Metric</th> <th>FY2018</th> <th>FY2019</th> <th>FY2020</th> </tr> </thead> <tbody> <tr> <td>Enterprise IT service revenue (R'million)</td> <td>6 370</td> <td>6 734</td> <td>6 855</td> </tr> <tr> <td>Enterprise next-generation data revenue (R'million)</td> <td>397</td> <td>570</td> <td>615</td> </tr> </tbody> </table>	Metric	FY2018	FY2019	FY2020	Enterprise IT service revenue (R'million)	6 370	6 734	6 855	Enterprise next-generation data revenue (R'million)	397	570	615
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Enterprise next-generation data revenue (R'million)	397	570	615											
<p><b>V</b></p> 	<p><b>Strategic pillar:</b> <b>Victors in broadband</b></p> <p><b>Target:</b> Become the leading broadband provider in South Africa</p>	<p><b>Outcome</b></p> <ul style="list-style-type: none"> <li>- Fixed broadband data traffic continues to rise on the back of fibre deployment</li> <li>- Strong growth in mobile broadband data traffic due to higher data rates and increased smartphone penetration</li> </ul>  <table border="1"> <thead> <tr> <th>Metric</th> <th>FY2018</th> <th>FY2019</th> <th>FY2020</th> </tr> </thead> <tbody> <tr> <td>Fixed broadband data traffic (petabytes)</td> <td>828</td> <td>999</td> <td>1 113</td> </tr> <tr> <td>Mobile broadband data traffic (petabytes)</td> <td>192</td> <td>362</td> <td>615</td> </tr> </tbody> </table>	Metric	FY2018	FY2019	FY2020	Fixed broadband data traffic (petabytes)	828	999	1 113	Mobile broadband data traffic (petabytes)	192	362	615
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<p><b>O</b></p> 	<p><b>Strategic pillar:</b> <b>Operational efficiency</b></p> <p><b>Target:</b> Develop operational superiority which provides a competitive advantage</p>	<p><b>Outcome</b></p> <ul style="list-style-type: none"> <li>- Fibre connectivity rates are at an industry high of 48%</li> <li>- As Openserve migrates customers from copper to fibre, the overall fault rate falls</li> </ul>  <table border="1"> <thead> <tr> <th>Metric</th> <th>FY2018</th> <th>FY2019</th> <th>FY2020</th> </tr> </thead> <tbody> <tr> <td>Fibre connectivity rate (%)</td> <td>31</td> <td>38</td> <td>48</td> </tr> <tr> <td>Broadband faults per 1 000 subscribers</td> <td>619</td> <td>405</td> <td>318</td> </tr> </tbody> </table>	Metric	FY2018	FY2019	FY2020	Fibre connectivity rate (%)	31	38	48	Broadband faults per 1 000 subscribers	619	405	318
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<p><b>T</b></p> 	<p><b>Strategic pillar:</b> <b>Technology innovation</b></p> <p><b>Target:</b> Modernise and build a state-of-the-art network</p>	<p><b>Outcome</b></p> <ul style="list-style-type: none"> <li>- Strong growth in next-generation ethernet technology services</li> <li>- Ongoing growth in the deployment of LTE-enabled base stations</li> </ul>  <table border="1"> <thead> <tr> <th>Metric</th> <th>FY2018</th> <th>FY2019</th> <th>FY2020</th> </tr> </thead> <tbody> <tr> <td>Next-generation ethernet services</td> <td>34 938</td> <td>49 786</td> <td>59 279</td> </tr> <tr> <td>LTE-enabled base stations</td> <td>2 332</td> <td>3 438</td> <td>4 168</td> </tr> </tbody> </table>	Metric	FY2018	FY2019	FY2020	Next-generation ethernet services	34 938	49 786	59 279	LTE-enabled base stations	2 332	3 438	4 168
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## Business unit strategic focus

Business unit	Key strategic focus areas	Performance	Page
	<ul style="list-style-type: none"> <li>Modernise the network</li> <li>Commercialise the network</li> <li>Transform service delivery</li> </ul>	<ul style="list-style-type: none"> <li><b>Accelerated</b> home connectivity rate</li> <li><b>Growth in fibre</b> to the base stations and fibre to the business</li> <li><b>Reduced</b> cost to pass and connect a home</li> </ul>	<p>Refer to page 48 for further details</p>
	<ul style="list-style-type: none"> <li>Accelerate mobile growth</li> <li>Drive high-speed broadband</li> <li>Expand the mobile network</li> <li>Grow content and VAS</li> <li>Improve customer experience</li> </ul>	<ul style="list-style-type: none"> <li><b>Continued growth</b> in mobile business</li> <li><b>Emphasis on high-speed</b> large bundle broadband products</li> <li><b>Scaled up value</b> compelling fixed-line look-alike products provisioned over the mobile network</li> </ul>	<p>Refer to page 52 for further details</p>
	<ul style="list-style-type: none"> <li>Established dedicated SMB division</li> <li>Enhance value propositions</li> <li>Build a digital platform capability</li> </ul>	<ul style="list-style-type: none"> <li><b>Launched an e-commerce platform</b> to enable small and medium-sized enterprises (SMEs) to buy Telkom products and manage accounts online</li> <li><b>Recontracted significant portion</b> of out-of-contract <b>PABX customers</b> and drove growth of customers on fibre</li> <li><b>Developed and launched a small business portal</b> for the Department of Small Business Development to drive registration and tracking of SMEs in South Africa. Portal is used to manage COVID-19 relief efforts by government</li> </ul>	<p>Refer to page 56 for further details</p>
	<ul style="list-style-type: none"> <li>Drive revenue growth</li> <li>Improve operational efficiencies</li> <li>Drive digital transformation</li> </ul>	<ul style="list-style-type: none"> <li><b>Increase in next-generation voice</b> and data access revenues, driven by migration from legacy to next-generation solutions</li> <li><b>Sustainably reduced</b> our cost base</li> </ul>	<p>Refer to page 58 for further details</p>
	<ul style="list-style-type: none"> <li>Optimise and grow the masts and towers portfolio</li> <li>Commercialise the property portfolio</li> <li>Enhance building costs and operational efficiencies</li> </ul>	<ul style="list-style-type: none"> <li><b>Masts and towers EBITDA</b> increased by 120.5% to R805 million</li> <li><b>Reduced property costs</b> through space consolidation, decommissioning of properties and active cost management</li> <li><b>Implemented first tower</b> small cell site suitable for 4G densification and <b>5G rollout</b> requirements</li> <li><b>Advanced development planning</b> for 13 properties and identified additional 40 properties with development potential</li> </ul>	<p>Refer to page 62 for further details</p>



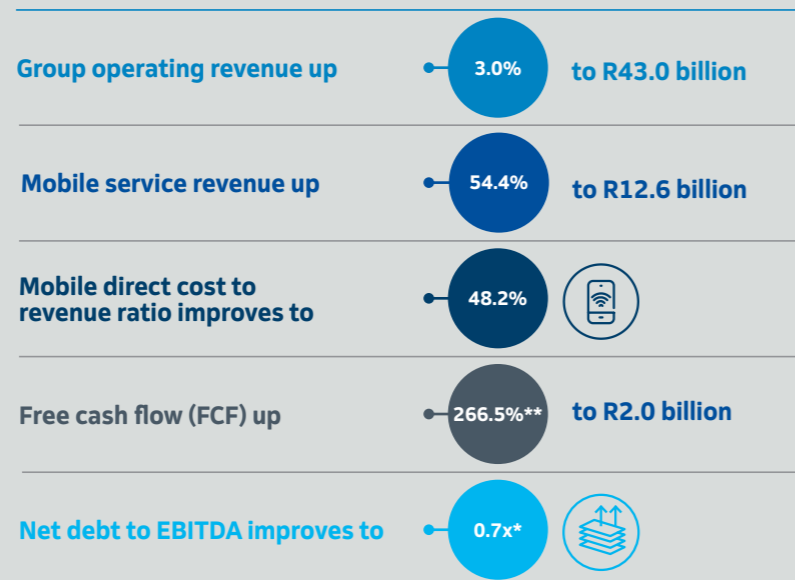
## Financial capital



## FY2020 performance

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<b>Productive capital</b>	<b>48</b>
Openserve	48
Telkom Consumer	52
Telkom SMB	56
BCX	58
Gyro	62
<b>Intellectual capital</b>	<b>66</b>
<b>Human capital</b>	<b>70</b>
<b>Social and relationship capital</b>	<b>80</b>
<b>Natural capital</b>	<b>90</b>

### Key highlights



\* The indicators are based on a pro forma IAS 17 basis and exclude VSP/VERP costs of R1 186 million and the related tax impact of R332 million, and the additional provision relating to the impairment of accounts receivable and contract assets as a result of COVID-19 of R626 million and the related tax impact of R175 million. FY2019 excludes VSP, VERP and section 189 costs of R728 million and the related tax impact of R215 million.

\*\* FCF excludes R175 million paid for VSP, VERP and section 189 costs during FY2020 and R566 million in the comparative year.

## Group Chief Financial Officer's report

### Financial resilience in a difficult trading environment.

The financial year under review was characterised by an exceptionally weak economy, with the country slipping into a technical recession, exacerbated by uncertainty caused by COVID-19, ongoing competitive threats and an uncertain regulatory environment.

Despite the challenging trading environment, the group achieved solid performance with a 3% growth in operating revenue, primarily driven by the strong growth in mobile service revenue. Through our sustainable cost management programme we were able to minimise the impact of high-margin fixed-voice revenue decline on EBITDA. It is pleasing that our cash release initiatives in the second half of the year, underpinned by a threefold improvement in FCF enabled us to strengthen our balance sheet.

We remain confident that despite the heightened uncertainty due to the impact of COVID-19, our continued focus on financial resilience measures will enable us to weather the volatile trading environment.

### Key factors impacting financial performance

<b>COVID-19 impact</b>	We took a prudent approach and raised an additional impairment of R626 million on trade receivables to take account of the impact of COVID-19.  Despite the expected economic challenges, the group has not seen a deterioration in its debtors' book performance since the national lockdown.
<b>IFRS 16 adoption</b>	The adoption of the accounting statement on leases, IFRS 16 effective from 1 April 2019 resulted in an EBITDA uplift of R1.1 billion.
<b>VSP and VERP</b>	We implemented phase one of the restructuring programme and recognised a provision of R1 186 million in FY2020. The payments relating to the restructuring were made in April 2020.

### Key themes from Telkom's financial performance

- 1 **Revenue growth driven by new revenue streams**
- 2 **Effective cost management**
- 3 **Working capital improvement**
- 4 **Strengthened balance sheet**

## IFRS 16 adoption

The group adopted IFRS 16 (Leases) with effect from 1 April 2019. The group adopted the new standard retrospectively, but has not restated comparatives, as permitted under the specific transitional provisions in the standard. Therefore, the prior periods are still reported under IAS 17.

### March 2020

Category	IAS 17 (previous standard)	IFRS 16 (new standard)	Impact
<b>Balance sheet</b>	Lease smoothing receivable/payable	Recognise right of use of asset Recognise lease liability	R4.5 billion R4.8 billion
<b>Income statement</b>	Operating lease on straight-line basis in operating expenses	Reduced operating lease (higher EBITDA) Depreciation on right-of-use asset Interest expense on lease liabilities Profit after tax (PAT) HEPS	R1 084 million (R954 million) (R368 million) (R171 million) (34.4 cents)
<b>Cash flow</b>	Lease payment in operating activities	Lease payment in financing activities	Reclassification on cash flow statement
<b>Net debt/ EBITDA</b>	Operating lease payment in EBITDA	Higher EBITDA Higher net debt	Increased by 0.4x to 1.3x

## 1 Revenue growth driven by new revenue streams

### New revenue streams offset decline in traditional fixed business

Our continued investment in key growth areas underpins the growth in our new revenue streams. Mobile service revenue grew 54.4% from R8.2 billion to R12.6 billion underpinned by a 22% growth in capital investment in support of the 2.3 million subscriber growth. The growth in mobile was partially offset by the 22.2% decline in fixed-voice revenue and 13.5% decline to R7 billion in traditional fixed data revenue driven by the continued migration from copper-based to next-generation technologies.

Revenue from next-generation technologies grew 14.3% to R2.4 billion as customers migrate to newer technologies. With the launch of the Pure Connect product in May 2020, we anticipate mitigating the churn on our traditional data products. It is pleasing that all new revenue streams grew in FY2020.

IT business revenue grew by 1.8% despite the tough trading environment. The marginal growth in IT business revenue was largely due to a 22% increase in hardware sales, taking advantage of customer hardware refresh cycle, and an increase in application solutions of 3.1% in line with the drive to grow industry-specific owned intellectual property revenue. This growth in IT was partially offset by a 2.5% decline in IT services revenue, which was negatively impacted by the disposal of the Tanzania and Nigeria businesses and declines in hosting services revenues as demand fell for traditional hosting platforms. Gyro's external revenue increased by 6.9%, driven by our masts and towers portfolio, as the demand for external leases increases.

## 2 Effective cost management

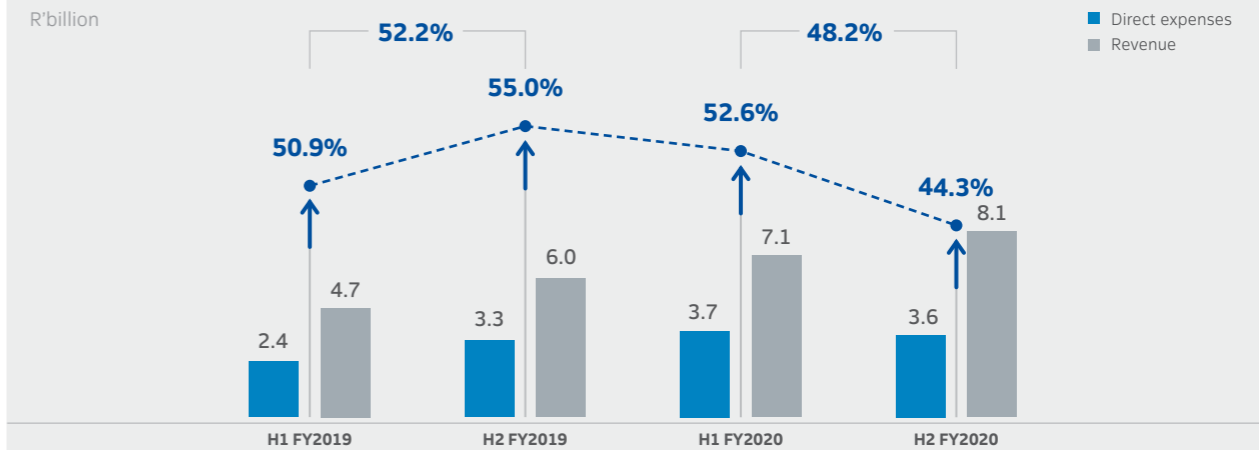
### We continued to focus on cost containment, enabling us to minimise the impact of fixed-voice revenue decline on EBITDA

Although our direct expenses for the group grew by 17.6% overall in support of the mobile subscriber growth of 23.9% to 12 million, our relentless focus

to reduce mobile direct costs in the second half of the year delivered positive results as shown in the graph alongside. Mobile direct cost to revenue ratio decreased from 55% in H2 of FY2019 to 44.3% in H2 of FY2020. This was achieved through efforts in reducing the cost to acquire/serve, renegotiating contracts with dealers, optimising the network and the rollout of deep passive sharing sites.

## 2 Continued

### Mobile direct expenses to revenue ratio



From an operating expenditure (opex) perspective, Telkom contained the growth in group opex to below inflation. This was primarily due to a number of efforts in line with our sustainable cost management programme.

Firstly, we were able to realise the benefits of the restructuring programme implemented in FY2019, partially offset by a 6% salary increase implemented in FY2020.

Secondly, the investments we are making in modernising our network enabled us to reduce maintenance costs in Openserve. We saw assurance visits improving by 43% and redispach rates reducing by 42%, resulting in maintenance cost reduction of R329 million for the year. The benefits on opex were partially offset by the increase in other operating expenses, service fees and lease expenses, primarily due to the change in revenue mix in BCX and the 746 new sites built in support of the mobile growth.

## 3 Working capital improvement

### FCF improved threefold due to working capital improvement

FCF movement	FY2020 Rm	FY2019 Rm	Change %
Cash generated from operations	12 765	8 903	43.3
Repayment of lease liability	(1 148)	-	(100.0)
Interest received	212	441	(51.9)
Finance charges paid	(1 006)	(847)	(18.8)
Taxation paid	(1 320)	(945)	(39.7)
Operating free cash flow (FCF) before capital expenditure	9 494	7 552	25.7
Cash paid for capital expenditure	(7 712)	(7 584)	(1.7)
FCF	1 782	(32)	5 668.8
VSP, VERP and section 189 costs paid	175	566	(69.1)
Adjusted FCF	1 957	534	266.5

FCF has improved to R1.8 billion, underpinned by the significant improvement in cash generated from operations primarily due to the improvement in working capital.

As part of our cash release initiatives, we achieved strong improvement in working capital of R2.7 billion overall largely due to aggressive cash collections from customers of R667 million, and trade payables improvement of R2.0 billion. We made some structural changes to improve working capital inefficiencies by negotiating better payment terms with suppliers in line with peers and industry practice where the average days payable outstanding is approximately 86 days. Suppliers seeking early payment were onboarded to the supply chain finance programme platform, which resulted in a win-win for both Telkom and suppliers. We will continue with these efforts as we weather COVID-19 in FY2021.



## 4 Strengthened balance sheet

As a result of our strong FCF, we were able to improve our balance sheet. Following increased borrowings in the first half of the year of R1.8 billion, we were able to repay maturing debt of R1.2 billion in the second half of the year. As a result, our gearing improved since the first half of the year, with net debt to EBITDA excluding IFRS 16 reducing to 0.7x from 1.2x and from 0.8x in FY2019.

Net debt to EBITDA ratio was also positively impacted by the liquidation of the short-term investment of R1.5 billion to fund phase one of the restructuring programme.

Payments amounting to R1.2 billion relating to voluntary separation and voluntary early retirement packages were made in April 2020.

## Group CFO key focus areas

We are confident that in spite of the challenges posed by COVID-19, we will weather the storm. Due to the expected impact of COVID-19, with the economy expected to decline further, and with only three months into FY2021, it is uncertain what the extent of the impact of COVID-19 will be on our business. However, we are taking all steps to make sure that we remain financially resilient under these circumstances. We will continue to focus on the following:

- Sustainable cost management
- Cash preservation
- Mitigating refinancing risk
- Disciplined capital allocation

### Sustainable cost management

We will focus on maintaining a tight control on cost escalation and we will continue with our initiatives to reduce fixed costs. We expect to realise a benefit of R1 billion from phase one of the restructuring as part of reducing the fixed cost associated with the declining fixed-voice business. We will commence with phase two of the restructuring in the second half of the year. Our initiatives to reduce direct expenses in mobile have started bearing fruit and these will continue in the new financial year, optimising the network and continuing with the rollout of more deep passive sharing sites. We are also reviewing contracts with third parties and suppliers to renegotiate better rates as well as other various initiatives on operating expenditure. We are targeting an estimate of between R1 billion to R2 billion cost savings for FY2021 through these initiatives.

### Cash preservation

In these uncertain times cash preservation is key. Our relentless focus on cash preservation delivered great results in the second half of the year through cash release initiatives, and we will continue in FY2021.

We will continue with our cash release initiatives to generate a positive FCF position. We are targeting between R700 million to R1 billion of cash release initiatives and we want to maintain a cash buffer of more than R1.5 billion as a minimum. The targeted positive FCF position excludes the one-off items, namely restructuring payments, spectrum acquisition costs, and the R861 million payment to the South African Revenue Services (SARS) for the FY2012 tax dispute.

### Mitigating refinancing risk

Given the long-term nature of our capex programme, we will continue to extend the maturity of our debt in line with the capex profile to avoid near-term refinancing risks. In FY2020 the debt book comprised 84% long-term debt compared to 47% in FY2019.

Annual redemptions remain at or below R2 billion per annum to manage the refinancing profile, and thus reduce refinancing risks. Given current market conditions we would like to maintain annual redemptions to below R2 billion per annum.

As we did with the TL20 redemptions, we will proactively manage our redemptions by buying back maturing debt or prefunding of such redemptions, subject to our liquidity positions and the overall market conditions.

We also increased the floating rate debt in line with the current interest rate cycle. The composition of our debt portfolio has shifted from 69% fixed in FY2019 to 48% and we continue to review the mix as the opportunity presents itself.

We have adequate debt headroom to be able to raise any additional funding that may be required in a volatile environment. Assuming a net debt to EBITDA of 2x, we have a net debt headroom of R7.2 billion while maintaining a 2x ratio. Rating agencies' guidelines are between 2x and 2.5x. We have adequate committed facilities available with banks amounting R5.7 billion to assist us to protect liquidity. The DMTN programme of R15 billion has R6.2 billion available. The funding under the DMTN is long term in nature, in line with our capex profile.

### Disciplined capital allocation

We will continue with our renewed focus and disciplined approach to capital allocation. In allocating funds towards investments for growth, we will continue to focus on key growth areas that are in line with our investment strategy. However, given the current volatile environment that we are operating in, we will be flexible with regards to our investments, in order to protect the liquidity of the group. Should revenues decline we will equally reduce the capex investments in order to protect our liquidity position.

## Outlook

### Dividend suspended

The board declared a final dividend of 50.08410 cents per share in line with the current dividend policy, taking the annual dividend to 121.61046 cents per share for FY2020. Maintaining a strong balance sheet and protecting our liquidity position are of utmost importance, especially in the current depressed economic environment. We indicated in the first half of the year that we will review our dividend policy. In arriving at the decision to suspend the dividend, we considered the following factors:

- The imminent spectrum auction will require substantial capital and it is of strategic importance for Telkom to participate to ensure the sustainability of the mobile business
- We want to complete our investment programme in key areas for future growth
- We made payments relating to phase one of the restructuring programme in April 2020, the beginning of the new financial year
- We will be funding phase two of the restructuring programme, which we expect to implement in the second half of the year
- We have a commitment to pay SARS the remaining balance of the outstanding tax liability relating to the FY2012 tax dispute
- Protecting our liquidity during these uncertain times is critical to our business

Given all the above factors that are expected to impact Telkom, the board found it prudent to suspend the dividend policy for three years with effect from FY2021. Over this period, the capital will be redirected to the acquisition of spectrum and to complete the key capex programme to ensure the sustainability of our business. During the suspension of the dividend policy, the board will consider shareholder rewards in the event of excess cash from potential value unlock.

### Medium-term guidance suspended

Telkom issued a medium-term guidance commencing in FY2019, with FY2018 being a base year of the medium-term guidance. FY2020 was our second year of the three-year guidance. Telkom has performed in line with its medium-term guidance except for the EBITDA guidance where we experienced challenges due to the deterioration in high-margin fixed-voice revenues due to the technology shift from legacy to next-generation in line with global trends. The lockdown response to the COVID-19 pandemic is expected to impact the South African economy significantly, but quantifying the likely magnitude of this unprecedented crisis is challenging. Different sectors within the economy are differently suited to continue operating during the five lockdown phases, and an unknown number of firms in a variety of sectors are expected to close as demand disappears. Against the backdrop of both exceptional economic weakness and heightened uncertainty, it is difficult to maintain the medium-term targets. The board found it prudent to withdraw the medium-term guidance until such time that it is able to quantify the impact of COVID-19 on its businesses.

During this time of uncertainty, management will continue to focus on the sustainable cost management programme and cash preservation initiatives to protect the profitability and liquidity of the business.

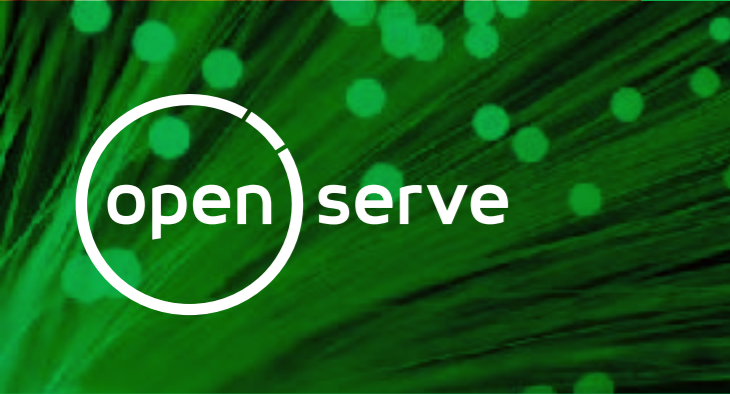
**Tsholofelo Molefe**  
Group Chief Financial Officer

	FY2019 – FY2021 Medium-term guidance	FY2020 Actual	FY2019 – FY2020 Actual (CAGR two years)
<b>Operating revenue</b>	Mid-single digit	3.0%	4.2%
<b>EBITDA</b>	Mid-single digit	(8.7%)	(0.4%)
<b>Capex to revenue</b>	16% – 20%	18.0%	18.2%
<b>Net debt to EBITDA (times)</b>	≤1.5x (post IFRS 16)	1.3x (post IFRS 16) 0.7x (pre IFRS 16)	1.3x



# Productive capital

Performance snapshot



# open serve

### Achievements

- Accelerated home connectivity rate
- Growth in fibre to the base stations and fibre to the business
- Reduced cost to pass and connect a home

### Challenges

- Evolution fixed business
- Increased competition in fibre broadband

### Material trade-offs considered in FY2020

- Focus on improving our connectivity and slowed down on homes passed
- Copper decommissioning – migrate customers to next-generation technologies
- New revenue stream growth comes at lower margins compared to the legacy technologies

### KPIs and key measures

FTTH connectivity rate up 9.4 ppts to	Fibre to the base stations up	Fibre to the business up
<b>48.2%</b>	<b>9.8%</b>	<b>25.9%</b>

### Key strategic focus areas

- Modernise the network
- Commercialise the network
- Transform service delivery



## Performance summary

The technological shift from legacy to next-generation technologies such as fibre and LTE/LTE-A<sup>1</sup> as new sources of revenue continue to impact Openserve's performance. This was compounded by a rapid decline in traditional high-margin fixed-voice business, in line with global trends.

Revenue declined by 10.7% to R15 134 million, driven by a 25% decline in fixed-voice revenue due to customers migrating from legacy to next-generation technologies.

The impact of the fixed-voice decline on EBITDA is significant as it has high margins. Underlying EBITDA reduced by 39.4% to R3 813 million. Our cost optimisation programme, including extracting efficiencies from network modernisation and service delivery optimisation, was not sufficient to offset the flow-through of the fixed-voice revenue decline. Due to the pressure on revenue and the resulting change in revenue mix, EBITDA margins declined from 37.1%\* to 25.2%\*.

We will continue to focus on cost efficiencies to try and offset adverse impacts of the fixed-voice revenue decline, unfavourable economic conditions and competitive pressures.



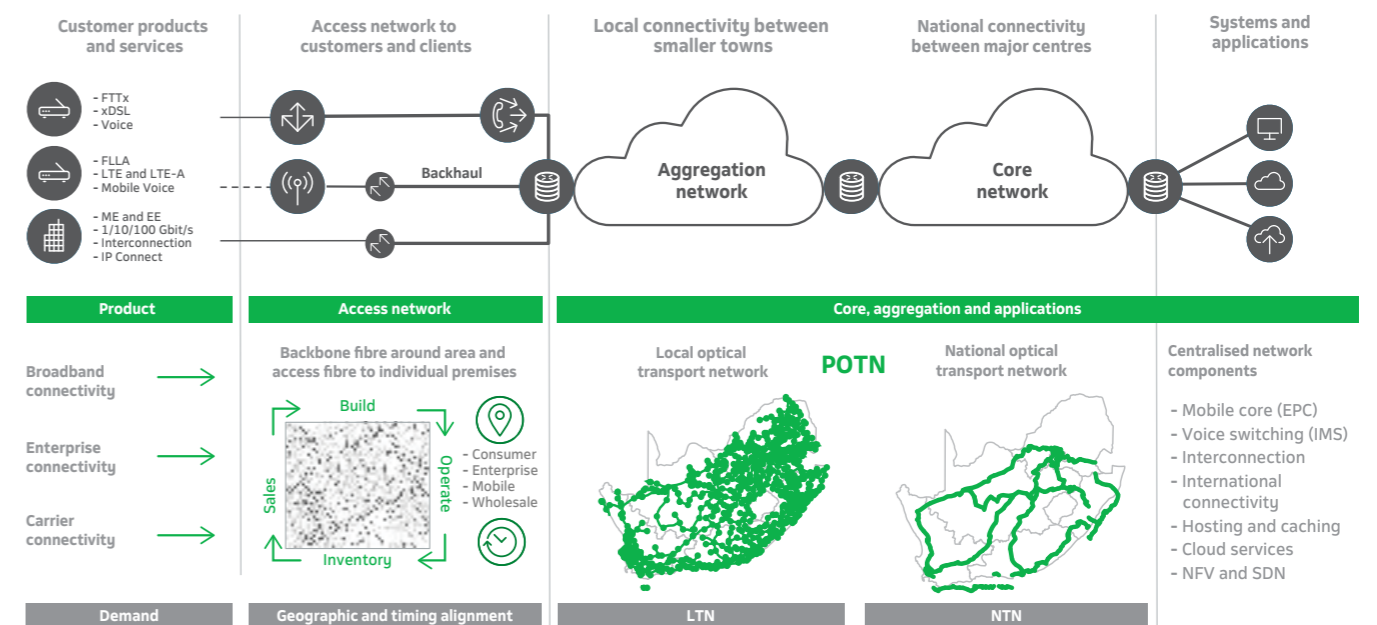
## Modernise the network

Our journey towards an all IP network continues to drive down the cost per bit and has enabled us to do so over the past few years.

The ongoing investment in next-generation technologies continues to scale up the network and cater for the growing broadband demand. During the year, we invested R2.7 billion to modernise the network. To date, we have more than

2.4 million homes with fibre to the cabinet and have passed approximately 455 600 homes with fibre to support our broadband strategy.

This investment enabled a 33% reduction of legacy services footprint by upgrading them to next-generation access technologies.



<sup>1</sup> Long-term evolution/long-term evolution advanced.  
\* Excludes the impact of IFRS 16 and VSP and VERP costs.

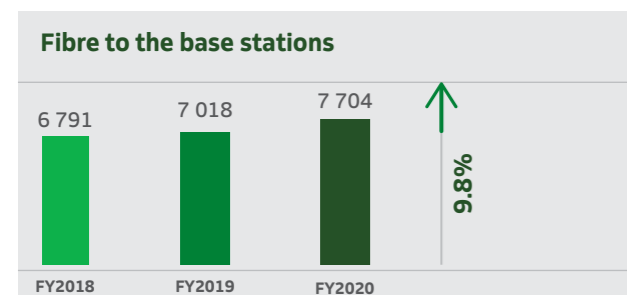
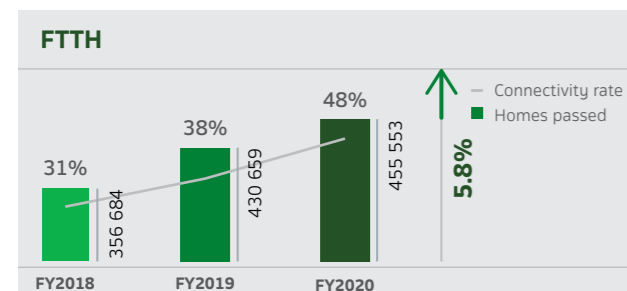
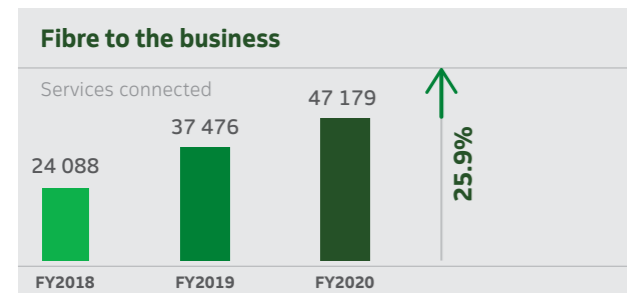
## Commercialise the network

Our ability to commercialise our network footprint has enabled us to mitigate the pressure on revenue. The growing data demand in the enterprise market is catered for by providing fibre-based ethernet links, which increased 29.5% to 47 179 services connected. Fibre to the base station increased by 9.8% to 7 704 base stations as mobile operators expand their networks.

Our investment in fibre to the home (FTTH) was rationalised to focus on areas showing a propensity for higher connectivity rates. The FTTH connectivity rate improved from 38.4% to 48.2% – the highest in the market.

In line with our cost reduction drive, we reduced the unit cost to deploy fibre to the home (FTTH) by 40% and we continue to look at opportunities to optimise the cost further. This will enable more aggressive future deployment.

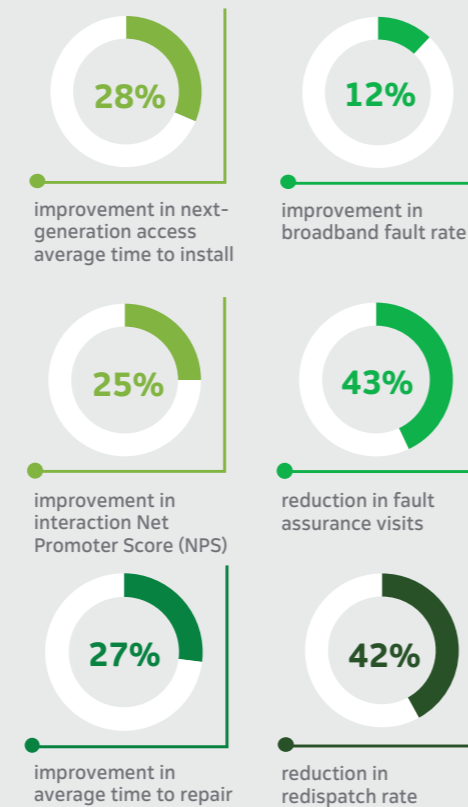
### Fibre ecosystem



## Transform service delivery

Through modernising our network, we extract operational efficiencies by utilising digital processes, which improve our service delivery capability. This improved the average time to repair by 27.3% and the average time to install next-generation access services by 28.4%.

### Improved operational efficiencies



Our drive to migrate legacy access technologies plays a significant part in improving productivity. Assurance visits reduced by 42.6% and the redispach rate reduced by 42.3%. This progress gave us the confidence to position Openserve to deliver a seamless client experience across all segments.

The 25.4% improvement in NPS (Net Promoter Score) results is testament to our quest to improve service delivery.

## Review of wholesale pricing

During the year Openserve worked on introducing new end-to-end fixed wholesale services. The Competition Commission viewed our redesigned offering favourably. It addresses the concerns related to the IP Connect product during the Data Services Market Inquiry.

Openserve redesigned the broadband ecosystem, which includes Openserve fibre broadband, resell DSL and IP Connect, to lower data prices. We seek to achieve a technology-agnostic approach to the revised broadband suite of products. Our new broadband access product suite will include solutions that are provided from the customer premises to the hand-off point as an aggregated offering. This will enable competitiveness regarding complete provisioning of end-to-end fixed-broadband solutions.

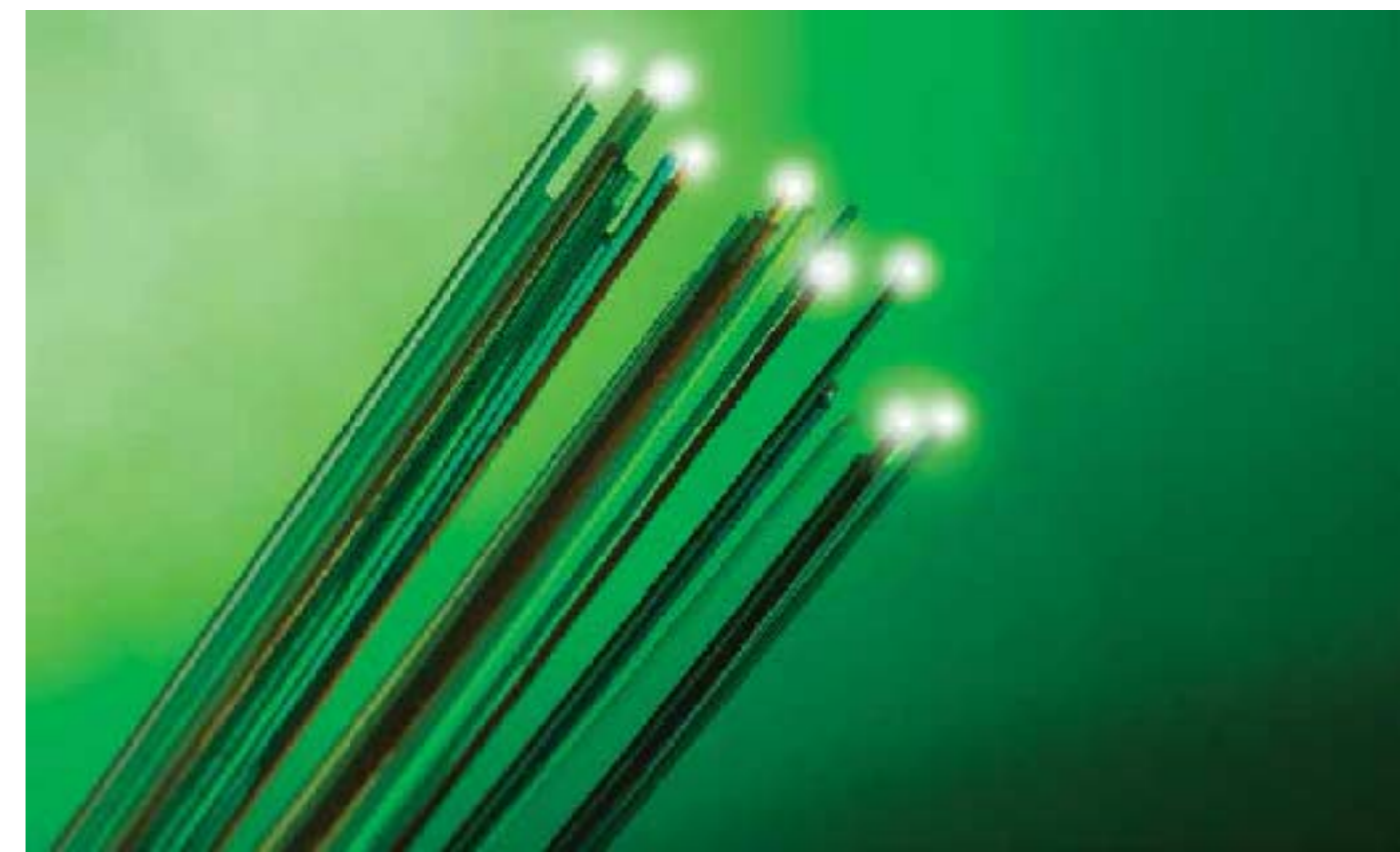
- Revised broadband suite of products
- Modernise the network and transform service delivery
- Lower data prices
- Pure Connect free install one-month rental

## Looking forward

We will continue our strategy to commercialise and modernise the network and transform service delivery. Considering the COVID-19 pandemic and the associated economic downturn, the need for affordable and universal broadband access has been exacerbated exponentially.

Our network engineers are constantly studying data consumption patterns and trends across the day to ensure we manage our peak capacity. Concurrently, we continue to plan and strengthen our core, aggregation and access network to meet our client and customer demands throughout the day. Where required, upgrades to our networks are being proactively implemented. We are confident that our data-led design of the network will hold us in good stead to cater for the current surge in traffic and the increase in expected data consumption generated by the speed upgrades implemented by Openserve for qualifying broadband customers.

Openserve also launched a Pure Connect offer with a promotional free install and one-month rental. Pure Connect, was from 15 May on our existing copper infrastructure including our MSAN and ISAM networks, that are largely underpinned by high-speed fibre backhaul. In addition to our high-speed Pure Connect offerings (10 Mbps, 20 Mbps and 40 Mbps), the product offering will include an entry-level 4 Mbps Pure Connect Lite offer. Orders will be placed directly with Openserve and the traditional public switched telephone network (PSTN) voice services will not be supported with the Pure Connect offer.





Performance snapshot

### Achievements

- Continued growth in mobile business
- Emphasis on high-speed large bundle broadband products
- Scaled up value compelling fixed-line look-alike products provision over the mobile network

### Challenges

- Copper access-based products continue to decline
- Exiting and embedding new roaming service provider

### Material trade-offs considered in FY2020

- Expanding own network (capex) vs utilising roaming agreement (opex efficiencies)
- Investing in own sales distribution channels vs dealer-based channels

### Key strategic focus areas

- Accelerate mobile growth
- Drive high-speed broadband
- Expand the mobile network
- Grow content and VAS
- Improve customer experience

### KPIs and key measures

- Active customers up **23.9%**
- Service revenue up **54.4%**
- Mobile data traffic up **69.9%**

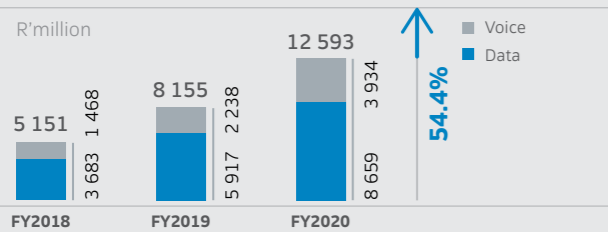


## Performance summary

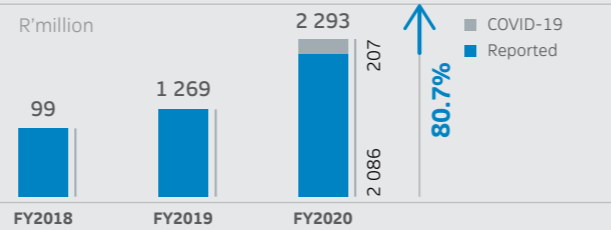
Telkom Consumer's revenue performance improved by 13.0% to R21.7 billion. This was driven by the mobile business's continued growth trajectory, with service revenue increasing 54.4% to R12 593 million, underpinned by a successful data-led value proposition and ongoing network investment. We have seen a decline in fixed-voice revenue due to the migration of traditional generation copper-based network customers to newer technologies.

Telkom Consumer's EBITDA breached the R1.5 billion mark, supported by a strong mobile business and cost containment initiatives. The Telkom Mobile underlying EBITDA grew 80.6%\* to R2 294 million\*, notwithstanding the once-off costs relating to the roaming cost of R132 million from two operators in the first half of FY2020. Telkom Mobile's EBITDA margin has improved from 1.4% to 14.9%\* over the past three years.

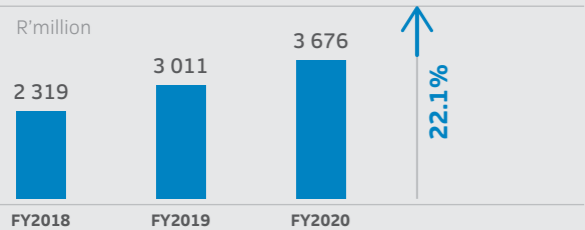
### Mobile service revenue



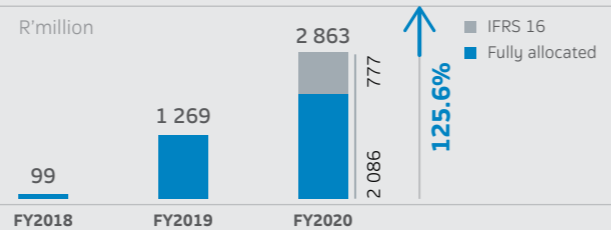
### Mobile EBITDA (fully allocated)



### Capex spend



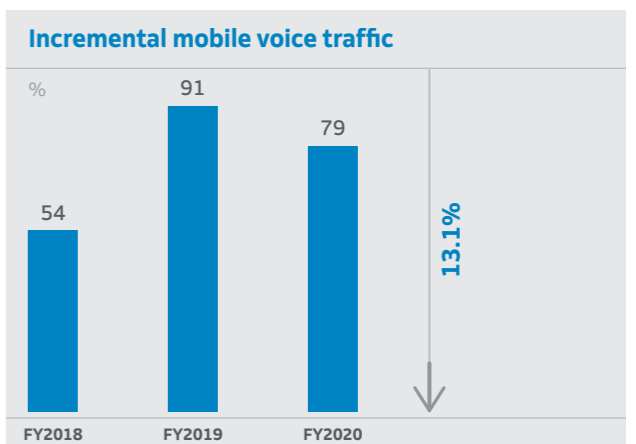
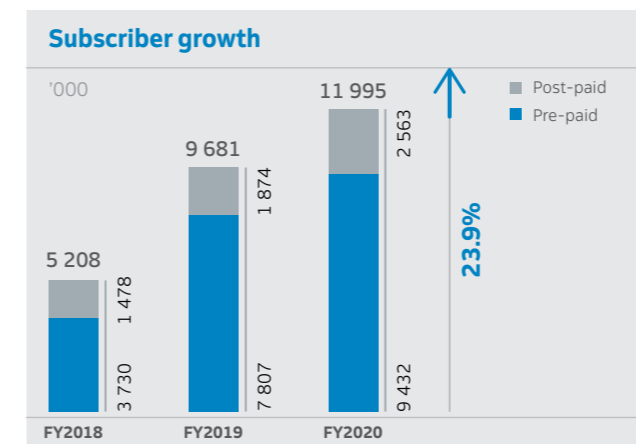
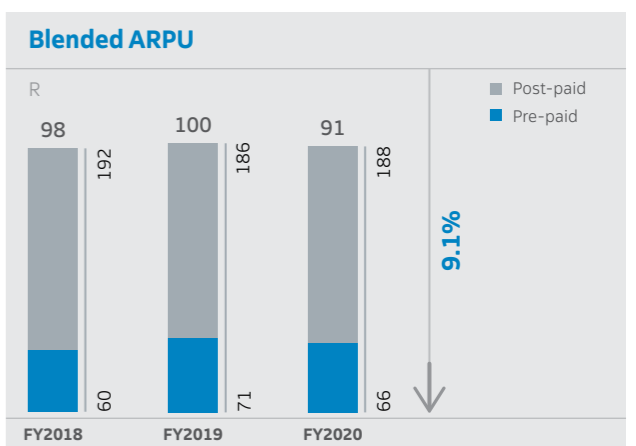
### Mobile EBITDA (IFRS 16 impact)



## Accelerate mobile growth

The solid growth in mobile business was supported by a 23.9% increase in customers to 12 million with a blended average revenue per user (ARPU) of R91. Pre-paid customers grew 20.8% to 9.4 million, with net additions of 1.6 million. Despite the growth in pre-paid customers, pre-paid ARPU declined by 8.2% to R66. The post-paid customer base increased 36.8% to 2.6 million at an ARPU of R188. Post-paid ARPU trends have improved following a 7% decline in the first half of the year, and demonstrated marginal growth compared to FY2019.

The high-speed broadband products and prudent customer value management underscore the growth in our customer base and positive ARPU growth trajectory.



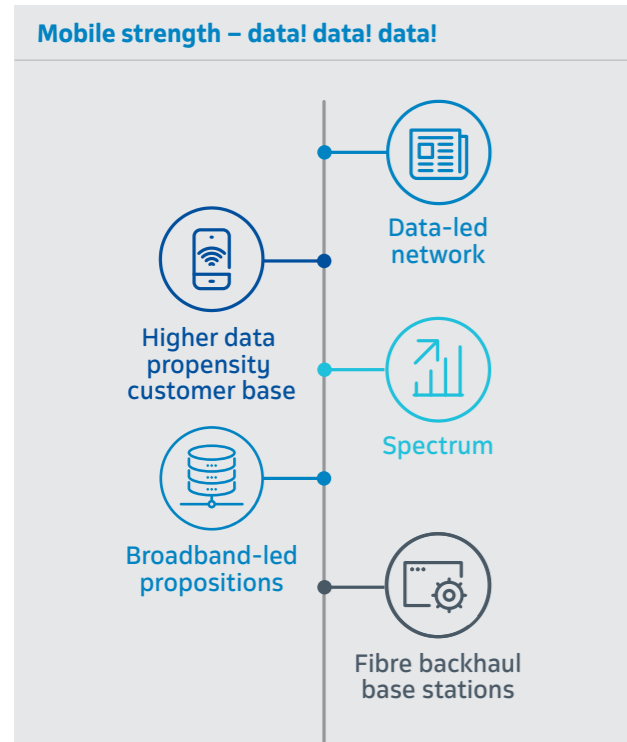
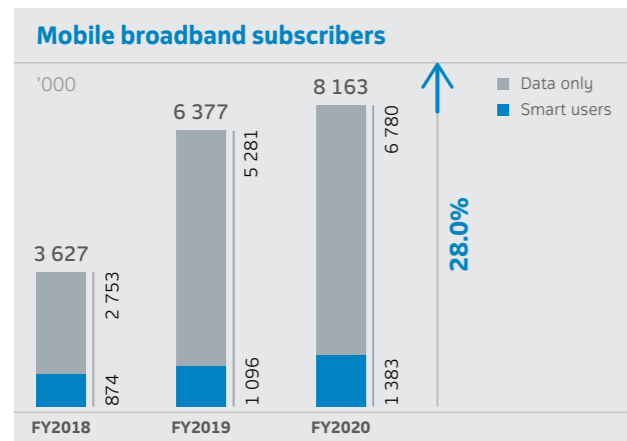
\* Excludes the impact of IFRS 16 costs and the additional impairment of trade receivables and contract assets as a result of COVID-19.

## Drive high-speed broadband

Data remains a key strategic driver for Telkom in the fixed-line and mobile product portfolios. The two products are set to continue to complement each other as the strategy seeks to evolve customers from wireless to fibre in specific areas, where applicable.

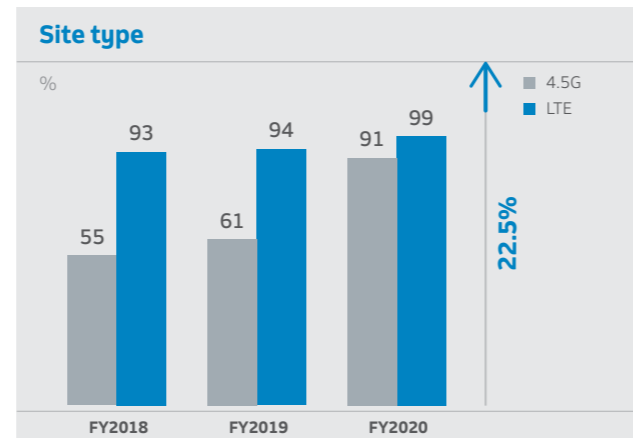
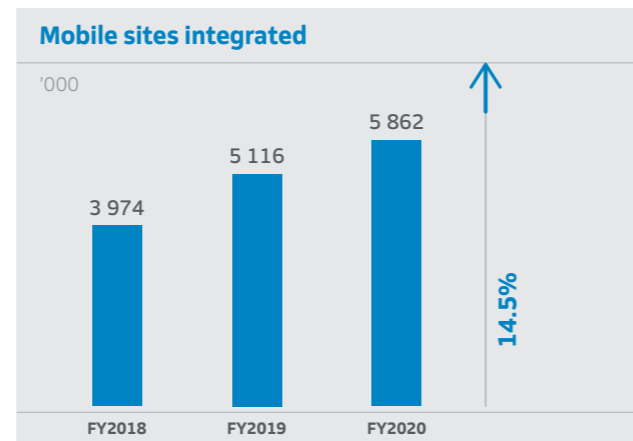
The strategic intent of focusing spectrum resources towards 4G contributed to an increase in smartphone sales. Mobile data revenue grew 48.2% to R8.8 billion, supported by a 28.0% increase in mobile broadband subscribers as well as attractive data propositions.

We will continue to drive aggressive broadband growth in untapped segments to ensure competitiveness. We will lead with high-speed mobile broadband in these markets, with an option to switch to fibre.



## Expand and upgrade the mobile network

We continued with the mobile network expansion programme with an emphasis on 4G. We increased our capex investment by 22.1% to R3.7 billion, increasing our base stations. We increased our base stations by 14.6% to 5 862, of which 71.1% are LTE time division duplex capable and 100% are LTE frequency division duplex capable. The expansion aligns with the strategy of building a 4G and 4.5G data network to carry big volumes of data traffic and is the largest mobile data network in South Africa. We refarmed a significant portion of the 1 800 MHz spectrum and started refarming portions of 2 100 MHz for LTE and LTE-A. Refarming the 1 800 MHz spectrum allowed us to switch off and decommission most 2G access nationally, resulting in an improved 4G experience. We upgraded over 30% of base station backhaul to cater for data growth.



## Grow content and VAS

Our objective is to drive broadband adoption in the South African consumer market through content and other VAS. We are strengthening relationships with our content partners. During the year, fibre campaigns included bundling with streaming services such as Netflix and Showmax. Device bundling included gaming consoles and smart TVs to enable broadband consumption and customer loyalty. We introduced our first fixed-broadband carrier billing partner, Netflix, which allows fixed customers to add third-party services through their account.

We launched Telkom Plus, a VAS aggregation platform, providing customers with value-adding content and services in categories such as lifestyle, short-form video and mobile gaming. The platform saw over 100 000 subscriptions in the first two months. We also enhanced the existing emergency airtime service by adding denominations and data bundles. Airtime advancements increased threefold in the four months since the enhancement in August 2019.

## Improve customer experience

Through our “Service is the new selling” customer experience programme, we formulated improvement plans. These are executed via touchpoints across various customer journeys. The following initiatives were completed, including process automation in selected areas

Service transactions turnaround time in our stores improved by 10% compared to FY2019, and 75% of customers were assisted within 15 minutes of calling. Fingerprint biometrics simplified the credit vetting process, which reduced processing time by 8% and fraud by 90%.

Initiatives within the call centre to deal with root causes of customer disputes resulted in substantially lower customer disputes and complaints, driven by a 30% reduction in billing-related calls and a 50% improvement in the repeat caller rate. Escalations received are 47% lower than FY2019.

Telkom is implementing a customer experience management platform across fixed and mobile broadband to rapidly identify network faults, to manage and monitor network performance, and to improve overall customer experience.

## Review of broadband portfolio and pricing

Telkom sought to develop affordable entry-level broadband products on fibre and LTE to offer customers a more compelling value proposition. This enhanced the value offered to customers to remain competitive, while still offering the best value proposition in the market.

Telkom redesigned the SmartBroadband data portfolio, which seeks to offer customers large on-network-only data bundles at a reasonable price per megabyte. The portfolio enhancement increased data allocations across pre-paid and post-paid. New entry-level bundles included 5 GB + 5 GB at R99 and 10 GB + 10 GB at R149, which are positioned to attract more customers to a home broadband proposition.

In line with the new products and services, we focused on network expansion to drive pre-paid LTE, specifically in areas of high data demand and new market segments. An example of this is within the Soweto market where pre-paid LTE and fibre are areas of growth. Telkom continues to move away from basic traditional uncapped fixed-broadband offerings to more experience-based products, improving overall customer experience, customer value and content adoption.

Telkom expanded its Mobile portfolio and added several new and innovative products and services. These included social bundles, designed to give access to popular social media platforms with one data bundle. The uptake of these bundles was unprecedented, highlighting the pent-up demand for such an offering. Social bundles complement the existing FreeMe portfolio.

## Looking forward

We are deploying a far more granular segmented approach with regards to our customer segments and go-to-market by leading with LTE and fibre. We are exploring use-cases to cater for the demanding needs for future 5G deployments.

The Telkom Consumer team has adopted a multi-faceted response mechanism to the COVID-19 pandemic. From a network perspective, we have utilised spare capacity ports from Openserve to cater for work-from-home/schooling with aggressive price points and catered for the increased data demand by availing ourselves of the spectrum assignment.

We had already repositioned entry pricing on our SmartBroadband products prior to the lockdown, repriced our DSL products to cater for the new Openserve Pure Connect wholesale product reconfiguration and will launch an aggressive 10 Mbps fibre product. Our channels are readied by us repurposing our sales teams and store managers to fulfil online applications, as well as preparing the channel for a recovery post lockdown.



## Productive capital



Performance snapshot

## Telkom Small & Medium Business

### Establish a dedicated SMB unit

Small and medium businesses have the biggest impact on a successful GDP. However, South Africa has one of the highest failure rates for these businesses compared to other developing countries. Telkom SMB aims to be a go-to place for all small and medium-sized enterprises (SMEs) to connect and to grow.

Telkom SMB's goal is to shift from pure connectivity products to e-commerce and expand to adjacent offerings in IT, procurement, financial services and many more – all delivered through a digital platform powered marketplace.

The board approved the new Telkom SMB division to take the opportunity to capture lost market share and venture into adjacent markets to create new revenue lines. The business unit was created effective 1 April 2019.

The SMB division was built ground-up with a lean operating model with about 250 employees servicing the small and medium business segment. We formed a new management structure and recruited key leadership positions. The Telkom SMB exco was fully resourced from January 2020.

Integration of Yellow Pages capabilities started, and cross-functional teams are working on platform and product development. Sales teams have been upskilled to sell mobile and fixed connectivity products.

Identification, reclassification, profiling and segmentation of customers were completed. We designed a product and service-led strategy to ensure these areas are adequately serviced. We started operationalising the strategy and relevant workstreams are active.

### Achievements



Launched an e-commerce platform to enable SMEs to buy Telkom products and manage accounts online



Recontracted significant portion of out-of-contract PABX customers and drove growth of customers on fibre



Developed and launched a Yep digital marketplace for small businesses and assisted the Department of Small Business Development with a portal used to manage COVID-19 relief efforts by government

### Challenges

Legacy connectivity and advertising revenues are under pressure and the pace of decline is accelerating

Economic conditions remain difficult and SME failure rates are still high

### Key strategic focus areas

**Established** dedicated SMB division

**Enhance value** propositions

**Build** a digital platform capability

### Material trade-offs considered in FY2020

- 1 Accelerated migration of customers onto mobile and fibre solutions as retention mechanism
- 2 Added 18 new channel partners to drive growth vs recruiting internal sales capacity

### Building a digital platform capability

Yep e-Marketplace for businesses was launched as we continue to grow our digital offerings and refresh our brand. Yep allows the business to create value for customers and secure a different revenue stream for the group. It is geared towards promoting economic sustainability, while creating a long-term future for small businesses.

The Yep app and online platform enable Individual users to:

- Easily locate businesses or services they require in their area
- Request quotes
- Directly book appointments from the platform
- View Merchant stores online
- Use the ratings tool to review their service

Yep also enables Business users to create an online store with their own unique branding to sell directly to customers via the marketplace. Yep will also have a bidding section for SMEs to access business opportunities from other SMEs and Corporate partners via the platform.

An e-commerce platform, MVP on [Telkombusiness.co.za](http://Telkombusiness.co.za) went live following an Agile methodology of delivering solutions to customers. This phase included redesigning the user journey and building a new website.

Customers can explore and buy the full range of Telkom's connectivity, productivity and marketing products from the convenience of their phone, tablet or computer.

### Enhance value propositions

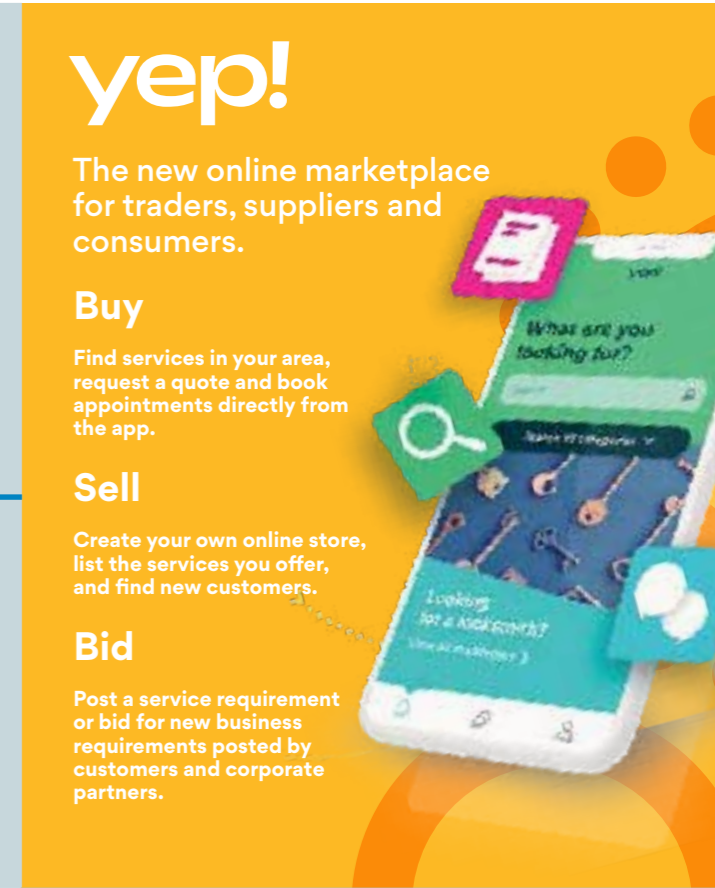
We launched a strategic BizExpander proposition that provides customers with affordable converged products and services on a single bill. BizExpander provides access to fibre or mobile connectivity bundled with digital presence solutions such as a website and a listing in Yellow Pages at <http://YP.co.za> and Yep at <https://yep.co.za>. This solution assists businesses with core connectivity and access to customers via digital platforms

### Optimisation of sales channels

We conducted a gap analysis to identify channel gaps to service small and medium business customers with easy access to products and services. The purpose was to optimise, rationalise and consolidate to reduce cost to acquire and increase return on investment while improving service to customers. This is an ongoing process.

To this end we appointed three call centres to increase our footprint to target mainly mobile customers which yielded an increase in mobile revenue this year.

We increased our direct sales force footprint to reach customers and advise on tailored solution requirements. We appointed 18 third-party dealers to increase our channel footprint and service customers. This improved our geographical channel reach.



## yep!

The new online marketplace for traders, suppliers and consumers.

### Buy

Find services in your area, request a quote and book appointments directly from the app.

### Sell

Create your own online store, list the services you offer, and find new customers.

### Bid

Post a service requirement or bid for new business requirements posted by customers and corporate partners.

### Upgraded customers from copper to alternative technologies

We focused on upgrading simple and complex copper-based services to more sustainable technologies. We migrated customers from copper to fibre or LTE, particularly customers who only use simple or basic services, to improve overall customer experience and reduce customer churn. Through a targeted approach, we focused our efforts on key areas such as high fault and theft areas.

### Looking forward

We want Telkom to be the go-to place for all South African small and medium businesses to connect and grow their businesses. Our goal is to shift revenue from pure connectivity products towards an e-commerce-based revenue stream.

The COVID-19 crisis has further increased the urgency to accelerate SMBs into e-commerce platforms. The business is well positioned to respond through the current solutions already available through the Yellow Pages.

The focus going forward will be to initially equip customers with an online store through Yep, customised websites and digital performance marketing services. This will help equip SMBs to sell their products and services online without the complexity and time required to set up a traditional e-commerce site.

As the uptake of e-commerce and the marketplace accelerates, we will expand access to our adjacent product offerings in IT, procurement and financial services through the platform.



# Productive capital

Performance snapshot



## Achievements

Increase in next-generation voice and data access revenues, driven by migration from legacy to next-generation solutions

Sustainably reduced our cost base

## Material trade-offs considered in FY2020

- 1 New revenue stream growth comes at lower margins compared to the legacy technologies

## Key strategic focus areas:

- Drive revenue growth
- Improve operational efficiencies
- Drive digital transformation

## Challenges

Fixed-voice legacy business continues to decline

Overall growth impacted by a weak economy

## KPIs and key measures

<b>B-BBEE</b>	<b>2.3%</b>	<b>16.1%*</b>
Level 2 rating down	IT business revenue up	Underlying EBITDA margin at



## Performance summary

Revenue was resilient and declined by 4.3% to R18 742 million, despite a 15.8% decline in fixed-voice business as we shift from legacy voice to next-generation voice and from voice to data. This was partially offset by the growth in IT business of 2.3% to R9 089 million, due to specialised solutions as we drive and grow industry-specific owned IP. These results include divestments of international subsidiaries whereas excluding the international operations, the IT business revenue growth is 3.7%. We took advantage of hardware refresh cycles. Hardware sales will improve opportunities to cross-sell other ICT services and increase our share of the customer wallet.

IT services revenue was negatively impacted by the disposal of the Tanzania and Nigeria businesses. There were also downward pressures on original equipment manufacturers' application solutions, especially SAP, and a decline in hosting services revenues as demand for traditional hosting platforms diminishes. Cloud revenue saw a marginal increase, as we continue to see convergence to cloud and consumption as a service.

Through the optimisation process, BCX reduced costs, resulting in a year-on-year cost reduction of 3.9%\*. Employee costs are down 7.4%\*, underpinned by an 8.1% permanent headcount reduction.

Excluding the impact of once-off adjustments, BCX's underlying EBITDA declined 6.9%\* to R3 016 million\* with an EBITDA margin of 16.1%\*.

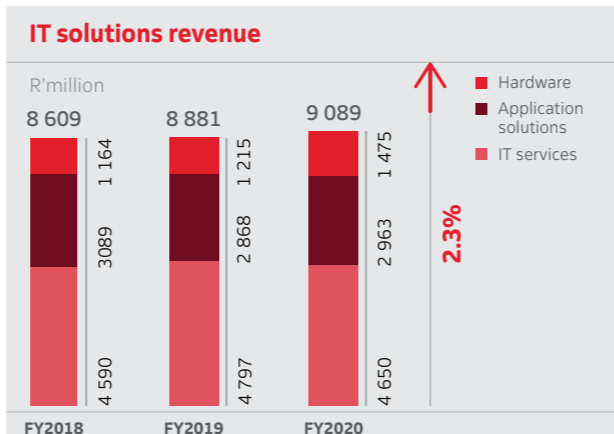
## Drive revenue growth

In defending fixed-voice revenue decline, pay per user and call centres, we launched on-demand products to competitively position BCX and win back some contact centre contracts. We launched competitive customer value propositions to arrest churn.

Three key initiatives were identified to defend the core revenue streams and grow connectivity:

- Defended fixed-voice revenue decline through the Innovative Voice campaign, launched in December 2019
- Launched the software-defined wide area network (SD-WAN) solution suite in August 2019
- Launched a network security service in March 2020

We developed vertical industry frameworks for industries in financial services, government, healthcare, mining and energy, and retail – which created integrated solutions for client needs. These solutions were shared through various forums with clients and show positive results in securing future business in contract renewals and new business. Furthermore, it resulted in mid-market and corporate customer base revenue growth.



\* Excludes the impact of IFRS 16, VSP and VERP costs and the additional impairment of trade receivables and contract assets as a result of COVID-19.



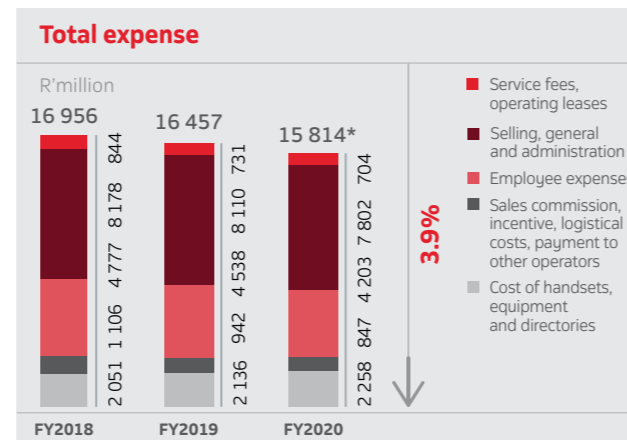
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1. **Defend** fixed-voice revenue decline through the Innovative Voice campaign launched in December 2019
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3. **Launched** network security service in March 2020

In defending fixed-voice revenue decline, pay per user and call centre, we launched on-demand products to competitively position BCX and win back some contact centre contracts. Competitive customer value propositions were launched to arrest churn. The COVID-19 pandemic has accelerated the need for our contact centre on-demand solutions from government departments and corporates as they put measures in place to curb the spread of this coronavirus.

### Improve operational efficiencies

Improving operational efficiencies entailed fundamentally changing the way the business unit works and reinventing the way we serve our clients and their customers. With a relentless focus on improving the customer experience, we improved back-office efficiency through a reduction of human intervention while maintaining service levels, as well as introducing new cloud-based service technologies. BCX is also developing a customer insights engine that will provide a 360° view for and of our customers' IT environments.



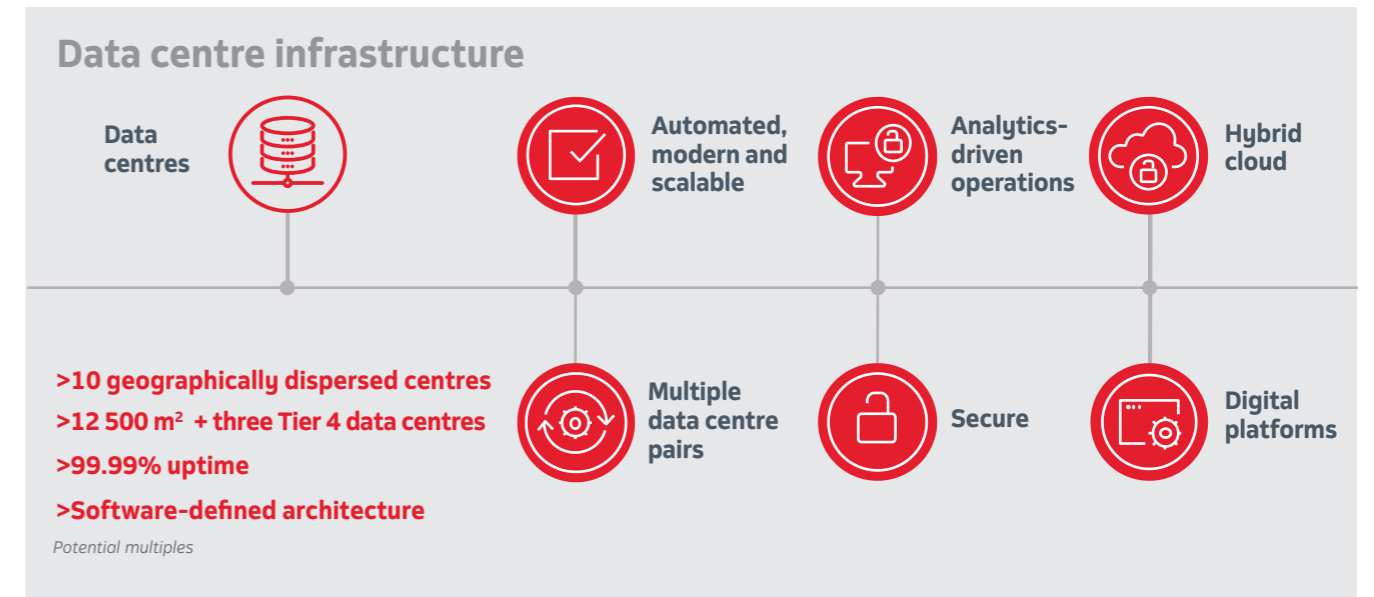
- Margin expansion due to **3.9%\*** reduction in costs, with **4.3%** reduction in revenue
- **7.4%\*** decrease in employee expenses, due to headcount reduction of **8.1%**
- **3.8%** decrease in selling, general and administration costs due to cost optimisation programme
- EBITDA margins declined from **16.5%** to **16.1%\***

\* Excludes the impact of IFRS 16, VSP and VERP costs and the additional impairment of trade receivables and contract assets as a result of COVID-19.

We focused on streamlining the product portfolio, driving the automation of IT operations and processes and reducing product overheads. Part of this focus is enhanced monitoring that enables proactive problem resolution in complex IT environments to reduce the cost to serve.

### Drive digital transformation

BCX leverages digital transformation to innovate solutions for value realisation. This resulted in the incubation of the robotic process automation and artificial intelligence business, which will scale in the next few years. A fundamental component of digital transformation is the cybersecurity that underpins it. Hence, we made an investment in operationalising the security operations centre using in-house IP and vendor technologies. This is a hub for managed cybersecurity operations and monitoring services within the group and for serving customers going forward.



### Looking forward

BCX's ambitions are to be a leading provider of end-to-end digital solutions in Africa and a provider of core industry solutions in retail, health, mining and energy, financial services and government. Given evolving customer needs, we want to deliver unique differentiated business-to-business to customer experience. BCX aims to become a home for top industry talent and expertise.

To this end, our strategy is to continue managing the decline of our voice revenue and reducing churn by focusing on driving revenue through our next-generation voice solutions. We will continue to focus on growing our own IP solutions as well as driving cost efficiencies and preserving our cash.

The COVID-19 crisis has accelerated digital transformation in South Africa and the world. It has brought the change the technology industry has been preparing for. BCX, as a technology company, is now an essential service and our employees are impactful and vital corporate citizens. We are playing our part in the national effort in the battle against

COVID-19 on many fronts. Before the lockdown, we enabled our clients, for instance, to operate call centres remotely and to service their customers with the same level of expertise. BCX set up a contact centre for the National Institute of Communicable Diseases and the national Department of Health as they dealt with an overwhelming number of calls that is growing exponentially.

Internally, we have challenged our employees to continually innovate solutions and to be ahead of the curve across the digital landscape. It is no longer good enough to just be a technology company, we must be able to provide a comprehensive and flexible package that will ensure the success and security of our customers and society on this digital transformation journey. Workspaces have changed, automation has increased, and industries are becoming decentralised. A new normal is being created.

We are in the midst of a revolution – the fourth industrial revolution in real time. It has presented us with the opportunity to help businesses thrive and grow. Technology is an essential entity in everything: healthcare, the delivery of crucial services, co-ordinating the national emergency task force, keeping businesses working, and ensuring we can speak to family and friends online.





# Productive capital

Performance snapshot



## Highlights

- Masts and towers EBITDA increased by 120.5% to R805 million
- Reduced property costs through space consolidation, decommissioning of properties and active cost management
- Implemented first tower small cell site suitable for 4G densification and 5G rollout requirements
- Advanced development planning for 13 properties and identified an additional 40 properties with development potential

## Material trade-offs considered in FY2020

- The continuing poor economic conditions ensure that we maintain prudence and elevated levels of discipline as we invest capital and pursue new business opportunities.

## Key strategic focus areas

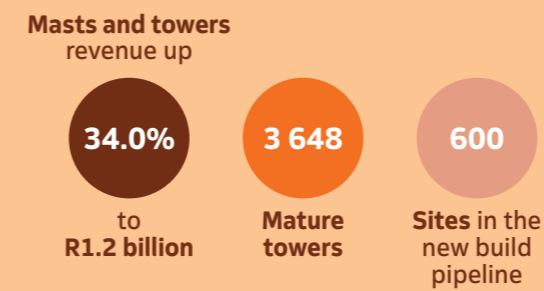
- Optimise and grow the masts and towers portfolio
- Commercialise the property portfolio
- Enhance building costs and operational at efficiencies

# Gyro

## Challenges

Poor economic conditions worsened by COVID-19 and the resultant impact on the short to medium-term strategy implementation

## KPIs and key measures



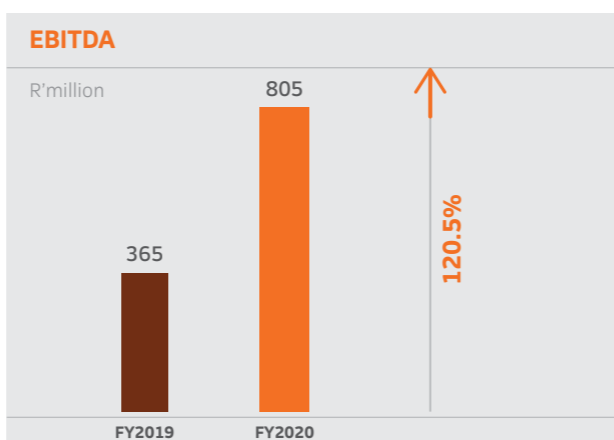
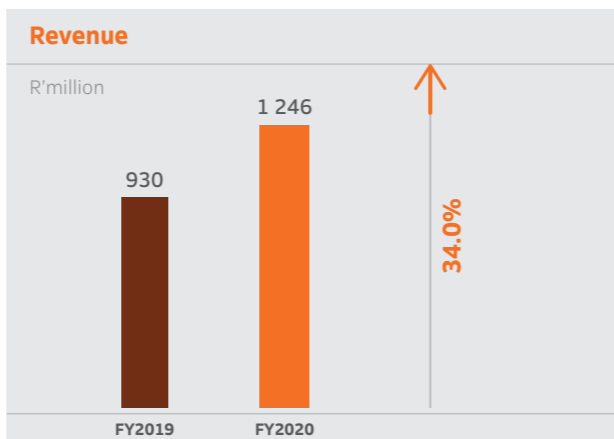
## Performance summary

Gyro performed well, underpinned by revenue-enhancement initiatives in the masts and towers portfolio in spite of the challenging macro-economic environment. We remain focused on optimising the masts and towers portfolio as the anchor business for Gyro. We continued with the development planning activities of properties in the pipeline, and identified additional properties that are suitable. We optimised the group's property-related expenditure.

Gyro revenue grew by 29.5% to R1 514 million, mainly driven by our masts and towers portfolio. The masts and towers revenue increased by 34.0% to R 1 246 million. The demand for sites by Telkom Mobile and new external leases augmented Gyro's revenue.

Underlying EBITDA\* increased by 74.7% to R1 197 million and the EBITDA margin expanded to 79.1%, driven by revenue growth and active cost management.

## Masts and towers portfolio performance



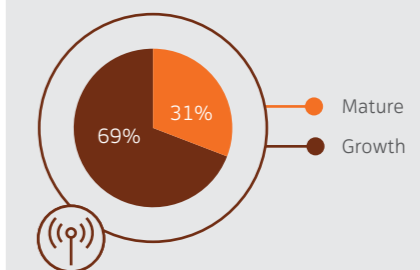
## Optimise and grow masts and towers

Our productive capital portfolio comprises 3 648 towers, consisting of 1 119 mature towers and 2 529 growth towers. Over and above the productive portfolio revenue growth initiatives, we aim to build 1 000 new towers by FY2023. There are 600 sites in the new build pipeline.

As part of enhancing penetration of 4G and preparation for 5G requirements, we are pursuing small cell opportunities. We went live with the first small cell site with a full service offering to mobile network operators. We believe this plug-and-play solution will be suitable for mobile network operators' 4G densification and 5G rollout requirements. We started rolling out "in building solutions" to enhance mobile network coverage in commercial buildings. This new initiative enhances our customers' ability to service their clients and presents new revenue opportunities for Gyro.

## Productive portfolio

### Growth vs mature towers (%)



	Tenancy ratio <sup>1</sup>	Loading ratio <sup>2</sup>
Overall	1.32x	1.48x
Mature	3.56x	4.03x
Growth	0.33x	0.36x

<sup>1</sup> Tenants/towers  
<sup>2</sup> (Tenants + add-ons)/towers

\* Excludes the additional impairment of trade receivables and contract assets as a result of COVID-19.

## Commercialise the property portfolio

We continue to evaluate individual properties for highest and best use, and for hold or sell investment decisions. Properties core to Telkom's operations are retained and space usage is optimised where feasible. All development projects are based on the best-use approach as informed by the demand and supply dynamics of the particular market. Thirteen properties suitable for greenfield and brownfield developments are under development planning. These projects consist of mixed-use and residential (apartment and student accommodation) opportunities. A further 40 properties with development potential will undergo research assessment to determine best use and suitable development projects.

We continue to decommission, dispose or repurpose non-core properties not suitable for operational use or development. From the 520 sites (equipment, infrastructure, containers and properties) earmarked for decommissioning, 73 were listed for auction during FY2020.

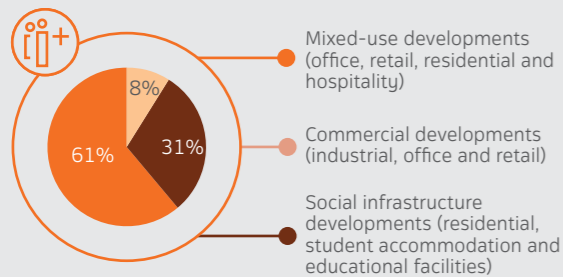
We received offers for a combined purchase consideration of R25.3 million for 46 properties, following auctions that took place in FY2020. Although the properties have not transferred, proceeds from sale are anticipated to flow during FY2021.

The balance of unsold properties will be reoffered to the market, together with new properties that are earmarked for disposal. Current market conditions have made it more challenging to dispose of properties at satisfactory prices; and this will be exacerbated by the negative impact of COVID-19 on the economy. It may be inopportune to dispose of further assets during FY2021. We began the permitting of sites for outdoor media to take advantage of the vast property portfolio to generate alternative revenue streams.

### Unlocking value

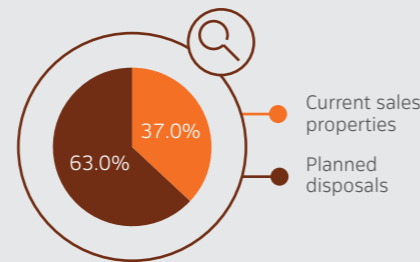
#### Property development pipeline – 13 projects

##### Sectoral spread (capex)



#### Disposal pipeline

##### Identified disposal properties (73)



## Enhance building costs and operation efficiencies

We advanced our efforts of consolidating office and warehouse space in major cities. This should reduce property occupancy expenditure across Telkom. Our continuous effort to reduce and optimise utility consumption and related expenditure resulted in savings of R121 million. We implemented initiatives to this end, including electricity tariff assessments, smart meters and data analytics. Through our decommissioning and disposal programmes, occupancy costs are anticipated to further decrease, primarily through utility consumption and utility charges reductions.

### Looking forward

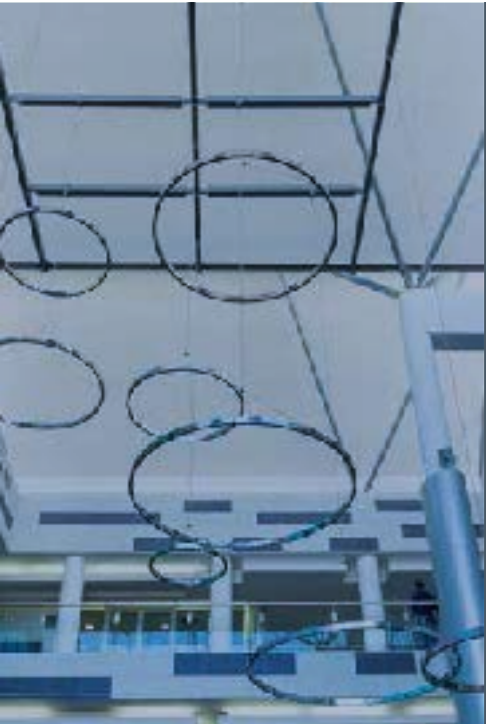
The COVID-19 pandemic has undoubtedly changed the way we will do business. However, Gyro will continue to optimise the masts and towers portfolio, and commercialise the property portfolio as feasible during the unfavourable economic environment. We have initiated interim measures amid the COVID-19 national lockdown to allow for the resumption of various projects planned for FY2021. Once the lockdown levels allow for construction to resume, we will resume the tower build programme in consultation with our value chain partners to ensure minimal impact to projected medium-term growth.

We ensure our availability and continued support to our mobile network operators' customers by continuing to process tenancy application and drive incremental portfolio commercialisation during the national emergency period. We will aggressively permit new sites for anticipated new spectrum, densification for 4G/5G, and penetration of underserved markets (townships and second tier towns). We continue to roll out the small cell pipeline to proactively provide densification solutions for our major clients.

During this weak economy, we anticipate further decline in the demand for many of the commercial real estate uses as tenants continue to experience depressed revenues. Therefore, we are reprioritising property development planning to property sectors with stable and growing demand for space, and will apply the utmost caution before starting the construction of any project. We will realise proceeds from sold properties and hold the sale portfolio due to very low market prices. Furthermore, we will accelerate the decommissioning of properties due to reduced requirement for workspace and to reduce costs.

We will advance initiatives to reduce property occupancy and operating expenses. We will execute speedily on utility expenditure reduction initiatives to optimise utility costs and consumption by the top consuming properties, facility management costs and rentals for COVID-19 impacted Telkom stores. In ensuring optimal and efficient operation, reopened Telkom buildings have been adequately prepared to ensure building compliance with COVID-19 health guidance and prescripts. We continue to prepare more buildings to be reopened under intensified and compliant cleaning, hygiene and safety protocols as employees resume office work.





## Intellectual capital



We continued to focus on the key transformation drivers enabled by focused technology deployment that is reliable, outcome-based and fit-for-purpose.

Telkom embraced multiple facets of digitisation, including updating and improving our web technologies, using cloud-based services, mobility-led interface designs, design thinking and robotic process automation underpinned by adaptive governance.

The focus for the year was centered around enhancing our technology landscape by using leading edge software that focuses on simplification and automation of our processes. Keeping the customer at the centre of this transformation, Telkom is collaborating with a leading technology provider to transform our operations support systems and integration layer to enable a more simplified and automated inventory recognition and management.

## Governance and oversight

The objectives of IT governance are strategic alignment, value delivery, effective risk management and resource and performance management. These objectives drove the approach that was followed in enhancing governance of technology and information.

With networking technologies being increasingly driven by digitisation and cloud computing, governance of both network and IT has been strengthened through the implementation of an integrated IT governance framework based on King IV, Control Objectives for Information and Related Technologies 2019 and ISO/IEC 385002. This involved establishing governance structures and the review of policies, procedures and standards.

The three-tier governance structures at operational and tactical levels have been established at business unit level to ensure end-to-end compliance with strategic IT governance at group level. The IT governance landscape is aligned and reports into the corporate governance structures. In addition, the enabling technology capability of the information security management system was successfully deployed.

The information security management system is composed of six domains which are:

- 1 Access governance
- 2 Security incident management
- 3 Malware protection
- 4 Security compliance
- 5 Training and awareness
- 6 Vulnerability exposure

The technology that has been deployed covers all five domains utilising leading technology such as artificial intelligence and machine learning.

### Key strategic focus areas

- Seamless digital processes
- Improved user and workforce experience
- Reliable and trusted service delivery
- Operational efficiency
- Effective governance

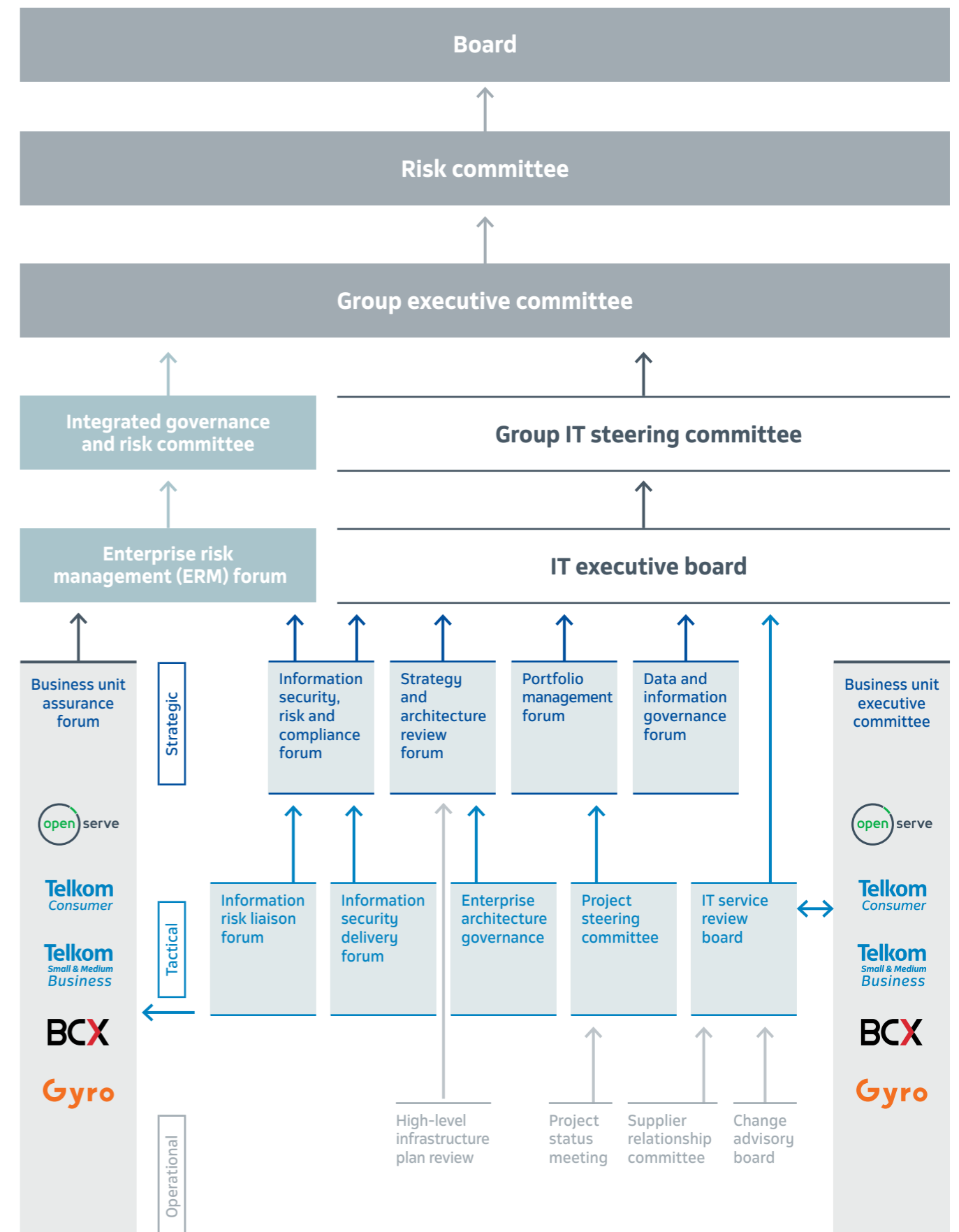
### Key themes that informed intellectual capital's performance in FY2020

- Integrated solutions
- Portfolio diversification
- Operational superiority

### KPIs and key measurements

- Customer experience
- Time to market
- Productivity

## IT governance structure



## Strategic overview

In aligning with Telkom's strategy, the digital strategy and operating model have been developed to usher Telkom into the digital era. Customer experience remains a focal point of our digital enablement journey, ensuring easier and faster interactions. The elements of the digital strategy framework are customer experience, end-to-end operation, technology engine, flexible organisation, innovation driven by effective partnering and alliances. The digital strategy is based on the open digital architecture (ODA), which embraces partner models which were previously silo-based. The ODA enables zero-touch orchestration of operations and creates a digital ecosystem, which is ready to partner and transact with other digital platforms or ecosystems.



## Cybersecurity

The growing levels of cybercrime and cyberattacks present disruptive and aggressive threats to business objectives. Telkom is obligated to manage cyber and information security threats by complying with legislation and regulations. We mitigate potential risks through a comprehensive information security management plan. Telkom continues to review and enhance its cyber and information security assurance capability to monitor the effectiveness of relevant initiatives. Telkom is committed to attracting, retaining and growing cybersecurity operational and incident management skills.





To address the cyberthreats, we have deployed machine learning capability to enhance information security. Telkom has been awarded ISO/IEC 27001:2013 certification for information security management for the effectiveness and adequacy of our comprehensive information security management system. This confirms Telkom's ability to prevent, detect, respond to and manage cyberthreats through actively deploying international standards-based security control and process frameworks.

## Performance

The focus areas for FY2020 were informed by some of Telkom's strategic pillars which are integrated solutions, portfolio diversification and operational superiority.

We achieved integrated solutions through the multiple technologies that enable a digitalised future.

These technologies include:

-  **Migrating our web-based applications to newer technologies**
-  **Embracing big data-based analytics**
-  **Inculcating design thinking through machine learning**
-  **Robotic process automation**

We enhanced the customer experience through deploying the application programming interface or API-enabled ecosystem driving self-service, simplicity and channel standardisation. The improved technology stack further enabled reduced time to market, enabling Telkom to respond to market demands promptly.

The migration to cloud and enhanced analytics capability enabled portfolio diversification. This enabled Telkom to provide solutions outside traditional telecommunications and venture into financial and niche technology offerings. In addition, our focus on enabling an open digital architecture allows for a more flexible and agile enhancement to the traditional OSS/BSS architecture. This will allow for effective fulfilment, assurance and billing across each business unit.

We achieved operational superiority through moving to cloud-based platforms for enterprise, productivity and collaboration services, enabling a full remote and secure office capability that saw a seamless transition during the work-from-home requirement as part of the COVID-19 management strategy and national protocols.

## FY2021 focus areas

Going forward, we will continue to strengthen our digital capability through extended deployment of big data, robotic process automation and APIs to simplify and improve customer experience further, while also enabling new solutions and value propositions.

The cloud platform will be further leveraged with more services being migrated. Information security will focus on proactive threat hunting in order to respond to threats before they occur. The OSS programme will also be intensified.





## Human capital



We believe the greatest competitive advantage of the future is people.

### How we manage our human capital

Our world of work is changing faster than ever before. Human capital is becoming a complex landscape with rising demands. There is an increasing need to unlock the value of people who will, in turn, unlock business value for organisations.

External future drivers of change in the economy – globalisation, technological advancements and the rise of the knowledge economy – are creating shifts within the telecommunications sector. The human capital strategy represents our vision and identity as a business and is designed and informed by a future-led and enduring approach. It is informed by our strategic direction, people and workforce data, as well as the evolving world of work.

We enable an engaged and relevant future workforce through value creation across the employee life cycle. This seamless, meaningful process drives and accelerates employee discretionary effort, ultimately resulting in significant customer value.

The human capital strategy is rooted in delivering on Telkom's strategy, and ensuring the most optimal people decisions that enable and support the group's success. The talent management and human capital governance frameworks are aligned to and support the human capital strategy.

Telkom's human resource policies adhere to global best practice. They uphold critical principals such as those described in the United Nations (UN) Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

Our approach is fundamentally human and designed around the customer of human resources (HR) services, i.e. the employee. Employee experience across the value chain drives human capital priorities:

- Building a sustainability mindset
- Transforming our culture
- Enabling diverse, adaptive teams
- Developing next-generation future leaders

#### Major trends affecting human capital

- Automation and "thinking machines" will replace human tasks and jobs. This, in turn, will change the skills that business units are looking for in employees
- Careers are being built from individual blocks of skills, experience and networks rather than being defined by an employer
- The commercial value of learning takes precedence; specific and relevant skills or experience are an essential commodity to creating a competitive advantage
- Projects quickly evolve and resolve, and specialists move rapidly from one project to the next
- HR and data scientists will use analytics and big data to adapt individual employee value proposition (EVP) and quantify their added value
- The COVID-19 pandemic is causing a huge impact on people's lives, families and communities. Within this uncertainty, Telkom needs to build resilient teams to create a people advantage post COVID-19

#### Key strategic focus areas

- Building a sustainability mindset
- Transforming our culture
- Enabling diverse, adaptive teams
- Developing next-generation future leaders

#### Key themes that impacted human capital's performance in FY2020

- Section 189
- Managing the evolving skill set required by Telkom for the future

#### KPIs and key measurements

Development and refinement of the following:

- Employee turnover
- Training and development spend
- % key employees on succession plans
- Total recordable injury frequency rate (TRIFR)
- Lost-time injury frequency rate (LTIFR)

<sup>1</sup> Refer to the remuneration report on pages 108 to 131.

## Telkom's workforce

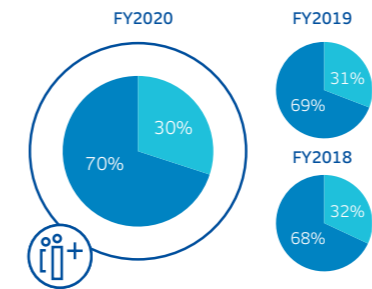
Telkom's headcount decreased by **536 employees.**

#### Number of permanent employees



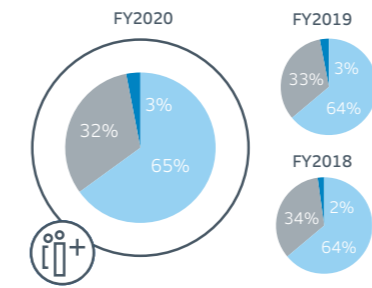
#### Gender diversity of permanent employees (%)

- Male
- Female



#### Race diversity of permanent employees (%)

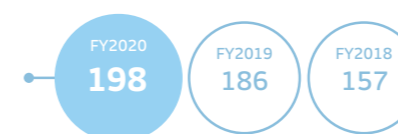
- Black South African
- White South African
- Non-South African



#### Employee voluntary turnover (%)



#### Number of differently-abled employees



As a result of the general South African labour market demands, we have had resignations in areas like SAP K5, SAP Hana and SAP ERP consultants, Cisco certified network engineers, solutions architects, pre-sales specialist and account executives. These critical roles have had to be backfilled to ensure business continuity.

We also repurposed roles to align with the skills that Telkom will require going forward including robotic process automation developers, python software developers, enterprise architects, system engineers: storage, specialists sales segment marketing, digital marketing, e-commerce skills, cybersecurity specialists, and customer and data analytics. Our recruitment efforts have mainly centred around these skills in order to future-proof Telkom.

\* Note: The number of permanent employees reported in FY2019 was inadvertently indicated as 15 296 instead of 15 635.

## Building a sustainability mindset

Telkom embraces the philosophy of enabling a sustainability mindset, which encourages employees to analyse complex management challenges and drive innovation. It incorporates a systemic approach, which transcends technical knowledge in enhancing Telkom's social, human and natural capitals.

As employees navigate the new world of work, Telkom will continue to deepen knowledge around technology and relevant human skills for the future of work which include, emotional intelligence, a growth mindset, an ability to solve complex problems and communicating effectively.

## Transforming our culture

It is essential that we create and sustain a culture that aligns, engages and motivates Telkom to collectively achieve our vision. We started to redefine a behavioural blueprint for the business units using a group culture framework.

We also measure the organisational culture through an annual survey. The survey provides insights into the organisational cultural profile in the context of implemented interventions, while informing a meaningful way forward for the organisational culture journey.

The survey's response rate was 46.97% in FY2020 (7 092 employees). The survey highlighted commitment to organisational performance, customer service consciousness, diversity and inclusion as some of the highest scoring behaviours. Empowerment and openness were highlighted as areas of improvement going forward.

The outcomes of this survey will also contribute to shaping the culture transformation deliverables. This journey will ensure that our leaders champion the values through leadership engagements with employees in all aspects of our business. They will be embedded in day-to-day operations through strategic and operational frameworks that guide, support and govern the group.

Innovation and change management that are effectively implemented will facilitate business sustainability during and post the COVID-19 crisis. To this end, we also started to embed an agile change capability and framework across the group.

## Enabling diverse, adaptive teams

### Transformation

Telkom promotes diversity and inclusion. We believe that blending different cultures, experiences and perspectives in the work environment promotes innovation, improves our ability to tackle challenges, and creates a future-looking and engaged environment. Gender, age, race, culture and differently-abled contribute to this. Our differently-abled policy and three-yearly revised employment equity plan guide us as an equal opportunity employer. The new three-year plan will come into effect on 1 April 2020. Refer to the *social and relationship capital* section on page 80, for more insight.

Our black employee representation increased by 1% to 65%. Even though Telkom remains resolute in its endeavour to hire according to our transformation objectives, female representation has remained a challenge – decreasing by 1%. This is mainly due to Telkom competing for future required skills like cloud, data science, engineering, Internet of Things, security and e-commerce where there is a shortage of female candidates. Telkom requires these skills going forward to be a truly converged ICT player, a digital lifestyle provider and to transform the business from manual to digital and online processes and that can offer truly differentiated customer experiences.

### Talent management

Heightened levels of competition in the knowledge economy, coupled with the evolving world of work, demand models to gain insights into talent mobility and development. Telkom uses advanced analytics to predict future talent demands and to measure and anticipate performance and retention issues. Telkom implemented an integrated framework that ensures that performance is monitored and measured.

### Talent acquisition and employment branding

Talent acquisition is driven by a combination of financial reward and the opportunity to be involved in winning projects. Utilising an appropriate assessment framework in our talent management initiatives continued to be a key focus during FY2020.

#### Assessments

Assessments are one of the key pillars of the acquisition and development of talent in Telkom. Objective assessment tools assist Telkom to gain insights into normally difficult-to-assess attributes, ensure an optimal fit between a person and a position, and aid in identifying high-potential talent. Multiple online assessment technologies are used to identify key skills and behaviours that leaders, in particular, need to possess to deliver on Telkom's strategy.

The critical leadership competencies include strategic capability, leadership risk, people and personal leadership, cognitive ability and business acumen. The objective measurement of potential incumbents against these key requirements allows the required rigour while managing costs as the service is run in-house. Individual feedback sessions further promote input into the development of key competencies for future business requirements and increased self-insight. All assessment practices comply with legislative and ethical requirements.

#### Career mobility

Career mobility is a key component of our talent management framework. Our proactive recruitment framework enables internal employee mobility, which resulted in 53% of available roles being filled internally. This is 6% below the mobility rate of FY2019, which was primarily due to externally recruiting the future required skills into Telkom (for example, cloud, data science and e-commerce) and appointing external talent pipeline candidates from our intern and learnership development programmes. Internal mobility resulted in saving approximately R66 million in recruitment costs.

### Development

Telkom operates in a rapidly changing environment. We are committed to continually develop employees, technically and personally, to remain relevant, build their skills and competencies and to unlock their potential.

In addition to granting bursaries to those employees who wish to pursue academic studies, we provide classroom and on-the-job training through reputable service providers and through the Telkom Centre For Learning. Telkom spent R265 million on employee training and development.

#### Training and development spend (R'million)

	FY2020	FY2019	FY2018
<b>Telkom</b> <sup>1</sup>	199	189	250
<b>Telkom Small &amp; Medium Business</b>	2	1	1
<b>BCX</b>	63	102	91
<b>Gyro</b>	1	1	0
<b>Group</b>	265	293	342

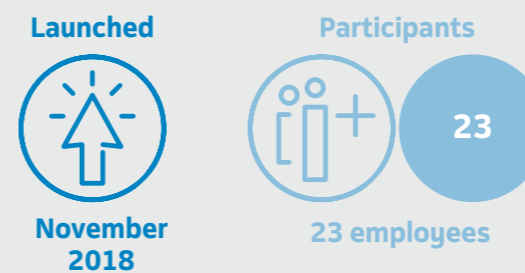
<sup>1</sup> Telkom includes Openserve, Telkom Consumer and Corporate Centre

We targeted high-potential talent development programmes at various levels to focus on building operational, tactical and strategic leadership capabilities. The Female Leadership Development programme, now in its third generation, started in 2015 and has had 123 delegates to date; 69% of the participants in this programme are still with Telkom and 24% were promoted over the past four years.

Other talent development programmes that focused on identifying and investing in high-potential leaders include Top Flight, Step Up and Traction. We focused on relevant exposure, networking opportunities, business projects, stretch assignments, mentoring and coaching, and provided the necessary support to maximise success in higher/broader roles. Future talent development aims to focus more on digital leadership, aligning closely with the broader leadership development strategy.

#### Entry-level training programmes

##### Traction (pilot programme)

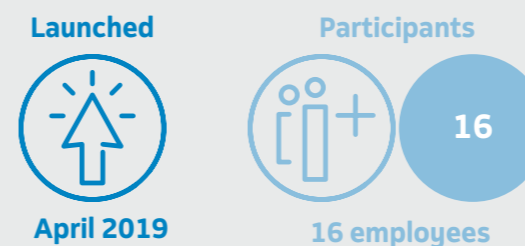


**Target audience and objective:** This is a one-year blended development opportunity for junior and operational levels across the group. It focuses on building leadership skill sets to equip employees for current and future business demands.

**Content:** The programme forms part of the Digital Leadership Development programme. The programme was designed to allow for a ladder of learning, such that delegates can progress from one programme to the next higher level.

**Outcomes:** The pilot group of operational and supervisory level started in November 2018. All 23 delegates successfully graduated from the programme, which included the University of Witwatersrand (Wits) Digital Leadership course in March 2020.

##### Women in Operations Development programme (WIO-Emerald)



**Timeframe** One-year programme

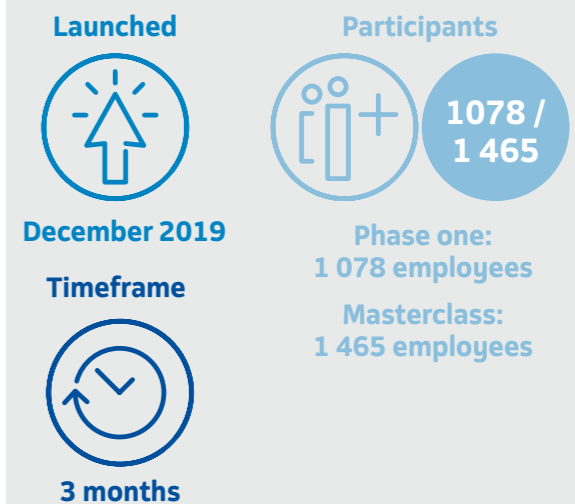
**Objective:** This programme focuses on accelerating female talent development in Openserve. It focuses on Openserve's technical environments, i.e. network operations and network technology and systems.

**Target audience:** Female talent primarily in the technical/operational environment.

**Content:** The programme combines soft skills and technical development to ensure a rich learning and growth experience. The primary focus is technical development through exposure, experience and application.

#### Digital skills focus

##### Digital technologies



**Objective:** Creating greater awareness, knowledge and understanding around the digital economy and associated technologies, and the role employees could play in enhancing the solutions and value Telkom offers customers.

**Target audience:** Junior management (M/S6 down)

#### Content:

- The programme was launched in two phases:
- Phase one: Introduction to digital technology and a digital technology expo where employees had the opportunity to experience some digital technologies
  - Masterclass: Further exposure and a deeper understanding of digital technologies, including artificial intelligence, robotic process automation, virtual and augmented reality, Internet of Things and cloud computing

### FTTH technology upskilling

There was dedicated focus on increasing FTTH capability within Openserve, and 537 technicians were trained in fibre technology. In addition, 434 employees in the network operating centres attended a fibre overview course to strengthen their understanding and ability to support the technology.

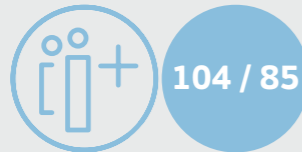
### Digital Leadership Development programme

#### Launched



BCX in FY2018, and other business units in January 2019; in partnership with Wits

#### Participants



104 emerging technical leaders and 85 accelerated leaders

**Objective:** The one-year programme aims to build a digital leadership mindset and associated capability that will enable the group to leverage digital transformation to drive future growth, performance and success.

#### Target audience:

- Middle manager programme: emerging technical leaders
- Senior manager programme: accelerated leaders

**Content:** A range of learning programmes including real-world lessons through hands-on workshops, coaching sessions, case studies, syndicate and individual projects.

**Outcomes:** Accelerated leaders: 58 of 60 delegates in the Telkom programme graduated. The new cohort of the BCX programme started in September 2019 with 24 delegates.

**Emerging leaders:** In total, 63 of 64 delegates in the Telkom programme graduated. The BCX programme started in September 2019 with 44 delegates.

### Leadership and succession management

Succession planning is another key component of talent management, and maps ways to mitigate vacancy risk. The aim is achieved by ensuring Telkom employs the right people with the right skills, capabilities and experiences, in the right place at the right time.

All management level roles (M/S6 and above) across the group were reviewed for successors, utilising an online talent and succession planning system. This input creates talent pools and talent actions for the future and proactive resource and development planning.

We identified a lack of immediate successors for some key roles. Telkom's priority is to fast-track targeted development in these areas to ensure these successors' readiness.

Our aspiration is to ensure at least 50% of all successors are identified as "ready now" to provide stable cover for the group. During the FY2020 talent review cycle, 28% "ready now" successors were identified. Strong focus is placed on investing and developing medium to longer-term successors to improve the readiness levels of successors.

### Developing next-generation future leaders

#### New generation skills

As part of our focus on empowering South African youth, we support learnerships and internships for employed and unemployed black youth. Telkom invests significantly in coding and programming skills development to create a future talent pipeline to address the IT and digital skills gaps.

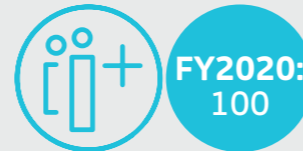
### Explore Data Science Academy

#### Commenced



January 2018

#### Participants

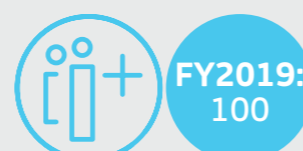


FY2020: 100 learnerships with R18 million investment; programme started January 2020

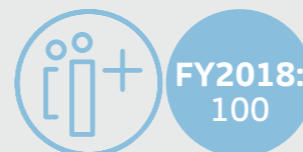
#### Timeframe



One-year data science programme (Sector Education and Training Authority accredited)



FY2019: 100 learnerships with R18 million investment; programme concluded December 2019 with 65% placements



100 learnerships with R19.5 million investment; programme concluded in December 2018 with 85% placements

**Objective:** This programme aims to alleviate South Africa's shortage of data scientists.

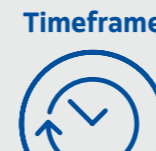
BCX was the founding sponsor of this Cape Town-based academy. The curriculum is an intense accredited skills programme that teaches the foundations of data science. It equips students with practical, on-the-job training to solve practical challenges and teaches business skills. The academy teaches real-world problem-solving skills that are highly valued in corporate South Africa.

**Outcomes:** Work placements for FY2019 cohort started in December 2019.

Data science is a high-demand scarce skill. The FY2019 cohort completed 20 projects with positive response from the teams. Graduates achieved a 79% average final mark, higher than FY2018. The average market salary of the academy students is around R445 000 per annum.

### WeThinkCode (WTC)

Commenced February 2017



Two-year academic programme



FY2019 to FY2020: 111 sponsored WTC students with R20 million investment

FY2018: 133 sponsored WTC students with R20 million investment; this programme concludes in April 2020

**Objective:** The programme sources and develops the next-generation coders, aimed at youth aged between 17 and 35 years.

WTC is a technology non-profit organisation dedicated to addressing the IT skills gap. It provides tuition-free peer-to-peer learning. BCX sponsors qualifying WTC students and provides them with a two-year internship. This provides Telkom access to IT talent.

**Outcomes:** The partnership empowered WTC to expand from Johannesburg to Cape Town in its second cohort (April 2018 to April 2019). The partnership directly contributed to training 300 students, and indirectly supported 190 Cape Town students on their WTC journey.

The partnership also enabled WTC to support the talent needs for a growing list of South Africa's leading start-ups, including Yoco, Sureswipe, Triggerfish and Hyraxbio. Unlocking this pool of talent empowered some start-ups to significantly grow their development capabilities, beyond what they would achieve alone.

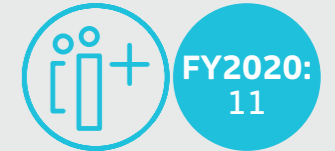
### Telkom Centre of Excellence (CoE)

#### Commenced



November 2017

#### Participants

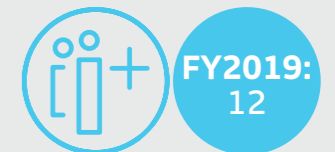


11 sponsored post-graduate learners with R640 000 investment (five students continued from FY2019 and six new students joined the programme)

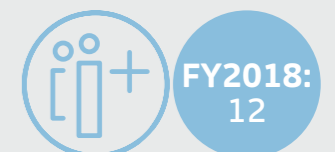
#### Timeframe



One year



12 sponsored post-graduate learners (the same learners as in 2018) with R1.2 million investment



12 sponsored post-graduate learners with R1.2 million investment

**Objective:** The one-year Telkom CoE programme was launched in February 1997. It has proven to be a sustainable technology research and development initiative. There are 15 CoEs across South Africa, making it the largest co-ordinated research effort in ICT in South Africa. Approximately 180 full-time postgraduate students benefit from the CoE programme yearly.

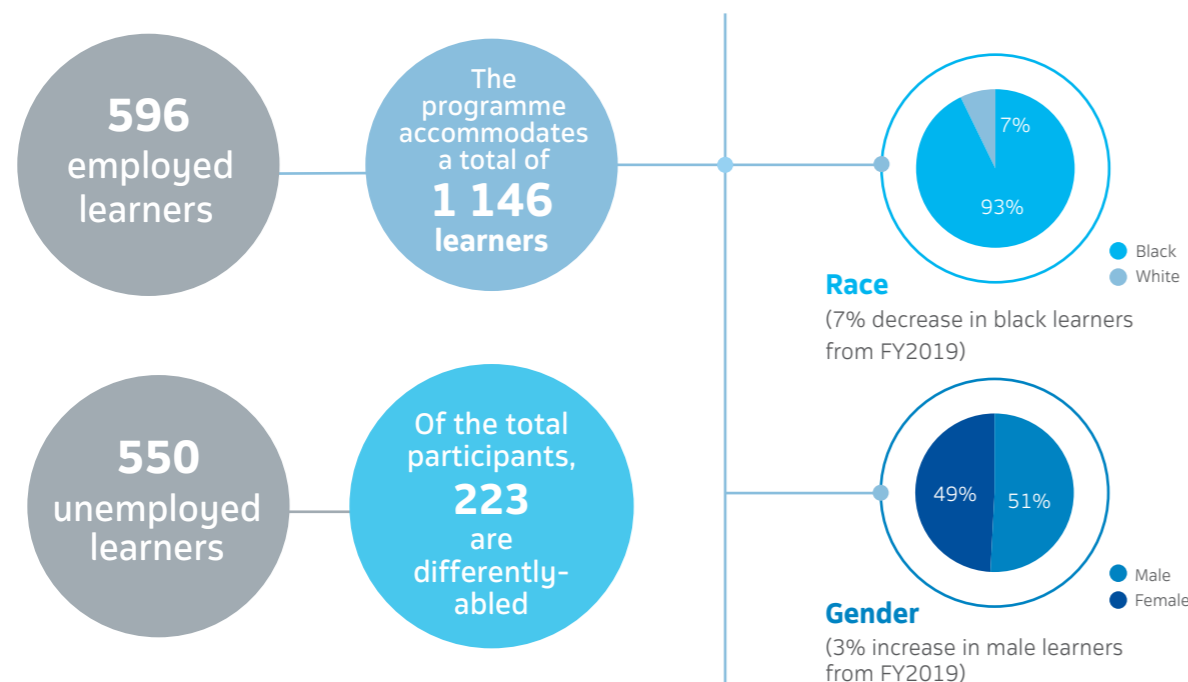
**Outcomes:** Research funding provided to the 15 CoEs was R10 million. Telkom had 11 active CoE students, all engaging in Masters studies in the electrical engineering (light current) and computer science study fields. Ten students are black and five are female.

## Learnerships and internships

Unemployed people in learnerships<sup>1</sup> and internships<sup>2</sup> serve as a talent pipeline for the group, and learners are able to gain valuable work-related experience and development.

Netcampus	
<b>Commenced</b> November 2018	<b>Participants</b> FY2020: 135 unemployed youth with disabilities, enrolled in a one-year internship programme; R5.7 million investment
<b>Timeframe</b> One-year academic programme	FY2019: 120 unemployed youth (differently-abled and able-bodied youth); R4.7 million investment. The programme concluded in November 2019, with 50% employed at various companies
<b>Objective:</b> This is a partnership with Netcampus to develop ICT (primarily Microsoft) skills in BCX. Netcampus is an accredited IT training provider. It offers blended learning through multiple training methods including classroom, e-learning and cloud-based training. Learners are trained in either software programming or infrastructure technical disciplines.	

Telkom has also continued its focus on widening opportunities where possible for both unemployed and employed learners, in line with business requirements. Telkom had 1 146 learnerships and internships in progress in FY2020 (482 continued from FY2019 and 664 are new), compared to 848 in FY2019. It comprises various areas, including business administration, management, project management, ICT network maintenance, and IT system support.



<sup>1</sup> A learnership is a work-based learning programme that leads to a National Qualifications Framework (NQF) registered qualification. These programmes directly relate to an occupation or field of work and comprise a theoretical course and practical on-the-job training, under the guidance of a mentor, creating an integrated and impactful learning programme.  
<sup>2</sup> An internship is a programme designed to either provide university and further education or training college graduates with an opportunity to gain workplace experience related to their qualification or to provide the workplace experience required to achieve a qualification.

## Organised labour

Telkom's labour relations system appreciates trade unions' involvement as material stakeholders. Telkom has a recognition agreement with the Communication Workers Union (CWU) and South African Customs Union (SACU) (the alliance) as a business strategic partner. The alliance has organisational and collective bargaining rights which enable the union to sit at both business unit and company forums, including the GCEO strategic briefing sessions.

## Freedom of association

Telkom embraces the right to freedom of association and there are three unrecognised unions (Information Communication Technology Union (ICTU), National Union of Metal Workers of South Africa (Numsa) and Solidarity) with members at Telkom. These three unions have low membership percentages compared to Telkom's 30% union membership representativity threshold. The recognised alliance requested Telkom to consider entering into an agency shop agreement. As this may be misconstrued as a violation of freedom of association, Telkom did not agree to this request.

BCX does not have a recognition agreement or stop order facilities with any union.

## Permanent employees belonging to a union (%)

	FY2020	FY2019	FY2018
<b>Telkom</b> <sup>1</sup>	54	53	71
<b>Telkom Small &amp; Medium Business</b>	57	47	45
<b>BCX</b>	0	0	6
<b>Gyro</b>	31	32	51

<sup>1</sup> Telkom includes Openserve, Telkom Consumer and Corporate Centre.

## Section 189

Driven by operational requirements, including the evolving needs of customers, technological advancements and the evolving technologies, Openserve, Telkom Consumer and Yellow Pages embarked on a judicious process to redefine their operating and service delivery models. As an alternative to retrenchments, VSP/VERP were offered to affected employees.

The company issued a notice in terms of section 189 of the Labour Relations Act on 15 January 2020, informing its unions and employees of possible retrenchments of an estimated 3 000 employees. The alliance remains the recognised unions for the company. As Solidarity, ICTU and Numsa have no recognition status, they are not eligible to participate in any union/management interaction structures.

However, as part of ensuring an open and fair consultation process, all unions with existing members at the company, regardless of their percentage representation, were informed of the potential retrenchments. The company invited Solidarity, ICTU and Numsa to participate in the company's section 189 consultation process. Their participation was limited to this process and does not extend to collective bargaining rights.

Yellow Pages also issued a notice in terms of section 189 of the Labour Relations Act on 15 January 2020, informing its union (CWU) and employees of possible retrenchments of an estimated 80 employees.

## Employee engagement

The HR function led the employee engagement process, including establishing an employee transition process and engagement portals. The portal ensured a central repository of all information for ease of access for employees and to reduce overall anxiety. The portal included an interactive functionality that allowed employees to pose questions, which were individually answered and consolidated into a "frequently asked questions" document. This document was regularly revised to ensure employees had up-to-date and relevant information.

We also established walk-in support centres in key regional hubs and HR practitioners were deployed to outlying rural areas on a rotational basis. This allowed employees to interact with representatives from HR, the Telkom Retirement Fund and Infund to get immediate face-to-face guidance on various HR, career, pension and personal finance matters. Face-to-face and telephonic counselling services were provided to employees and their direct dependants through ICAS. In addition, psychological debriefing sessions were made available to teams experiencing high levels of anxiety during this period.

## The consultation process

Both entities (the company and Yellow Pages) approached the Commission for Conciliation, Mediation and Arbitration (CCMA) to facilitate the consultation process. The respective consultation processes commenced in January.

The CCMA initially objected to being consulted jointly with the three unrecognised unions, leading to two parallel consultation sessions. During February, the alliance declared a dispute. It alleged that Telkom was not consulting in good faith by offering VSP/VERP opportunities to employees affected by section 189 before consultation was concluded. The alliance approached the Labour Court with an urgent application for Telkom to be ordered to withdraw the VSP/VERP opportunities. At Yellow Pages, CWU also approached the Labour Court seeking similar relief.

The Labour Court dismissed the alliance's application during March. CWU subsequently withdrew its matter for Yellow Pages.

Telkom temporarily suspended the section 189 consultation process after the announcement of the initial COVID-19 lockdown in March 2020. The suspension was lifted when South Africa moved to a level 3 lockdown, which enabled the parties to resume consultation.

## Outcome

2 271 applications at the company were approved, with employees leaving during FY2021. Yellow Pages approved 62 applications and these employees' last day was 31 March 2020.

## BCX section 189 update

BCX embarked on a section 189 process during FY2019 and as an alternative to retrenchments, VSP/VERP were offered to employees; 773 employees left BCX during FY2019; and FY2020 respectively. 695 employees left BCX due to their approved applications for voluntary severance/retirement packages; and 78 employees were retrenched.

## Company forums

Telkom has adopted health and safety as a standing agenda item at the company forum, a structure where Telkom and recognised trade unions interact on national matters. This ensured that parties engage on all health and safety matters, particularly measures being taken in response to COVID-19.



## Occupational health and safety

Telkom's occupational health and safety (OHS) vision is to provide a safe working environment and create a culture where every employee, service provider, contractor, supplier and visitor believe that zero safety incidents is achievable. Health and safety is an integral part of our operations, and we are committed to ensuring sustainable occupational health, safety and environment (HSE) considerations throughout all our operations.

OHS management is guided by an HSE strategy, policies and a health and safety system. It ensures compliance with the Occupational Health and Safety Act, 85 of 1993 (OHS Act) and other applicable legal requirements. HSE is strategically managed by the Telkom group safety, health and environment (SHE) department. The strategy is implemented by operational level SHE teams, supported by the group. As per the requirements of the OHS Act, health and safety management is supported by health and safety committees and representatives. The social and ethics committee has oversight over safety, health and wellness, and ultimate accountability rests with the board.

### Performance

Telkom continuously improves its safety performance. In FY2020 the group had zero fatalities and decreased the total recordable injury rate by 25%, and the lost-time injury rate by 30%. These improvements can be attributed to the following interventions:

- Enforcing consequence management for driver compliance to motor vehicle safety processes, and using statistical data from the vehicle tracking monitoring system to identify non-compliant drivers
- Leadership visibility and accountability at all levels and holding managers accountable for safety performance
- Employee safety awareness through "Safety starts with me" campaigns

	FY2020 target	FY2020	FY2019
<b>Telkom<sup>1,2</sup></b>			
Total recordable injury frequency rate (TRIFR)	1.06	0.93	1.24
Lost-time injury frequency rate (LTIFR)	0.83	0.68	0.98
Fatal injury frequency rate (FIFR)	-	-	0.02
Fatalities	-	-	2
<b>BCX<sup>1</sup></b>			
Total recordable injury frequency rate (TRIFR)		0.55	0.41
Lost-time injury frequency rate (LTIFR)		0.45	0.29
Fatal injury frequency rate (FIFR)		-	-
Fatalities		-	-

<sup>1</sup> Permanent employees only.

<sup>2</sup> Telkom includes Openserve, Consumer and Corporate.

## Employee wellness

The need to balance our wellness priorities and plans with the group's reorganisation and current financial focus meant that certain initiatives, including the executive wellness programme, had to be deferred indefinitely. Despite that, we have implemented a few changes aimed at improving our employee value proposition (EVP) and overall wellness profile.

We appointed a single, independent medical aid intermediary to assist with ensuring that employees receive the best possible medical aid guidance, and that the group is positioned to negotiate scheme concessions on behalf of employees.

We moved from hosting an annual wellness day to a national, group-wide wellness week. This showcased various wellness initiatives and service providers and included wellness checks and tests. We hosted events at various sites in August 2019. The test results showed an overall reduction in intermediate lifestyle risk factors.

The wellness response to the COVID-19 pandemic and the section 189 process was timely, extensive and caring. Various initiatives aimed at ensuring that employees are supported, kept informed and best equipped to navigate the impact that both circumstances have had on their physical, psychological and emotional wellbeing were, and still are, being deployed.

## COVID-19

The COVID-19 outbreak and implementation of a national lockdown presented an unprecedented challenge to the wellness programme. In our efforts to respond quickly and appropriately to the impact of COVID-19, we implemented the following initiatives:

- An online COVID-19 portal was shared with employees. It is a central repository of information pertaining to the virus including Telkom-specific information, awareness material, videos on key aspects of keeping safe, and information on the ICAS-administered counselling and testing services
- A question and answer functionality and frequently asked questions was activated so employees can stay in touch and receive relevant, up-to-date information
- Issued guides to practically assist employees and line managers to navigate working from home under lockdown conditions
- Weekly communication to all employees on wellness topics, including how to manage working from home with children, who to call when they have a crisis or feel overwhelmed, tips for staying healthy
- Deployed a daily log-in app to enable the group to keep track of where employees are working in the event of emergencies, and to monitor potential exposure to the virus
- Deployed other wellbeing initiatives aimed at ensuring that employees are kept informed and to identify and flag, with ICAS, those who may not be coping and who may need additional intervention

These tools also provide Telkom with an indication of employee morale during this time.

## FY2021 human capital focus areas

As most other companies, Telkom is assessing the multi-faceted long-term effects of the COVID-19 pandemic. There are real challenges, but also opportunities to strengthen our focus on creating a people advantage in the future.

It remains important that Telkom invests in employee engagement to ensure we build the right levels of support and resilience. The insights gathered from the employee survey, among other diagnostics, shaped our human capital focus areas for FY2021. This includes defining an employee value proposition (EVP), embedding a "new-way-of-working" culture, and broadening development opportunities including digital capabilities. The new EVP will delineate our culture and talent mobility and development framework.

We will implement a pulse survey strategy to capture real-time insights so we can be responsive and provide better clarity to employees.

We will continue our focus on building a sustainability mindset, including embedding the integrated performance management framework. We will strengthen our focus on building a continuous learning environment, with specific focus on next-generation capabilities programmes to enhance our competitive advantage. A digital learning management solution will enable employees to learn anywhere and at their pace to support career management initiatives.

We will complete the section 189 process and continue to assist employees in this regard.

The impact of COVID-19 on the workplace worldwide, highlighted the need for a holistic focus on employee wellbeing, one that includes physical, psychological, social, emotional and financial wellbeing.

Distance working is going to become the new normal and employee engagement, motivation and support are going to become increasingly important. Our future wellness strategy includes expanding responsibility for employee wellness to line management. This will include training line managers on proactively looking for signs of physical, psychological, social, emotional and financial vulnerability and on ways to manage these to ensure a healthy and resilient workforce.

In line with the OHS strategy, FY2021 focus areas will be to continue working towards achieving a zero-harm environment. We will continue the drive to influence the organisational safety culture through implementing the following initiatives.

- Continuous employee and management engagements through visible felt leadership
- Continual improvement of OHS regulatory compliance
- Contractor HSE management
- Implementing International Standards for Occupational Health and Safety – ISO 45001





## Social and relationship capital



Telkom strives to create shared value for its business and society through strategic interventions that meaningfully impact the South African economy, creating social and commercial value.

### What transformation means to Telkom

Transformation enables us to continue contributing to the goal of achieving an inclusive economy and supporting national economic transformation. It is about creating an environment that maximises employees' potential.

We continue to build an environment that is diverse, that values differences, and where everyone's views and contributions are heard and seen. We stay focused on the talent and ability of our employees

Laws and regulations impacting transformation

- 1 **Amended B-BBEE Codes of Good Practice: To advance transformation and encourage the participation of black people in the economy**
- 2 **Amended ICT sector code: ICT sector-specific B-BBEE Codes of Good Practice aimed at transforming the ICT sector**
- 3 **Construction Sector Code: Construction sector-specific B-BBEE code that could potentially regulate some of Gyro's activities should they rate separately in the future**
- 4 **Amended Property Sector Code: Property sector-specific B-BBEE code that could potentially regulate Gyro's activities**
- 5 **Marketing, Advertising and Communication Sector Code: Sector-specific B-BBEE code that could potentially be applicable to Yellow Pages should they rate separately in the future**
- 6 **Employment Equity Act: Aimed at redressing race and gender employment imbalances**
- 7 **Skills Development Act: Aimed at developing the skills of the South African workforce**

#### Key strategic focus areas

- Diversified supply chain
- Acceleration of innovation
- Technology entrepreneurship growth
- Holistic school development
- ICT integration in schools
- Digital skills development
- Employee diversity

#### Material trade-off considered in FY2020

- Balancing social and commercial returns

#### Key themes that impacted social and relationship capital's performance in FY2020

- Technology innovation
- Youth unemployment
- Educational performance
- Regulatory changes
- Economic growth

#### KPIs and key measurements

- B-BBEE ratings
- Employment equity plan targets
- Diversification of procurement spend
- Performance improvement in supported schools
- Impact of total social investment
- Youth quality and work-readiness outcomes
- Performance of beneficiary enterprises

## Oversight and governance

The social and ethics committee is ultimately accountable for transformation and B-BBEE oversight. Senior management is responsible for transformation performance, led by exco and supported by functional leadership.



## B-BBEE performance

Telkom SA achieved B-BBEE level 3 status largely impacted by the ownership score. Ownership was adjusted following a recent decision by the High Court in which it set aside the decision of Minister Rob Davies to grant facilitator status to government in respect of its shareholding in Telkom. The court ruled, however, that the setting aside of the Minister's decision would not affect the B-BBEE status of Telkom and its subsidiaries for the purposes of any tender or contract awarded and/or concluded after 7 May 2019 and prior to the date of the judgment, which was 8 July 2020. The court further ruled that, for the purposes of the aforementioned tenders and contracts, the B-BBEE status of Telkom and its subsidiaries shall continue to be treated as though government's facilitator status remained valid until the date of termination of the respective contracts, provided that the court's order shall have no application in respect of any renewal or extension of such tenders or contracts.

The above decision by the court necessitated the resubmission of BCX's BEE rating to the verification agency for re-verification. BCX has subsequently achieved B-BBEE level 2 status.

Consequently, the ownership score has decreased from 52.45% to 27.84% and black women ownership from 20.92% to 13.41%. Management control points improved significantly due to several workforce transformation initiatives that were implemented during FY2019 and FY2020 as contained in the employment equity plan.

A group-wide campaign to encourage differently-abled persons to declare their status kicked off in September 2019 and yielded some positive results in the management control scorecard. As part of our governance practice, this element is monitored monthly by the business units, and consolidated at a group level. The section 189 process may affect the management control score going forward.

The change in the definition of absorption in the amended B-BBEE Codes of Good Practice poses a significant risk for the skills development scorecard. This necessitated that partnerships and networks like Harambee be leveraged to assist learners from the FY2019 cohort. The skills development target remained conservative as a result.

Looking forward, the group is fully committed to transformation and will continue to embed its strategic framework that implements activities of the B-BBEE scorecard elements on a holistic basis. Special focus will continue to be placed on further improving the skills development and the preferential procurement elements taking into consideration the financially constrained environment prevalent in the marketplace. The group will strive to procure from Exempt Micro Enterprises (EMEs), Qualifying Small Enterprises (QSE's) and black-owned generic enterprises while directing skills spend towards areas that continue to ensure that learning features prominently on Telkom's people agenda.

## Telkom's B-BBEE rating

Scoring element	Weighting points	FY2020	FY2019	Variance
Ownership	25	15.91	23.00	(7.41)
Management control	23	19.29	17.39	1.9
Skills development	20	16.69	19.44	(2.75)
Enterprise and supplier development	50	47.06	47.87	(0.81)
Socio-economic development	12	12.00	12.00	-
<b>Total</b>	<b>130</b>	<b>110.96</b>	<b>119.70</b>	<b>(8.74)</b>

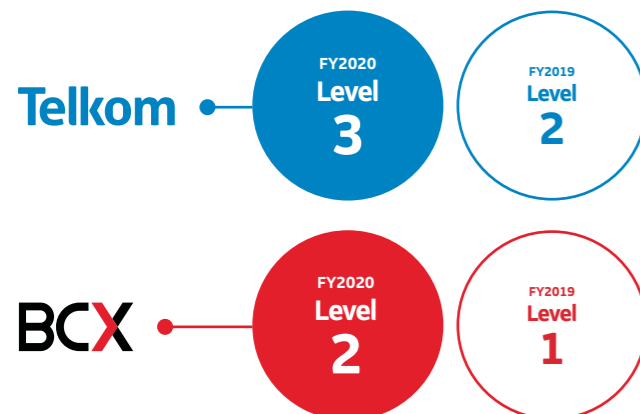
## BCX's B-BBEE rating

Scoring element	Weighting points	FY2020	FY2019	Variance
Ownership	25	18.76	23.00	6.24
Management control	23	17.67	16.27	1.41
Skills development	20	18.78	21.13	(3.56)
Enterprise and supplier development	50	51.41	48.22	1.76
Socio-economic development	12	12.00	12.00	-
<b>Total</b>	<b>130</b>	<b>118.82</b>	<b>120.62</b>	<b>6.0</b>

## Procurement with black-owned businesses

Category	FY2020 (R'billion)	FY2019 (R'billion)
Overall spend with black-owned enterprises	25.00	4.00
Spend with black-owned small enterprises	1.61	1.70
Spend with black-owned generic large	4.28	2.20
Overall spend with black women-owned enterprises	9.8	8.00

## B-BBEE certification level



## FutureMakers

FutureMakers is Telkom's Enterprise Supplier Development (ESD) unit, launched in 2015. Our value proposition is providing businesses with access to external innovation and diverse supply chain partners through entrepreneurship, while complying with B-BBEE legislation. FutureMakers has two main commitments which determine key focus areas: (i) help small, medium and micro-sized enterprises (SMMEs) thrive in the digital economy; and (ii) develop the South African technology sector.

Our focus areas are:

- Diverse value chains, providing opportunities for SMMEs to thrive in our value chains through the:
  - Independent Field Technician (IFT) programme
  - Consumer Dealers programme
  - BCX Subcontractor programme
- BCX Innovation programme
  - This programme is executed through our partners to incubate entrepreneurs utilising emerging technologies to develop products and solutions from ideation to commercialisation
- Venture capital fund
  - We invested R250 million in the IDF Future Fund for funding technology entrepreneurs in the sector and in our value chains

Since 2015 FutureMakers has supported over 2 600 SMMEs through incubation, investment, connectivity, and business development support services. In FY2020, FutureMakers directly supported 482 enterprises of which 156 were new. These 482 enterprises have created 5 600 direct and indirect jobs, with 5 000 coming from the portfolio of enterprises invested in by the IDF Future Fund.

- ⚙️ We spent R29 million to support these enterprises in connectivity, business development support services and incubation (FY2019: R20 million). The IDF Future Fund had net approvals of R173 million (FY2019: R127 million).

## Key FutureMakers programmes

### IFT programme

Commenced: 2015

Increased from three pilot companies consisting of four qualified technicians in 2015, to **45 companies with 804 technicians**. However, in 2020 the number of companies decreased to 38 as seven suppliers discontinued for different reasons. As at 31 March 2020 there were 456 active technicians. The decrease was driven by decreased ADSL faults due to technology modernisation.

The IFT programme ended on 30 March 2020

Procurement spend with IFTs was R140 million (FY2019: R192 million)



IDF Future Fund investment through IDF Capital in IFTs since 2015 was R28 million through a revolving credit facility.

#### Offers

Commodity services such as ADSL, fibre and jointing services in support of qualifying black small business development

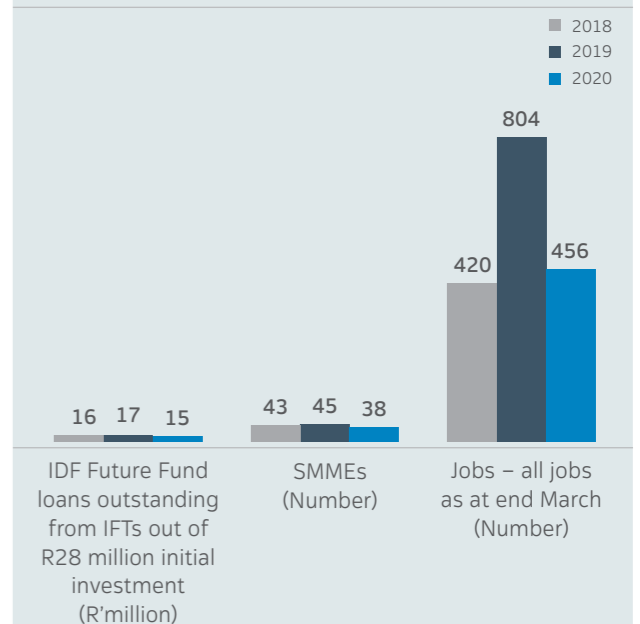
#### Objectives

Enhance market access opportunities while driving ICT innovation and fostering inclusive participation of black-owned ICT small businesses within Telkom's supply chain

#### Outcomes

To date, the programme has generated income of R662 million for the participants. Refer to page 89 for the programme's case study

### IFT programme



## Consumer Dealers programme

Commenced: 2015

Since 2015 the Consumer Dealers programme has supported **52 SMMEs**.

**R8.8 million in business development support** for financial modelling, strategy, monitoring and evaluation, business development training, inventory support and expansion of operational capacity in 2020 (FY2019: R6 million).



**Objectives:** The programme utilises SMMEs as a channel to increase the distribution footprint for Telkom's products, contributing to inclusive procurement, access to connectivity in underserved areas, and promoting job creation. The strategy prioritises innovative data-led propositions and innovative value-added service applications aligned to the Telkom Consumer and Telkom SMB business strategy and has a key focus on township businesses to ensure inclusivity and access.

**Outcomes:** Created 31 additional direct jobs and supported 41 dealers as 12 SMMEs exited the programme and one more joined. Refer to page 88 for the programme's case study.

## BCX Subcontractor programme

Commenced: 2015

There are approximately **200 enterprises** on the database (FY2019: 184).

We connected six new enterprises with **R83 million worth of subcontracting opportunities** in 2020 on a tender. Work has not started yet.



We completed the BCX community portal, Yep e-Marketplace for businesses where SMMEs can register as prospective entrepreneurs or suppliers. There are over **80 registered partners on this portal**, and we anticipate the number to grow. It enables SMMEs to provide information on skills and competencies, their partners and original equipment manufacturer partners, ownership, solution and services, product brands.

The portal provides access to market and enables BCX to be more efficient and better able to serve the SMMEs as they can access communication around training and skills development programmes, funding programme. We can mutually serve the business and our customers better through this portal.

**Objectives:** To provide access to market to ICT SMMEs through subcontracting.

**Outcomes:** 77 new direct jobs were created by seven SMMEs who were subcontracted on an ongoing project.

## BCX Innovation programme

Commenced: 2015

**Cumulative R41 million** spent through grant funding for incubation and connectivity since 2015, of which R11 million was spent in FY2020.

**258 enterprises incubated since 2015** in business models utilising emerging technologies in partnership with various incubation hubs including Propella, Bandwidth Barn, I'm In Accelerator and Tshimologong.



**2 100 enterprises** have benefited since 2015 from connectivity services through our incubation hubs.

**Objectives:** Incubate, accelerate, and invest in enterprises that develop solutions in areas such as the Internet of Things, big data analytics, artificial intelligence, smart cities and cybersecurity.

It includes a five-stage methodology that encompasses ideation through to acceleration, scaling and growth. It allows BCX to access external innovation through entrepreneurship, while providing market access for SMMEs.

**How:** Delivered through five external incubation hubs in Gauteng, Western Cape and Eastern Cape

**Outcomes:** Enterprises incubated by the I'm In Accelerator had a collective revenue of R1 million in FY2020. These enterprises were at seed stage.

## IDF Future Fund

Commenced: 2015

**Telkom has invested R250 million in the IDF Future Fund** since 2015.

In 2020, it **approved total investments of R173 million** (FY2019: R127 million).

**Objectives:** To invest in early stage and seed stage, and growth stages of technology SMMEs in South Africa by way of equity, debt and quasi-equity.

**How:** Managed by IDF Capital

**Outcomes:** The portfolio size as at 31 March 2020: Invested in 86 SMMEs resulting in over 5 000 direct and indirect jobs (including those from IFTs).

## Telkom Foundation

The total value invested by Telkom Foundation (the Foundation) was R75 million including administration costs, with R50.5 million invested in education, R6 million in digital skills, R6 million in youth support initiatives, and a further R5.9 million invested in social development programmes.

### Telkom Foundation high school support

The Foundation continued to work with targeted high school learners towards improving their academic performance, overall wellbeing and future leadership. It aims to introduce and develop their digital skills to prepare them for meaningful participation in the economy.

The High School Support programme is the Foundation's core programme. It supports 2 945 learners in grades 9 and 10 with 156 teachers. The programme combines technology and face-to-face methods of teaching and learning. It focuses on supplementary tuition in maths, science and English, which serve as a foundation to future ICT post-school training. Supplementary tuition continued to bridge learner content gaps, identified during diagnostics. To date, these interventions have shown steady improvements in closing learner gaps with marginal impact on learners' academic results.

The Foundation also supports a Supplementary Tuition programme targeted at learners in and around Alexandra, Johannesburg driven by St Mary's Foundation and Alexandra Education. These programmes support about 470 learners from grades 8 to 12.

To support the combined technology and face-to-face approach, the Foundation provided schools with ICT devices and smartboards, reliable connectivity, training and support to effectively use technology in teaching and learning. The High School Support programme also supported learners by developing their resilience and moral fibre through in-school counselling, awareness programmes and leadership development. The Foundation provides career education focused on the future world of work.

In pursuit of digital skills, the programme built on the coding camp held in December 2018 for 1 000 learners by hosting 10 coding sessions to strengthen their skills. These sessions were held in North West, Eastern Cape and Gauteng. We extended coding training to unemployed youth and youth with impaired hearing.

### Youth support initiatives

The Foundation partnered with a non-profit organisation, Mo Africa Itlhokomele and the National Libraries South Africa to train 100 unemployed youth in accredited ICT programmes. Twenty of these youth were trained in systems development, an NQF level 5 ICT programme. The rest were trained in technical support, an NQF level 4 programme. All 100 learners were placed in various local libraries.

The Foundation continues its collaboration with Telkom's ESD programme in support of 200 youth in Gauteng and Mpumalanga. These youth are trained in partnership with Love Life Trust and supported as part of the township distribution channels.

### Telkom employee volunteering

The Foundation enabled 618 Telkom employees to participate in community development initiatives through time and skill sharing, Adopt-a-project and Payroll Giving programmes. Adopt-a-project provided employees and senior executives the opportunity to implement 21 ICT-focused projects that they are passionate about in various provinces.

Employees contributed R1.6 million through the Payroll Giving programme, including rand-for-rand matching by the Foundation, benefiting 10 non-profit organisations that serve needs such as education, child care, health and food security.

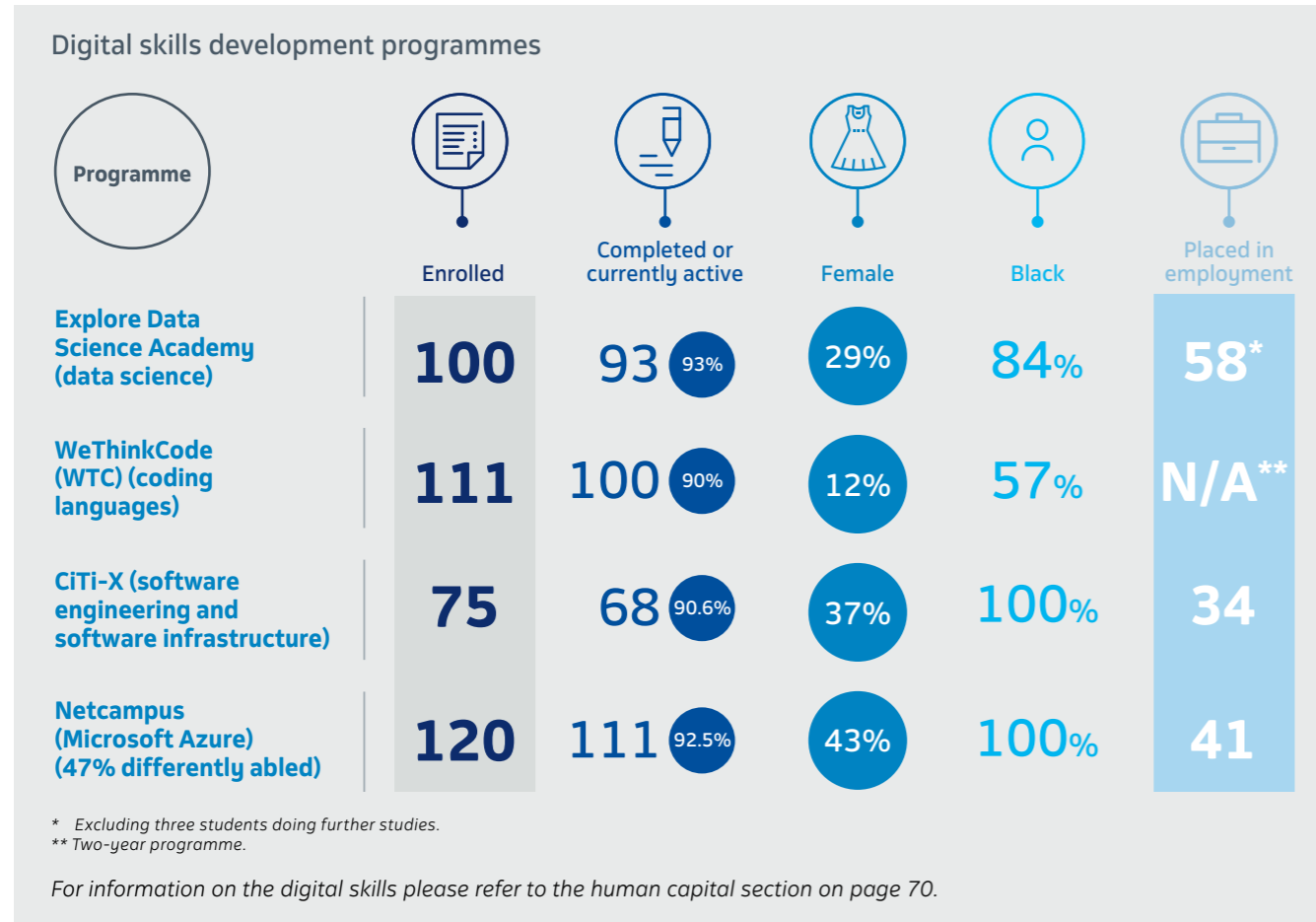


## Digital skills development

As an ICT company in South Africa, it makes strategic sense for Telkom to invest in a talent pipeline of future skills for its own needs and those of the digital economy. Telkom's technological transformation and its positioning for future growth require the infusion of millennials with skills in disciplines such as data science, coding, artificial intelligence, robotics process automation, cybersecurity

and software engineering. These skills provide a platform for product and service innovation. Therefore, Telkom invested as a growth or strategic partner in selected programmes to fulfil these objectives.

Holistically, digital skills programmes continue to perform well, with learner demographics closely mirroring South Africa's demographics. Black female representation, although improving, remains a challenge.



## Employee diversity and skills development

Employment equity and developing our people are business imperatives. An environment with a diversity of people and ideas facilitates innovation. In our industry, innovation can set us apart from our competitors.

We developed the employment equity plan for 2020 to 2023 and the employment equity/supplier development forum will oversee its implementation. It focuses beyond addressing barriers and seeks to influence a culture of inclusion at Telkom with a specific focus on differently-abled people. Due to the challenge of decreasing our employee headcount, the plan focuses on succession planning, gender inclusion, differently-abled people inclusion and inclusive leadership and performance management.

## Our approach to developing employee skills

Skills development continues to be a major focus and initiatives across the group continue. We continue our focus on and investment in young talent development. Refer to the human capital section on page 70 for more insight.

Telkom continues to allocate significant resources for training and development of black employees despite the tough economic environment. Telkom invested R160 million in training and developing black employees (FY2019: 293 million).

## FY2020 focus areas

The forecast pace of economic growth increases pressure on the social indicators Telkom aims to impact through its investments. We will continue to refine our interventions to secure enhanced quality of outcomes and to contribute positively to the economy through our business.

### Shared value

Telkom's strategic intent is to deepen our approach to value creation by embracing shared value as a philosophy in doing business which is integrated with and rooted in society.

Shared value is a business strategy that seeks competitive advantage through profit-driven social impact. It implies that we activate our core purpose in order to build propositions that add commercial, social and/or economic value. This builds propositions that add value, which offers quantifiable returns that are commercial and social or economic. Creating shared value will require a reorientation of our approach to innovation, culture, corporate social investment, brand, and our measurement of success. We are mindful that this will be a complex and long-term process. We believe this is necessary to build a resilient, relevant and sustainable Telkom of the future.

Telecommunications companies are enablers of a digital economy, one of the few growth certainties in an uncertain world. In the South African context, with the challenges of inequality, unemployment and economic growth, it is incumbent upon us to play a proactive and leading role in navigating the impact of the fourth industrial revolution. We need to use our core assets to enhance productivity, efficiency, future skills and social progress, and to build trust and accountability in an era of increasing concern about digital rights, data pricing and transparency.

Having undertaken a consultative exercise in the group, Telkom's key pillars and goals of our shared value strategy are as follows:

- Digital inclusion:** Make digital connectivity more accessible
- Digital services:** Help people transform their lives through digital-led services
- Digital economy:** Help build sustainable livelihoods
- Digital planet:** Partner for positive environmental impact

Our commitment to these is aligned to four of the United Nation's Sustainable Development Goals (SDGs), which we regard most relevant to our business:

- SDG 4** Quality education
- SDG 8** Decent work and economic growth
- SDG 9** Industry innovation and infrastructure
- SDG 12** Responsible consumption and production

As we develop this strategy, which includes finalising a service delivery and operating model to support it, we are developing case studies of shared value work.

CASE STUDY

### Case study 1: Digital inclusion – zero-rating data

**Zero-rating data is a strategy for improving access to online information in areas such as education, health, jobs and social development.**

**In South Africa, although access to fibre infrastructure is limited to affluent areas, smartphone penetration is in excess of 80%. This indicates that some South Africans have more than one smartphone, and a significant portion of citizens still rely on basic or feature phones. Data pricing is a challenge in the poverty-constrained South African market.**

As a response, especially during the national lockdown for COVID-19, Telkom has tactically zero-rated certain areas with a view to increase access to services. Telkom increased the number of tertiary education institutions that benefit from zero-rated data to enable learners to access educational websites without any cost to the consumer. The investment includes over 30 institutions of higher learning, including universities, further education and training and technical and vocational education and training colleges and knowledge-enhancing sites such as Wikipedia, Everything Science, Everything Maths and DBE Cloud. This benefit extends to academic content and allows these institutions to share information on the COVID-19 pandemic, to empower stakeholders with information on how to effectively manage and respond.

Through its zero-rated education platform, BCXLearn, Telkom widened its portfolio of educational content through partnerships with providers. An example is Telkom's partnership with Nal'ibali, which provides reading material to promote children's potential through storytelling and reading. Reading is a critical part of improving literacy, especially with over 70% of South African grade 4 learners without comprehension skills.

We offer learners at Khan Academy mathematics content, translated to isiZulu and isiXhosa mathematics videos, to assist mother-tongue instruction. In partnership with the PhET Interactive Simulations project, created by the University of Colorado Boulder, Telkom offers learners interactive science simulations. Learners can supplement real-life laboratory work through simulation as they engage with intuitive, game-like environments. This content allows learners to study and master subjects such as physics, biology and chemistry through hands-on exploration and discovery. The simulations offered are appropriate for all ages and include guiding teacher lesson plans.

Telkom partnered with government to widen access to information and access to services to citizens by zero-rating the government communication and information system website.

Khanyubomi employs 140 youth (which will scale to 200 in FY2021) as sales agents for Telkom products in underserved areas. They operate in Gauteng and Mpumalanga.



## CASE STUDY

### Case study 2: Digital economy – Consumer Dealer programme

#### The Consumer Dealer programme

leverages SMMEs as a channel to increase Telkom's product distribution footprint. This will contribute to inclusive procurement and access to connectivity in underserved areas and promote job creation. In the informal dealer channel, FutureMakers contributes 5% of total sales. Our aspiration is to increase this to 10% in FY2021.

Love Life is a youth-focused HIV prevention initiative in South Africa. The not-for-profit organisation promotes Aids-free living among South African youth aged between 12 and 19 by employing a holistic approach to youth development and behaviour change that motivates adolescents to take charge of their lives for brighter futures. Love Life has supported over 320 000 youth in South Africa so far.

Love Life established Khanyubomi as a commercial entity to help supplement the donor funding required to further its programmes. Khanyubomi is a key growth partner for Telkom in the small and medium business growth strategy, due to their footprint in townships and interface with local businesses. Telkom partnered with Khanyubomi in the rollout of the "township unleashed" strategy, which seeks to focus on connecting underserved areas.

Since onboarding in FY2020 as a sales dealer, Khanyubomi has experienced learnings and challenges. Through FutureMakers' business support, coaching, mentorship, back-office support and Telkom Foundation stipend support, they strengthened the quality of their overall business operations. Support to date is R2 million.

Khanyubomi employs 140 youth (which will scale to 200 in FY2021) as sales agents for Telkom products in underserved areas. They operate in Gauteng and Mpumalanga.

**By being part of the Telkom Consumer channel, Khanyubomi is key in servicing underserved areas and creating social equity. The youth are Telkom ambassadors and they build brand affinity in communities.**

## CASE STUDY

### Case study 3: Digital economy – Independent Field Technician (IFT) programme

In 2016,

several employees opted to take VSPs as part of Telkom's restructuring programme. During that period, Telkom FutureMakers presented an ESD opportunity to certain impacted employees' new businesses which could be supported by the Telkom supply chain. FutureMakers' approach was to help companies that qualify for the IFT programme to establish themselves and offer business support services through a five-year incubation programme.

Multiplek Networks (Pty) Ltd (Multiplek) was established as part of this programme in 2016. The founder was onboarded as the first 100% black women-owned exempted micro-enterprise as defined in the B-BBEE codes. Multiplek is a B-BBEE level 1 company with four technicians.

Multiplek processes and delivers installation for ADSL and fibre on behalf of Telkom. Its vision is to become the preferred leader in the delivery of fibre, copper, jointing work, ADSL and single-line installations, and faults and sourcing wayleaves and permits on behalf of telecommunications companies such as Telkom, municipal entities, state-owned companies, civils and construction firms, and other establishments that require their services.

Multiplek received the following support from FutureMakers:

- Materials for one year of production, which saved the company R800 000
- Four ADSL sets of tools for each technician
- A car hire facility with reduced rates and favourable payment terms
- Access to an interest-free loan facility through the IDF Future Fund (refer to page 84)
- Training on financial modelling and provided and reviewed a model by the IFT programme to track company expenditure, profitability and revenue
- Training was provided by SizweNtsalubaGobodo Grant Thornton on financial management, leadership and governance, marketing strategy and business development. They also provided back-office support services and assisted with payroll, financial accounting services and tax and professional body registrations such as Compensation for Occupational Injuries and Diseases Act, 130 of 1993

When the IFT programme started, it assisted in reducing Openserve's backlog of faults in six months. After a year, Multiplek extended its scope of work within Telkom's value chain to include FTTH services. The founder acknowledges that this started the company's success journey, as it could further create jobs by onboarding technicians for fibre installation. Multiplek received excellent feedback from customers.

Multiplek processes and delivers installation for ADSL and fibre on behalf of Telkom. Its vision is to become the preferred leader in the delivery of fibre, copper, jointing work, ADSL and single-line installations.





## Natural capital



Telkom's main focus is on minimising its energy intensity and carbon footprint by improving the energy efficiency of our activities.

### How we manage our natural capital

Natural capital management is guided by our environmental and climate change policy statement. Telkom closely measures, monitors and manages the group's carbon emissions as energy efficiency is a primary contributor to reducing operational costs and to mitigate the impacts of climate change. Our environmental and climate change policy statements are available at <https://www.telkom.co.za/ir/Sustainability/Sustainability.shtml>.



Telkom has participated in the CDP (formerly the Carbon Disclosure Project) for the eighth year, and our CDP score improved from a D to a C. We aim to move to a B over the next three years and will implement measures to achieve this.

Environmental risks are identified, quantified and captured in the environmental aspect and impact register. Environmental controls are in place to mitigate environmental impacts, and environmental management procedures are in place to monitor and manage environmental aspects. The most significant environmental impacts of our operations are e-waste, energy use and the related carbon emission in our network. An external assurer verifies and validates data on certain KPIs in this integrated report.

We incorporated regional environmental awareness in the safety health and environment (SHE) "Safety starts with me" campaign and focused on water saving and waste management.

## Environmental compliance and regulations

Telkom considers national and international regulatory and technical developments continuously and responds appropriately.

With the introduction of phase 1 of the Carbon Tax Act, 15 of 2019 (Carbon Tax Act), we engaged an external service provider to evaluate whether Telkom's operations exceed the electricity and heat production of 10 MW installed thermal capacity (the threshold for carbon tax under fuel combustion activities). The group does not have large stationary boilers, and if it exceeds the threshold, it is likely to apply to its back-up generators.

The initial assessment concluded that the first phase (2019 to 2022) of the Carbon Tax Act will not significantly impact Telkom. We will continue to monitor existing regulations in the event of possible future amendments. The full report on carbon tax readiness was shared with the risk and social and ethics committees.



There were no environmental notices of violation or directives issued against Telkom in FY2020. No compliance inspections were conducted by environmental regulators.

Compliance to environmental statutes and by-laws is monitored through site inspections, audits and regular reviews of our procedures and operations.

### Key strategic focus areas

- Energy-efficiency initiatives
- Power factor correction
- Tariff optimisation
- Smart meters

### Key themes that impacted natural capital's performance in FY2020

- Increased usage of standby generators due to load shedding

### KPIs and key statistics

- Scope 1, 2 and 3 emissions
- Water consumption

## Climate change

The board has overall accountability for overseeing the group's risk and compliance (including climate-related topics). It is supported by the social and ethics committee, which monitors and advises the board on climate change matters. Sustainability, which includes climate change risks and opportunities, is a standing item on the agenda.

The committee monitors Telkom's activities, considering any relevant legislation and prevailing codes of best practice, including SHE which includes climate change. Senior management is responsible for environmental performance and managing climate risks at an operational level.

### Significant climate-related risks and opportunities

There are many new technologies in the ICT sector that are both cost-effective and assist companies in reducing their carbon and water footprints. For example, Telkom recognises that our video conferencing solutions are a low-carbon product as they assist our customers and in-house employees to reduce ground and air travel (scope 3 emissions).

Our services offer customers the ability to move large volumes of data electronically (locally and internationally). This reduces the need for postal and courier services. With our wide ICT footprint, we enable customers to work from home, reducing frequent travel.

### Phasing out ozone-depleting substances

The Department of Environmental Affairs promulgated the phasing out of the ozone-depleting substances in 2014. The regulation outlines 2020, 2025 and 2030 phase-out requirements to comply with the regulations for phasing out and managing ozone-depleting substances. In 2016 (baseline year), Telkom had 97 tonnes of R22 gas in the system. To date Telkom has reduced R22 gas to 57 tonnes, complying with the 2020 requirement of a reduction to 63.1 tonnes. To meet the 2025 target of 31.5 tonnes, Telkom must reduce R22 gas by a further 26 tonnes.

## Energy

Telkom's key source of electricity is municipal (more than 80%), diesel for back-up generators and solar photovoltaic (PV). To minimise the increase in energy use and carbon emissions, we appointed an energy expert to develop and implement an energy management strategy.

Telkom continues to invest in energy-efficiency initiatives to minimise the increase in energy use and carbon emissions:

- Smart metering project:** We installed smart meters in some high-energy-consuming sites. Cost savings will be tracked upon completion of the installations
- Telkom Park energy management system:** We conducted a gap analysis of the implementation of an energy management system at Telkom Park to achieve ISO 50001 certification, and are implementing the recommendations

- Resource efficiency assessments:** We conducted water and waste management assessments at the top three high-energy and water consumption sites. We submitted reports to the Council for Scientific and Industrial Research for review
- The **power factor correction installation** at high energy-consuming sites is in progress. The project will be rolled out to other high-consumption sites nationally to stabilise energy demand

## Carbon footprint

Our scope 1 and 2 footprints include network buildings, data centre, office building and mixed-use buildings, excluding some buildings occupied by BCX and Yellow Pages.

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

Scope 1 includes:

- Refrigerant gases used by Telkom
- Fleet petrol consumption by BCX and SMB
- Feet diesel consumption by BCX and Telkom
- Bulk diesel purchased by BCX (Centurion data included), SMB and Telkom

Scope 2 includes:

- Electricity consumption by BCX (Centurion data included), SMB and Telkom

### Contribution to total carbon footprint per scope for group

Scope	CO <sub>2</sub> e	Variance (%)
Scope 1	FY2020 55 227	2.7
	FY2019 53 760	1.5
	FY2018 52 965	(3.6)
Scope 2	FY2020 601 433	7.9
	FY2019 557 525	(2.0)
	FY2018 568 686	(9.1)

Scope 1 increased due to high diesel consumption during load shedding in the first and second quarter of FY2019/FY2020.

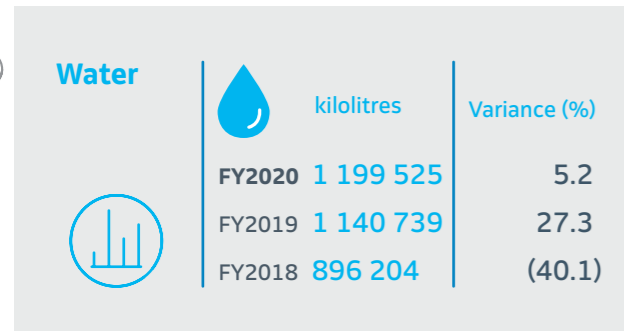
Scope 2 emissions increased in FY2019/FY2020 due to the change in Eskom's emission factor.

## Water

Although Telkom is not a material water user, we recognise the scarcity of this resource and the risks associated with water shortages, particularly on employees and the economic sector. The group uses water primarily for cooling, drinking, catering, hygiene, and landscaping. Telkom occupies in excess of 1 400 premises, with a national footprint. Therefore, we need to manage our consumption.

Telkom's key source of water is municipal supply. As part of ensuring efficient water usage, Telkom is rolling out low-flow regulator taps across high water-consuming sites.

### Total water consumption for the group



The drought conditions of 2018/2019 compelled supply authorities to ensure more frequent billing for water usage, resulting in high consumption being recorded, albeit consumption that occurred in earlier months; hence an upward trend into 2019/20.

## Managing waste

### Hazardous waste

The increased availability, affordability and consumption of electronic products lead to increased volumes of electronic and electrical waste (e-waste). This is the largest growing waste stream in South Africa, and our most environmentally impactful waste stream, internally and within the value chain.

E-waste is toxic and harmful to the environment and human health if not properly managed. It is a source of income for waste collectors and handlers. We sell our cabling to a leading e-waste recycling organisation, which processes the cabling using environmentally and socially responsible techniques (no chemicals or burning). We sell copper recovered from the recycling process to local and international markets. This sensitive, labour-intensive process provides employment to an Eastern Cape rural community – 22 families rely solely on this project as a source of income.



E-waste recycled (tonnes)	Variance (%)
FY2020 9 076	102.7
FY2019 4 477	51.8
FY2018 2 950	(6.0)

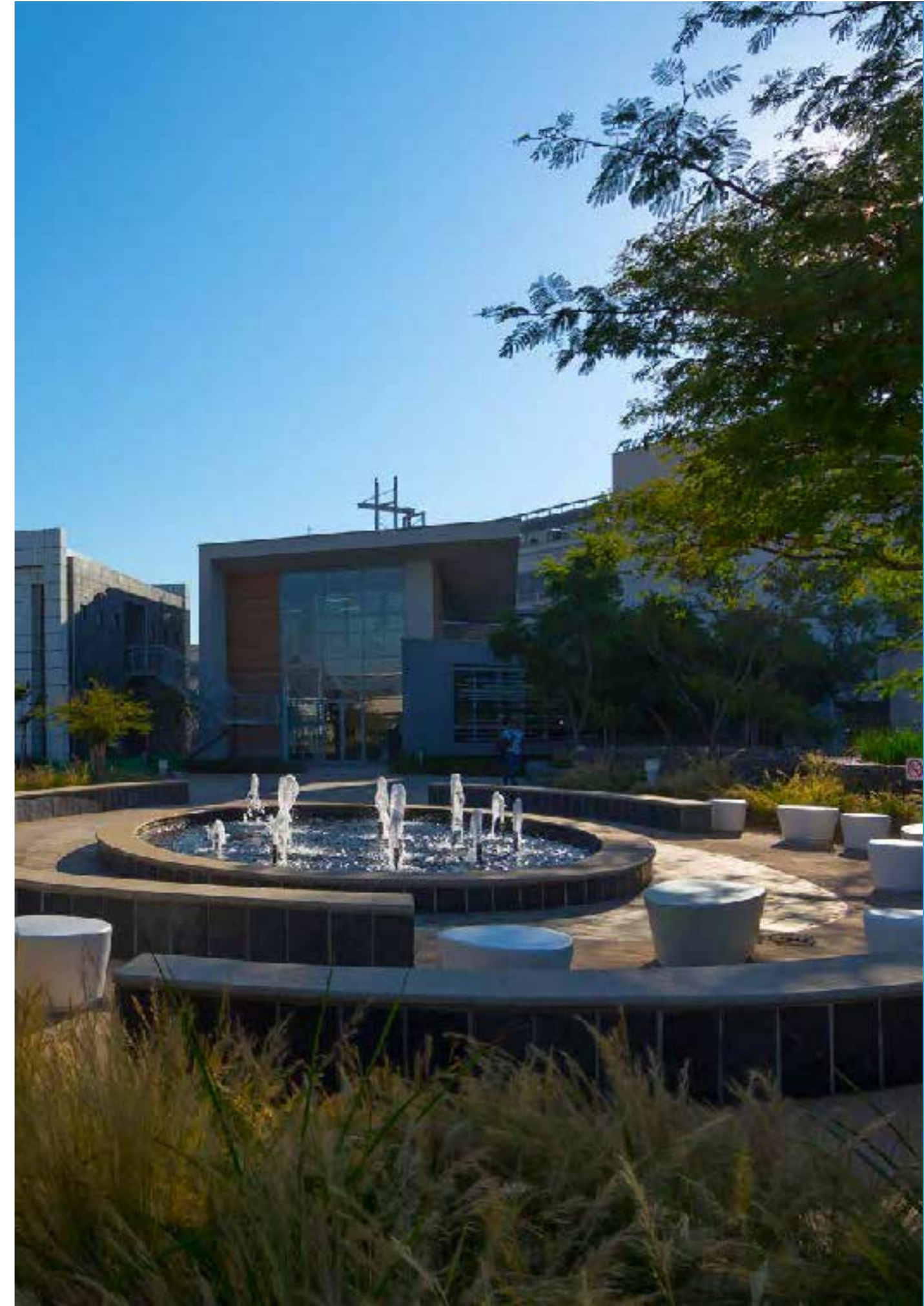
### Non-hazardous waste

Telkom's solid waste streams include recycled waste, wet waste, municipal waste, garden refuse and paper. Telkom, through its facilities service provider, measured a substantial portion of these additional solid waste streams. FY2020 data will be compared to the FY2019 baseline year for recyclable waste.

### FY2021 focus areas

Installations to significantly reduce carbon footprint and increase energy cost efficiencies nationally, through;

- Solar PV at sites
- Tariff optimisation by reducing notified maximum demand and consolidating accounts and tariff changes
- Smart meters: Online monitoring of real-time energy consumption
- Low-flow regulator taps to save water at high-consumption sites
- Set point and comfort analysis to improve heat, ventilation and air conditioning performance
- Power factor correction using harmonic filtering and voltage dip mitigation
- Replacing inefficient lighting with LED lighting
- Converting waste to compost and waste water treatment for improved water efficiency
- Obtaining a green star rating/certification for Telkom Park







# 4

## Transparency and accountability

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### Corporate governance report

The board is committed to effective and ethical leadership, underpinned by good corporate governance practices.

The directors confirm that Telkom complies with the provisions of the Companies Act and the laws of establishment, specifically relating to its incorporation; and it operates within conformity with its memorandum of incorporation and all relevant constitutional documents.

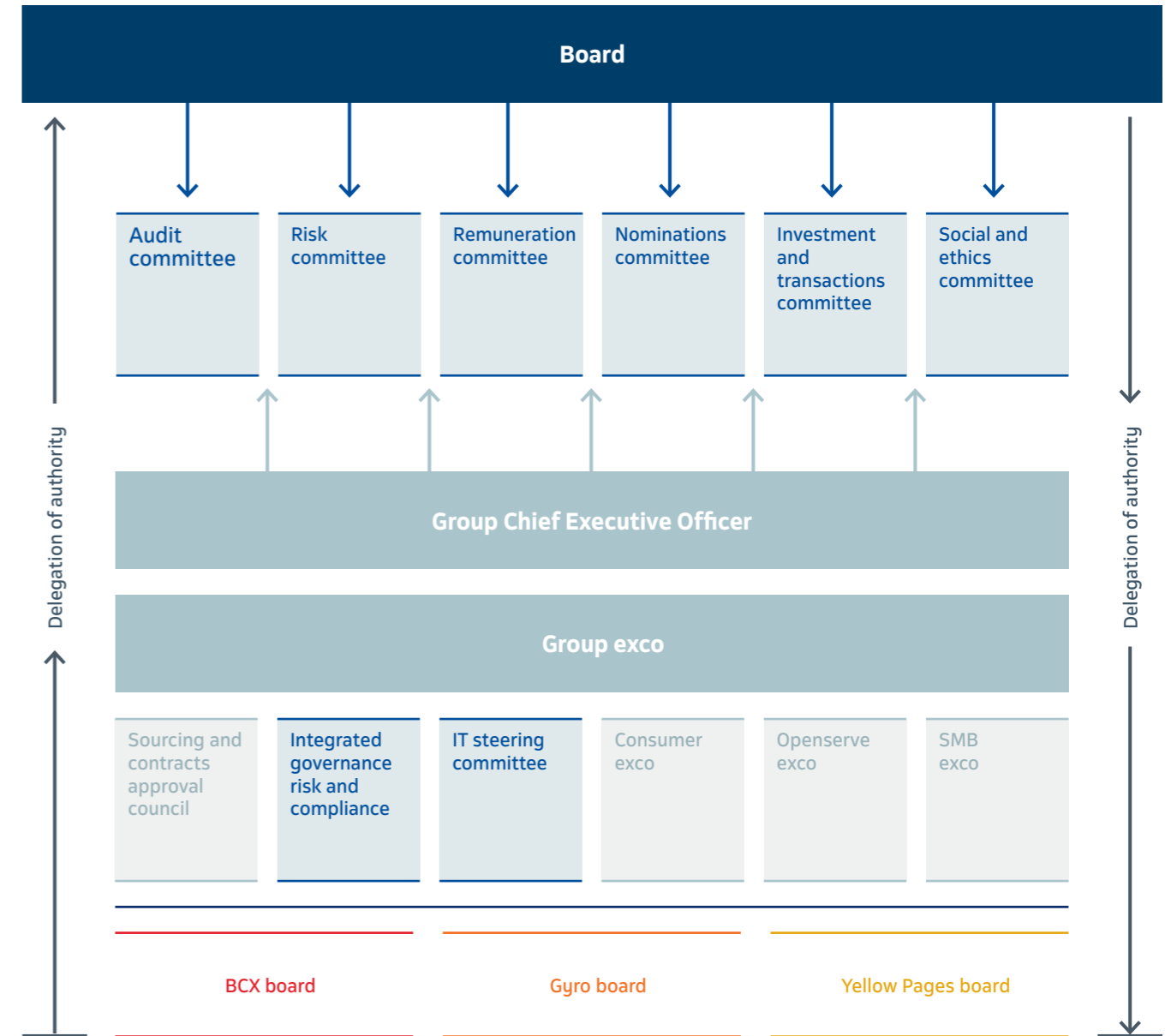
### Group governance framework

The purpose of the group governance framework (framework) is to articulate and give effect to the direction set by the board on relationships and the exercise of authority across the group.

We enhanced the framework during FY2020 to ensure that several fundamental principles are clearly outlined to support Telkom's strategy and agile business requirements. The framework's content is subject to the statutory and regulatory environment within which the group operates: JSE Listings Requirements; the Companies Act; the memorandum of incorporation (MOI); and King IV.

The board has overall accountability and responsibility to direct, steer and monitor the group. The board applies proportional governance where applicable and adopts and scales practices as appropriate for each business unit and subsidiary. The framework supports the leadership elements, strategy, performance, monitoring, oversight and assurance, as well as group policies and the designation of a shareholder representative to approve shareholder reserved matters in the subsidiaries.

The governance arrangement and levels of authority flow from the board-approved group governance model, which supports value creation in the short, medium and long term. The diagram alongside sets out the group's governance model and structures that support the framework.



### Delegation of authority

We enhanced the delegation of authority (DOA) in FY2020 to respond to the current operational requirements. The board approved the enhanced DOA which shifts accountability for decisions made in the business to the GCEO, supported by group exco, to exercise the powers and perform any Telkom functions, except to the extent that the JSE Listings Requirements, Companies Act, and the MOI provide otherwise.

The board's committees assist in the discharge of its duties and responsibilities. Each committee has board-approved terms of reference articulating the delegated levels of authority and responsibility. As a general principle, matters within the ambit of the board's authority should be considered by the GCEO prior to making a recommendation through the appropriate governance structures for consideration and approval.

Group exco is a management governance structure constituted at the discretion and guidance of the GCEO. It supports him in carrying out board-delegated operational activities.

The board understands and accepts its responsibility as the custodian of corporate governance in Telkom. The governance structures provide for the delegation of the board's authority, while enabling it to maintain effective monitoring and oversight. The board, through the DOA, ensures effective coverage and legitimacy while delivering good performance. The board is satisfied that the provisions and parameters set out in the DOA support a balance of power, authority and role clarity while anchoring an agile and perpetually evolving business environment.

Pursuant to Telkom's commitment to good corporate governance principles through the practices of King IV, Telkom followed a King IV implementation plan to enhance business activities to foster an ethical culture, good performance, legitimacy and effective control.

The governance areas of enhancement identified included, among others, corporate social responsibility reporting and disclosures, organisational ethics, reduced fraud and corrupt activities, strategy, performance and value creation in Telkom's core purpose. For further progress on King IV compliance of the Telkom group refer to <https://www.telkom.co.za/ir/Governance/Governance.shtml>.

# Leadership

## Independent non-executive directors

 <p><b>MS Moloko<sup>a</sup></b> (55) Chairperson Appointed: 20/03/2018</p> <p><b>Principal skills</b> Business leadership, investment management and mergers and acquisitions <b>Other directorships</b> Thesele Group (Pty) Ltd, Momentum Metropolitan Limited, Stor-Age REIT, Guardrisk Holdings Group Ltd, Prudential Investment Managers, Nelson Mandela Foundation</p>	 <p><b>SL Botha</b> (55) Appointed: 10/12/2012</p> <p><b>Principal skills</b> Business leadership, mergers and acquisitions, integrated reporting, remuneration, strategy and marketing <b>Other directorships</b> Capitec Bank Ltd, Capitec Holdings Ltd, Curro Holdings Ltd, Famous Brands Ltd</p>	 <p><b>N Kapila</b> (66) Appointed: 16/02/2011</p> <p><b>Principal skills</b> Telecommunications, legal, regulatory and governance <b>Other directorships</b> International Telecommunication Union (Switzerland)</p>
 <p><b>KT Kweyama<sup>b</sup></b> (55) Appointed: 10/12/2012</p> <p><b>Principal skills</b> Commercial expertise, integrated reporting, business leadership, human capital management and governance <b>Other directorships</b> Discovery Drilling SA, Independent Actuaries and Consultants (Pty) Ltd, Indlovukati Investments, Keymix Investments (Pty) Ltd, Keymix Partners (Pty) Ltd, Tenon Investment Holdings (Pty) Ltd, Prasa SOC Ltd, Steinhoff International Ltd</p>	 <p><b>PCS Luthuli</b> (47) Appointed: 25/05/2018</p> <p><b>Principal skills</b> Auditing and accounting, investments and business leadership <b>Other directorships</b> Mpande Property Fund Manager (Pty) Ltd, Mpac Limited, Luthuli &amp; Luthuli Investments (Pty) Ltd, Hloba Clothing (Pty) Ltd, Moorewood Clothing (Pty) Ltd, SummerFlair (Pty) Ltd, Fulzest Group (Pty)</p>	
 <p><b>DD Mokgatle</b> (64) Appointed: 20/03/2018</p> <p><b>Principal skills</b> Legal business leadership and governance <b>Other directorships</b> Ash Resources (Pty) Ltd, Bargenel Investments (Pty) Ltd, Bidcorp Ltd, Bushveld Minerals Ltd, Italtile Ltd, Fenner Conveyor Belting (SA) (Pty) Ltd, Kumba Iron Ore, Lafarge Industries, Peatona Group Holdings, Ponahalo Group, Presidential Advisory Committee, Rabatona Investment Holdings (Pty) Ltd, Reunert Ltd, Rothschild and Co (Pty) Ltd, Sinako Holdings (RF) (Pty) Ltd, Total South Africa</p>	 <p><b>KW Mzondeki<sup>c</sup></b> (52) Appointed: 09/11/2012</p> <p><b>Principal skills</b> Auditing and accounting, corporate finance, mergers and acquisitions, strategy and integrated reporting <b>Other directorships</b> Asset Protection International (Pty) Ltd, Balwin Properties, Nampak Ltd, Yellow Pages</p>	
 <p><b>F Petersen-Cook</b> (44) Appointed: 10/12/2012</p> <p><b>Principal skills</b> Corporate finance, actuarial, risk management, investment management and governance <b>Other directorships</b> Absa Financial Services, Bankmed, Kalafong Tertiary Hospital, Steinhoff Africa Retail</p>	 <p><b>KA Rayner<sup>d</sup></b> (63) Appointed: 15/07/2019</p> <p><b>Principal skills</b> Corporate finance, accounting, auditing, governance, mergers and acquisitions <b>Other directorships</b> Appropriate Process Technologies (Pty) Ltd, Ecsponent Ltd, Keidav Properties (Pty) Ltd, Sibanye Stillwater Ltd, Nexus Intertrade (Pty) Ltd, Sabi Gold Pty Ltd, 2 Quins Engineered Business Information (Pty) Ltd</p>	 <p><b>SP Sibisi<sup>e</sup></b> (65) Appointed: 01/04/2019</p> <p><b>Principal skills</b> ICT, start-up ventures, business-to-business and intelligence skills <b>Other directorships</b> Denel Group, Liberty Holdings, Mapungubwe Institute for Strategic Reflection</p>
 <p><b>RG Tomlinson<sup>f</sup></b> (57) Appointed: 03/12/2014</p> <p><b>Principal skills</b> Business leadership, risk management, remuneration and strategy <b>Other directorships</b> International Player Management (Pty) Ltd, Clipthicket Holdcup (Pty) Ltd, Red Dot Business Solution Partners (Pty) Ltd</p>	 <p><b>LL Von Zeuner</b> (59) Appointed: 10/12/2012</p> <p><b>Principal skills</b> Finance, mergers and acquisitions, risk and commercial expertise <b>Other directorships</b> FirstRand Ltd, FirstRand Bank Ltd, Mahela Boerderij (Pty) Ltd, Mahela Group Holdings (Pty) Ltd, Transnet SOC Ltd, Tongaat Hullett Ltd, Wildeklawer Investments (Pty) Ltd</p>	 <p><b>GW Dempster<sup>g</sup></b> (65) Appointed: 03/12/2014</p> <p><b>Principal skills</b> Business leadership, strategy, mergers and acquisitions and people development <b>Other directorships</b> AECI Ltd, Imperial Logistics, Long4Life Ltd, Motus Holdings Ltd, Sun International Ltd</p>

## Group exco

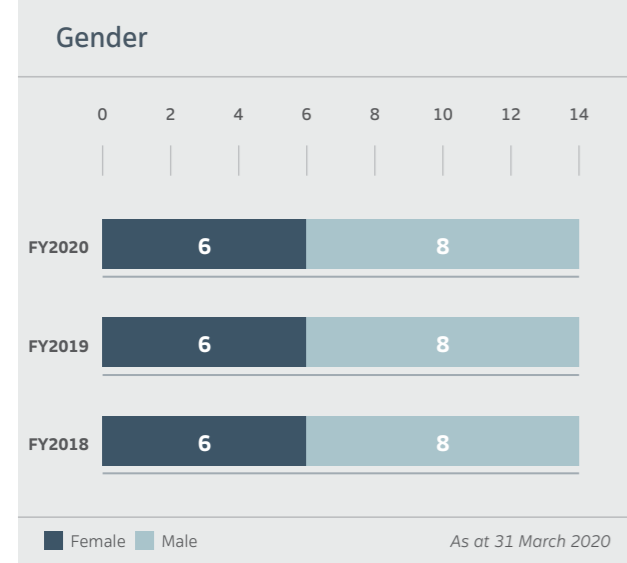
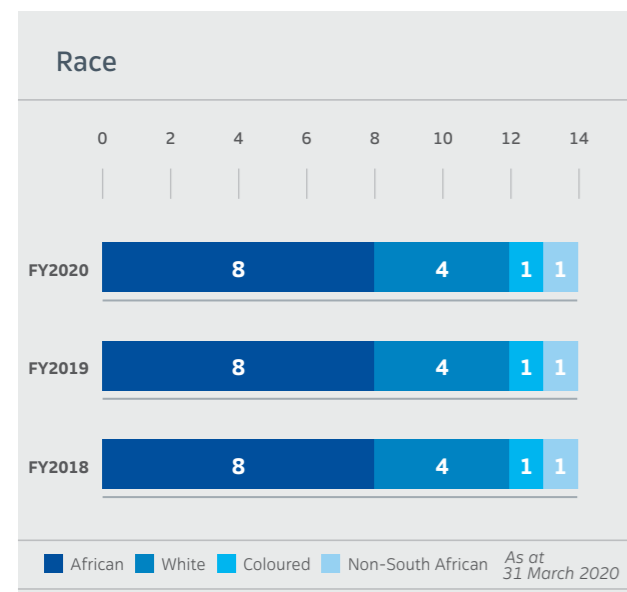
 <p><b>SN Maseko<sup>h</sup></b> (51) Appointed: 01/04/2013</p> <p><b>Group Chief Executive Officer</b> <b>Principal skills</b> Business strategy and execution, telecommunications, business leadership, regulatory and policy, governance <b>Other directorships</b> BCX, BMW, Gyro, Roedeans School (SA), Yellow Pages</p>	 <p><b>TBL Molefe</b> (51) Appointed: 01/07/2018</p> <p><b>Group Chief Financial Officer</b> <b>Principal skills</b> Auditing, accounting, financial strategy, financial management, risk management <b>Other directorships</b> BCX, Curro Holdings, Gyro, Yellow Pages</p>	 <p><b>AC Beukes</b> (49) Appointed: 13/12/2018</p> <p><b>Group Chief Information Officer</b> <b>Principal skills</b> Telecommunications, IT, sales, marketing, procurement, technology and business leadership</p>
 <p><b>PJ Bogoshi</b> (54) Appointed: 01/06/2018</p> <p><b>Chief Executive Officer: BCX</b> <b>Principal skills</b> ICT specialist, strategy, sales and business leadership</p>	 <p><b>NM Lekota</b> (49) Appointed: 01/03/2017</p> <p><b>Chief Human Resources Officer</b> <b>Principal skills</b> Human resources strategy architect and business leadership</p>	 <p><b>LTS Maloba</b> (46) Appointed: 13/11/2017</p> <p><b>Chief Executive Officer: Gyro</b> <b>Principal skills</b> Business leadership, business strategy and real estate investment management</p>
 <p><b>L Siyo</b> (42) Appointed: 01/05/2018</p> <p><b>Chief Executive Officer: Telkom SMB</b> <b>Principal skills</b> Business leadership, sales and marketing, strategy, financial management, digital transformation and e-commerce</p>	 <p><b>S Taukobong</b> (50) Appointed: 01/06/2018</p> <p><b>Chief Executive Officer: Telkom Consumer</b> <b>Principal skills</b> Marketing, customer operations, mergers and acquisitions and business leadership</p>	 <p><b>D Fredericks<sup>i</sup></b> (59) Appointed: 01/05/2018</p> <p><b>Chief Investment Officer</b> <b>Principal skills</b> Corporate finance, auditing and accounting, and telecommunications <b>Other directorships</b> Famous Brands Ltd, South African Airways</p>
 <p><b>CJ Moganwa<sup>j</sup></b> (42) Appointed: 01/01/2019</p> <p><b>Chief Officer Business Markets</b> <b>Principal skills</b> IT systems development and financial services</p>	 <p><b>AN Samuels<sup>k</sup></b> (54) Appointed: 13/02/2014</p> <p><b>Chief Executive Officer: Openserve</b> <b>Principal skills</b> Telecommunications and business leadership</p>	<p>The board's detailed curricula vitae are available at <a href="http://www.telkom.co.za/about_us/companymanagement/board-of-directors.shtml">www.telkom.co.za/about_us/companymanagement/board-of-directors.shtml</a>.</p>

<sup>a</sup> Appointed as the Chairperson of the board effective from 1 June 2019.  
<sup>b</sup> Resigned as a director of Tenon Investment Holdings (Pty) Ltd and Prasa SOC Ltd, effective from 10 December 2019 and 21 March 2020, respectively.  
<sup>c</sup> Resigned as a director of Yellow Pages, effective from 31 August 2019.  
<sup>d</sup> Appointed as the chairperson of the audit committee on 27 August 2019.  
<sup>e</sup> Appointed as a member of the investment and transactions and social and ethics committees on 15 July 2019.  
<sup>f</sup> Appointed as a member of the remuneration committee effective 1 June 2019.  
<sup>g</sup> Resigned as an audit committee member effective 27 August 2019, and from the board effective from 30 November 2019.  
<sup>h</sup> Resigned as a director of BMW, effective from 31 March 2020; and appointed to Rodean School during the financial year.  
<sup>i</sup> Seconded to SAA on 15 October 2018, and resigned as Chief Investment Officer, effective from 31 October 2019.  
<sup>j</sup> Resigned as Chief Officer Business Markets, effective from 31 December 2019.  
<sup>k</sup> Retired as Chief Executive Officer: Openserve, effective from 31 March 2020.

- Audit committee
- Investment and transactions committee
- Nominations committee
- Remuneration committee
- Risk committee
- Social and ethics committee

## Board diversity and tenure

The majority of the board members are independent non-executive directors, with two executives and 12 independent non-executive directors as at 31 March 2020. The roles of Chairperson and GCEO are separated. The board, through its nominations committee, considered the appointment of a lead independent director (LID) and is satisfied that there is no need to appoint a LID at this stage. The matter will be reconsidered should circumstances change.



The board-approved diversity policy echoes Telkom's appreciation for the value that diversity presents. It considers all forms of diversity including, amongst others, gender and race. The nominations committee reviews board diversity as part of its annual board and committee composition activities. It identifies and highlights future needs for skills, expertise, qualifications, gender, race and experience to continually achieve this element.

The diversity policy does not specify targets for diversity. However, the board is committed to improving gender representation. This will be addressed through future appointments with the assistance of the nominations committee. The board is satisfied that its current composition reflects the appropriate mix of knowledge, skills, qualifications, experience and diversity.

## Skills and experience

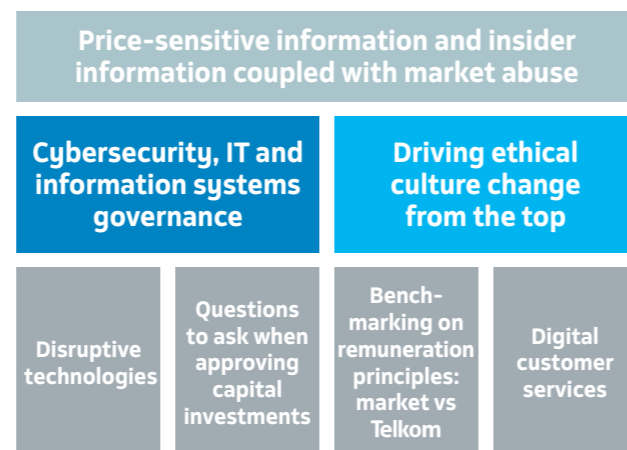
The board and committee compositions are reviewed annually to ensure that the skills representation supports the group's strategy, suitable for the current business and responds to the external environment.

The nominations committee, with support from the group company secretariat, assists with:

- Continuously training the board and its committees to keep abreast of developments in Telkom's operating environment
- Board succession planning to ensure appropriate diversity and mix of skills for the group and its continuity
- The board evaluation process for the board and its committees' performance to ascertain development areas to enhance board effectiveness

The board and its committees were assessed for the skills required in supporting and delivering the group's strategy towards value creation. The board-approved training plans for FY2020 and FY2021 are aimed at embedding governance outcomes as part of Telkom's ways of working

The diagram below highlights relevant training topics that were delivered during the year under review.



The implementation of the FY2020 training plan is behind schedule due to competing interests and operational requirements. However, the board is committed to ensuring continuous training activities.

The board engaged an executive search service provider to assist it in refreshing its skills and close the identified skills development gaps through the recruitment of additional independent non-executive directors.

## Board selection process

Telkom adheres to a well-defined nomination process for appointing directors. This is included in the nominations committee's terms of reference. The process entails, among others, determining the skills required, requesting referrals from existing board members and suitable candidates from the executive search service provider, vetting and making recommendations to the board. New director appointments are presented at the first annual general meeting (AGM) following the appointment for election by the shareholders.

A formal induction process was conducted for incoming members of the audit, risk and social and ethics committees respectively. This will be supported by a directors' toolkit, which includes all pertinent governance instruments and Telkom strategic documents that directors need to consider when joining the board.

## Independence and tenure

All non-executive directors are independent. Independence in appearance is an essential element of the categorisation of the board. However, the duty to act with independence of mind and in the best interest of the group is an overriding concern when considering independence testing and retirements.

In terms of the company's MOI, any non-executive director holding office for an aggregate period in excess of nine years since his/her first election or appointment, shall retire from office and be subject to an independence assessment. Further, such a director will be required to retire at every AGM.

The board conducted an independence assessment of Navin Kapila, as his tenure exceeds nine years. This evaluation confirmed that he is still able to exercise objective, unfettered judgement and is not likely to influence unduly or cause bias in decision-making. Based on the outcome, Navin Kapila is recommended for re-election at the AGM and his contribution is invaluable.

The nominations committee, in consultation with the remuneration committee, manages succession planning to ensure the balance of independence is maintained and that successors are appointed to the board in a manner that promotes knowledge transfer to ensure continuity.

## Specific governance processes

### Director rotation

In terms of the company's MOI, one third of directors must retire by rotation annually. After due consideration of the performance and contribution of the board, the nominations committee recommended to the board that Sibusiso Luthuli, Dolly Mokgatle, Sello Moloko, and Louis Von Zeuner who are retiring by rotation, be re-elected by the shareholders as indicated in the *notice of the AGM on page 142*.

## Conflict of interest management

The group company secretariat manages the conflict of interest process. All directors are expected to disclose any conflict of interest to the governance structures in accordance with the Companies Act. Telkom has additional processes to manage potential, perceived and actual conflicts of interest.

At the start of each financial year, executive and non-executive directors, prescribed officers, committee members and meeting invitees complete and sign annual declarations of interest forms. These are submitted to the group company secretariat for filing post tabling through the governance structures. These are updated as and when necessary during the year.

The group company secretariat monitors declarations to ensure that there are no conflicts present when matters are tabled for deliberation or when executing business activities. Where conflicts exist, affected directors or persons do not receive papers for the related matter, and are recused from such deliberations. Telkom's conflict of interest policy forms part of the group ethics handbook. The board and exco's commitment to comply with the group ethics handbook forms part of the annual ethics leadership pledge.

The declaration of interest form was enhanced in FY2020 to detail ownership of Telkom securities and disclosure requirements in directors and prescribed officers dealing in Telkom securities as security, guarantee, collateral or otherwise pursuant to the new JSE Listings Requirements.

## Board governance at a glance

### Group Company Secretary

The Group Company Secretary supports the board and its committees by advising them on directors' statutory duties, JSE Listings Requirements, disclosure obligations, and good corporate governance practices.

Following the review of the Group Company Secretary by the board, it is satisfied that the governance arrangements and controls between the board, its committees and the office of the group company secretariat are sound and adequate for its effectiveness.

The Group Company Secretary maintains an arm's-length relationship with the directors and is accessible to each of them for support and guidance. She reports administratively to the GCEO and functionally to the board Chairperson. The Group Company Secretary oversees governance in all subsidiaries as the operating model services from the centre.

## The role of the board

The roles and responsibilities of directors are articulated in the Companies Act and the board charter. The board is satisfied that it has fulfilled its mandate in terms of its board charter. To regulate its work, the board approves the annual workplan, compiled against its charter and the committees' terms of reference and divided into quarterly activities. This ensures that the board monitors and discharges all its activities in accordance with its charter. The charter is amended as and when needed.

Some key matters that the board considered were:



## Board committees

The board has delegated some of its activities to duly constituted committees to assist it in discharging its duties. The board has six committees, each guided by terms of reference. The board committees are satisfied that they have fulfilled their roles and responsibilities in terms of the approved terms of reference. These terms of reference are reviewed annually, or as and when the need arises, for adequacy and taken through the governance structures for consideration. In terms of the group governance framework, the committees fulfil the statutory compliance role for the group where required.

The terms of reference of each committee were last approved in April 2020, and the changes thereto were in accordance with the JSE Listings Requirements, reviewed Delegation of Authority (DOA), and the newly implemented group governance framework. Through the group company secretariat, all incoming members to the board committees were inducted to assist with onboarding processes.

The board charter and each committee's terms of reference are available at <https://www.telkom.co.za/ir/Governance/Governance.shtml>.

### Audit committee

#### Members

- KA Rayner\* (chairperson)
- GW Dempster\*\* (former chairperson)
- PCS Luthuli
- KW Mzondeki
- RG Tomlinson
- LL Von Zeuner

\* Appointed as Chairperson on 27 August 2019.  
\*\* Resigned as Chairperson on 27 August 2019 and from the board on 30 November 2019.

#### Mandate and key focus areas

The audit committee is a statutory board committee per provisions of the Companies Act. It is mandated in terms of the DOA and is charged with the independent role of accountability.

The audit committee has, among others, the responsibilities of internal and financial control, internal audit, external audit, risk management, combined assurance, financial statements and integrated report, communication with shareholders, compliance, and legal and regulatory matters related to accounting activities.

The audit committee considered and/or approved the following key matters, among others:

- Independent Regulatory Board for Auditors review report for auditors' review
- Actuarial assumptions
- Interim and year-end financial results
- Interim and final dividend considerations
- Update on IFRS 16
- Cancellation of the Gyro and BCX preference shares
- Evaluation of the GCFO, the finance function and the Chief Audit Executive
- Evaluation and effectiveness of the Chief Audit Executive

For more details on the committee's activities, refer to its report in the annual financial statements on page 5. Also refer to the GCFO report on page 43.

### Risk committee

#### Members

- LL Von Zeuner (chairperson)
- GW Dempster\*\*
- DD Mokgatle
- F Petersen-Cook
- KA Rayner\*

\* Appointed on 15 July 2019.  
\*\* Resigned from the board on 30 November 2019.

#### Mandate and key focus areas

The risk committee assists the board in ensuring that management has an effective risk management process in place that identifies and monitors the management of the group's key risks, in an integrated and timely manner.

It oversees the governance of risk through the group's ERM framework and its system of internal controls. The committee increased its focus on managing technology and information-related activities.

The committee considered the following key matters, among others:

- The enterprise risk management (ERM) framework
- The risk-bearing capacity and appetite framework
- The group compliance framework
- The group's strategic, emerging and unexpected risks
- The group combined assurance framework

Refer to page 31 for technology and information governance, and page 26 for ERM and compliance.

### Remuneration committee

#### Members

- SL Botha (chairperson)
- MS Moloko\*
- KW Mzondeki
- RG Tomlinson\*

\* Appointed on 1 June 2019.

#### Mandate and key focus areas

The remuneration committee sets the group's remuneration policy on behalf of the board. It oversees remuneration for executive directors and senior executives; monitors the execution of the remuneration policy for the group, including non-executive directors; and makes recommendations to the board.

The committee considered the following key matters, among others:

- Remuneration and implementation reports
- Section 189 process
- Short-term incentive review for executive directors
- The FY2019 annual share awards, including performance conditions
- Succession planning for the executive management

### Nominations committee

#### Members

- MS Moloko (chairperson)\*
- SL Botha
- KT Kweyama

\* Appointed on 1 June 2019.

#### Mandate and key focus areas

The nominations committee is responsible for reviewing and making recommendations to the board on most governance-related matters, particularly board and committee composition. This includes all aspects of diversity such as academic qualifications, technical expertise, industry knowledge, experience, business acumen, race and gender.

It works closely with the remuneration committee on succession planning for executive directors and critical roles.

The committee considered the following key matters, among others:

- Group governance framework
- Board composition regarding the diversity policy, and the balance between executive and independent non-executive members
- Performance evaluation of the board and its committees
- DOA
- Succession planning for the board

### Investment and transactions committee

#### Members

- F Petersen-Cook (chairperson)
- N Kapila
- SN Maseko
- KW Mzondeki
- SP Sibisi\*
- RG Tomlinson

\* Appointed on 15 July 2019.

#### Mandate and key focus areas

The committee deals with any significant investment or transaction relating to the acquisition of another business or legal entity, including any equity injection or possible merger or acquisition approved by the board.

It ensures that approved transactions' post-merger integration plans are adequate. It monitors the performance of investments against the original investment criteria and pre-investment assumptions through a formal post-acquisition review.

The committee considered the following key matters, among others:

- Smart Office Connexion disposal
- Investment and transactions programmes
- Review of international disposals (BCX)
- Roaming agreement

## Social and ethics committee

### Members

- KT Kweyama (chairperson)
- N Kapila
- PCS Luthuli\*
- DD Mokgatle\*
- SP Sibisi\*
- LL Von Zeuner

\* Appointed on 15 July 2019.

### Mandate and key focus areas

The social and ethics committee is a statutory board committee per the provisions of the Companies Act. Its activities emphasise the environment, and social, governance and ethics-related matters.

It considers the UN Global Compact Principles, Organisation for Economic Co-operation and Development recommendations, the Employment Equity Act and the B-BBEE Act, and adheres to the requirements of Regulation 43 of the Companies Act.

The committee considered the following key matters, among others:

- The annual ethics leadership pledge
- The group ethics handbook
- Compliance with the Consumer Protection Act
- Fraud, health and safety matters
- The Telkom Foundation activities

## Board and committee attendance

Director	Board	Audit committee	Remuneration committee	Nominations committee	Investment and transactions committee	Social and ethics committee	Risk committee
<b>Independent non-executive directors</b>							
MS Moloko (Chairperson)	9/9	-	2/2 <sup>6</sup>	3/3	1/1 <sup>6</sup>	-	-
SL Botha	8/9 <sup>3</sup>	-	3/3	4/4	-	-	-
GW Dempster	4/5 <sup>3</sup>	2/2 <sup>4</sup>	-	-	-	-	2/2 <sup>4</sup>
N Kapila	9/9	-	-	-	8/8	4/4	-
KT Kweyama	9/9	-	-	3/4 <sup>3</sup>	-	4/4	-
PCS Luthuli	9/9	8/8	-	-	-	3/3 <sup>2</sup>	-
DD Mokgatle	9/9	1/1 <sup>5</sup>	-	-	-	3/3 <sup>2</sup>	3/3
KW Mzondeki	9/9	8/8	3/3	-	8/8	-	-
F Petersen-Cook	9/9	1/1 <sup>5</sup>	-	-	8/8	-	3/3
KA Rayner	7/7 <sup>2</sup>	6/6 <sup>2</sup>	-	-	-	-	2/2 <sup>2</sup>
SP Sibisi	7/9 <sup>3</sup>	-	-	-	2/3 <sup>3</sup>	3/3 <sup>2</sup>	-
RG Tomlinson	8/9 <sup>3</sup>	7/8 <sup>3</sup>	2/2 <sup>2</sup>	-	7/8 <sup>3</sup>	-	-
LL Von Zeuner	8/9 <sup>3</sup>	8/8	-	-	-	4/4	3/3
JA Mabuza (former Chairperson)	1/1 <sup>1</sup>	-	1/1 <sup>1</sup>	1/1 <sup>1</sup>	-	-	-
<b>Executive directors</b>							
SN Maseko	9/9	7/8 <sup>3</sup>	3/3	4/4	8/8	3/4 <sup>3</sup>	2/3 <sup>3</sup>
TBL Molefe	9/9	8/8	3/3	-	7/8 <sup>3</sup>	4/4	3/3

<sup>1</sup> Resigned effective 31 May 2019.

<sup>2</sup> Appointed 15 July 2019.

<sup>3</sup> Apology.

<sup>4</sup> Resigned as an audit committee member effective 27 August 2019, and from the board effective 30 November 2019.

<sup>5</sup> Not members, attended a special audit committee meeting by invitation on 12 February 2020.

<sup>6</sup> Appointed as chairperson of the board and nominations and remuneration committees and resigned as a member of the investment and transactions committee effective 1 June 2019.

## Annual general meeting

The 27th AGM was held on 27 August 2019, where the Ordinary and Special Resolutions received favourable votes on average of 92%. The board, through the Chairperson, will continue to engage with shareholders in a transparent manner.



## Combined assurance

Telkom's combined assurance approach integrates assurance and risk management activities across the group, in line with the combined assurance framework. The framework outlines the minimum requirements for achieving the combined assurance mandate, embeds a consistent approach to combined assurance, and provides a co-ordinated approach, accountability and direction to all assurance activities. The three lines of defence are aimed at improving and monitoring governance, risk management and internal controls across the group.

The combined assurance model incorporates and optimises all assurance services and functions so that these holistically enable an effective control environment, support the integrity of information used for internal decision-making by management, the board and its committees, and support the integrity of Telkom's external reports.

The board, through the audit and risk committees, oversees the combined assurance model's implementation. It oversees that the scope of combined assurance is informed by the risks and opportunities that materially affect the group's

ability to create value. Telkom business units and other functional areas are responsible for implementing and reporting on the combined assurance principles in line with the framework.

Telkom Group Internal Audit (TGIA), with Telkom ERM, are responsible for co-ordinating the group's combined assurance efforts. They co-ordinate their assurance activities with other assurance providers, including external auditors, to ensure that Telkom's significant risks are adequately addressed.

The audit committee has reviewed the effectiveness of these combined assurance activities, and is satisfied with the current arrangements.

Our regulators (for example, ICASA and the Competition Commission) may institute reviews to gain assurance that Telkom complies with regulation and applicable laws. Such reviews may be considered as an additional defence layer for the board. There were no such reviews during FY2020.

The combined assurance framework is outlined in the diagram below.



## Internal audit

The TGIA's mandate, as defined in the internal audit charter, is to provide independent and objective assurance and consulting services designed to add value and improve Telkom's operations. TGIA uses a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal control processes within Telkom and its subsidiaries. This helps Telkom accomplish its objectives.

TGIA provides assurance to the group's stakeholders by:

- Assessing and making appropriate recommendations to improve Telkom's governance processes
- Evaluating the effectiveness of, and contributing to, risk management process improvements
- Evaluating the adequacy and effectiveness of internal controls

TGIA subscribes to a risk-based audit methodology in developing an annual audit plan which aligns to the group's most significant risks. It considers internal and external opportunities and challenges in the respective operating environments. TGIA engages with other assurance providers to consider opportunities for combined assurance. The audit plan aims to support business units in achieving their strategic objectives, and to fulfil the role of assurance provider to oversight committees.

The audit committee approves the audit plan annually. TGIA revises the plan on a quarterly basis to remain relevant and align with key business priorities and a changing business and risk environment.

In FY2020, TGIA executed its plan for the year, focusing its coverage on the key risks affecting the group. Further to this, emphasis was also placed on improving the internal processes and methodologies in line with its quality assurance activities improvement programme. In planning the internal audit for FY2021, TGIA considered all group strategic risks and business aggregated risks to ensure the audit plan aligns to the group's significant risks. TGIA included specific reviews on the FY2021 plan that will be performed with other assurance providers to implement the combined assurance framework.

To ensure the function's independence and accomplishment of its internal audit responsibilities, the Chief Audit Executive functionally reports to the audit committee chairperson, and administratively to the GCFO. The Chief Audit Executive attends audit and risk committee meetings, and is a standard invitee to group exco meetings or other committee meetings comprising mostly senior executives. This structure promotes the independence of internal audit and allows it to form judgements objectively.

TGIA is subjected to an external quality assurance review at least once every five years. TGIA's achieved a "generally conforms" rating to the International Professional Practices Framework of the Institute of Internal Auditors based on its external quality review in FY2017. TGIA conducts ongoing internal quality assessments.

## 1 Ensuring business integrity

### 2 An ethical culture

Telkom has a zero-tolerance policy regarding unethical behaviour, fraud and corruption. The board is committed to building a group that supports the delivery of assurance functions to promote an ethical culture to all stakeholders. All employees are responsible to disclose information relating to any fraudulent conduct or unethical behaviour. Ethics policies are included in the group induction programme through the group company secretariat office and forms part of the continuous development online learning programme published on the Telkom Values Hub and various Telkom publications.

The Business Code of Ethics and its related policies were reviewed and replaced with the board-approved group ethics handbook to enhance ethics governance. The share dealing policy is included in the group ethics handbook, but it remains as a standalone policy due to its nature. The group ethics handbook was launched during the international fraud awareness week (18 to 22 November 2019) and is posted on the Telkom Values Hub.

The implementation plan of the group ethics handbook focused on Telkom's values, conflict of interests, the ethics leadership pledge, gifts and entertainment, and share dealing activities. The board Chairperson and the GCEO signed the approved ethics pledge on behalf of the leadership committing to lead with integrity, promoting a culture of honesty, accountability and teamwork, and the group is encouraged to follow this example.

The Supplier Code Of Conduct regulates the conduct of service providers. Supported by the fraud policy statement, Telkom investigates allegations of fraud or irregular conduct without regard to any person's relationship with the business, stature, position or tenure.

To promote combined assurance, proactive forensic assignments were undertaken with other assurance providers to uncover fraud or to identify internal control weaknesses. The economic crimes forum consists of Telkom Group Forensics, security, network protection services, cybersecurity and other role players. The forum meets periodically to deal with prevalent and pervasive fraud issues.

### Share dealing policy

Telkom's share dealing policy was reviewed and enhanced certain elements of it included in the group ethics handbook for ease of reference. However, it remains a standalone policy. This policy is informed mainly by the Financial Markets Act, 19 of 2012, and the JSE Listings Requirements.

All directors and employees are required to adhere to the share dealing policy's provisions. During FY2019, the closed period was extended by one month for affected directors and affected persons to ensure adequate protection of price-sensitive information. Trading in the company's securities is not permitted during prohibited periods.

## 16 Engaging with shareholders

During August 2019, the Chairperson of the board engaged material shareholders through governance roadshows in Johannesburg and Cape Town. The international shareholders were also invited to various online meetings, but these were cancelled as the feedback indicated that the international investors did not have any issues which warranted an engagement at that time.

The key focus areas were governance-related matters, contributing to the strategic intent and value creation. These shareholder engagements will assist the board in exercising constructive influence, as and when appropriate. Refer to the Chairperson's report on page 8.

Shareholders received the Chairperson and management positively.

### Fighting fraud

Telkom Group Forensics (TGF) conducted extensive face-to-face awareness campaigns in all of Telkom's operating regions. We also used various other delivery methods that targeted employees, service providers and third-party employees. The fraud awareness messages were tailor-made for specific audiences and included positive messaging and real forensic cases to deter fraud. We engaged business units' leadership on prevalent cases to find a common solution to the issues identified and to share learnings.






We conducted a fraud health check survey to understand whether our fraud awareness efforts are bearing fruit and to identify areas that needed special focus. The positive outcome was that most employees indicated that there was an open environment which made it comfortable to report fraud. The areas of improvement related to persuading more employees to report misconduct through the hotline, management or directly to TGF.

The key initiative was the "lead with integrity" pledge where group exco and various levels of employees signed the pledge to lead with integrity. The training results are reflected in the number of cases reported to the Telkom Crime Hotline, and in the high number of allegations directly reported by various stakeholders to TGF for investigation.

The Telkom Crime Hotline (0800 124 000 and [ethicsline@kpmg.co.za](mailto:ethicsline@kpmg.co.za)) is independently managed and operates 24 hours a day. Complainants can choose to report anonymously and will be updated on the progress of the investigation or outcome if they elect that option.

During FY2020, 1 562 calls and emails were made to the Telkom Crime Hotline. The calls and emails were mainly for incidents related to TGF, security network protection services, and Telkom Mobile: 120 calls and emails received from the hotline were for TGF, resulting in 78 forensic cases. In addition to that, 92 cases were walk-ins or directly reported to TGF, bring the total number of cases to 170. They related to fraud, corruption, theft and irregularity (non-compliance to policies, procedures or established practices). The breakdown of the 170 cases is as indicated in the table opposite.

### Common or key cases per each incident type

Incident types	Number	%	Summary of allegations reported
Corruption 	12	7	Collusion between employee and service providers; between employee and customer; collusion between third-party employees and collusion between employees/third-party employees; and fraudsters
Fraud 	23	14	Service provider claiming for work not done (submitting fraudulent invoices); mismanagement of stock; fraud and theft of customer payments or abuse of suspense accounts; non-declaration of interest; employees conducting business with their own companies; submission of inflated or fraudulent invoices and subscription fraud
Irregularities 	16	9	Awarding contracts to service providers without following the procurement policy; leaking confidential information; irregular conduct relating to procurement and contract management; employees not declaring or managing their conflict of interest; employees/managers employing their relatives
Theft 	5	3	Theft of stock or Telkom assets by employees
Early resolution cases 	114	67	These are small, non-core forensic cases. They are resolved through referrals to management or the relevant department, quick reviews by TGF or they are closed due to lack of evidence or information. Some cases related to misuse of Telkom resources, absenteeism and other management-related complaints
	<b>170</b>	<b>100</b>	

In FY2020, the following were corrective actions stemming from forensic investigations: 11 employees were dismissed, 11 employees received various warnings including alternative to dismissals and 10 suspensions without pay; six employees resigned due to investigations being instituted against them or we recovered or withheld fraud losses from pension funds of six employees; two service provider contracts were terminated due to fraud or irregular conduct; and one employee's contract was not renewed as a result of the investigation outcome. As at 31 March 2020, four employees and two service providers were under suspension based on the allegations of fraud or irregular conducted reported to TGF.

For criminal acts, we reported cases to the South African Police Services. They are investigating various criminal cases and others are pending in court. Where Telkom suffered fraud losses, appropriate remedies in law were used to recover loss amounts from implicated parties. To deal with supplier misconduct, a supplier disciplinary committee was formed within Openserve. This will be extended to the rest of the group in FY2021.

## The social and ethics committee report

The committee focused on ethics, corporate citizenship, the SDGs, the Consumer Protection Act and other ESG matters.

### Telkom response to COVID-19

The group, through the committee, considered the risk of the COVID-19 outbreak within South Africa. As the spread of the pandemic increased, the board considered a range of interventions, among others, the risk of customer-facing employees, low productivity, high absenteeism and the psychological impact on employees.

As of 15 March 2020, Telkom had over 80% of its employees working remotely. The impact on the group's financial sustainability, supply chain, business operations where the "work-from-home" arrangement has become the new normal, is encouraged by leadership. Telkom continues to contribute toward the accelerated agile and flexible online learning platform to ameliorate learning backlogs, drive personalised learning and support future skills. Refer to page 36 for more insight into the COVID-19 response.

### Strengthening the committee

We strengthened the committee by appointing three additional non-executive directors on 11 July 2019. The new members attended induction to enhance their respective understanding of the committee's mandate, and to enable them to immediately contribute meaningfully.

The induction focused on the statutory and regulatory mandate of the committee, ethical conduct and leadership, customer service, group forensics, corporate social investment, sponsorships, sustainability reporting and stakeholder management.

*The committee's mandate and members and meeting attendance on page 102. The chairperson of the risk committee is a member of this committee to ensure matters raised as an ethical risk are also brought to the attention of the risk committee. Members of group exco and other senior managers are standing invitees to this committee.*

## Organisational ethics

We reviewed and recommended the group ethics handbook to the board for approval. The objective with creating this integrated ethics management strategy is to enhance the governance of ethics and contribute to Telkom's value creation by all employees living the Telkom values. The group ethics handbook rollout and the ethics leadership pledge coincided with the international fraud awareness week. For more information, refer to page 104.

The business objectives behind these initiatives were to motivate employees to operate in an ethical, safe and compliant manner to decrease incidents of misconduct and irregularity. The committee was taken through the various planned initiatives. This included, among others, print and digital materials on ethics and fraud-related policies, workshops for exco and subsidiary governance structures. The ultimate outcome of these initiatives will drive change in employee behaviour and promote and build an ethical culture.

The planned ethics maturity assessment and revised strategy was deferred due to operational requirements and budgetary constraints. Telkom is planning to conduct an ethics risk assessment in FY2021 while assessing the current ethics landscape and ethics maturity of the group. Thereafter, targeted interventions and initiatives will be formulated to bridge any gaps, aligned to best practice.

Ethical conduct is the underlying principle of the committee's mandate and, through its monitoring of these activities, the committee ensured adherence thereto.

## Good corporate citizenship

The reports from TGF assist the committee in monitoring the activities to reduce corruption and mitigate against potentially fraudulent activities. We focused on conflict of interests matters. After consultation with business unit leadership, there was an improved awareness around the identification of potential, perceived and actual conflicts of interest.

TGF continues to co-ordinate the fight against economic crimes through the economic crimes forum, as well as the co-operation with internal assurance providers as well as external industry crime-fighting bodies. The outcome of these initiatives, among others, led to action being taken against service providers, employees, customers, and syndicates. Some of these actions include contract terminations, dismissals, recovery of losses and arrests of those implicated.

We monitored these initiatives to ensure the fight against corruption is prevented, detected and investigated.

The execution of the Telkom Foundation's strategy was tabled at each meeting to confirm compliance to the statutory responsibility of donations and charitable activities. We aim to ensure a meaningful impact is made in society, specifically the educational sphere, to contribute to the future skills demand around ICT skills. Refer to page 85 for more insight into the Foundation.

## Sustainable Development Goals

Telkom is committed to playing our role to support the UN SDGs long-term agenda to end poverty, protect the planet and ensure prosperity for all in the lead up to 2030.

The following four SDGs and selected underlying targets present the most material opportunities for Telkom to enhance its positive impacts (SDG 4, SDG 8 and SDG 9) and decrease its negative impacts (SDG 12) in support of the SDGs.



## Environment, social and governance

The committee, through its activities, monitors safety within the group. There was a notable improvement of the reportable safety incidents with a reduction of 36% in the total record of injuries, and 37% reduction in lost-time injuries. There were zero fatalities and zero incidents of post-traumatic stress disorder incidents. These were attributed to interventions such as implementation of the early injury management and injury-on-duty management processes.

Skills development is extensively discussed at each meeting to ensure measures are implemented to improve on this pillar of the B-BBEE scorecard. Telkom continues with the process aimed at developing a shared value strategy to deliver value to society through its business operations, over and above the legislative and compliance requirements.

## Commitment

The committee remains committed to fulfilling its mandate as required in terms of the Companies Act and Companies Regulations, King IV and in ensuring that Telkom maintains its responsible corporate citizenship.

### Khanyisile Kweyama

Chairperson  
Social and ethics committee

Also refer to

- Human capital, page 70
- Social and relationship capital, page 80
- Natural capital, page 90



FTSE4Good

## FTSE Russell

(the trading name of FTSE International Limited and Frank Russell Company)

**confirms that Telkom SA SOC Ltd has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series.**

Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong environmental, social and governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

## Remuneration report

### Remco chairperson's report

Remco continues to ensure that our reward policy and practices are shareholder centric and enable a financially sustainable business

We remain focused on linking our remuneration strategy, policy and practices purposefully to business strategic targets to deliver long-term sustainable growth to shareholders. Our remuneration levels are set to attract and retain the required talent, and to sustain overall group performance and ever-changing business challenges in our trading environment.

We aim to apply a common remuneration policy and remuneration structure/mix across the group. Differentiation will only be based on best market practices and statutory and regulatory requirements. We continue to integrate overall group performance as a payment trigger for short-term incentives (STIs).

The combination of tough trading conditions and recent market and regulatory events point to a tougher outlook in the next few years. Changes in our environment require us to continuously review our business model to ensure stability and that we respond appropriately to the changing macro-environment, which will impact Telkom's sustainability and growth ambitions.

Talent retention is a significant business challenge in the 21st century. For many organisations, particularly those in knowledge-intensive industries, human capital is fundamental to maintain a sustainable competitive advantage. Increased mobility and greater employment choice, particularly for senior executives, top talent and critical skill specialists, pose a challenge for many employers in retaining these key employees. Failure to retain executive talent can have financial and non-financial implications for the group, including replacement cost, loss of organisational knowledge, experience and relationships. Therefore, retention forms a critical part of Telkom's talent management framework. Our retention approach aims to ensure employee engagement while targeted strategies focus on retaining key talent and critical skill specialists including key executives. Research around retention acknowledges the role remuneration plays as part of a retention proposition. Equity and transparency play a critical role in designing an effective retention proposition. We apply these principles in reward setting and achievement-based rewards. It is important that remco ensures it follows its current mechanisms, which are consistent and fair.

Remco believes that the objectives outlined in the remuneration policy were met, and that all decisions complied with the policy.

### Policy changes, key decisions and focus areas

After assessing remuneration factors and with due cognisance of shareholder feedback, the following policy and structure changes were approved by remco with respect to the STI for FY2020:

- Achieving group EBITDA and PAT remain a trigger for any group STI payment
- Reintroduced free cash flow (FCF) as an additional measure to determine the size of the STI pool. Therefore, the pool will be determined by the achievement of:
  - Group EBITDA before STI
  - Group PAT before STI
  - Group revenue
  - FCF
- Each allocation has a 25% weighting
- Malus and clawback provisions were included in both STI and long-term incentive plans (LTIP) plans (FY2020 and in FY2021 LTIP – July 2020 share award and share vesting)

The remco took the following key decisions:

- Approved salary increases and adjustments for executives, senior management, management and bargaining unit employees
- Approved non-executive directors' fees
- Approved STIs for executive, senior management and other employees, and the 14th cheque for bargaining unit employees
- Evaluated and approved the vesting conditions for FY2015, FY2016 and FY2017 for LTIP and FY2017 for the Employee Share Ownership Plan (ESOP)
- Approved the FY2020 STI plan, vesting performance conditions for FY2020 LTIP and ESOP share awards, awarded in June 2019

Remco also reviewed the group's section 189 notices, and the VERP and VSP. Refer to the human capital report, page 70.

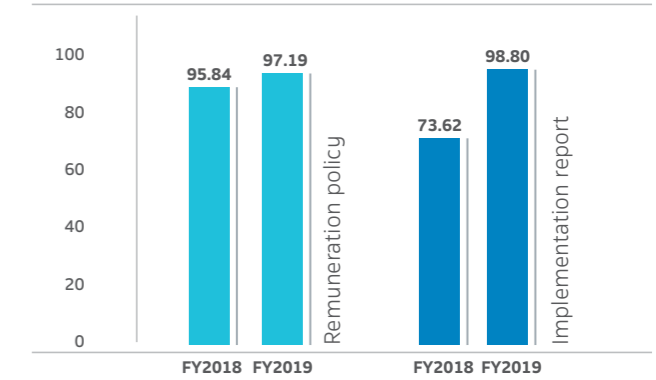
### Harmonising benefits across the group

- Vacation leave and sick leave provisions are aligned
- Alignment of medical aid provision concluded and included in the total cost to company
- One retirement fund for all employees across the group (Telkom Retirement Fund (TRF)): The benefits of the TRF and the BCX funds administered by Alexander Forbes are aligned and harmonised in terms of disability and death benefits. Current progress and challenges:
  - BCX underlying companies have 12 pension funds which have a degree of different benefits and designs; BCX is in the process of resolving this
  - All employees who took the new BCX offer, after the section 189 process in 2019, joined the TRF
  - The investment strategy of the funds is based on the life stage model
  - Intercompany transfers between companies – all members remained/moved to the TRF
  - Once the current section 189 process is concluded at BCX and the company, we need to embark on a communication exercise to transfer members across to TRF
  - It is envisaged that the establishment of one retirement fund will be finalised in FY2021

The remco also oversaw that all senior executive positions were mapped as part of Telkom's talent management process (page 121). Remco completed detailed succession planning for senior executive management and reviewed the retention of top talent and key critical specialists planning for senior executive management.

### Shareholder voting and engagement

#### AGM voting results (%)





The Chairperson of the board and chairperson of remco engaged with shareholders on the resolutions. Shareholders raised the following concerns relating to remco:

#### Shareholders' concerns

The lack of FCF as a KPI for both STI and LTI, given Telkom's capex investment strategy

The rationale for removing the customer experience score (as this is a challenge in the Telkom environment) under the operational target, and how this is currently managed

Shareholders want to understand the status of the discretionary powers post the 2018 share awards

There was a concern that there were no malus and clawback provisions in place for the STI and LTI

#### Remco feedback and actions

- Reintroduced FCF as an additional measure to determine the size of the STI pool. Therefore, the pool will be determined by the achievement of:
  - Group EBITDA before STI
  - Group PAT before STI
  - Group revenue
  - FCF
- Each allocation has a 25% weighting
- Achieving group EBITDA and PAT remain a trigger for any group STI payment

Customer experience is measured at business unit levels, as follows:

- Business unit financials (30%)
- Customer experience (20%)\*
- Execution of key strategy milestones including operational measures (30%)
- People management (20%)

Weightings might differ between business units. Therefore, we factor operational measures into STI at an individual level and business unit level.

Remco will consider additional shareholder input when share awards and performance conditions are set for the LTI FY2021.

- The FY2020 share award, awarded in June 2019, was reduced by 5.83% per eligible employee participating in LTIP
- The 5.83% reductions did not apply to newly appointed employees and employees who did not receive the benefit as part of the vesting in FY2018
- Discretion is only used in exceptional circumstances

- Malus and clawback provisions were included in FY2019 and FY2020 STI plans.
- A malus and clawback provision will be introduced any FY2021 LTI share awards if the share awards are granted, which is normally made in June.

\* Customer satisfaction is currently measured through the Orange Index IT measures service within industries, and across industries since 2001. The Orange Index gives companies a real comparison in terms of performance within their industry, highlighting best practice, pain points, opportunities and a reality of current performance relative to the South African trend. The survey includes most of the relevant benchmarks, i.e. NPS; overall satisfaction; customer effort scores; first-call resolution benchmarks and reputation index.

## AGM



As required by the Companies Act and recommended by King IV, the following resolutions will be tabled for shareholder voting at the AGM in September 2020 (page 144):

- Advisory vote on the remuneration policy
- Advisory vote on the implementation report

Should the remuneration policy or the implementation report or both be voted against by more than 25% of the voting rights exercised, an engagement process will be initiated with the dissenting shareholders. This will be done on behalf of the board by the Chairperson, remco chairperson, and Group Company Secretariat to:

- Ascertain the reasons for the dissenting vote
- Appropriately address legitimate and reasonable objections and concerns raised

After engagement with the shareholders, the remco will deliberate on the inputs received and agree on the most suitable way to address legitimate and reasonable objections and concerns raised. The voting results, concerns and steps taken will be disclosed in the FY2021 integrated report.

### Remco objectives for FY2021

Ensure that the committee's terms of reference address the following:

- Alignment with best corporate governance practices
- Update the composition to include co-option experts and specialists into the committee
- Update conflict of interest clauses to align with best practices
- Incorporate a clause addressing the role of the committee chairperson
- Closely monitor the succession plan for exco roles, including emergency successors. Proactively assist the board and the GCEO to identify, develop and transition possible successors, including proactively retaining top leadership and key senior executives for at least a minimum of two to three years, respectively
- Incentivise executives to grow shareholder returns while creating wealth for employees – strong alignment between executive remuneration and shareholder returns
- Compliance with group combined assurance framework
- Closely monitor employee costs aligned with the section 189 process

## Independent external advisors

Remco contracted an external service provider to review remuneration policies and practices to create long-term sustainable value for shareholders and employees, including reviewing the current LTI scheme with particular focus on value creation and executive awards. The review included benchmarking the remuneration mix of guaranteed package, STI and LTI with our peer group. The outcome of the benchmarking confirmed that Telkom's total remuneration compares favourably with the market median:

- Guaranteed package is in line with peers relative to, inter alia, size of business
- Executive STI pool is capped at 7.9% of PAT and is generally in line with median
- Executive LTI ratios are lagging market median and peers

The remco is satisfied with its independence and objective view.

## Appreciation

We will continue to comply with legislation and King IV requirements, while remaining conscious of disclosing sensitive information, this report complies with the King IV disclosure requirements.



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

#### Santie Botha

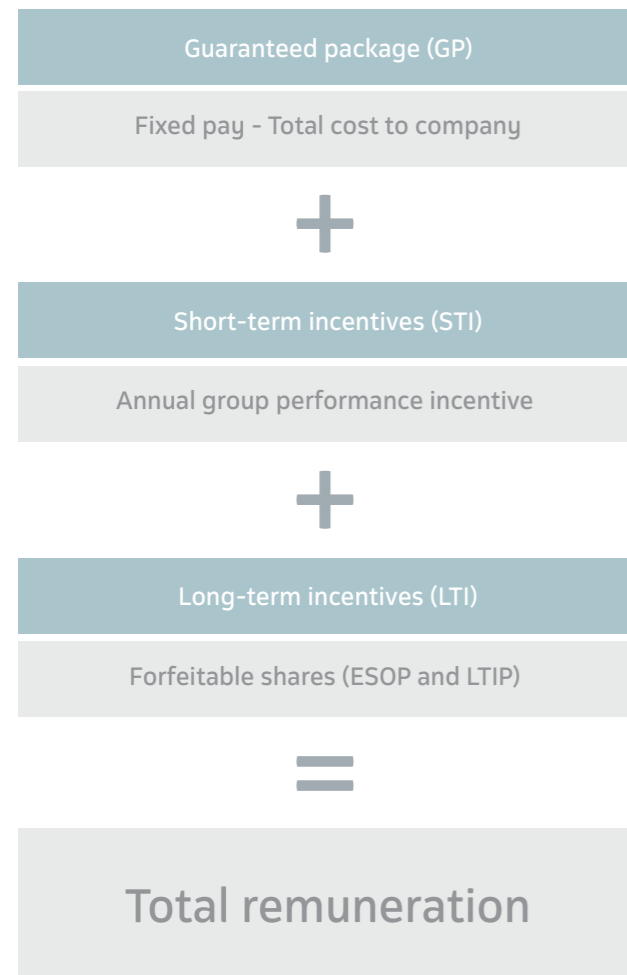
Chairperson of the remuneration committee

The remuneration report relates to FY2020. It does not include subsequent events after year-end. The rest of this remuneration report is divided into two sections:

**Section 1:** Our remuneration philosophy, policy and framework for FY2020

**Section 2:** Implementation report and remuneration disclosure of executive directors, non-executive directors and other prescribed officers for FY2020

## Our remuneration philosophy, policy and framework FY2020



The remuneration report relates to FY2020. It does not take into account changes after 31 March 2020.

### Remuneration philosophy and policy

**The Telkom remuneration strategy is designed to attract, motivate and retain high-calibre talent, and supports the delivery of our strategy in a sustainable manner without encouraging undue risks.**

As the market expands with operators in all spheres of our business, it is increasingly challenging to retain experienced executive leadership, and to attract the necessary talent required for the new and growing areas of our business. Meeting these challenges requires a competitive and attractive remuneration offering.

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

Telkom recognises “equal pay for work of equal economic value” principles and strives to remunerate employees doing substantially the same work, within the same range under the Labour Relations Act, 66 of 1995 (Labour Relations Act). Telkom recognises that there could be differences which are attributed to the following:

- Individual’s seniority or length of service
- Individual’s qualifications, ability, competence, critical skills or potential above required levels of performance for the job
- Individual performance (all employees are equally subject to Telkom’s performance management system)
- Demotion due to restructuring without a concomitant reduction in remuneration
- Individual lack of relevant experience for a job level
- Any other non-discriminatory differentiator

### Fair and responsible remuneration

Telkom applies the principles of fair remuneration based on job complexities and relative job worth, including similar performance outcomes. Our remuneration policy follows the same fundamental principles across all levels of employees. Remuneration must be externally competitive and internally equitable.

We continuously review our practices to ensure that remuneration levels are appropriate across functional areas of the business and that employees are remunerated fairly. Where any anomalies are identified, these are addressed as part of our annual remuneration review process.

We believe fair and responsible remuneration can be defined as follows:

#### Fair

- Rational, easy to understand and not subject to emotions
- Free from discrimination, favouritism and self-interest
- Linked to individual and group performance
- Purposeful to address unfair discrimination

#### Responsible

- Independent (approved within the DOA)
- Pay decisions must be equitable
- Sustainable (link to value creation) and output driven

## Remuneration objectives and principles

Telkom recognises that, in its competitive environment, we need to differentiate ourselves based on strategic roles and growing areas of the business to value employees’ contribution.

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

- Promote sustainable value creation through transparent alignment with group strategy
- Ensure proper risk management processes, and that remuneration is aligned with short and long-term performance
- Ensure all employees are remunerated competitively relative to industry benchmarks, provided with appropriate incentives to encourage performance, and rewarded for their individual contributions to the group’s success
- Ensure that remuneration is affordable and reasonable in terms of sustainable value creation for shareholders

**Our remuneration and reward policies and practices are based on the following principles:**

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

## Remuneration structure and risk management

Our remuneration structure aligns with the group strategy and the agreed risk appetite, which seeks to reward success fairly, responsibly and transparently, while avoiding overpaying. Remuneration risk is reviewed to align remuneration decisions with strategic business objectives. Remco ensures that:

- The policy is transparent
- Remuneration incentive plans are reviewed annually
- Executives are not involved in any remuneration policy decisions
- The remuneration policy includes malus and clawback policy provisions which will apply to all future STI amounts paid and vesting of share awards (LTI). Malus and clawback will be triggered in the following events:
  - If there was misconduct or material misstatement of performance, material miscalculation of performance condition outcomes, and/or gross misconduct by a participating employee, or where the actions of an employee resulted in reputational damage to the business
  - If the business suffers a material downturn in financial performance due to irregularities or a material failure of risk management
  - If awards were based on material misstatements of the company’s financial results, or information arises which would have caused benefits to lapse or would have resulted in remco rewarded differently had the information been known at the time
  - If the business suffered a material financial loss as a result of actions or circumstances attributable directly to an employee or which could have been avoided by the reasonable actions an employee
  - If the board or remco, in their discretion, deem it necessary to apply malus or clawback

Remco annually reviews the group’s financial results to determine STI payments before any payments are made to executives and other employees, including performance conditions for shares to vest. They have full discretion to adjust the final payment or vesting downwards if they believe circumstances warrant it.

Remco has the discretion to use either malus or clawback as it sees appropriate. In the case of malus, the award may lapse wholly or in part, may vest to a lesser extent than it would otherwise have vested, or vesting may be delayed. In the case of clawback, remco may recover incentive payments that were paid for up to three years after the relevant payment date or recover the vesting value of shares vested for up to three years after the relevant vesting date since introduction thereof.

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

Element	GPs	STIs	LTIs
<b>Context</b>	<p>GPs are influenced by the scope of the role and the knowledge, skills and experience required of the position.</p> <p>The packages reflect the market median, which is determined through external market research.</p>	<p>The STI rewards management employees who meet their annual performance targets.</p> <p>The level of achievement determines the payment against each weighted group performance measure.</p> <p>The STI plan is aligned with shareholders' expectations.</p>	<p>Telkom's share incentive plans are structured to optimise the group's overall position, while providing benefits that will assist the group to attract, retain and incentivise executives and top talented employees.</p> <p>The plan is designed to align management's and shareholders' interests and grow shareholder value. The objectives are to motivate long-term sustainable performance and retain business-critical and top talented employees.</p>
<b>Type</b>	Fixed	Variable	Variable
<b>Participants and composition of pay</b>	<p><b>All eligible employees in the group</b></p> <p>GPs comprise a basic pensionable salary, retirement provision and flexible benefits, which include a non-pensionable allowance and a motor allowance where applicable.</p>	<p><b>All eligible management employees in the group</b></p> <p>STIs comprise a cash payment that is payable after finalisation of audited financial results.</p> <p><b>Bargaining unit employees</b></p> <p>A 14th cheque is payable if the group meets financial and individual performance targets.</p>	<p><b>All eligible employees in the group</b></p> <p>A free transfer of shares is awarded to employees, under the condition of forfeiture in the case of termination of service before the vesting/release date; and achieving the group's predetermined performance levels.</p> <ul style="list-style-type: none"> <li>- LTIP: senior leadership, M3 to M0 employees</li> <li>- Employee Share Ownership Plan (ESOP): middle management and bargaining unit employees, A to M4/S4</li> <li>- BCX share awards are currently issued on a targeted participation basis with the intent to align with Telkom the company based on affordability</li> </ul>
<b>Desired outcome</b>	To offer competitive market-related GPs to attract, retain and motivate talented and high-performing employees	Reward employees for achieving annual performance targets	Motivate long-term sustainable growth and align management's and shareholders' interests by issuing forfeitable shares
<b>Consequences</b>	No increases are awarded to management employees who do not meet individual performance outputs.	No STI or 14th cheque is payable to employees who do not meet individual performance outputs.	<p>No shares are awarded to employees who do not meet individual performance outputs.</p> <p>No shares will vest if performance conditions are not met.</p> <p><b>Shareholder requirement:</b> It is expected of employees in M3 and higher levels to purchase a total number of shares equal to 15% of GP over a three-year period. These should be retained for minimum of 24 months. No shares will vest until the minimum requirement has been met.</p>

Element	GPs	STIs	LTIs
<b>Policy</b>	<ul style="list-style-type: none"> <li>- Broad band pay structure aligned with market median benchmark. The total cost of annual increases is approved by remco and set in accordance with market movement, affordability and forecast inflation</li> <li>- Performance-based increase for management employees</li> <li>- Performance-based increases are not applicable to bargaining unit employees, subject to salary negotiation with organised labour</li> </ul>	<ul style="list-style-type: none"> <li>- A single STI structure is applied across the group and paid annually in June after remco approval</li> <li>- Bargaining unit employees qualify for a 14th cheque payable in June after approval and quarterly performance pay incentives</li> <li>- Target incentives align with median benchmarks</li> <li>- The STI structure consists of group, business unit and individual performance targets set in advance of every financial year</li> <li>- Group, business unit and individual performance targets are reviewed annually to align with the group's strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>- Forfeitable share awards are subject to vesting conditions</li> <li>- Remco approves LTI awards and vesting</li> <li>- Annual awards to eligible employees</li> <li>- Talent share awards to retain top talent and critical skill specialist</li> <li>- Performance conditions for vesting and individual performance targets</li> <li>- The vesting period is five years for participants in executive leadership and three years for management and bargaining unit employees</li> </ul>
<b>Policy application</b>	<ul style="list-style-type: none"> <li>- Salaries are paid monthly to all employees</li> <li>- Employees who are promoted are considered for adjustments if justified</li> </ul>	<p>Group targets for FY2020:</p> <ul style="list-style-type: none"> <li>- EBITDA</li> <li>- PAT</li> <li>- Revenue</li> <li>- FCF</li> </ul> <p>Business unit performance are measured as follows:</p> <ul style="list-style-type: none"> <li>- Business unit financials (30%)</li> <li>- Customer experience (20%)</li> <li>- Execution of key strategy milestones including operational measures (30%)</li> <li>- People management (20%)</li> </ul> <p>Weightings might differ between business units. Individual targets are included in the performance agreement. These include major project milestones where relevant. Individual targets are agreed in the annual performance contract, and performance against objectives are assessed biannually.</p>	<p>Performance vesting conditions for FY2020:</p> <p><b>20% of the 2014 award</b></p> <ul style="list-style-type: none"> <li>- Total shareholder return (TSR) (20%)</li> <li>- HEPS (30%)</li> <li>- Return on invested capital (ROIC) (10%)</li> <li>- FCF (10%)</li> <li>- Customer loyalty (15%)</li> <li>- Customer experience (15%)</li> </ul> <p><b>30% of the 2015 award</b></p> <ul style="list-style-type: none"> <li>- TSR (20%)</li> <li>- HEPS (30%)</li> <li>- FCF (10%)</li> <li>- Return on invested capital (ROIC) (10%)</li> <li>- Customer satisfaction/loyalty (15%)</li> <li>- Customer experience (15%)</li> </ul> <p><b>50% of the 2016 award</b></p> <ul style="list-style-type: none"> <li>- TSR (50%)</li> <li>- HEPS (25%)</li> <li>- ROIC (25%)</li> </ul>

Note: The STI and LTI structures will be phased in to all subsidiaries based on subsidiary's affordability. The aim is to ensure that all employees are eligible to participate in these schemes based on affordability and sustainability, which are directly linked to overall group performance.

## Performance management

Performance culture and systems are critical strategic enablers, by translating business vision into objectives and metrics aiming to achieve a high-performance culture with sustainable business results. The business strategy is cascaded through a balanced scorecard approach. Goals are set at top management level and filtered down to the next level. As objectives are filtered, they are adapted and translated to suit the employee's specific role. Cascading objectives allows managers and teams to align with the company's strategic objectives. We focus on defining KPIs for the GCEO, GCFO and business unit CEOs in line with the five areas on our scorecard:

-  Financials – achieving the business plan targets
-  Customers – overall customer satisfaction
-  People management – how people are managed
-  Operational management of the business – operational measures to sustain the business
-  Strategic – key strategic milestones

The balanced scorecard aids in ensuring that there is alignment between the day-to-day operational work of all employees with that of the business strategy, while measuring and monitoring progress towards the strategic targets.

A key component to drive the high-performance culture in Telkom is the continuous performance approach. Once employees' goals are aligned to the business strategy, managers provide ongoing dialogue through real-time coaching and feedback, with biannual formal performance evaluation metrics. This forms an integrated part of our overall talent and performance management framework and cycle, shaping people development to build capability for current and future business focus.

The group implemented a "cloud-based" success factors performance management system, which enables and drives our balanced scorecard and continuous performance management approach:

- Cascading of output plans: system driven
- Employee to submit output plan: create ownership across all levels
- Continuous/real-time coaching and feedback: system enabled
- The alignment of performance and talent discussion: coaching for growth

The success factors performance management system is well embedded across the business at management levels and will be rolled out to bargaining unit employees in the company during FY2021.

### Guaranteed packages

GPs are aligned throughout the group with no significant disparities. Benefits and service conditions are similar within the group. Therefore, there is no immediate need to align benefits. The GPs consist of a basic pensionable salary, retirement provision and flexible benefits.

Guaranteed packages include the following:

- Basic pensionable salary
- Company contributions to retirement

Other flexible benefits include:

- Travel/motor allowance
- Non-pensionable allowance
- Company contributions to medical aid
- Management provident fund

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

Employees can structure their packages within the framework of the applicable policies, practices and regulations. Remuneration adjustments outside the annual remuneration review process may be considered in exceptional circumstances and will be subject to approval by the GCEO and recommended by business unit CEOs and CEOs.

All positions are evaluated to determine their relative value and contribution in terms of complexity and required outcomes. Positions are evaluated using the group's job evaluation system, which correlates with the Paterson job grading system.

GPs are in line with similar roles in the comparable market analysis according to organisational size, profitability and complexity. They are influenced by the scope of the role and knowledge, skills and experience required of the employee. GPs are reviewed and set against market median.

### Executive and management employees

GPs for management levels are reviewed annually as part of the group's overall remuneration review process and are assessed against individual performance. The average GP increase was 6% (FY2019: 3%) for exco, and executive and management employees.

## Bargaining unit employees

Telkom follows a balanced approach in granting annual salary increases for bargaining unit employees with due consideration of the consumer price index, market movements and affordability.

A final wage offer was given to organised labour during the FY2018 substantive negotiation process. Highlights of this offer, which was implemented effective 1 April 2018, are reflected below:

Period of the agreement	1 April 2018 to 31 March 2020
<b>General salary increases</b>	<ul style="list-style-type: none"> <li>- 3% based on the market 50th percentile of the employee's functional area per job grade, for the period 1 April 2018 to 31 March 2019</li> <li>- For 1 April 2019 to 31 March 2020, a 6% general increase based on the market 50th percentile of employee's functional area</li> </ul>
<b>Job security</b>	<p>During the period 1 April 2018 to 31 March 2019:</p> <ul style="list-style-type: none"> <li>- A moratorium on section 189 processes as contemplated by the provisions of the Labour Relations Act</li> <li>- Telkom did not transfer employees falling within the recognised bargaining unit levels, in line with the provisions of section 197 of the Labour Relations Act. However, outsourcing within the group is allowed</li> <li>- Telkom will engage organised labour at an appropriate forum if there is a need to open VSPs and/or VERPs at any time during the duration of this agreement</li> </ul>

The current substantive agreement ended 31 March 2020. Substantive negotiations with organised labour did not commence because of the current section 189 process. It is envisaged that negotiations with organised labour will commence after the conclusion of the section 189 consultation process.

## Performance Pays

The Performance Pays scheme ensures that bargaining unit employees are incentivised for their collective contribution towards the entire value chain and that payments are based on additional value creation. The salient points are as follows:

- Payments are based on additional value created towards the group achieving its revenue and business objectives/targets
- Trigger of payment:
  - Achieving the quarterly net operating revenue target at business level
  - Hurdle rate of 95% of net operating revenue
  - Individual employees must at least meet individual performance targets of a "3" performance rating to qualify for any payment
- Performance Pays targets/efficiency measures are weighted per business unit and Corporate Centre measures
- The amount available per quarter is determined based on achieving the metrics
- All support employees/non-field employees not based in regions are measured against a national composite score
- All regional support non-field employees are measured against region (based on average of regions)
- All Corporate Centre employees are measured against the overall composite score of the group
- Performance differentiation will depend on individual performance ratings and distributed based on individual performance assessment categories

## Benchmarking

For the remco to set appropriate remuneration levels and guaranteed packages for directors and senior executives, remuneration is benchmarked by independent remuneration consultants, data is provided in national executive remuneration surveys, and information is disclosed in the integrated reports of industry-specific and JSE-listed companies. Companies with similar market capitalisation and size are used in the benchmarking process.

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

Executive directors' and senior management's remuneration is benchmarked against executive remuneration surveys provided by Remuneration Consulting, Korn Ferry and 21st Pay Solutions. PricewaterhouseCoopers Inc. (PwC) remuneration surveys are used for lower-level employees.

Total remuneration, GP, STI and LTI are set against a market median for targeted performance.

## Executive directors

### GCEO

The GCEO is rewarded based on the delivery of the strategic and operational objectives in line with shareholder expectations and business strategy. The remuneration strategy for the GCEO is designed to align remuneration with long-term shareholder growth and sustainable profitability. The reward should demonstrate the critical and pivotal role he plays in the achievement of the group's strategic objectives and operational goals.

The following key performance areas were contracted with the GCEO:

#### Financial 40%

<b>KPI</b> <ul style="list-style-type: none"> <li>• Strong focus on defending and growing revenue</li> <li>• Accelerating new revenue streams to offset the decline in traditional revenue</li> <li>• Preserving and improving margins to grow sustainably</li> <li>• Funding framework that supports investment thesis</li> <li>• Increase shareholder returns</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• % growth in gross operating revenues, EBITDA, PAT and HEPS</li> <li>• Improve TSR</li> </ul>
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#### Executing key strategic milestones 25%

<b>KPI</b> <ul style="list-style-type: none"> <li>• Expand and improve enabling infrastructure</li> <li>• Migration from legacy/network modernisation</li> <li>• Masts and towers</li> <li>• Scale in mobile</li> <li>• Launch of SMB</li> <li>• Sustainable value improvement</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• % customers migrated to new technologies to protect current revenue streams</li> <li>• % increase in revenue</li> <li>• Market share</li> <li>• Maximise revenue from multi-tenancy on masts and towers</li> <li>• SMB business growth and profit margins</li> <li>• % improvement in network efficiency</li> <li>• Effectively manage and contain cost escalation through a sustainable value improvement programme</li> </ul>
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#### Customer experience 20%

<b>KPI</b> <ul style="list-style-type: none"> <li>• Retention of existing customers and customer satisfaction</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• Orange Index</li> <li>• Customer retention index</li> <li>• Composite score improvement</li> <li>• % increase in customer base</li> </ul>
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#### Group combined assurance framework and people (leadership and employees) 5%

<b>KPI</b> <ul style="list-style-type: none"> <li>• Combine assurance framework</li> <li>• Talent management/succession plans for executive management</li> <li>• Identify top talent and critical skills</li> <li>• People development</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• Compliance with framework</li> <li>• Identified successors for each exco position</li> <li>• Retention of top talent/critical skill specialists</li> <li>• Quality of succession pipeline</li> </ul>
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### GCFO

The following key performance areas were contracted with the GCFO:

#### Financial 40%

<b>KPI</b> <ul style="list-style-type: none"> <li>• A strong balance sheet</li> <li>• EBITDA improvement through cost reduction</li> <li>• Maintain positive FCF to reinvest in our business and provide a buffer to mitigate against adverse market conditions</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• % growth in FCF, net debt to EBITDA, capex intensity and ROIC</li> <li>• Maintain a healthy balance sheet geared towards supporting the business strategy</li> </ul>
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#### Executing key strategic milestones 25%

<b>KPI</b> <ul style="list-style-type: none"> <li>• Sustainable cost management</li> <li>• Disciplined capital allocation framework</li> <li>• Optimise net working capital through cash release initiatives</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• Consolidate spend to reduce the growth in external spend through strategic sourcing, leveraging on our purchasing power</li> <li>• Optimal capital prioritisation criteria</li> <li>• Focus on reducing cost to serve using various methodologies, implementation of digital channels and back office automation</li> </ul>
<ul style="list-style-type: none"> <li>• Governance and control – a compliant and appropriate risk control environment</li> <li>• Investor relations</li> <li>• Treasury and tax</li> </ul>	<ul style="list-style-type: none"> <li>• Risk compliance/appropriate levels and structures are in place</li> <li>• Create an effective investor climate</li> <li>• Mitigation of exchange movements and effective tax structure</li> </ul>

#### Customer experience 20%

<b>KPI</b> <ul style="list-style-type: none"> <li>• Orange Index</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• Composite score improvement</li> </ul>
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#### Group combined assurance framework and people goals (leadership and employees) 15%

<b>KPI</b> <ul style="list-style-type: none"> <li>• Combined assurance framework</li> <li>• Talent management and succession planning</li> <li>• Performance management</li> <li>• Acquire and inspire employees to reach their full potential</li> </ul>	<b>Measures</b> <ul style="list-style-type: none"> <li>• Compliance with group assurance framework</li> <li>• Number of successors identified aligned with talent management framework</li> <li>• All employees have individual performance plans</li> <li>• Identify group financial KPIs to be cascaded</li> </ul>
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## Short-term incentives




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

### STI plan changes

The board approved the following changes to the FY2020 STI plan for eligible management employees:

- Introduced FCF as a financial measure to determine the allocation of the STI pool
- Malus and clawback provision for any STI payments for gross misconduct or negligence on the part of the employee leading to dismissal, or if employees resign during a formal disciplinary enquiry/hearing

The FY2020 plan was approved with the following clearly defined principles:

<b>Triggers</b> 	<p>EBITDA and PAT must be achieved on a group level to trigger any STI payment for the group:</p> <ul style="list-style-type: none"> <li>- If the group meets its targets the final STI payment/amount available at the end of the financial year will be allocated to business units based on the discretion of the GCEO and the business unit's performance</li> </ul>
<b>Allocation</b> 	<p>STI pool will be determined by achieving the following targets</p> <ul style="list-style-type: none"> <li>- Group EBITDA before STI</li> <li>- Group PAT before STI</li> <li>- Group revenue</li> <li>- FCF</li> <li>- Each allocation will have a 25% weighting</li> </ul>
<b>STI payout mechanism</b> 	<ul style="list-style-type: none"> <li>- Base 7.9% of group PAT before STI (STI pool)</li> <li>- Group STI pool payment for FY2020 was Rnil</li> </ul>

The STI payout mechanism is based on actual achievement of financial targets.

Target	Achievement (%)	Payout of STI pool (%)
Less than hurdle rate	<95	0
Hurdle rate	95	95
Target	100	100
Stretch	110	110
Maximum cap	120	120

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

Eligible bargaining unit employees participate in Performance Pays and 14th cheque payment instead of an STI plan. Employees who perform at or above a score "3" performance rating each year, will each receive a 14th cheque. This is calculated based on the individual GP value, subject to the group meeting its financial performance targets. An individual must be in the employ of the group on payment date to qualify for the STI payment and/or 14th cheque payment.

### STI plan awarded for FY2020

In accordance with the approved group STI plan, STIs were allocated to business units based on their actual achievement and divisional performance. Individual performance is recognised in the respective business units based on the achievement of individual performance contracts. FY2020 group STI targets and achievements are shown below.

Performance criteria	Weighting %	Baseline FY2019 Rm	Target FY2020 Rm	Actual achievement Rm	Achievement %	Achieved
Group EBITDA before STI	25	10 889	11 379	9 144	80.4	✗
Group PAT before STI	25	3 053	2 457	1 230	50.1	✗
Revenue	25	41 774	44 698	43 043	96.3	✓
FCF	25	(32)	292	1 709	585.3	✓

## LTIP

The plan is designed to align management's and shareholders' interests and grow shareholder value. The objectives are to motivate long-term sustainable performance and retain business-critical and top talented employees.

### Termination of employment

The following conditions will apply when an employee's employment is terminated:

- **Resignation, dismissal and/or abscondment:**  
If a participant ceases to be employed by the group before the vesting date, by reason of their resignation, dismissal or abscondment, they shall cease to be entitled to any rights associated with the award. The forfeitable shares that are the subject of the award shall be forfeited
- **Death, redundancy, medical disability and retirement:**  
If a participant ceases to be employed by the group before the vesting date for these reasons, a portion of the awards shall vest on the date of cessation of employment. The portion that vests shall be pro-rated to reflect the number of full months that have lapsed at the date of cessation of employment relative to the total months of the performance period (with any remaining balance not vesting being forfeited). The performance condition shall not apply to the vesting of the awards

### Vesting of awards

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

### Vesting period: LTIP (%)

Award (M3 - M0)	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
2013	50	30	20							100
2014		50	30	20						100
2015			50	30	20					100
2016				50	30	20				100
2017					50	30	20			100
2018						50	30	20		100
2019							50	30	20	100
<b>Total</b>	50	80	100	100	100	100	50	20		100

### Vesting period: ESOP plan (%)

Award (A - M4)	2016	2017	2018	2019	2020	2021	2022	Total
2013	100							100
2014		100						100
2015			100					100
2016				100				100
2017					100			100
2018						100		100
2019							100	100
<b>Total</b>	100	100	100	100	100	100	100	100

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

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

The tables below sets out the threshold sliding scale:

**Achievement %**

90	91	92	93	94	95	96	97	98	99	100	110	120
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**Vesting %**

50	55	60	65	70	75	80	85	90	95	100	100	100
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### Talent share awards (previously named additional share awards)

Telkom's talent management aims to identify, develop, refresh and retain highly talented and diverse individuals to ensure a continuous supply of candidates and successors in leadership and critical positions. Telkom aims to reposition itself as a leading professional community with a talented and skilled workforce, which will provide a competitive edge.

The purpose of the additional talent share awards is to provide a reward mechanism that motivates and retains key critical and core talented individuals to meet business requirements. Talent shares are awarded for top talent and critical skill specialists based on the talent mapping process and business requirements. A total of 27 employees participated in the scheme (FY2019: 29 employees).

Vesting conditions of the talent share awards:

- Vesting is based on achieving the TSR over the three-year vesting period
- The employee must remain in the service of the group for the full three-year vesting period
- In accepting the shares, the employee further agrees to a restraint period of six months, It is required that the employee signs a restraint of trade agreement. On resignation, the employee forfeits all shares

## Summary of 2019 vesting (shares awarded in 2014, 2015 and 2016)

The following shares vested on 3 June 2019 at a price of R93.82 per share:

Award date	Scheme	% of performance conditions achieved	Potential vesting % age	Actual vesting % age	Total number of shares vested	Total shares forfeited	Total shares awarded
2014	LTIP	90	20	10	81 397	81 374	162 771
2015	LTIP	87.4	30	-	-	180 488	180 488
2016	LTIP	100	50	50	429 192	-	429 192
2016	ESOP	91.2	100	55	1 313 933	1 074 311	2 388 244
<b>Total</b>					<b>1 824 522</b>	<b>1 336 173</b>	<b>3 160 695</b>

## LTIP – 20% vesting of the 2014 share award – Achievement

Category	Performance condition	Weight (%)	Target – rand value					Achievement (%)
			FY2015	FY2016	FY2017	FY2018	FY2019	
Financial 70%	TSR	20	Risk free + 4% (R19.91)	Risk free + 4% (R21.88)	Risk free + 4% (R24.0)	Risk free + 4% (R26.67)	Risk free + 4% (R29.63)	20
	Overall achievement		R79.2 (396%)	R57.57 (263%)	R75.03 (312%)	R52.94 (198.5%)	R72.92 (246%)	
	HEPS	30	419 cps	333 cps	526 cps	616 cps	536 cps	30
	Overall achievement		607 cps (144%)	330 cps (100%)	730 cps (138%)	598 cps (97%)	591 cps (110%)	
	FCF	10	R901m	R2 958m	R4 021m	R996m	R764m	2
	Overall achievement		R1 332m (140%) (2.5)	R2 212m (745%) (0)	(R862m) (0) Remco discretion 2.5%	R501m (50%) (0)	R32m (4%) (0)	
	ROIC	10	8.30%	9.80%	12.10%	14.90%	9%	10
Overall achievement	12.2% (146%)		9.6% (98%)	14.5% (119%)	10.7% (71.8%)	11.2% (124%)		
Operational 30%	Customer first Customer loyalty measure (CLM) – Telkom overall quality (Revenue weighted composite score) Baseline 58.6 (FY2015)	15	59.9 Actual: 58.7 Achievement: 98%	61.7 Actual: 55.5 Achievement: 89.95%	63.4 Actual: 56.7 Achievement: 89.43%	65.79 Actual: 63.72 Achievement: 96.85%	67.99 Actual: 55.29 Achievement: 81%	13.7
	Overall achievement		91%					
	Customer experience	15	Composite score: 1	Composite score: 1	Composite score: 1	Composite score: 1	Composite score: 1	14.3
	- TSA 100 Index		Threshold: 0.90	Threshold: 0.90	Threshold: 0.90	Threshold: 0.90	Threshold: 0.90	
	- Assurance index		Actual: 0.96	Actual: 0.93	Actual: 0.87	Actual: 0.81	Actual: 1.01	
- Fulfilment index	Actual: 0.99		Actual: 1.05	Actual: 1.05	Actual: 0.93	Actual: 0.92		
Overall achievement	95%							
Total vesting	100%						90%	

## LTIP – 30% vesting of the 2015 share award – Achievement

Category	Performance condition	Weight (%)	Target – rand value				Achievement (%)
			FY2016	FY2017	FY2018	FY2019	
Financial 70%	TSR	20	Risk free* + 4% (R21.88)	Risk free* + 4% (R24.0)	Risk free* + 4% (R26.67)	Risk free* + 4% (R29.63)	20
	Overall achievement		R57.57 (263%)	R75.03 (312%)	R52.94 (198.5%)	R72.92 (246%)	
	HEPS	30	333 cps	526 cps	616 cps	536 cps	30
	Overall achievement		330 cps (100%)	729.8 cps (138%)	598.0 cps (97%)	591 cps (110%)	
	FCF	10	R2 958m	R4 021m	R996m	R764m	0
	Overall achievement		R2 212m (74.7%) (0)	(R862m) (0) Remco Discretion 3.3%	R501m (50%) (0)	R32m (4%) (0)	
	ROIC	10	9.80%	12.10%	14.90%	9%	10
Overall achievement	9.6% (98%)		14.5% (119%)	10.7% (71.8%)	11.2% (124%)		
Operational 30%	Customer first CLM – Telkom overall quality (Revenue weighted composite score) Baseline 58.6 (FY2015)	15	61.7 Actual: 55.5 Achievement: 89.95%	63.4 Actual: 56.7 Achievement: 89.43%	65.79 Actual: 63.72 Achievement: 96.85%	67.99 Actual: 55.29 Achievement: 81%	13.4
	Overall achievement		89.3%				
	Customer experience	15	Composite score: 1	Composite score: 1	Composite score: 1	Composite score: 1	14
- TSA 100 Index	Threshold: 0.90		Threshold: 0.90	Threshold: 0.90	Threshold: 0.90		
- Assurance index	Actual: 0.93		Actual: 0.87	Actual: 0.81	Actual: 1.01		
- Fulfilment index	Actual: 1.05		Actual: 1.05	Actual: 0.93	Actual: 0.92		
Overall achievement	95%						
Total vesting	100%					87.4%	

Note: 87.4% achievement equates to 0% vesting.

## LTIP – 50% vesting of the 2016 share award – Achievement

Category	Performance condition	Weight (%)	Target – rand value				Achievement (%)
			FY2016	FY2017	FY2018	FY2019	
Financial 100%	TSR	50	Risk free* + 4% (R21.88)	Risk free* + 4% (R24.0)	Risk free* + 4% (R26.67)	Risk free* + 4% (R29.63)	50
	Overall achievement		R57.57 (263%)	R75.03 (312%)	R52.94 (198.5%)	R72.92 (246%)	
	HEPS	25	333 cps	526 cps	616 cps	536 cps	25
	Overall achievement		330 cps (100%)	729.8 cps (138%)	598.0 cps (97%)	591 cps (110%)	
	ROIC	25	9.80%	12.10%	14.90%	9%	25
Overall achievement	9.6% (98%)		14.5% (119%)	10.7% (71.8%)	11.2% (124%)		
Total vesting	100%					100%	

Note: 100% achievement equates to 100% vesting.

\* The risk free rate is a benchmark yield on government risk 'default free' bonds. The risk free rate refers to the current yield on the SA government ten-year bond, the R2030. The rate is currently at 9.14%

## ESOP – 100% vesting of the 2016 share award – Achievement

Category	Performance condition	Weight (%)	Target – rand value			Achievement (%)
			FY2017	FY2018	FY2019	
Operational 100%	Customer first CLM – Telkom overall quality (Revenue weighted composite score) Baseline 58.6 (FY2015)	50	63.4 Actual: 56.7 Achievement: 89.43%	65.79 Actual: 63.72 Achievement: 96.85%	67.99 Actual: 55.29 Achievement: 81%	44.5
	Overall achievement		89%			
	Customer experience	50	Composite score: 1 Threshold: 0.90	Composite score: 1 Threshold: 0.90	Composite score: 1 Threshold: 0.90	46.7
	TSA 100 Index		Composite score: 0.96	Composite score: 0.87	Composite score: 0.97	
	- Assurance index		Actual: 0.87	Actual: 0.81	Actual: 1.01	
	- Fulfilment index		Actual: 1.05	Actual: 0.93	Actual: 0.97	
	Overall achievement		93%			
Total vesting	100%				91.2%	

## FY2020 share award

Based on the share allocation policy, 3 507 227 forfeitable shares were awarded to permanent employees who were in the service of the group on the award date, 3 June 2019 at a share price of R80.85 each. The following vesting conditions were approved:

Category	Performance condition	Weight (%)	Target				
			FY2020	FY2021	FY2022	FY2023	FY2024
Financial	TSR	50	Risk free + 4%	Risk free + 4%	Risk free + 4%	Risk free + 4%	Risk free + 4%
	HEPS	25	As per the business plan				
	ROIC	25	As per the business plan				

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

## Total number of shares issued up to 31 March 2020

Year awarded	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Date awarded	November 2013	April 2015	June 2015	June 2016	June 2017	June 2018	June 2019
Total number of shares available	26 039 195	23 614 292	21 033 323	22 562 861	19 861 706	16 686 501	13 600 730
Total number of shares awarded: Telkom	(6 559 290)	(4 685 734)	(4 733 159)	(4 886 209)	(5 444 803)	(4 690 718)	(3 507 227)
Gyro							(129 830)
BCX							(1 404 181)
<b>Subtotal</b>	<b>19 479 905</b>	<b>18 928 558</b>	<b>16 300 164</b>	<b>17 676 652</b>	<b>14 416 903</b>	<b>11 995 783</b>	<b>8 559 492</b>
Total number of forfeited shares: Telkom	4 134 387	2 104 765	2 552 571	2 185 054	969 037	703 879	472 314
Gyro							6 341
BCX							85 400
Shares purchased: Telkom			3 710 126		1 300 561	901 068	1 688 016
Gyro							-
BCX							1 060 000
Remaining shares available	23 614 292	21 033 323	22 562 861	19 861 706	16 686 501	13 600 730	11 871 563

## Employment contracts

## GCEO

Sipho Maseko was appointed on 1 April 2013. He is a full-time employee with a three-month notice of termination period. He may be required to work notice, be placed on garden leave or, if not required to work, full notice may be paid in lieu of notice period on duty. Remco completed detailed succession planning for senior executive management, including for the GCEO.

There are no other obligations in executive employment contracts that could give rise to payments on termination of employment or office. Refer to page 97 for the GCEO's other directorships.

## External directorships

Executive directors can hold one external directorship in any company following board approval. All compensation earned from external directorships will accrue to Telkom. The board may decline executive directors' external directorships as it sees fit. Refer to page 97 for external directorships. The treatment/approval thereof varies according to the applicant level.

## Other prescribed officers

All prescribed officers are employed on a full-time employment contract. Employment contracts require three months' notice of termination by the employee or the company. Employees may be required to work notice, be placed on garden leave or, if not required to work, full notice may be paid in lieu of notice period on duty.

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

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

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





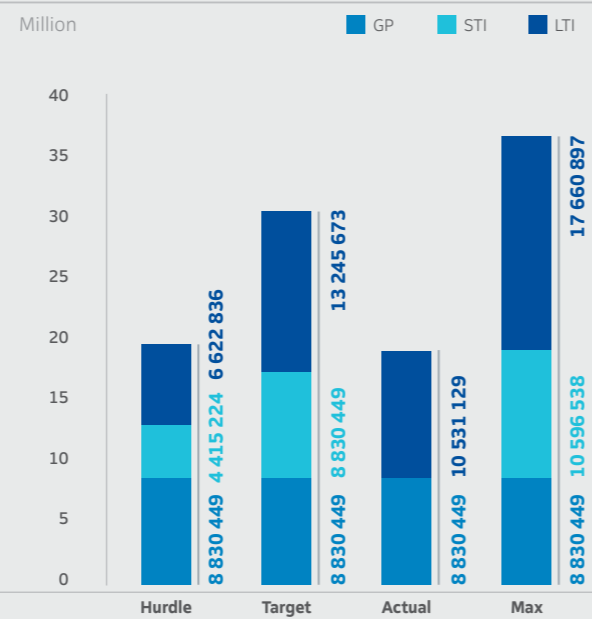
## Implementation report

The implementation report highlights the outcomes of the implementation of the approved remuneration policy. It includes remuneration disclosure of executive directors, non-executive directors and other prescribed officers for the financial year ended 31 March 2020.

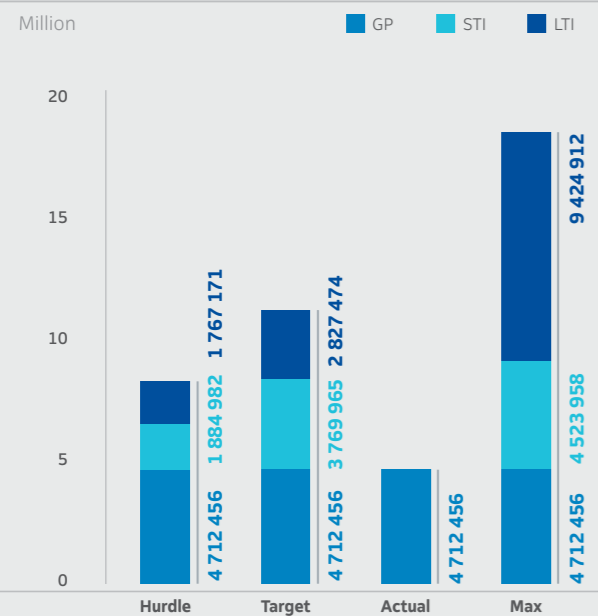
### Potential consequences on the total remuneration

The potential consequences of the remuneration policy on the total remuneration for executive directors and prescribed officers are illustrated below: hurdle rate, on-target earnings and maximum cap. Actual remuneration in FY2020 is also included.

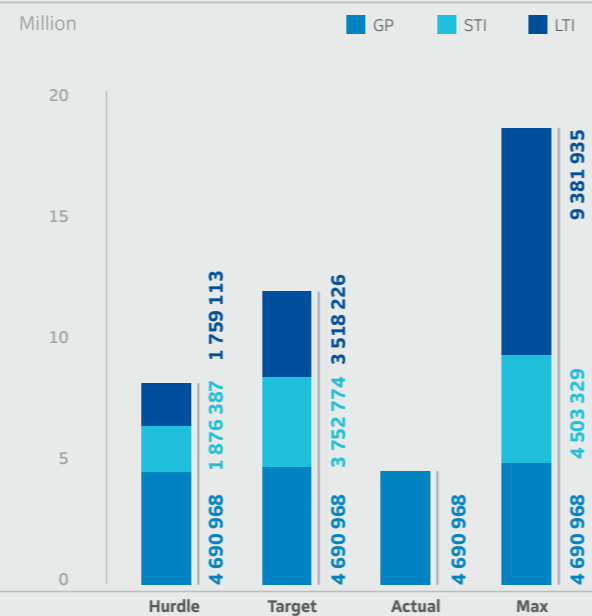
#### Group CEO



#### Group CFO



#### Prescribed officers



## Executive directors' total remuneration

The aggregate remuneration, benefits paid and STIs approved in respect of FY2020

	GP	STI	Motor car insurance	Funeral benefit	LTI (vested shares)	Dividend paid on unvested shares	Total FY2020	Pension TRF percentage of basic pensionable salary*
SN Maseko	8 830 449	-	11 997	296	10 531 129	2 443 176	21 817 046	989 010
TBL Molefe	4 712 456	-	-	296	-	717 335	5 430 087	355 319
<b>Total</b>	<b>13 542 905</b>	<b>-</b>	<b>11 997</b>	<b>591</b>	<b>10 531 129</b>	<b>3 160 511</b>	<b>27 247 132</b>	<b>1 344 329</b>

\* Employees have the flexibility to determine company pension contributions.

The aggregate remuneration, benefits paid and STIs approved in respect of FY2019

	GP	STI	Motor car insurance	Funeral benefit	LTI (vested shares)	Dividend paid on unvested shares	Total FY2020	Pension TRF percentage of basic pensionable salary*
SN Maseko	8 291 500	7 006 091	11 997	99	5 301 396	2 568 699	23 179 782	928 648
TBL Molefe	3 155 663	2 308 254	-	99	-	576 660	6 040 676	237 937
DJ Fredericks	1 432 988	500 000	2 999	-	1 650 085	1 179 285	4 765 557	152 756
<b>Total</b>	<b>12 880 151</b>	<b>9 814 345</b>	<b>14 996</b>	<b>198</b>	<b>6 951 681</b>	<b>4 324 644</b>	<b>33 986 015</b>	<b>1 319 341</b>

\* Employees have the flexibility to determine company pension contributions.

## Prescribed officers' remuneration

The aggregate remuneration, benefits paid and STIs approved for FY2020 are set out in the following table.

FY2020 emoluments per prescribed officer

	GP	STI	Motor car insurance	Funeral benefit	Severance pay	Leave payments	LTI (vested shares)	Total FY2020	Pension TRF percentage of basic pensionable salary*
AN Samuels	5 407 500	-	11 997	296	6 135 433	409 429	7 510 337	19 474 991	407 726
DJ Fredericks <sup>1</sup>	3 510 819	-	6 998	172	5 671 324	417 689	16 468 616	26 075 619	374 253
NM Lekota	3 766 273	-	-	296	-	-	-	3 766 569	395 459
AC Beukes	4 240 000	-	11 997	296	-	-	205 528	4 457 820	385 840
S Taukobong	6 300 000	-	11 997	296	-	-	-	6 312 292	573 300
PJ Bogoshi	5 123 000	-	-	296	-	-	-	5 123 296	499 493
CJ Moganwa <sup>2</sup>	3 750 000	-	-	222	-	19 231	-	3 769 452	372 000
LM Siyo <sup>3</sup>	3 891 111	-	11 997	246	-	-	-	3 903 354	204 489
LTS Maloba <sup>4</sup>	3 915 963	-	8 997	296	-	-	-	3 925 256	330 899
<b>Total</b>	<b>39 904 667</b>	<b>-</b>	<b>63 981</b>	<b>2 414</b>	<b>11 806 757</b>	<b>846 349</b>	<b>24 184 481</b>	<b>76 808 649</b>	<b>3 543 458</b>

<sup>1</sup> Employee retired as Chief Investment Officer.

<sup>2</sup> Employee resigned.

<sup>3</sup> Employee was appointed to Telkom SA SOC Ltd with effect from 1 June 2019.

<sup>4</sup> Alignments of employee's grade.

\* Employees have the flexibility to determine company pension contributions.

## Non-executive directors' fees

The group benefits from non-executive directors who attend meetings and actively contribute to the success of our business. Therefore, non-executive directors receive an annual retainer plus meeting attendance fees. They do not receive STIs or LTIs. Telkom's MOI states that shareholders must approve these fees at the AGM. The current fees were approved at the AGM on 27 August 2019.

Non-executive directors' fees (rand per annum)	FY2020	FY2019
<b>Annual retainer</b>		
Chairperson of the board	1 446 635	1 364 750
Non-executive director of the board	424 000	400 000
International board member	584 908	551 800
<b>Fee per meeting</b>		
Audit committee chairperson	384 250	362 500
Audit committee member	201 400	190 000
Remuneration committee chairperson	231 080	218 000
Remuneration committee member	138 788	131 000
Nominations committee chairperson	153 699	145 000
Nominations committee member	104 091	98 200
Investment and transactions committee chairperson	213 132	150 800
Investment and transactions committee member	138 860	98 200
Risk committee chairperson	224 932	212 200
Risk committee member	134 832	127 200
Social and ethics committee chairperson	231 080	218 000
Social and ethics committee member	138 860	131 000

The investment and transactions committee scheduled meetings increased from three to four and the audit committee from four to five. Therefore, the difference in fees from a comparative point of view can be misconstrued as an increase in meeting fees.

### FY2019 emoluments per prescribed officer

	GP	STI	Motor car insurance	Funeral benefit	Severance pay	LTI (vested shares)	Total FY2020	Pension TRF percentage basic pensionable salary*
TBL Molefe	1 051 888	769 418	-	-	-	-	1 821 306	79 312
DJ Fredericks	4 298 963	1 500 000	8 997	99	-	-	5 808 059	458 269
PJ Bogoshi	3 916 667	2 882 223	-	99	-	-	6 798 989	381 875
S Taukobong	5 000 000	3 665 238	8 997	99	-	-	8 674 334	455 000
AN Samuels	5 150 000	3 414 416	11 997	99	-	1 150 851	9 727 363	388 310
CJ Moganwa	1 181 151	-	-	74	-	-	1 181 225	102 598
AC Beukes	1 287 398	815 893	3 612	99	-	-	2 107 002	116 167
LTS Maloba	3 552 500	1 777 150	-	99	-	-	5 329 749	300 186
NM Lekota	3 493 760	2 553 963	-	99	-	-	6 047 822	366 845
L Siyo	2 933 333	1 760 000	10 997	-	-	-	4 704 330	58 667
IM Russell	833 333	-	2 999	-	3 066 987	7 079 081	10 982 400	65 000
<b>Total</b>	<b>32 698 993</b>	<b>19 138 301</b>	<b>47 599</b>	<b>767</b>	<b>3 066 987</b>	<b>8 229 932</b>	<b>63 182 579</b>	<b>2 772 229</b>

Executives' and prescribed officers' emoluments are set out in the annual financial statements in note 39, which is available online at <https://www.telkom.co.za/ir/financial/financial-results-2020.shtml>.

### Executive management

	GP	STI	Motor car insurance	Funeral benefit	Transfer	Sign-on bonus	Severance pay	Leave payments	LTI (vested shares)	Total FY2020	Total FY2019
Executive management team	111 435 466	-	388 887	11 010	237 125	700 000	6 019 859	503 250	22 063 122	141 358 718	165 500 172
Number of employees										41	43

A summary of the number of meetings and fee per meeting are reflected below:

Committee	Scheduled meetings		Fee per meeting R	Fee per special meeting R
Board	5	Annual retainer		Chairperson: 27 030 Board members: 20 246
Audit	5	Chairperson	76 850	
		Member	40 280	
Remuneration	4	Chairperson	57 770	
		Member	34 697	
Nominations	3	Chairperson	51 233	
		Member	34 697	
Investment and transactions	4	Chairperson	53 283	
		Member	34 715	
Risk	4	Chairperson	56 233	
		Member	33 708	
Social and ethics	4	Chairperson	57 770	
		Member	34 715	

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

The investment and transactions committee scheduled meetings increased from three to four and the audit committee from four to five. Therefore, the difference in fees from a comparative point of view should not be misconstrued as an increase in meeting fees.

All fees are paid proportionally to the period in which office is held. Non-executives directors' emoluments are set out in the annual financial statements in note 39, which is available online at <https://www.telkom.co.za/ir/financial/financial-results-2020.shtml>.

## Beneficial shareholding

### Directors' shareholding as at 31 March 2020

Directors' and prescribed officers' interests	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
<b>Executive directors</b>				
SN Maseko	52 520	-	-	-
TBL Molefe	9 716	-	-	-
<b>Total</b>	<b>62 236</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-executive directors</b>				
KW Mzondeki	748	-	-	-
<b>Total</b>	<b>748</b>	<b>-</b>	<b>-</b>	<b>-</b>

The beneficial interest of SN Maseko decreased from 143 561 to 52 520 due to shares disposal in terms of the forfeitable share plan (FSP). The beneficial interest of TBL Molefe increased from 6 000 to 9 716 due to purchase of shares. Other than these changes, there was no change to directors' shareholding between 31 March 2020 and the approval date of the integrated report.

### Directors' shareholding as at 31 March 2019

Directors' and prescribed officers' interests	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
<b>Executive directors</b>				
SN Maseko	143 561	-	-	-
TBL Molefe	6 000	-	-	-
<b>Total</b>	<b>149 561</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-executive directors</b>				
JA Mabuza	11 500	-	-	-
I Kgaboesele	12 000	-	-	-
KW Mzondeki	748	-	-	-
<b>Total</b>	<b>24 248</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Share awards (LTIP)

	Year of the award (June)	Shares awarded	Share award price R	Face value of award R	Vested shares	Vesting date	Vesting price R	Value of vested shares R	Shares forfeited	Closing number
<b>SN Maseko</b>										
FSP	2013	163 866	23.80	3 900 011	81 933	06/06/2016	59.63	4 885 665	-	-
					36 870	05/06/2017	78.76	2 903 881	12 290	
					-	01/06/2018		-	32 773	
Additional share awards (ASA)										
FSP	2013	54 622	23.80	1 300 004	54 622	06/06/2016	59.63	3 257 110	-	-
FSP	2014	138 352	76.11	10 529 971	51 882	05/06/2017	78.76	4 086 226	17 294	-
					26 979	01/06/2018	52.39	1 413 430	14 527	
					13 835	03/06/2019	93.72	1 296 616	13 835	
FSP	2015	150 428	74.20	11 161 758	41 368	01/06/2018	52.39	2 167 270	33 846	30 085
					-	03/06/2019	93.72	-	45 129	
TSA	2015	50 143	74.20	3 720 611	25 072	06/06/2016	59.63	1 495 043	-	-
					25 071	05/06/2017	78.76	1 974 592	-	-
FSP	2016	197 066	56.64	11 161 818	98 533	03/06/2019	93.72	9 234 513	-	98 533
TSA	2016	65 689	56.64	3 720 625	32 845	05/06/2017	78.76	2 586 872	-	-
					32 844	01/06/2018	52.39	1 720 697	-	-
FSP	2017	161 366	74.83	12 075 018	-	-	-	-	-	161 366
TSA	2017	53 789	74.83	4 025 031	-	-	-	-	-	53 789
FSP	2018	220 912	56.30	12 437 346	-	-	-	-	-	220 912
FSP	2019	196 596	80.85	15 894 787	-	-	-	-	-	196 596
<b>Total</b>		<b>1 452 829</b>		<b>89 926 977</b>	<b>521 854</b>			<b>37 021 915</b>	<b>169 694</b>	<b>761 281</b>
<b>TBL Molefe</b>										
FSP	2017	40 943	74.83	3 063 765	-	-	-	-	-	40 943
TSA	2017	68 238	74.83	5 106 250	-	-	-	-	-	68 238
FSP	2018	56 051	56.30	3 155 671	-	-	-	-	-	56 051
FSP	2019	58 286	80.85	4 712 423	-	-	-	-	-	58 286
<b>Total</b>		<b>223 518</b>		<b>16 038 109</b>	<b>-</b>			<b>-</b>	<b>-</b>	<b>223 518</b>
<b>DJ Fredericks</b>										
FSP	2013	74 898	23.80	1 782 572	37 449	06/06/2016	59.63	2 233 084	-	-
					16 852	05/06/2017	78.76	1 327 264	5 617	
					-	01/06/2018	52.39	-	14 980	
ASA	2013	27 236	23.80	648 217	27 236	06/06/2016	59.63	1 624 083	-	-
FSP	2014	86 705	76.11	6 599 118	32 514	05/06/2017	78.76	2 560 803	10 839	-
					16 907	01/06/2018	52.39	885 758	9 105	
					8 671	03/06/2019	93.72	812 646	8 671	
FSP	2015	53 066	74.20	3 937 497	14 593	01/06/2018	52.39	764 527	11 940	-
					-	03/06/2019	93.72	-	15 920	
					9 354	31/10/2019	69.62	651 193	1 259	
FSP	2016	69 043	57.03	3 937 522	34 522	03/06/2019	93.72	3 235 402	-	-
					26 467	31/10/2019	69.62	1 842 541	8 054	
FSP	2017	55 776	74.83	4 173 718	36 658	31/10/2019	69.62	2 552 004	19 118	-
TSA	2017	92 961	74.83	6 956 272	72 303	31/10/2019	69.62	5 033 486	20 658	-
FSP	2018	76 359	56.30	4 299 012	28 677	31/10/2019	69.62	1 996 394	47 682	-
FSP	2019	51 491	80.85	4 163 047	4 955	31/10/2019	69.62	344 950	46 536	-
<b>Total</b>		<b>587 535</b>		<b>36 496 975</b>	<b>367 158</b>			<b>25 864 134</b>	<b>220 379</b>	<b>-</b>

	Year of the award (June)	Shares awarded	Share award price R	Face value of award R	Vested shares	Vesting date	Vesting price R	Value of vested shares R	Shares forfeited	Closing number
<b>AN Samuels</b>										
FSP	2014	55 629	76.11	4 233 923	20 861	05/06/2017	78.76	1 643 012	6 954	-
					10 848	01/06/2018	52.39	568 327	5 841	
					5 563	03/06/2019	93.72	521 364	5 563	
FSP	2015	40 431	74.20	2 999 980	11 119	01/06/2018	52.39	582 524	9 097	-
					-	03/06/2019	93.72	-	12 129	
					7 812	31/03/2020	20.24	158 120	274	
FSP	2016	59 179	57.03	3 374 978	29 590	03/06/2019	93.72	2 773 175	-	-
					25 521	31/03/2020	20.24	516 561	4 068	
FSP	2017	50 114	74.83	3 750 031	38 818	31/03/2020	20.24	785 701	11 296	-
TSA	2017	83 523	74.83	6 250 026	76 563	31/03/2020	20.24	1 549 683	6 960	-
FSP	2018	91 475	56.30	5 150 043	45 089	31/03/2020	20.24	912 630	46 386	-
FSP	2019	66 883	80.85	5 407 491	14 481	31/03/2020	20.24	293 104	52 402	-
<b>Total</b>		<b>447 234</b>		<b>31 166 472</b>	<b>286 265</b>			<b>10 304 201</b>	<b>160 970</b>	<b>-</b>
<b>NM Lekota</b>										
FSP	2016	21 042	57.03	1 200 025	10 521	-	-	-	-	10 521
FSP	2017	33 997	74.83	2 543 996	-	-	-	-	-	33 997
TSA	2017	33 997	74.83	2 543 996	-	-	-	-	-	33 997
FSP	2018	46 542	56.30	2 620 315	-	-	-	-	-	46 542
FSP	2019	46 583	80.85	3 766 236	-	-	-	-	-	46 583
<b>Total</b>		<b>182 161</b>		<b>12 674 566</b>	<b>10 521</b>			<b>-</b>	<b>-</b>	<b>171 640</b>
<b>CJ Moganwa</b>										
LTIP	2018	-	-	-	-	-	-	-	-	-
FSP	2019	42 777	80.85	3 458 520	-	-	-	-	-	42 777
TSA	2019	23 191	80.85	1 874 992	-	-	-	-	-	23 191
<b>Total</b>		<b>65 968</b>		<b>5 333 513</b>	<b>-</b>			<b>-</b>	<b>-</b>	<b>65 968</b>
<b>PJ Bogoshi</b>										
FSP	2018	62 611	56.30	3 524 999	-	-	-	-	-	62 611
FSP	2019	63 364	80.85	5 122 979	-	-	-	-	-	63 364
<b>Total</b>		<b>125 975</b>		<b>8 647 979</b>	<b>-</b>			<b>-</b>	<b>-</b>	<b>125 975</b>
<b>S Taukobong</b>										
FSP	2018	79 930	56.30	4 500 059	-	-	-	-	-	79 930
TSA	2018	106 573	56.30	6 000 060	-	-	-	-	-	106 573
FSP	2019	53 899	80.85	4 357 734	-	-	-	-	-	53 899
<b>Total</b>		<b>240 402</b>		<b>14 857 853</b>	<b>-</b>			<b>-</b>	<b>-</b>	<b>240 402</b>
<b>AC Beukes</b>										
FSP	2014	21 926	76.11	4 233 923	8 222	05/06/2017	78.76	647 565	2 741	-
					4 276	01/06/2018	52.39	224 020	2 302	
					2 193	03/06/2019	93.72	205 528	2 192	
FSP	2015	12 500	74.20	927 500	3 438	01/06/2018	52.39	180 117	2 812	2 500
					-	03/06/2019	93.72	-	3 750	
FSP	2018	24 636	56.30	1 387 007	-	-	-	-	-	24 636
TSA	2018	20 819	56.30	1 172 110	-	-	-	-	-	20 819
FSP	2019	36 275	80.85	2 932 834	-	-	-	-	-	36 275
<b>Total</b>		<b>116 156</b>		<b>10 653 373</b>	<b>18 129</b>			<b>1 257 229</b>	<b>13 797</b>	<b>84 230</b>
<b>LTS Maloba</b>										
FSP	2018	22 085	56.30	1 243 386	-	-	-	-	-	22 085
FSP	2019	46 356	80.85	3 747 883	-	-	-	-	-	46 356
<b>Total</b>		<b>68 441</b>		<b>4 991 268</b>	<b>-</b>			<b>-</b>	<b>-</b>	<b>68 441</b>
<b>LM Siyo</b>										
FSP	2018	-	-	-	-	-	-	-	-	-
FSP	2019	37 106	80.85	3 000 020	-	-	-	-	-	37 106
<b>Total</b>		<b>37 106</b>		<b>3 000 020</b>	<b>-</b>			<b>-</b>	<b>-</b>	<b>37 106</b>



## The basis of preparing our report

This report covers the financial year 1 April 2019 to 31 March 2020 and includes significant subsequent events up to the date of approval of the integrated report.

## Considerations in preparing this report


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

We used the IIRC's <IR> Framework in compiling this report. As a listed company, we adhere to the JSE Listings Requirements and we are a constituent of the FTSE/JSE Responsible Investment Index.

The report complies with all the JSE Listings Requirements, and specifically the corporate governance requirements contained in paragraph 3.84 of the JSE Listings Requirements.

Our report focuses on material themes that substantively impact on our ability to create value for our stakeholders over time. Refer to page 14 for our materiality determination process, and page 32 for our material themes. This report shows the connection between our material themes, strategy, governance, performance and prospects. It addresses our divisions and our subsidiaries (business units), unless otherwise stated.


We report according to the six capitals to provide a balanced view of our value creation.

We considered the disclosure guidelines of King IV while preparing our report. We applied and explained the 16 relevant principles and demonstrated how we achieved governance outcomes. A King IV application report, which sets out the principles and summarised application, is available on our website <https://www.telkom.co.za/ir/Governance/Governance.shtml>. King IV principle disclosures are indicated with this icon  throughout the report.

## Combined assurance

We follow a combined assurance approach (page 103), which integrates our internal audit function, Telkom Group Internal Audit, other independent assurers and risk management activities across the group. Telkom Audit Services assessed the completeness and accuracy of a sample of strategic, non-financial KPIs presented in the integrated report. We are in the process of enhancing our combined assurance framework to be applied across all combined assurance functions.

PwC and SizweNtsalubaGobodo Grant Thornton Inc. are the joint independent external auditors. They provided assurance over our consolidated annual financial statements and expressed an unmodified opinion (refer to page 9 of the consolidated annual financial statements) which is available online at [www.telkom.co.za/ir](http://www.telkom.co.za/ir).

IBIS ESG Assurance provided assurance over certain non-financial indicators in the report. Assured non-financial indicators are indicated with this icon . For the FY2020 assurance certificate please refer to [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

Our integrated report was reviewed and approved by the exco, audit committee, social and ethics committee and the board, and the board takes ultimate responsibility.

## Reporting suite

Our reporting suite as outlined below can be found at [www.telkom.co.za/ir](http://www.telkom.co.za/ir).

Report	Framework	Assurance provider
<b>Integrated report, including the notice of AGM</b>	<ul style="list-style-type: none"> <li>- IIRC &lt;IR&gt; Framework</li> <li>- King IV</li> <li>- Companies Act</li> <li>- JSE Listings Requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Management</li> <li>- Audit committee</li> <li>- Board</li> <li>- IBIS ESG Assurance</li> <li>- Internal audit</li> </ul>
<b>Consolidated annual financial statements</b>	<ul style="list-style-type: none"> <li>- IFRS</li> <li>- Companies Act</li> <li>- JSE Listings Requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Management</li> <li>- Audit committee</li> <li>- Board</li> <li>- External auditors</li> </ul>
<b>Assurance statement</b>	<ul style="list-style-type: none"> <li>- AA1000AS Standard</li> </ul>	<ul style="list-style-type: none"> <li>- IBIS ESG Assurance</li> </ul>
<b>King IV application report</b>	<ul style="list-style-type: none"> <li>- King IV</li> </ul>	<ul style="list-style-type: none"> <li>- Management</li> <li>- Internal audit</li> <li>- Audit committee</li> <li>- Board</li> </ul>
<b>Annual results presentation</b>	<ul style="list-style-type: none"> <li>- No framework</li> </ul>	<ul style="list-style-type: none"> <li>- Management</li> <li>- Audit committee</li> <li>- Board</li> </ul>
<b>B-BBEE certificate</b>	<ul style="list-style-type: none"> <li>- Amended B-BBEE ICT sector codes</li> </ul>	<ul style="list-style-type: none"> <li>- BEE Online</li> </ul>

## Feedback

We recognise that integrated reporting and stakeholder information requirements continue to evolve. We welcome feedback to improve our integrated report. Comments and feedback can be sent to our investor relations team at [telkomir@telkom.co.za](mailto:telkomir@telkom.co.za)

## Forward-looking statements

Many of the statements in this document, and verbal statements that may be made by Telkom or by officers, directors or employees acting on Telkom's behalf, constitute or are based on forward-looking statements.

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

and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Factors that could cause our actual results or outcomes to differ materially from our expectations include, but are not limited to, those risks identified in the strategic risks section of this report, page 27.

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

Any forward-looking financial information disclosed in this integrated report has not been reviewed or audited or otherwise reported on by our external joint auditors. The FY2019 comparatives of the results announcement are restated for the adoption of IFRS 15 and change in the presentation of cash flows.

## Pro forma information

Certain financial information presented in the results announcement that was released on 22 June 2020 and in the integrated report constitute pro forma financial information. This is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present Telkom's financial position, changes in equity, and results of operations or cash flows. The pro forma financial information is the responsibility of Telkom's board.

The pro forma financial information contained in the results announcement that was released on 22 June 2020 was reviewed by the group's joint independent external auditors and their unmodified limited assurance report prepared in terms of ISAE 3420 relating to the results announcement is available for inspection at <https://www.telkom.co.za/ir/financial/financial-results-2020.shtml>.

The financial information presented in the results announcement was prepared excluding the impact of the VSP, VERP and the section 189 costs and the pro forma adjustments and constitute pro forma financial information to the extent that it is not extracted from the segment disclosure included in the summary audited consolidated provisional financial statements for the year ended 31 March 2020. This pro forma financial information was presented to eliminate the impact of the pro forma adjustments from the consolidated financial results for the year ended 31 March 2020 to achieve a comparable year-on-year analysis and show the underlying performance of the business. The pro forma adjustments were determined in terms of the group accounting policies disclosed in the consolidated financial statements for the year ended 31 March 2020, except for the changes in accounting policies due to adopting the accounting pronouncements effective from 1 January 2019.

Reported March 2020 refers to the March 2020 financial information as included in the summary audited consolidated financial statements.

## Appendices

The basis of preparing our report 132

Share and debt holding information 134

Summary financial reports 136

Notice of (AGM) annual general meeting 142

Form of proxy for the AGM 151

Acronyms 156

Administration 157

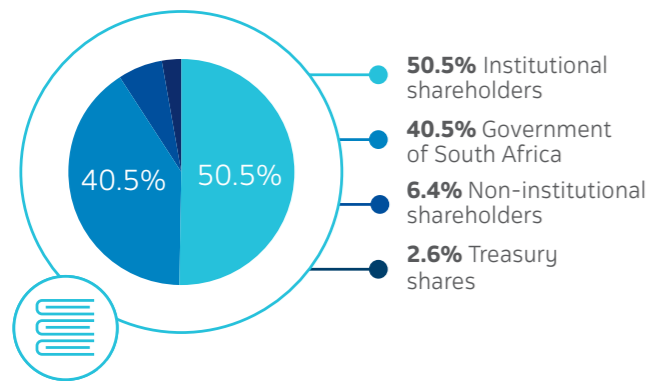
The joint independent auditors' report by PwC and SizweNtsalubaGobodo Grant Thornton Inc. does not report on all of the information contained in the integrated report. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the joint independent auditors' engagement, they should obtain a copy of the joint independent auditors' audit report together with the accompanying financial information from Telkom's website at: <https://www.telkom.co.za/ir/financial/financial-results-2020.shtml>.

The directors of Telkom take full responsibility for the preparation of the integrated report including the pro forma financial information that was correctly extracted from the underlying audited financial statements.

## Share and debt holding information

This section provides insight into our shares and debt holding for the year ended 31 March 2020.

### Equity shareholding



## Debt holding information

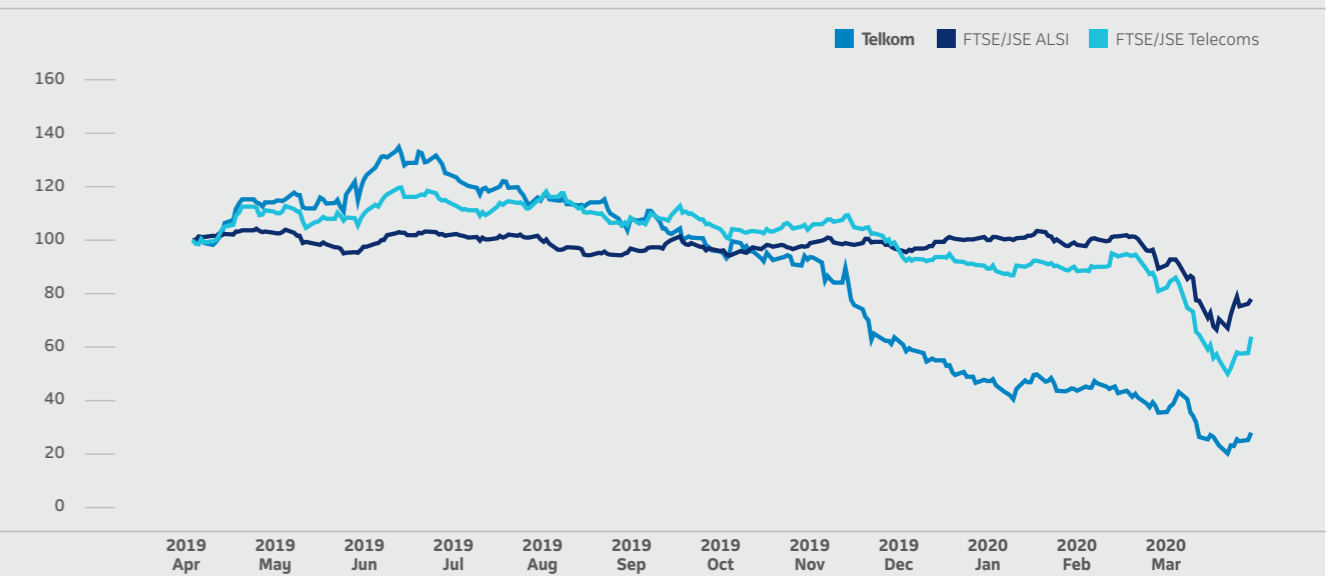
JSE bond code: BITEL

Telkom credit ratings	Moody's Investors Service	Standard & Poor's
<b>Issuer rating</b>		
<b>Long-term global scale</b>	Baa3	BB
<b>Long-term national scale</b>	Aa1.za	-
<b>Outlook</b>	Stable	Stable
<b>Last review date</b>	04/04/2020	12/04/2020

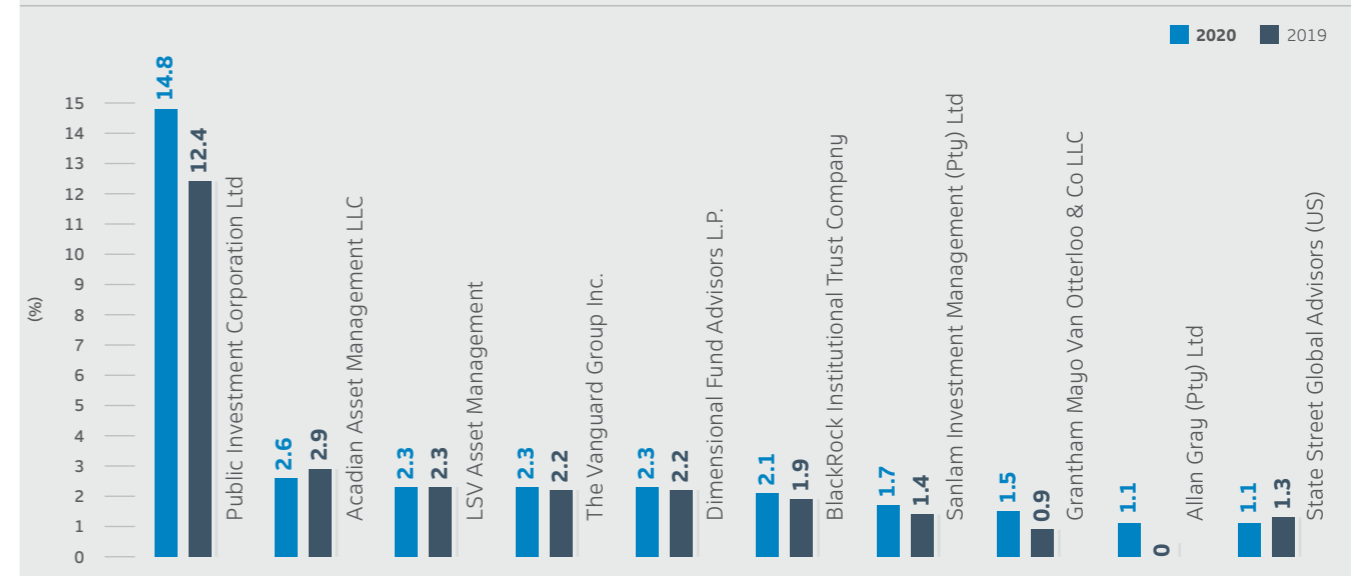
### South African listed debt

Listed bonds	TL22	TL27	TL31
	TL23	TL28	TL32
	TL24	TL29	
	TL25		
	TL26	TL30	
<b>Commercial paper</b>	TL09		

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

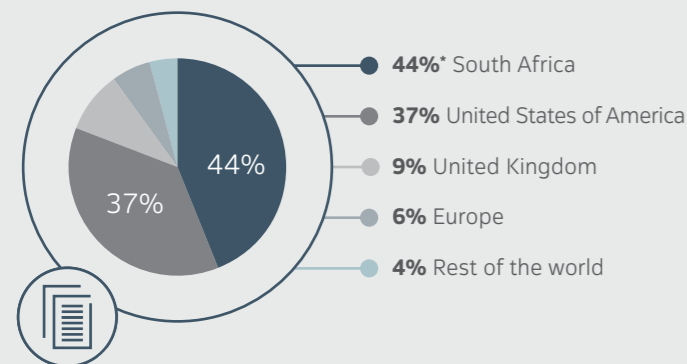


Telkom's top 10 institutional shareholders as at 31 March 2020



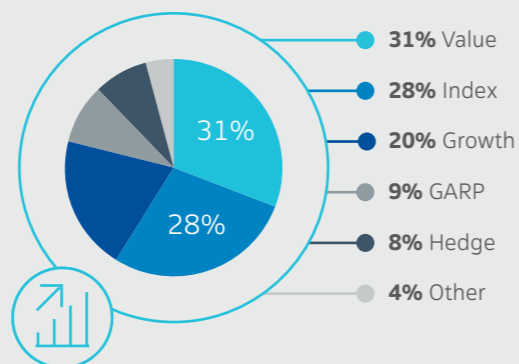
## Institutional shareholding – free float

### Institutional shareholding by geography



\* This excludes government.

### Institutional shareholding by investment style



Note: This excludes PIC as it has multiple investment styles

## Summary financial reports

### Consolidated summary statement of profit or loss and other comprehensive income

for the year ended 31 March 2020

The summary financial reports on pages 136 to 141 should be read in conjunction with the annual financial statements for the year ended 31 March 2020, available online at [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

	Notes	31 March 2020 Rm	Restated 31 March <sup>1</sup> 2019 Rm
Revenue	4	43 043	41 774
Operating revenue		42 764	41 583
Interest revenue <sup>2</sup>		279	191
Other income		676	719
Insurance service result		41	-
Payments to other operators		(3 683)	(2 940)
Cost of handsets, equipment, software and directories		(5 625)	(5 220)
Sales commission, incentives and logistical costs		(2 006)	(1 457)
Employee expenses	5	(10 713)	(10 777)
Other expenses	5	(2 688)	(2 003)
Maintenance	5	(3 880)	(4 209)
Marketing		(671)	(806)
Impairment of receivables and contract assets	18	(1 140)	(384)
Service fees	5	(3 274)	(2 934)
Lease expenses <sup>3</sup>	3.3.1	(478)	(1 182)
<b>EBITDA</b>		<b>9 602</b>	<b>10 581</b>
Depreciation of property, plant and equipment		(4 868)	(4 842)
Depreciation of right-of-use assets		(954)	-
Amortisation of intangible assets		(679)	(702)
Write-offs, impairments and losses of property, plant and equipment and intangible assets		(414)	(270)
<b>Operating profit</b>		<b>2 687</b>	<b>4 767</b>
Investment income		79	185
Income from associates		11	2
Net finance charges, hedging costs and fair value movements		(1 803)	(947)
Net finance charges on lease liabilities		(368)	-
Net finance charges - other		(1 202)	(885)
Cost of hedging		(205)	(88)
Foreign exchange and fair value movements		(28)	26
<b>Profit before taxation</b>		<b>974</b>	<b>4 007</b>
Taxation		(366)	(1 176)
<b>Profit for the year</b>		<b>608</b>	<b>2 831</b>
<b>Other comprehensive income</b>			
<b>Items that will be reclassified subsequently to profit or loss</b>			
Exchange gains on translating foreign operations <sup>4</sup>		65	23
<b>Items that will not be reclassified to profit or loss</b>			
Defined benefit plan actuarial gains		1 080	1 352
Income tax relating to other comprehensive income <sup>5</sup>		(302)	(67)
<b>Other comprehensive income for the year, net of taxation</b>		<b>843</b>	<b>1 308</b>
<b>Total comprehensive income for the year</b>		<b>1 451</b>	<b>4 139</b>
<b>Profit attributable to:</b>			
Owners of Telkom		603	2 795
Non-controlling interests		5	36
<b>Profit for the year</b>		<b>608</b>	<b>2 831</b>
<b>Total comprehensive income attributable to:</b>			
Owners of Telkom		1 446	4 101
Non-controlling interests		5	38
<b>Total comprehensive income for the year</b>		<b>1 451</b>	<b>4 139</b>
Basic earnings per share (cents)	6	121.1	561.9
Diluted earnings per share (cents)	6	119.5	551.8

<sup>1</sup> Restated. Refer to notes 3.4 and 3.6.

<sup>2</sup> Restated. Refer to note 3.4.1.3.

<sup>3</sup> For the year ended 31 March 2020, this amount represents low-value and short-term leases as defined by IFRS 16. The comparative amount represents operating leases as defined by IAS 17.

<sup>4</sup> This component of OCI does not attract any tax.

<sup>5</sup> Income tax relating to other comprehensive income is not in line with the decrease in the defined benefit gains due to the fact that in FY2019 the tax movement was impacted by the unrecognised deferred tax asset relating to other comprehensive income in FY2018.

### Summary consolidated statement of financial position

for the year ended 31 March 2020

Notes	31 March 2020 Rm	Restated 31 March <sup>1</sup> 2019 Rm	Restated 1 April <sup>1</sup> 2018 Rm
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	33 608	32 035	30 324
Right-of-use assets	4 502	-	-
Intangible assets	4 739	4 521	4 492
Other investments	62	78	100
Employee benefits <sup>2</sup>	992	729	627
Other financial assets	192	133	60
Finance lease receivables	148	210	262
Deferred taxation	828	255	494
<b>Current assets</b>			
Inventories	972	1 267	1 341
Income tax receivable	9	76	54
Finance lease receivables	106	108	112
Trade and other receivables	7 019	7 425	6 370
Contract assets	1 979	2 161	1 425
Other current assets	536	357	247
Other financial assets	759	388	163
Absa sinking fund investment	161	1 573	1 509
Investment in insurance cell captive	46	-	-
Cash and cash equivalents	4 728	1 428	2 557
Assets classified as held for sale	-	200	204
<b>Total assets</b>	<b>61 386</b>	<b>52 944</b>	<b>50 341</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	5 050	5 050	5 050
Share-based compensation reserve <sup>3</sup>	835	512	377
Non-distributable reserves	1 642	1 621	1 579
Retained earnings	21 977	22 390	19 951
<b>Non-controlling interests</b>			
	(29)	195	194
<b>Total equity</b>	<b>29 475</b>	<b>29 768</b>	<b>27 151</b>
<b>Non-current liabilities</b>			
Interest-bearing debt	15	10 105	4 840
Lease liabilities	8	3 708	-
Provisions	16	343	1 193
Other financial liabilities	9	62	79
Deferred revenue		396	466
Deferred taxation	12	153	162
<b>Current liabilities</b>			
Trade and other payables		8 339	6 536
Shareholders for dividend		31	29
Interest-bearing debt	15	1 900	5 401
Lease liabilities	8	1 067	-
Provisions	16	1 892	1 316
Deferred revenue		1 754	1 396
Income tax payable		1 240	1 335
Other financial liabilities	9	919	423
Credit facilities utilised	11	2	-
<b>Total liabilities</b>	<b>31 911</b>	<b>23 176</b>	<b>23 190</b>
<b>Total equity and liabilities</b>	<b>61 386</b>	<b>52 944</b>	<b>50 341</b>

<sup>1</sup> Restated. Refer to note 3.7.

<sup>2</sup> The increase in employee benefits, specifically the plan assets, is largely due to the actuarial gain. The actuarial gain is due to the change in financial assumptions (an increase in the discount rate and inflation).

<sup>3</sup> The increase in the share-based compensation reserve relates to the accelerated vesting of shares due to the voluntary severance, retirement and retrenchment packages in the current year.

## Consolidated summary statement of changes in equity

for the year ended 31 March 2020

	31 March 2020 Rm	31 March 2019 Rm
<b>Balance at 1 April (as previously reported)</b>	29 768	27 358
Attributable to owners of Telkom	29 573	27 164
Non-controlling interests	195	194
<b>Total comprehensive income for the year</b>	1 451	4 139
Profit for the year	608	2 831
Other comprehensive income	843	1 308
Exchange gains on translating foreign operations	65	23
Net defined benefit plan remeasurements	778	1 285
Dividend declared	(1 713)	(1 817)
Disposal of subsidiary (refer to note 14)	(9)	-
Acquisition of non-controlling interest (refer to note 14)	(160)	-
Increase in share-based compensation reserve	323	135
Escrow shares realised for settlement to employees	(14)	-
Increase in treasury shares	(159)	(47)
Increase in treasury shares from Yellow Pages	(12)	-
<b>Balance at the end of the year</b>	29 475	29 768
Attributable to owners of Telkom	29 504	29 573
Non-controlling interests	(29)	195

## Consolidated summary statement of cash flows

for the year ended 31 March 2020

	Notes	31 March 2020 Rm	31 March 2019 Rm
<b>Cash flows from operating activities</b>		8 563	5 706
Cash receipts from customers		43 239	40 341
Cash paid to suppliers and employees		(30 483)	(31 438)
Cash generated from operations	23	12 756	8 903
Interest received		212	441
Finance charges paid		(1 374)	(847)
Taxation paid		(1 320)	(945)
Cash generated from operations before dividend paid		10 274	7 552
Dividend paid		(1 711)	(1 846)
<b>Cash flows utilised for investing activities</b>		(5 961)	(7 522)
Proceeds on disposal of property, plant and equipment and intangible assets		28	35
Additions to assets for capital expansion		(7 712)	(7 584)
Proceeds on disposal of SOX, BCX Nigeria and BCX Tanzania	14	244	-
Realisation of investment in other financial assets		-	45
Investments made by FutureMakers		(21)	(18)
Withdrawal from the Absa sinking fund investment		1 500	-
<b>Cash flows from financing activities</b>		696	717
Loans raised	24	8 660	3 246
Loans repaid	24	(6 950)	(2 544)
Other financing activities		(104)	-
Purchase of shares for the Telkom and subsidiaries long-term incentive scheme		(172)	(47)
Acquisition of non-controlling interest in Yellow Pages		(160)	-
Repayment of lease liability		(780)	(42)
Repayment of derivatives		(176)	(222)
Proceeds from derivatives		378	326
<b>Net decrease in cash and cash equivalents</b>		3 298	(1 099)
Net cash and cash equivalents at 1 April		1 428	2 527
<b>Net cash and cash equivalents at the end of the year</b>	11	4 726	1 428

## Adjustments and restatements

### Restatements

In the current financial year, it was identified that certain BCX expenses were incorrectly classified on the statement of profit or loss and other comprehensive income for the year ended 31 March 2019. This was identified through a focused accounting records clean-up.

The error only impacted group. There was no impact on EBITDA, profit before tax, basic earnings per share (BEPS) and headline earnings per share (HEPS). The previous accounting treatment had no impact on the statement of financial position as it only resulted in an overstatement of the other expenses line item and understatement of maintenance and cost of handset, equipment, software and other directories line items.

The 31 March 2019 comparative financial information was restated.

	Reported March 2019 Rm	Reclassification Rm	Restated March 2019 Rm
<b>Cost of handset, equipment, software and directories</b>	5 205	15	5 220
Reclassification		15	
<b>Other operating expenses</b>	3 153	(1 150)	2 003
Reclassification		(1 150)	
<b>Maintenance</b>	3 074	1 135	4 209
Reclassification		1 135	

### Pro forma financial information

Certain financial information presented in this results announcement constitutes pro forma financial information in terms of the JSE Listings Requirements. The pro forma financial information is presented to assist the reader to analyse the underlying performance of the business.

The pro forma adjustments include the impact of the adoption of IFRS 16 and the comparative period impact of VSP and VERP costs of R1 186 million and the related tax impact of R332 million and the additional impairment of financial assets as a result of COVID-19 of R626 million and the related tax impact of R175 million. Unless otherwise stated, the pro forma consolidated income statement and the pro forma consolidated cash flow statement and all related key performance indicators (KPIs) and messages in this results announcement are based on this adjusted base.

### IFRS 16 impact

The group has adopted IFRS 16 (Leases) with effect from 1 April 2019. The group has adopted the new standard retrospectively, but has not restated comparatives, as permitted under the specific transitional provisions in the standard. Therefore, the prior periods are still reported under IAS 17. Below is the impact of the adoption of IFRS 16.

#### March 2020

The pro forma adjustments entail the impact of the adoption of IFRS 16 based on the summary audited consolidated provisional financial statements.

The applicable criteria on which this pro forma financial information is reported and prepared for the year ended 31 March 2020, are set out below.

Extract of the audited consolidated abridged statement of profit and loss	Reported IFRS 16 March 2020 Rm	IFRS 16 impact Rm	IAS 17 March 2020 Rm
Lease expenses	478 <sup>^</sup>	1 084 <sup>^^</sup>	1 562 <sup>^^</sup>
<b>EBITDA</b>	9 602	(1 084)	8 518
Depreciation	6 915	(954)	5 961
<b>Operating profit</b>	2 687	(130)	2 557
Finance charges	1 570	(368)	1 202
<b>Profit before taxation</b>	974	238	1 212
Taxation	366	67	433
<b>Profit for the year</b>	608	171	779
BEPS (cents)	121.1		155.5
HEPS (cents)	208.1		242.5

<sup>^</sup> Represents low-value and short-term leases as defined by IFRS 16.

<sup>^^</sup> Represents lease expenses as defined by IAS 17.

\* Refer to page 7 for the reconciliation of the reported figures to the adjusted figure.

### Extract of the audited consolidated abridged statement of the financial position

	Reported IFRS 16 March 2020 Rm	IFRS 16 impact Rm	IAS 17 March 2020 Rm
<b>Non-current assets</b>	45 071	(4 502)	40 569
<b>Non-current liabilities</b>	14 767	(3 708)	11 059
<b>Current liabilities</b>	17 144	(1 067)	16 077
<b>Net debt</b>	12 054	(4 775)	7 279
<b>Net debt to EBITDA (times)</b>	1.3		0.7*

### Pro-forma adjustments

#### Additional impairment of trade receivables and contract asset due to COVID-19

COVID-19 impacted the last two weeks of FY2020. In line with the JSE and SAICA guidance, COVID-19 has been concluded as an adjusting post balance sheet event for companies with a year-end of 31 March 2020. IFRS 9 requires that the impairment of trade receivables and contract assets be based on expected credit loss principles. This requires that we take a forward-looking view of the macro-economic impact on debtors' behaviour.

The negative impact of COVID-19 on the South African economy is expected to put further pressure on consumers, with studies predicting that a number of customers are likely to default on their obligations as they fall due. As a result, Telkom took a prudent approach in line with the SAICA guidance by estimating an increase in default rates on the customer base, and this has been incorporated in the calculation of the group's expected credit losses.

Therefore, the group recognised a total provision of R1 140 million, of which R626 million is an additional impairment of trade receivables and contract assets due to the expected impact of COVID-19. The additional impairment is significantly impacted by the forward-looking assumptions used in calculating the expected credit losses to cater for the depressed economy. Notwithstanding the expected economic challenges, the group has not seen a deterioration in its debtors' book performance from March 2020 to May 2020 due to COVID-19.

#### VSP and VERP

Telkom announced phase one of the two-phase restructuring programme offering VSP and VERP to 2 271 employees at a cost of R1 186 million with a related tax impact of R332 million.

	IAS 17* March 2020 Rm	Pro forma adjustments VERP/VSP costs Rm	COVID-19 Rm	Pro forma IAS 17 March 2020 Rm
<b>Operating expenses</b>				
Employee expenses	10 713	(1 186)		9 527
Impairment of receivables and contract assets	1 140		(626)	514
<b>EBITDA</b>	8 518	1 186	626	10 330
<b>Profit before tax</b>	1 212	1 186	626	3 024
Taxation	433	332	175	940
<b>Profit for the year</b>	779	854	451	2 084
BEPS (cents)	155.5			417.7
HEPS (cents)	242.5			504.6

\* Based on information for the current year excluding the impact of IFRS 16 for comparative purposes on page 140.

#### March 2019

The pro forma adjustments for the prior year include the impact of the VSP, VERP and section 189 costs of R728 million, and related tax impact of R215 million.

Extract of the audited consolidated abridged statement of profit and loss	Restated March 2019 Rm	Pro forma adjustment Rm	Pro forma March 2019 Rm
<b>Operating expenses</b>	22 295	(728)	21 567
Employee expenses	10 777	(728)	10 049
<b>EBITDA</b>	10 581	728	11 309
<b>Operating profit</b>	4 767	728	5 495
Taxation	1 176	215	1 391
<b>Profit for the year</b>	2 831	513	3 344
BEPS (cents)	561.9		665.1
HEPS (cents)	619.2		722.4

## Results from operations

The group profit after tax decreased to R2 084 million (FY2019: R3 344 million). This is mainly attributable to lower EBITDA due to the impact of the fixed-voice revenue decline of 22.2% on group EBITDA and the increase in finance charges and fair value movements resulting in a 30.2%\*\* decrease in adjusted HEPS.

\*\* Refer to page 140 for the reconciliation of the reported figures to the adjusted figures.



**Telkom SA SOC Ltd**  
(Incorporated in the Republic of South Africa)  
(Registration number: 1991/005476/30)  
JSE share code: TKG  
ISIN: ZAE000044897  
("Telkom" or "the company")

## Notice of annual general meeting

Notice is hereby given to the shareholders of the company ("shareholders") that the 28th annual general meeting of the shareholders ("AGM") will be held through electronic communication at 10:00 (South African time) on Thursday, 10 September 2020.

### The purpose of the AGM is to:

- present to the shareholders the audited consolidated annual financial statements of the company and its subsidiaries ("the Group") for the year ended 31 March 2020, a complete set of which is set out on pages 132 to 141 of the integrated report to which this notice of AGM is attached and a copy of which is otherwise available on the company's website: [www.telkom.co.za](http://www.telkom.co.za);
- present to the shareholders a report of the audit committee on matters which are within the mandate of that committee;
- present to the shareholders a report of the social and ethics committee on matters which are within the mandate of that committee;
- consider all and any matters of or relating to the company which may lawfully be considered and dealt with at the AGM; and
- consider and, if deemed fit, pass, with or without modification, the Ordinary and Special Resolutions of the shareholders of the company set out hereunder.

### Important dates to note

Record date for receipt of notice of this AGM  
**Friday, 7 August 2020**

Last day to trade to participate in and vote at the AGM  
**Tuesday, 1 September 2020**

Record date to be recorded in the shareholders' register to participate in and vote at the AGM  
**Friday, 4 September 2020**

Last day to lodge forms of proxy by 10:00  
**Tuesday, 8 September 2020**

AGM held at 10:00  
**Thursday, 10 September 2020**

Results of AGM released on SENS  
**Thursday, 10 September 2020**

## Voting and proxies at the AGM

- All shareholders are entitled to electronically attend and speak at the AGM or any cancellation, postponement or adjournment thereof. All holders of ordinary shares will be entitled to vote, using the e-voting facility, on each resolution proposed to be passed at the AGM or any cancellation, postponement or adjournment thereof.
- A shareholder entitled to electronically attend and vote at the AGM is entitled to appoint one or more proxies (who will not be a shareholder/s) to attend, participate in and vote at the AGM in place of that shareholder.
- The attached form of proxy is to be completed only by those shareholders who:
  - hold shares in certificated form; and
  - are recorded on the sub-register in dematerialised electronic form with "own name" registration.
- All other beneficial owners of shares who have dematerialised their shares through a central securities depository participant (CSDP) or broker, and wish to electronically attend the AGM, must instruct their CSDP or broker to provide them with the necessary letter of representation, or must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and their CSDP or broker. Those shareholders must NOT use the attached form of proxy.
- In order to use the e-voting facility, members must register, log on and cast their proxy e-votes by following the on-screen prompts, which have been detailed in the e-voting and webcast guidelines attached to this communication. Should members not have access to online channels, please send through the completed proxy form attached to the company's share registrars in South Africa, on or before 10:00 on Tuesday, 8 September 2020.
- Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to electronically attend, speak and vote at the AGM should that shareholder decide to do so. A summary of shareholders' rights in respect of proxy appointments as contained in section 58 of the Companies Act is set out at the end of this notice.
- On a poll, every person entitled to vote shall have one vote for every ordinary share held. On a show of hands, each person entitled to vote shall have one vote, irrespective of the number of ordinary shares held.
- All Ordinary Resolutions required to be passed at the AGM shall be passed by a majority of more than 50% of the voting rights exercised on each such resolution.
- All Special Resolutions required to be passed at the AGM shall be passed by a majority of at least 75% of the voting rights exercised on each such resolution.

## Electronic participation in the AGM

- Following the legal restrictions and official advice arising from the COVID-19 pandemic, and in accordance with the provisions of the Companies Act and the company's memorandum of incorporation, the AGM will be conducted entirely through electronic communication. Members who wish to participate in the AGM should connect to the AGM by using the link that will be provided to you by the company's e-service provider. Please refer to the guide on page 148 for further information.

## Ordinary Resolutions:

### Ordinary Resolution Numbers 1.1 to 1.4 – Re-election of directors

Resolved that the following directors shall retire from office at the AGM and, being eligible and having offered themselves for re-election, each by way of separate resolution, be re-elected as directors of the company, in accordance with the company's memorandum of incorporation, with immediate effect:

- Mr PCS Luthuli
- Ms DD Mokgatle
- Mr MS Moloko
- Mr LL Von Zeuner

### Explanatory notes in respect of Ordinary Resolution Numbers 1.1 to 1.4

Ordinary Resolution Numbers 1.1 to 1.4 are proposed for re-election of directors of the company. The re-elections will be conducted by way of a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy. The board of directors recommends to the shareholders the re-election of the aforementioned directors. The profiles of the directors standing for re-election are set out in page 96 of the integrated report.

### Ordinary Resolution Number 2.1 – Re-election of director who retires by tenure in terms of the company's memorandum of incorporation ("MOI")

Resolved that the following director, having served on the board for a period in excess of 9 (nine) years, shall retire from office at the AGM and, having been subjected to an independence assessment and the board having been satisfied of his independence, and being eligible, be re-elected as a director of the company, in accordance with the company's memorandum of incorporation (MOI), with immediate effect:

- Mr N Kapila

### Explanatory notes in respect of Ordinary Resolution Number 2.1

Ordinary Resolution Number 2.1 is proposed for the re-election of a director of the company who has served in excess of 9 (nine) years. Clause 23.2.2. of the company's MOI stipulates that "any non-executive director holding office for an aggregate period in excess of nine years since his/her first election or appointment, shall retire from office at such annual general meeting (notwithstanding that he/she may have retired from office at the previous annual general meeting in terms of clause 23.2.1.

Following an independence assessment of Mr N Kapila, and the outcome of such assessment having confirmed Mr N Kapila's independence, the board of directors recommends to the shareholders the re-election of the aforementioned director.

The profiles of the directors standing for re-election are set out on page 96 of the integrated report.

## Ordinary Resolution Numbers 3.1 to 3.5 – Election of audit committee members

Resolved that the following independent non-executive directors, each by way of separate resolution, be and are hereby elected as members of the company's audit committee from the conclusion of the AGM until the next AGM of the company:

- Mr KA Rayner
- Mr PCS Luthuli
- Ms KW Mzondeki
- Mr RG Tomlinson
- Mr LL Von Zeuner

Mr PCS Luthuli and Mr Von Zeuner will be appointed subject to their re-election as directors pursuant to Ordinary Resolution Numbers 1.1 and 1.4 respectively.

The profiles of the directors who are standing for election to the audit committee are set out on page 96 of the integrated report.

### Explanatory notes in respect of Ordinary Resolution Numbers 3.1 to 3.5

In terms of section 94 of the Companies Act, 71 of 2008 (the "Companies Act"), the audit committee is a statutory committee elected by the shareholders at each AGM. In terms of Regulation 43 of the Companies Regulations, at least one-third of the members of a company's audit committee at any time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. The company has established an audit committee which fulfils the functions of an audit committee as contemplated in the Companies Act and the persons nominated to be appointed to the company's audit committee were nominated having considered the requirements of the Companies Act and Companies Regulations referred to herein.

## Ordinary Resolution Numbers 4.1 and 4.2 – Reappointment of PricewaterhouseCoopers and SizweNtsalubaGobodo Grant Thornton as joint external auditors of the company

Resolved that PricewaterhouseCoopers and SizweNtsalubaGobodo Grant Thornton, each by way of a separate resolution, be reappointed as the joint independent registered auditors of the company from the conclusion of this AGM until the next AGM of the company.

- PricewaterhouseCoopers as the independent external auditor, represented by Mr S Dikana as the individual designated auditor responsible for the audit.
- SizweNtsalubaGobodo Grant Thornton as the independent external auditor, represented by Mr M Hafiz as the individual designated auditor responsible for the audit.

## Notice of annual general meeting continued

### Explanatory notes in respect of Ordinary Resolution Numbers 4.1 And 4.2

In compliance with section 90, read with section 92(3) of the Companies Act, PricewaterhouseCoopers and SizweNtsalubaGobodo Grant Thornton are recommended by the audit committee to be reappointed as joint auditors for the financial year ending 31 March 2021 and until the next AGM of the company.

### Ordinary Resolution Number 5 – General authority for directors to allot and issue and/or grant options over ordinary shares

Resolved that, subject to the provisions of the memorandum of incorporation (MOI) and the Companies Act, the authorised but unissued ordinary shares in the share capital of the company be and are hereby placed under the control of the directors of the company who are authorised to allot, issue and/or grant options over such ordinary shares at their discretion, subject to the following:

- (a) This authority shall only be valid until the next AGM of the company but shall not endure beyond 15 months from the date of this AGM.
- (b) Ordinary shares issued and allotted in terms of this authority shall not exceed 10% of the number of ordinary shares in issue as at the date of passing this resolution.
- (c) The number of shares to be issued and allotted in terms of this resolution shall not include any shares that may be issued by the company to employees participating in the Telkom SA SOC Ltd Employee Forfeitable Share Plan.

### Explanatory notes in respect of Ordinary Resolution Number 5

In terms of clause 9.2.2 of the memorandum of incorporation (MOI), the shareholders may authorise the directors to issue and allot unissued shares or grant options over them as the directors may deem fit (with the effect that any pre-emptive rights that shareholders hold may be waived), subject to the provisions of the Companies Act. The directors wish to be granted authority to allot and issue up to a maximum of 10% of the number of ordinary shares in issue as at the date of passing of this resolution in their discretion. The number of shares to be issued in terms of Ordinary Resolution Number 5 shall not include any shares that may be issued by the company to participating employees in the Telkom SA SOC Ltd Employee Forfeitable Share Plan.

### Ordinary Resolution Numbers 6.1 to 6.2 – Non-binding advisory endorsement of the Telkom SA SOC Ltd remuneration policy and implementation report for the payment of remuneration for the 2020 financial year

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

- 6.1 Company's remuneration policy as set out in the remuneration report contained in the integrated report on page 108.
- 6.2 The implementation report as set out in the remuneration report contained in the integrated report on page 126.

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

In terms of Principle 14 of the King Report on Corporate Governance™ for South Africa, 2016 (King IV), the company's remuneration policy and implementation report should be tabled for separate non-binding advisory votes at the AGM. The essence of this vote is to enable the shareholders to express their non-binding views on the remuneration policies adopted and implementation thereof.

This non-binding resolution is of an advisory nature only and although the board will consider the outcome of the vote when implementing its remuneration practices, failure to pass this resolution will not legally preclude the company from implementing the remuneration policy and practices as contained in the governance report. Shareholders who wish to raise any concerns or submit any comments to the company on the remuneration policy or implementation report are requested to submit such to investor relations and the Group Company Secretary.

In the case that the company receives 25% (twenty-five per cent) or more votes against either the policy or implementation report, shareholder engagements will be arranged. Such engagement will be communicated in the voting results announcement.

### Special Resolutions:

#### Special Resolution Number 1 – General authority for directors to issue shares for cash

Resolved that, subject to the passing of Ordinary Resolution Number 5, the provisions of the Companies Act and the JSE Listings Requirements, the directors be and are hereby authorised by way of a general authority to allot and issue ordinary shares in the share capital of the company for cash, on such terms and conditions as they deem fit, subject to the following conditions:

- The general authority granted to the directors shall be valid only until the company's next AGM and shall not extend beyond 15 months from the date on which this resolution is passed.
- The equity securities, must be issued to public shareholders, as defined in the JSE Listings Requirements, and not to non-public shareholders.
- The equity securities which are the subject of general issues for cash:
  - may not exceed 10%, of the company's number of ordinary shares in issue as at the date of the notice of AGM, net of treasury shares (being 49 872 543 ordinary shares in issue);
  - any ordinary shares issued under this authority must be deducted from the number of ordinary shares set out above;
  - in the event of a sub-division or consolidation of issued ordinary shares during the period of this authority, the existing authority must be adjusted accordingly to represent the same allocation ratio.
- The maximum discount at which ordinary shares may be issued is 10% of the weighted average traded price of such ordinary shares measured over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE should be consulted for a ruling if the company's securities have not traded in such 30 business day period.

### Explanatory notes in respect of Special Resolution Number 1

The directors wish to be granted authority to allot and issue the ordinary shares of the company that they would be authorised by Ordinary Resolution Number 5 to issue as they in their discretion deem fit, for cash from time to time, subject to the provisions of the memorandum of incorporation (MOI), the Companies Act and the JSE Listings Requirements, in particular section 5.52 of the JSE Listings Requirements. The ordinary shares capable of being issued for cash under this authority effectively represent 10% of the number of ordinary shares in issue as at the date of this notice of AGM, which is significantly lower than the 30% threshold as permitted in terms of the JSE Listings Requirements.

The directors consider it beneficial to obtain the authority to enable the company to take advantage of any business opportunity that may arise in future.

### Special Resolution Number 2 – General authority to repurchase shares

Resolved that, pursuant to the memorandum of incorporation (MOI), the company and any of its subsidiaries be and are hereby authorised by way of a general approval to purchase or repurchase, as the case may be, and from time to time, ordinary shares issued by the company from any person, upon such terms and conditions and in such number as the directors of the company or subsidiary may determine, but in accordance with and subject to the provisions of the memorandum of incorporation (MOI), the Companies Act and the JSE Listings Requirements, provided that:

- The general authority granted to the directors shall be valid only until the company's next AGM and shall not extend beyond 15 months from the date on which this resolution is passed;
- Any general repurchase by the company or any subsidiary of its ordinary shares in issue shall not, in aggregate in any one financial year, exceed 10% of the company's issued ordinary share capital at the time that the authority is granted;
- No repurchase or purchase may be made at a price more than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date of such repurchase or purchase;
- The repurchase of the ordinary shares is effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company or any subsidiary and the counterparty (reported trades are prohibited);
- The company may only appoint one agent at any point in time to effect any repurchase(s) on the company's behalf;
- The repurchase of shares by the company and/or any of its subsidiaries may not be effected during a prohibited period as defined in the JSE Listings Requirements unless the company has in place a repurchase programme where the dates and quantities of securities to be traded during the period are fixed, i.e. not subject to variation, and have been submitted to the JSE in writing prior to the commencement of the prohibited period. The issuer must instruct an independent third party, which makes its investment decisions in relation to the issuer's securities independently of, and uninfluenced by, the issuer, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;

- The board of directors resolves to authorise the repurchase, provided that the company and its subsidiaries have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Telkom group;
- The general authority may be varied or revoked by Special Resolution of the shareholders prior to the next AGM of the company;
- Should the company and/or any subsidiary cumulatively repurchase and/or purchase, as the case may be, 3% of the initial number of the company's ordinary shares in terms of this general authority and for each 3% in aggregate of the initial number of that class repurchased and/or purchased, as the case may be, thereafter in terms of this general authority, an announcement shall be made in terms of the JSE Listings Requirements;
- Any decision by the directors, after considering the effect of a repurchase of up to 10% of the company's issued ordinary shares, to use the general authority to repurchase shares of the company, will be taken with regard to the prevailing market conditions and other factors;

The directors of Telkom, after considering the effect of the maximum potential repurchase, are of the opinion that for a period of 12 months after the date of the notice of the annual general meeting:

- The company and the Group will, in the ordinary course of business, be able to pay its debts;
- The assets of the company and the Group will be in excess of its liabilities. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited annual Group financial statements;
- The share capital and reserves of the company and the Group will be adequate for ordinary business purposes; and
- The working capital of the company and the Group will be adequate for ordinary business purposes.

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

- The major shareholders on page 134; and
- The share capital of the company on page 134.

## Directors' responsibility statement:

The directors, whose names appear on page 96 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this Special Resolution Number 1 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made, and that this Special Resolution contains all required information.

## Material changes:

There have been no material changes in the affairs or financial position of the company since the end of the financial year ended 31 March 2020 and the date of this notice of AGM.

## Litigation statement:

Telkom has filed an appeal to the Constitutional Court against a judgment of the Supreme Court of Appeal. The Supreme Court of Appeal delivered its judgment on 25 March 2020, in which it upheld the Tax Court judgment in favour of SARS on the tax treatment of the loss that arose in a prior year on the sale of a foreign subsidiary. Other than information disclosed in Note 38 - Tax matters, of the annual financial statements, Telkom is not aware of any other matter that may materially affect its financial position.

## Special Resolution Number 3 – Remuneration of non-executive directors

Resolved that the remuneration of the non-executive directors of the company for their services as directors of the company be as set out below with effect from 25 September 2020:

	Annual retainer fee R	Annual committee fee R	Special Meeting attendance fee R
<b>Telkom SA SOC Ltd board</b>			
Chairperson	1 591 299	-	27 030
Ordinary board member	424 000	-	20 246
International board member	584 908	-	20 246
Special subcommittee		-	20 246
<b>Audit committee</b>			
Chairperson		384 250	
Member		201 400	
<b>Risk committee</b>			
Chairperson		224 932	
Member		134 832	
<b>Social and ethics committee</b>			
Chairperson		231 080	
Member		138 860	
<b>Nominations committee</b>			
Chairperson		153 699	
Member		104 091	
<b>Remuneration committee</b>			
Chairperson		231 080	
Member		138 788	
<b>Investments and transactions committee</b>			
Chairperson		224 317	
Member		138 860	

## Explanatory notes in respect of Special Resolution Number 2

This Special Resolution is proposed to allow the company and/or its subsidiaries, by way of a general authority, to repurchase and/or purchase shares issued by the company.

The existing general authority for the company and/or a subsidiary thereof to repurchase or purchase, as the case may be, shares in the company, granted by shareholders at the previous AGM, is due to expire at this AGM, unless renewed.

The directors have considered the impact of a repurchase of up to 10% of the company's shares, being within the maximum permissible of 20% under the general authority in terms of the JSE Listings Requirements.

The directors have no specific intention, at present, for the company or its subsidiaries to repurchase any of the company's shares but are of the opinion that it would be in the best interests of the company to extend such general authority, and thereby allow the company or any subsidiary of the company to be in a position to repurchase or purchase, as the case may be, the shares issued by the company through the order book of the JSE, should an opportunity present itself where the market conditions and price justify such action.

## Explanatory notes in respect of Special Resolution Number 3

In terms of sections 66(8) and (9) of the Companies Act, remuneration may only be paid to directors for their service as directors in accordance with a Special Resolution approved by shareholders within the previous two years and if not prohibited in terms of a company's memorandum of incorporation (MOI). The remuneration of directors for their services is determined from time to time by the directors, considering the recommendations of the remuneration committee. Directors shall also be paid travelling, subsistence and other expenses properly incurred by them in the execution of their duties, including attendance of meetings of directors and of committees of directors authorised or ratified by directors.

The board of directors has considered the remuneration paid to the non-executive directors for the year ending 31 March 2020 and is of the view that, in the best interest of the company, the fees for the non-executive directors will remain the same with the exception of the chairpersons of the board and the investment and transactions committee, whose fees were adjusted by 10% and 5.25% respectively, to align to the market median.

## Special Resolution Number 4 – General authority to provide financial assistance

Resolved that the board of directors be and is hereby authorised to cause the company, subject to compliance with the requirements of the memorandum of incorporation (MOI) and the Companies Act, to provide direct or indirect financial assistance, as contemplated in sections 44 and 45 of the Companies Act, including by way of a loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the company for any purpose or in connection with any matter, including, but not limited to, the subscription of any option, or any securities issued or to be issued by the company or a related or inter-related company or entity, or for the purchase of any securities of the company or a related or inter-related company or entity, for such amounts and on such terms as the board of directors may determine in its discretion. This authority shall continue until the next AGM of the company.

## Explanatory notes in respect of Special Resolution Number 4

The board of directors wishes to have the ability to provide financial assistance (by way of a loan, guarantee, the provision of security or otherwise), if necessary, to related or inter-related companies and entities. Furthermore, it may be necessary or desirable for Telkom to provide financial assistance to related or inter-related companies and entities to subscribe for options or securities or purchase securities of Telkom or another company related or inter-related to it. Under sections 44 and/or 45 of the Companies Act, Telkom will, however, require the Special Resolution referred to above to be adopted. In the circumstances and in order to ensure, inter alia, that Telkom's subsidiaries and other related or inter-related companies and entities have access to financing and/or financial backing from Telkom, it is necessary to obtain the approval of shareholders, as set out in Special Resolution Number 4.

## By order of the board

### TELKOM SA SOC LTD

#### AC Ceba

Group Company Secretary  
24 July 2020

#### Registered office

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

#### Transfer secretaries

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

# Online Shareholders' meeting guide 2020

## Attending the AGM electronically

This year we will be conducting a virtual AGM, giving you the opportunity to attend the AGM and participate online, using your smartphone, tablet or computer.

If you choose to participate online you will be able to view a live webcast of the meeting, ask the board questions and submit your votes in real time and you will need to either:

- a) Download the Lumi AGM app from the Apple App or Google Play Stores by searching for Lumi AGM.
- b) Visit <https://web.lumiagm.com> on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Internet Explorer 11, Edge and Firefox. Please ensure your browser is compatible.



**Meeting ID:  
177-209-346**

To login you must have your Username and password which you can request from [proxy@computershare.co.za](mailto:proxy@computershare.co.za)

## Using the AGM online facility:

### Access

Once you have either downloaded the Lumi AGM app or entered web.lumiagm.com into your web browser, you'll be prompted to enter the Meeting ID.

You will then be required to enter your:

- a) Username; and
- b) Password.

**You will be able to log into the site from 10:00, 08 September 2020.**

To register as a shareholder, select 'I have a login' and enter your username and password.

If you are a visitor, select 'I am a guest'

As a guest, you will be prompted to complete all the relevant fields including; title, first name, last name and email address.



**Please note, visitors will not be able to ask questions or vote at the meeting.**

### Navigation

When successfully authenticated, the info screen will be displayed. You can view company information, ask questions and watch the webcast.

If you would like to watch the webcast press the broadcast icon at the bottom of the screen.

If viewing on a computer the webcast will appear at the side automatically once the meeting has started.

### Voting

The chairman will open voting on all resolutions at the start of the meeting. Once the voting has opened, the polling icon will appear on the navigation bar at the bottom of the screen. From here, the resolutions and voting choices will be displayed.



To vote, simply select your voting direction from the options shown on screen. A confirmation message will appear to show your vote has been received.

To change your vote, simply select another direction. If you wish to cancel your vote, please press **Cancel**



Once the chairman has opened voting, voting can be performed at anytime during the meeting until the chairman closes the voting on the resolutions. At that point your last choice will be submitted.

You will still be able to send messages and view the webcast whilst the poll is open.



### Questions

Any shareholder or appointed proxy attending the meeting is eligible to ask questions.

If you would like to ask a question, select the messaging icon

Messages can be submitted at any time during the Q&A session up until the Chairman closes the session.

Type your message within the chat box at the bottom of the messaging screen.

Once you are happy with your message click the send button.

Questions sent via the Lumi AGM online platform will be moderated before being sent to the chairman. This is to avoid repetition and remove any inappropriate language.



### Downloads

Links are present on the info screen. When you click on a link, the selected document will open in your browser.

Data usage for streaming the annual shareholders' meeting or downloading documents via the AGM platform varies depending on individual use, the specific device being used for streaming or download (Android, iPhone, etc) and the network connection (3G, 4G).




**TELKOM SA SOC LTD**

(Incorporated in the Republic of South Africa)  
 (Registration number 1991/005476/30)  
 (JSE share code: TKG) ISIN: ZAE000044897  
 ("Telkom" or "the Company")

## Form of proxy for the AGM

(For completion by certificated shareholders and own-name dematerialised shareholders. Shareholders entitled to attend and vote at the AGM may appoint one or more proxies to attend, vote and speak at the AGM in its/his/her stead. Such proxy/ies need not be a shareholder/s of Telkom.)

For use at the AGM of shareholders to be held through electronic communication, on Thursday, 10 September 2020 at 10:00.

A dematerialised shareholder who is not an "own-name" registered shareholder, must inform its/his/her central securities depository participant ("CSDP") or broker of its/his/her intention to attend the AGM and request its/his/her CSDP or broker to issue it/him/her with the necessary documentation to attend the AGM through electronic communication and vote or provide their CSDP or broker with its/his/her voting instructions should it/he/she not wish to attend the AGM through electronic communication. A dematerialised shareholder who is not an "own-name" registered shareholder should not use this form of proxy, but must contact its/his/her CSDP or broker as the company will take no responsibility for shareholders who do not contact their CSDP or brokers timeously.

I/We \_\_\_\_\_ (name in BLOCK LETTERS)

Of \_\_\_\_\_ (address in BLOCK LETTERS)

Being the holders of \_\_\_\_\_ ordinary shares in the capital of the Company,

do hereby appoint: \_\_\_\_\_

of \_\_\_\_\_

or failing him/her \_\_\_\_\_

of \_\_\_\_\_

or failing him/her, the Chairperson of the AGM as my/our proxy to represent me/us at the AGM to be held through electronic communication on Thursday, 10 September 2020 at 10:00 or at any adjournment thereof, for purposes of considering and if deemed fit, passing with or without modification, the resolutions to be proposed thereat and at each adjournment, as follows:

Resolution	For	Against	Abstain
<b>Ordinary Resolutions</b>			
<b>Ordinary Resolution Number 1.1:</b>	Re-election of Mr PCS Luthuli as a director.		
<b>Ordinary Resolution Number 1.2:</b>	Re-election of Ms DD Mokgatle as a director.		
<b>Ordinary Resolution Number 1.3:</b>	Re-election of Mr MS Moloko as a director.		
<b>Ordinary Resolution Number 1.4:</b>	Re-election of Mr LL Von Zeuner as a director.		
<b>Ordinary Resolution Number 2.1:</b>	Re-election of Mr N Kapila as a director.		
<b>Ordinary Resolution Number 3.1:</b>	Election of Mr KA Rayner as a member of the audit committee.		
<b>Ordinary Resolution Number 3.2:</b>	Election of Mr PCS Luthuli as a member of the audit committee, subject to his re-election as a director pursuant to resolution 1.1.		
<b>Ordinary Resolution Number 3.3:</b>	Election of Ms KW Mzondeki as a member of the audit committee.		
<b>Ordinary Resolution Number 3.4:</b>	Election of Mr RG Tomlinson as a member of the audit committee.		
<b>Ordinary Resolution Number 3.5:</b>	Election of Mr LL Von Zeuner as a member of the audit committee, subject to his re-election as a director pursuant to resolution 1.4.		
<b>Ordinary Resolution Number 4.1:</b>	Reappointment of PricewaterhouseCoopers represented by Mr S. Dikana as joint auditors of the company.		
<b>Ordinary Resolution Number 4.2:</b>	Reappointment of SizweNtsalubaGobodo Grant Thornton represented by Mr M Hafiz as joint auditors of the company.		
<b>Ordinary Resolution Number 5:</b>	General authority for directors to allot and issue and/or grant options over ordinary shares.		
<b>Ordinary Resolution Number 6.1:</b>	Approval of the remuneration policy.		
<b>Ordinary Resolution Number 6.2:</b>	Approval of the implementation report.		
<b>Special Resolutions</b>			
<b>Special Resolution Number 1:</b>	General authority for directors to issue shares for cash.		
<b>Special Resolution Number 2:</b>	General authority to repurchase shares.		
<b>Special Resolution Number 3:</b>	Remuneration of non-executive directors.		
<b>Special Resolution Number 4:</b>	General authority to provide financial assistance.		

and generally, to act as my/our proxy at the said AGM.

(Please indicate with an "x", in the applicable spaces, how you wish your votes to be cast)  
Unless otherwise directed, the proxy will vote as he/she deems fit.

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 2020

Signature of shareholder \_\_\_\_\_

assisted by (where applicable) \_\_\_\_\_

**Please read the notes to proxy on the next page.**

## Notes to proxy

1. A certificated shareholder and an "own name" registered dematerialised shareholder may insert the name of a proxy or the names of proxies of the certificated shareholder's / "own name" registered dematerialised shareholder's choice in the space provided, with or without deleting the Chairperson of the AGM. The person whose name stands first on the form of proxy and who is present at the AGM shall be entitled to act as proxy to the exclusion of the persons whose names follow.
2. Instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable in the appropriate box provided. Failure to comply with this shall be deemed to authorise the Chairperson of the AGM, if the Chairperson is the authorised proxy, to vote in favour of the resolutions at the AGM or the appointed proxy to vote or to abstain from voting at the AGM, as he/she deems fit in respect of all the appointer's votes exercisable thereat, or the appointed proxy to vote or to abstain from voting at the AGM, as he/she deems fit in respect of all the appointer's votes exercisable by that proxy.
3. The total number of votes for or against the resolutions and in respect of which any abstention is recorded may not exceed the total number of votes to which the person entitled to vote granting the proxy is entitled.
4. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity has to be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the Chairperson of the AGM.
5. The transfer secretaries at the AGM may reject or accept any form of proxy that is completed and/or received, other than in compliance with these notes.
6. Any alterations or corrections to this form of proxy shall be initialed by the signatory(ies).
7. The completion and lodging of this form of proxy shall not preclude the relevant person entitled to vote from attending the AGM and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof, should such person wish to do so.
8. Where there are joint holders of shares:
  - a. any one holder may sign this form of proxy; and
  - b. the vote of the senior shareholder (for that purpose, seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
9. A minor must be assisted by his/her parent or legal guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
10. A proxy may not delegate his/her authority to act on behalf of the shareholder to another person.

## Summary of applicable rights established in section 58 of the companies act, 2008, as amended (the “companies act”)

For purposes of this summary, the term “shareholder” shall have the meaning ascribed thereto in section 57(1) of the Companies Act.

1. At any time, a shareholder of a company is entitled to appoint any individual, including an individual who is not a shareholder of that company, as a proxy to participate in, speak and vote at a shareholders meeting on behalf of the shareholder.
2. A proxy appointment must be in writing, dated and signed by the relevant shareholder.
3. Except to the extent that the memorandum of incorporation of a company provides otherwise –
  - 3.1. a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder; and
  - 3.2. a copy of the instrument appointing a proxy must be delivered to the relevant company or to any other person on behalf of the relevant company, before the proxy exercises any rights of the shareholder at a shareholders meeting.
4. Irrespective of the form of instrument used to appoint a proxy –
  - 4.1. the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company; and
  - 4.2. should the instrument used to appoint a proxy be revocable, a shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the relevant company.
5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy’s authority to act on behalf of the relevant shareholder as of the later of the date –
  - 5.1. stated in the revocation instrument, if any; or
  - 5.2. upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Companies Act.
6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company’s memorandum of incorporation to be delivered by such company to the shareholder must be delivered by such company to –
  - 6.1. the shareholder; or
  - 6.2. the proxy or proxies if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so.

7. A proxy is entitled to exercise, or abstain from exercising, any voting right of the relevant shareholder without direction, except to the extent that the memorandum of incorporation of the relevant company or the instrument appointing the proxy provide otherwise.
8. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy, or supplies a form of instrument for appointing a proxy –
  - 8.1. such invitation must be sent to every shareholder who is entitled to receive notice of the meeting at which the proxy is intended to be exercised;
  - 8.2. the company must not require that the proxy appointment be made irrevocable; and
  - 8.3. the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Companies Act.

It is requested that forms of proxy be lodged with or posted to the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) to be received by no later than 10:00 on Tuesday, 8 September 2020. If forms of proxy are not received by the transfer secretaries by the relevant time, they will nevertheless be entitled to be lodged immediately prior to the commencement of the AGM in accordance with the instructions therein, with the transfer secretaries at the AGM (and are requested to be so lodged at least by 09:30, which is 30 minutes prior to the time appointed for commencement of the AGM).

### Transfer Secretaries

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

### Telkom Registered Office

Telkom Park  
61 Oak Avenue  
Highveld  
Centurion, 0157  
(Private Bag X881,  
Pretoria, 0001)

## Acronyms

<b>2G</b>	second generation
<b>4G</b>	fourth generation
<b>5G</b>	fifth generation
<b>ADSL</b>	asymmetrical digital subscriber line
<b>AGM</b>	annual general meeting
<b>API</b>	application programming interface
<b>B-BBEE</b>	broad-based black economic empowerment
<b>BEPS</b>	basic earnings per share
<b>BSS</b>	business support system
<b>capex</b>	capital expenditure
<b>CLM</b>	customer loyalty measure
<b>CWU</b>	Communication Workers Union
<b>DOA</b>	delegation of authority
<b>EBITDA</b>	earnings before interest, tax, depreciation and amortisation
<b>ERM</b>	enterprise risk management
<b>ESD</b>	enterprise and supplier development
<b>ESG</b>	environmental, social and governance
<b>ESOP</b>	Employee Share Ownership Plan
<b>EVP</b>	employee value proposition
<b>exco</b>	group executive committee
<b>FCF</b>	free cash flow
<b>fintech</b>	financial technology
<b>FSP</b>	forfeitable share plan
<b>FTTH</b>	fibre to the home
<b>FY</b>	financial year
<b>GCEO</b>	Group Chief Executive Officer
<b>GCFO</b>	Group Chief Financial Officer
<b>GDP</b>	gross domestic product
<b>GP</b>	guaranteed package
<b>HEPS</b>	headline earnings per share
<b>HSE</b>	health, safety and environment
<b>IAS</b>	International Accounting Standard
<b>ICASA</b>	Independent Communications Authority of South Africa
<b>ICT</b>	information and communications technology
<b>ICTU</b>	Information Communication Technology Union
<b>IFRS</b>	International Financial Reporting Standards
<b>IFT</b>	Independent Field Technician
<b>IIRC</b>	International Integrated Reporting Council
<b>IP</b>	internet protocol
<b>&lt;IR&gt; Framework</b>	Integrated Reporting Framework
<b>ISO</b>	International Organization for Standardization

<b>ISP</b>	internet service provider
<b>IT</b>	information technology
<b>JSE</b>	Johannesburg Stock Exchange
<b>King IV</b>	King IV Report on Corporate Governance™ for South Africa, 2016
<b>KPI</b>	key performance indicator
<b>LED</b>	light-emitting diode
<b>LID</b>	Lead Independent Director
<b>LTE</b>	long-term evolution
<b>LTE-A</b>	long-term evolution advanced
<b>LTIP</b>	long-term incentive plan
<b>MOI</b>	memorandum of incorporation
<b>NICD</b>	National Institute for Communicable Diseases
<b>NPS</b>	Net Promoter Score
<b>NQF</b>	National Qualifications Framework
<b>OHS</b>	occupational health and safety
<b>OHS Act</b>	Occupational Health and Safety Act, 85 of 1993
<b>opex</b>	operating expenditure
<b>OSS</b>	operations support system
<b>OTT</b>	over-the-top
<b>PAT</b>	profit after tax
<b>PV</b>	photovoltaic
<b>PwC</b>	PricewaterhouseCoopers Inc.
<b>remco</b>	remuneration committee
<b>ROIC</b>	return on invested capital
<b>SACU</b>	South African Customs Union
<b>SDGs</b>	The United Nations Sustainable Development Goals
<b>SHE</b>	safety, health and environment
<b>SMB</b>	Telkom Small and Medium Business
<b>SME</b>	small and medium-sized enterprise
<b>SMME</b>	small, medium and micro-sized enterprise
<b>STI</b>	short-term incentive
<b>TGF</b>	Telkom Group Forensics
<b>TGIA</b>	Telkom Group Internal Audit
<b>TRF</b>	Telkom Retirement Fund
<b>TSA</b>	Talent Share Award
<b>TSR</b>	total shareholder return
<b>VAS</b>	value-added services
<b>VERP</b>	voluntary early retirement packages
<b>VSP</b>	voluntary severance packages
<b>WOAN</b>	wireless open-access network
<b>WTC</b>	WeThinkCode

## Administration

### Company registration number

1991/005476/30

### Head office

61 Oak Avenue  
Centurion 0157

### Postal address

Telkom SA SOC Ltd  
Private Bag X881  
Pretoria 0001

### Telkom register helpline

0861 100 948

### Group Company Secretary

**Ayanda Ceba**  
Tel: +27 12 311 0345  
secretariat@telkom.co.za

### Investor Relations

**Babalwa George**  
Tel: +27 12 311 8675  
telkomir@telkom.co.za

### Auditors

**PricewaterhouseCoopers Inc.**  
4 Lisbon Lane, Waterfall City  
Juskei View, 2090  
Tel: +27 11 797 4000

**SizweNtsalubaGobodo Grant Thornton Inc.**  
20 Morris Street East  
Woodmead, 2191  
Tel: +27 11 231 0600

### Transfer secretaries

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

### Sponsor

**Nedbank CIB Ltd\***  
135 Rivonia Road  
Sandown  
Sandton 2196

### United States ADR depository

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

\* Effective from 1 July 2019.



**BCX**

**Gyro**

**Telkom**  
Consumer

open serve

**Telkom**  
Small & Medium  
Business