Telkom

INTEGRATED REPORT

FOR THE YEAR ENDED 31 MARCH 2014

TODAY'S
STABILITY,
TOMORROW'S
POTENTIAL

Key

GRI and King III

Refers the reader to an indicator used in the application of the Global Reporting Initiative (GRI) guidelines and King III

Global Reporting Initiative (GRI)

King III

Further reading

Icons refer the reader to a page(s) in the report or a link(s) on our website where more information can be found

Read more

Go to web link

Network

Technology

Partnership

Efficiency

Regulatory

STRATEGIC FRAMEWORK

PURPOSE

Connect South Africans to a better life

OBJECTIVES

01 Stabilise our operations to achieve growth in the long term

Dedicated to being South Africa's network, and to create an open and even access environment

02 Reposition the business to achieve long-term commercial sustainability

Implementing efficiency drives is necessary but not sufficient

03 Fulfil key role in transforming South African telecommunications economy

Reposition commercially to generate sustainable revenue streams

Implement new operating models that support commercial directions – that are efficient and responsive

OUR PHILOSOPHY

SEAMLESSLY

Customer service
Convenience
One stop
Simple
Cross-silo

CONNECTING

Networking
Relationships
Technology
Community
Personal applications
Machines

SOUTH AFRICANS

Putting people first
Caring
Community
Employees
Shareholders
Customers
(Business and consumers)

TO A BETTER LIFE

Prosperity
Commerce/trade
Entertainment
Education/health
Environment
Growth and renewal

MISSION

Seamlessly connecting South Africans to a better life.

VISION

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

Our vision includes:

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

OUR VALUES

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

BUSINESS STRATEGIC FOCUS AREAS

- Building a solutions-based business through vertical industry clusters.
- Offering converged solutions, leveraging off fixed-line, mobile and data centre services capabilities.
- Transforming our sales force.
- Moving into adjacent markets to benefit from other profit pools.
- Consolidating product suite and focus on fibre and high bandwidth products.
- Implementing focused approach to network build and service offering to satisfy customer needs.

Telkom has the
ability to provide
INDUSTRY-LEADING
integrated solutions
to its customers.

OVERVIEW

01

OUR COMMITMENT TO INTEGRATED REPORTING

SCOPE AND BOUNDARY OF THE REPORT

This report provides an overview of Telkom SA SOC Limited's business activities including all operating subsidiaries, for the year ended 31 March 2014. It details the Group's financial statements and provides material information relating to the Group's strategy, governance practices and performance for the year under review, and looks at the Group's prospects for the next financial year. The previous reporting period ended 31 March 2013 was covered in the 2013 Telkom integrated report. There are no significant changes from the previous reporting period in the scope, boundary or measurement method applied in this report.

The report includes data and information based only on operations within the Republic of South Africa. The South African operating subsidiaries Swiftnet (Pty) Limited (trading as Fastnet Wireless Service) and Trudon (Pty) Limited have been included in this report unless otherwise stated. Telkom SA SOC Limited is the registered name of the organisation and is listed on the Johannesburg Stock Exchange. For ease of reference we have used Telkom or "the Group" to represent the Company and its Group entities. All subsidiaries, business divisions and products are referred to by their branded names.

ABOUT THIS REPORT

This is Telkom's fourth integrated report. Although targeted primarily at the Group's shareholders, analysts and investors, the report will be of interest to all stakeholders who wish to make an informed assessment of the Group's ability to create value over the short, medium and long term. In preparing this report, Telkom applied the principles contained in the King Code on Corporate Governance 2009 (King III), the JSE Listings Requirements, the International Financial Reporting Standards and the Companies Act, No 71 of 2008. The report also seeks to apply the guidance provided in the International <IR> Framework of the International Integrated Reporting Council (IIRC).

FORWARD-LOOKING STATEMENT

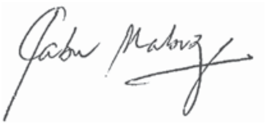
Many of the statements included in this document, as well as oral statements that may be made by us or by officers, directors, prescribed officers or employees acting on behalf of us, constitute or are based on forward-looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our convergence and other strategies, future financial position and plans, objectives, capital expenditures, projected costs 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" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward looking. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. The factors that could cause our actual results or outcomes to differ materially from our expectations include, but are not limited to, those risks identified commencing on page 34.

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

STATEMENT OF THE BOARD OF DIRECTORS OF TELKOM GROUP LIMITED

The Board acknowledges its responsibility to ensure the integrity of the integrated report. In the Board's opinion, this report provides a fair and balanced account of the Group's performance on those material issues that we believe have a bearing on the Group's capacity to create value. Telkom's 2014 integrated report has been prepared in line with internationally recognised best practice, and complies with the recommendations of the King III Code, Principle 9.1. The report, including the annual financial statements of the Group for the year ended 31 March 2014, were approved by the Board of Directors on 12 June 2014 and signed on its behalf by



Jabulane Mabuza
Chairman

Sipho Maseko
Group Chief Executive Officer

12 June 2014

If you have any recommendations or suggestions as to how we can improve on our reporting, please refer to the administration page of this report for the relevant contact details.

01

GROUP
VALUE ADDED STATEMENT

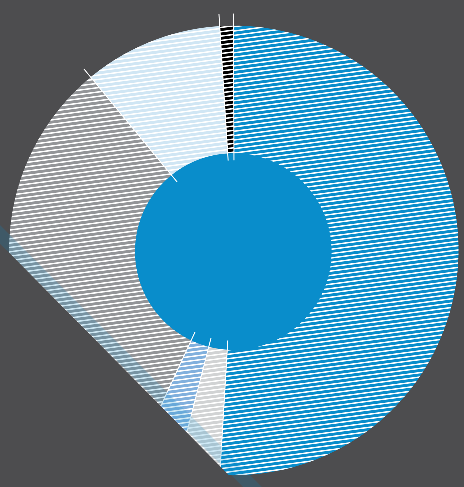
We add significant direct and indirect value to South African society. Direct value added by our business contributes to the development of the South African economy as a whole and the extensive reach of our products and services are indirectly integral to the functioning and development of South African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

GROUP VALUE ADDED STATEMENT#

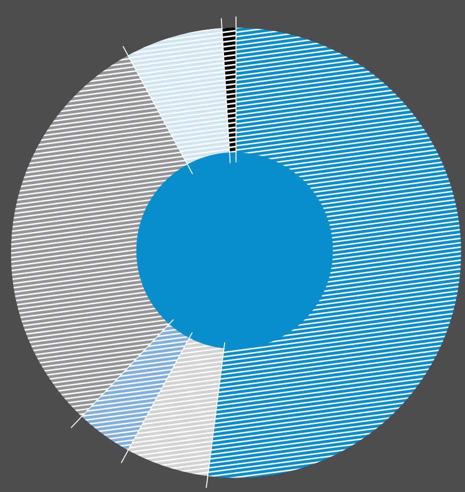
ZAR millions	2014	Restated 2013
Value added		
Revenue	**32 483**	32 143
Net costs of services and other operating expenses*	**(14 942)**	(14 557)
Investment income	**176**	279
Other income	**479**	470
	18 196	18 335
Value distributed		
Distributed to employees as salaries, wages and other benefits	**9 306**	9 563
To government as taxation	**871**	1 101
To providers of finance as finance expense	**636**	656
Value reinvested	**5 806**	5 521
Net earnings retained	**1 456**	1 371
Non-controlling interest	**121**	123
	18 196	18 335
The amounts reflected above have been extracted from the Telkom SA SOC Limited consolidated annual financial statements for the year ended 31 March 2014.		
Included in the figure above is the following distributions*:		
Distributed to suppliers	**14 897**	14 515
Distributed to corporate social investment through Telkom Foundation	**45**	42
To government as taxation	**871**	1 101
South African normal company taxation	**871**	1 101
Foreign taxation	**–**	–
Value reinvested	**5 806**	5 521
Depreciation, amortisation, impairments and write-offs	**5 937**	6 180
Deferred taxation	**(131)**	(659)

Excluding the R2 169 million net curtailment gain and R246 million related tax benefit on the R878 million settlement in March 2014, as well as the R12 billion impairment of assets, R592 million Competition Commission provision and R434 million voluntary severance and early retirement cost in March 2013.

2014



2013



Distributed to employees as salaries, wages and other benefits

To government as taxation

To providers of finance as finance expense

Value reinvested

Net earnings retained

Non-controlling interest

For information on our financial performance refer to page 44.

Please visit www.telkom.co.za/ir

INTEGRATED PERFORMANCE INDICATORS

(In ZAR millions unless otherwise stated)	Year ended 31 March 2014	Restated 2013	Restated 2012	% change 2013/14
Financial				
Operating revenue	**32 483**	32 143	32 715	1,1
EBITDA	**8 370**	8 061	8 273	3,8
Opex as a % of operating revenue	**94,0**	95,6	93,6	(1,6)
Capex as a % of operating revenue	**19,9**	17,9	14,6	2,0
Cash flow from operating activities	**6 366**	7 472	5 892	(14,8)
Normalised free cash flow	**1 145**	2 022	1 797	(43,4)
Headline earnings per share from continuing operations (cents)#	**388,0**	287,1	407,4	35,1
Basic earnings per share from continuing operations (cents)#	**285,2**	268,5	379,9	6,2
Economic				
Distributed to employees	**9 306**	9 563	8 739	2,7
Capital expenditure	**6 458**	5 768	4 775	12,0
Distributed to government	**871**	1 101	1 089	(13,8)
Distributed to providers of finance	**636**	656	765	(3,0)
B-BBEE procurement spend (R billion)	**13,1**	12,9	15,1	1,6
B-BBEE enterprise development cumulative spend (R million)	**102**	122	98	(16,4)
Social – Employees				
Number of Group employees	**19 781**	21 841	21 566	(9,4)
Revenue per employee (R)	**1 642 131**	1 471 682	1 516 971	11,6
Employee turnover (%)	**2,1**	2,8	2,3	(0,7)
Women representation in senior management (%)	**23**	27	25	(4,0)
Black representation in senior management (%)	**50**	53	53	(3,0)
Total training days	**99 439**	122 129	101 628	(18,6)
Lost time injury frequency rate	**1,20**	1,42	1,44	(15,5)
Social – Communities				
Active mobile subscribers	**1 803 675**	1 534 265	1 483 401	17,6
Fixed access lines (thousands)	**3 618**	3 800	3 995	(4,8)
Telkom Foundation total spend	**45**	42	41	7,1
Environment				
Electricity consumption (KWh)	**656 669 130**	662 086 138	672 653 921	(0,8)
CO_2 emissions (tonnes)	**739 976**	762 429	774 201	(2,9)
Recycled copper (tonnes)	**1 241**	1 231	1 279	0,8
Recycled optic fibre (tonnes)	**333**	281	251	18,5

EBITDA# margin
25,8%
0,7% UP ON 2013

ADSL subscribers
926 944
6,5% UP ON 2013

Group interest-bearing debt
R4 096m
38,5% DOWN ON 2013

Calling plan subscribers
867 874
1,3% UP ON 2013

Managed data network sites
47 125
6,3% UP ON 2013

Capital expenditure
R6 458m
12,0% UP ON 2013

Number of LTE sites integrated
1 183
81,7% UP ON 2013

Active mobile subscribers
1 803 675
17,6% UP ON 2013

01

THE TELKOM GROUP

TELKOM GROUP

Telkom's convergence strategy triggered a change in the way the Group is managed from a financial reporting perspective as it is now managed as a single business, based on a common network, providing a complete service to various types of customers. In order to meet the needs of different customer profiles, Telkom markets products based on the service lines listed below.

TELKOM CONSUMER

Products:
Telkom Consumer and Retail Services serves residential customers across South Africa.

Telkom Mobile was launched in October 2010 to provide mobile connectivity solutions to South African consumers.

TELKOM BUSINESS

Products:
Telkom Business is dedicated to serving small and medium enterprises (SMEs), large corporations, government organisations and global enterprises.

Cybernest is Telkom's data centre offering which consists of basic hosting as well as cooling, power and backup power, managed and fully managed hosting and disaster recovery.

Telkom Business Mobile provides mobile connectivity solutions to our Business customers.

TELKOM WHOLESALE AND NETWORKS

Products:
Telkom Wholesale and Networks is South Africa's leading provider of ICT wholesale facilities, services and solutions to mobile cellular operations, international ICT companies, services providers, fixed-line operators and broadcasters, both locally and internationally. The Networks section provides and maintains the infrastructure which supports the Company's revenue generating capability.

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

Trudon (Pty) Limited (64,9% owned) (revenue contribution R1 112 million) provides yellow and white page directory services, an electronic directory service. 10118 "The Talking Yellow Pages" and an online web directory service.

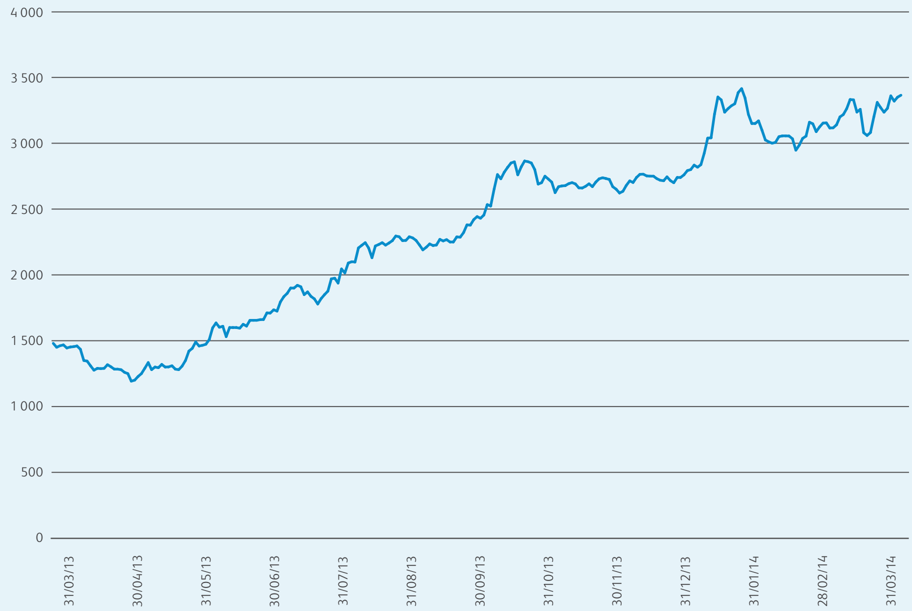
Swiftnet (Pty) Limited (wholly-owned subsidiary) (revenue contribution: R92 million) provides a suite of services including traditional connectivity services for point of sale, managed SIM services and customised wireless and wired Virtual Private Network Services.

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

Telkom share performance to 31 March 2014

Share performance	2014	2013	% change
Number of ordinary shares in issue	**520 783 900**	520 783 900	–
Weighted number of shares outstanding	**510 593 816**	510 593 816	–
Normalised headline earnings per share (cents)	**388,0**	287,1	35,1
Market capitalisation at 31 March (Rm)	**17 524**	7 812	124,3
Number of ordinary shares traded (‘000)	**306 787**	381 418	(19,6)
Highest price traded (R)	**34,15**	24,45	39,7
Lowest price traded (R)	**11,93**	13,70	(12,9)
Closing price at 31 March (R)	**33,65**	15,00	124,3

Telkom share price 31 March 2013 to 31 March 2014



01

THE MANAGEMENT TEAM


01


02


03


04


05

01
SIPHO MASEKO
Group Chief Executive Officer and Executive Director
Age: 45

Joined Telkom: April 2013
Qualifications: BA, LLB

Sipho Maseko was appointed as Group Chief Executive Officer of Telkom in April 2013 and serves as an Executive Director. He attends all Board Committees that he is not a member of by invitation. Prior to joining Telkom, he served as Group Chief Operating Officer and Managing Director at Vodacom. He held various roles at BP starting in 1997, serving as the Chief Executive Officer of BP Southern Africa (Pty) Limited from 2008 to 2012 and Chief Operating Officer before this.

Mr Maseko has served as a non-executive director of the Centre for development and Enterprise's board since 2009 and the Afrox board since 2012. He also served as Chairman of the Board of SAPREF between July 2010 and August 2011. He holds a BA degree in Law as well as an LLB degree.

02
BRIAN ARMSTRONG
Chief Operating Officer
Age: 53

Joined Telkom: May 2011
Qualifications: BSc (Engineering), MSc (Engineering), PhD

Brian Armstrong was appointed Managing Director of Telkom Business in May 2011. In April 2013 he took on the role of Chief Operating Officer. He previously served as Senior Managing Executive for Enterprise Markets. Prior to joining Telkom, Dr Armstrong was Vice President of British Telecoms (BT) for the Middle East and Africa (MEA) region. In this role, he had the responsibility to oversee and grow BT's activities across the region, extending from north Turkey through to Pakistan in the East and South Africa in the south.

With his 25 years' experience, Dr Armstrong has served in various positions, including Director of the division for Information and Communications Technology at CSIR and as Managing Director of AST networks. Dr Armstrong has experience in numerous industries, including ICT research and development, telecommunications, technology management, networking services and outsourcing. He holds a Bachelor of Science degree, a Masters and a PhD in Engineering.

03
JACQUES SCHINDEHÜTTE*
Chief Financial Officer and Executive Director
Age: 55

Joined Telkom: August 2011
Qualifications: CA(SA), BCom (Hons), Higher Diploma in Taxation

Jacques Schindehütte served his articles with Arthur Young & Company. He served as Chief Financial Officer of Absa Group Limited from October 1999 to 2010 and was the Financial Director of the Group from 2005 to February 2010. Prior to joining Absa, Mr Schindehütte was employed by Transnet Limited in a number of senior roles over more than a decade.

During his career, he has amassed a broad range of experience from disciplines such as general management, financial services, finance, auditing, marketing, transport, property development and telecommunications. He is a chartered accountant, holds a Bachelor of Commerce degree with honours and a higher diploma in taxation.

**Suspended 24 October 2013.*

04
DEON FREDERICKS
Acting Chief Financial Officer
Age: 53

Joined Telkom: April 1993
Qualifications: CA(SA), BCom Business Management (Hons), ACMA

Deon Fredericks was appointed as deputy to the Chief Financial Officer in August 2011 and more recently Acting Chief Financial Officer since 24 October 2013. He previously served as Group Executive of Corporate Finance Accounting Services and as Chief Accountant from November 2004 to August 2010. He joined Telkom in 1993 as a senior manager in internal audit and has held several executive positions in the finance department.

Mr Fredericks is a chartered accountant and holds a Bachelor of Commerce degree in Business Management with honours. He is also a member of the Chartered Institute of Management Accountants (UK).

05
OUMA RASETHABA
Chief Risk Officer
Age: 53

Joined Telkom: February 2006
Qualifications: BProc, LLB (Hons), Higher Diploma in Company Law, LLM

Advocate Ouma Rasethaba was appointed Chief Risk Officer at Telkom in April 2014. She previously served as Group Executive of Regulatory and Public Policy from 2006. She was later appointed as Chief of Corporate Governance in November 2007.

Ms Rasethaba is also a former special director of Public Prosecutions at the National Prosecuting authority and has practised as an attorney and advocate. She holds a LLB with honours and a higher diploma in Company Law.

THE MANAGEMENT TEAM
(CONTINUED)

06
THAMI MSUBO
Chief of Human Resources
Age: 48

Joined Telkom: January 2011
Qualifications: BAdmin (Economics and Administration), BAdmin (Hons) (Administration), MDP, Cologne (Germany), Magister rerum publicarum (Mag.rer.publ.), Speyer (Germany)

Thami Msubo joined Telkom as chief of Human Resources in January 2011. He was previously Chief of Human Resources, Corporate Affairs and Empowerment at Tata. Mr Msubo also has experience in transformation, business culture change, leadership development and organisational development. He has held senior roles in HR, Corporate Affairs and Transformation in multinational companies abroad and locally in greenfield operations and established companies.

Mr Msubo has served as a member on the board of the World Association for Co-operative Education (WACE). He is former Deputy Chair of Business Against Crime (BAC), Northern KwaZulu-Natal branch. Mr Msubo holds a Bachelor of Administration Degree in Economics and Administration and a Bachelor of Administration (Hons) Degree in Administration, Magister rerum publicarum (Mag.rer.publ.) from the German University of Management Sciences in Speyer. He also completed a Management Development Programme in Cologne, Germany.

07
LEN DE VILLIERS
Chief Information Officer
Age: 57

Joined Telkom: November 2013
Qualifications: DIS (Harvard)

Len de Villiers was appointed Chief Information Officer (CIO) at Telkom on 1 November 2013. Prior to joining Telkom, Mr de Villiers was Group Chief Information Officer at Transaction Capital where he was responsible for Bayport and chairing the IT Steerco for the Transaction Capital Group. Mr de Villiers also served as the Chief Information Officer at Absa Bank, Nedbank and First National Bank. Len has 25 years' experience in the IT industry and is considered one of the top CIOs in South Africa.

Mr de Villiers was voted "the most admired CIO in South Africa" by the CIO Council of South Africa, consisting of the top 200 CIOs in the country, in 2009. He is currently the Chairman of the CIO Council of South Africa. Mr de Villiers holds qualifications from RAU, Wits and INSEAD. He also obtained his DIS at Harvard between 2007 and 2010.

08
IAN RUSSELL
Chief Procurement Officer
Age: 42

Joined Telkom: February 2014
Qualifications: BSc (Econ), MBA, FCIPS

Ian Russell was appointed Chief Procurement Officer at Telkom in February 2014. Prior to joining Telkom, he served as Head of Procurement at South African Breweries Limited and Chief Procurement Officer at Absa Group. Before moving to South Africa in 2005, Mr Russell worked for Barclays in London from 1997 to 2005, where he held a number of senior roles in operations, technology and procurement.

He is a Fellow of the Chartered Institute of Purchasing and Supply (CIPS) and was voted one of the Top 20 "Leading Lights" of the procurement world by *Supply Chain Management* magazine. Mr Russell holds a Bachelor of Science degree in Economics from the University of Wales and an MBA (Distinction) in Strategic Procurement from Birmingham University.

09
ENZO SCARCELLA
Chief Marketing Officer
Age: 44

Joined Telkom: February 2014
Qualifications: BA (Hons), Diploma (Marketing)

Enzo Scarcella was appointed Chief Marketing Officer at Telkom in February 2014. Before joining Telkom, Mr Scarcella was Managing Executive of Marketing at Vodacom where he was responsible for leading the brand's migration from blue to red. Over the past 18 years, Mr Scarcella has managed some of South Africa's most prestigious brands, including Castle Lager, M-Net and Edgars. In 2011, he was voted "Marketing Personality of the Year" by his peers in the Sunday Times Top Brands survey.

Mr Scarcella spent five years in the USA, completing his education at the Philips Exeter Academy in New Hampshire and thereafter obtained a Bachelor of Arts degree (Honours) from Harvard University. He also recently obtained a diploma in Marketing from Kellogg School of Business in Chicago, Illinois.

10
ALPHONZO SAMUELS
Chief Technology Officer
Age: 48

Joined Telkom: January 1984
Qualifications: BTech, Diploma (Human Resource Management), Diploma (Telecommunications)

Alphonzo Samuels was appointed as Chief Technology Officer at Telkom in February 2014. Prior to this, he served as Managing Executive: Network Infrastructure Provisioning from July 2010 and as Group Executive: Wholesale and Marketing Operations from November 2007 until June 2010. Mr Samuels has held various senior management positions in numerous divisions during his tenure at Telkom, including Broadband Technology, Planning, Engineering, Operations, Capital Project Management and Human Resources. Mr Samuels also completed a nine-month assignment with SBC (AT&T) in 1998.

He holds a Bachelor of Technology and a National Technical Diploma in Telecommunications as well as a National Diploma in Human Resource Management. Mr Samuels has also completed numerous Executive Leadership Programmes.

06

07

08

09

10

In an aim to bring down the cost to communicate for South Africans, Telkom launched Sim Sonke in July 2013, offering the lowest pre-paid call rate in South Africa.

OUR BUSINESS CONTEXT:

CREATING VALUE

FOR OUR STAKEHOLDERS

02

CHAIRMAN'S STATEMENT

Jabulane Mabuza
Chairman

"A significant development this year has been the Board approval of our new strategic direction. Our new growth strategy recognises the need to transform our traditional business model, and explicitly seeks to address each of the key drivers that we believe have contributed to our recent difficulties."

Streamlining the business to make us more **FIT-FOR-PURPOSE** in a significantly competitive sector.

DEAR STAKEHOLDER

The 2014 financial year was a very eventful period during which we have witnessed the beginnings of a turnaround for the Group. Our progress is visible in the higher levels of trust and confidence that we have achieved with almost all of our key stakeholders. While we have made some valuable progress this year, we still have some significant challenges and tough decisions ahead if we are to ensure the long-term success of the Group in an increasingly competitive market.

Renewing the management team and delivering efficiencies

One of my immediate priorities as Chairman was to ensure the stability and effectiveness of the Board and management team. I undertook this firstly by appointing Sipho Maseko as the new Group CEO. He subsequently appointed several new people to join him on the executive team, each of whom brings significant skill and experience. Together with the Board that was reconstituted in 2012 following a particularly turbulent period within the Company, we are now seeing some much needed stability in our governance structures.

An early initiative of the Board was to align the objectives of Telkom's shareholders with the management team by introducing a new long-term and short-term incentive structure. We were pleased to see that our shareholders endorsed this incentive scheme at our AGM in September 2013. This will bring executive remuneration into line with overall Group performance.

One of the top concerns expressed by shareholders has been the need to improve internal efficiencies and cut back on our traditionally high cost base. It is encouraging to report that we have taken some significant steps this year to deliver on this priority. We have started work on streamlining the business to make us more fit-for-purpose in a significantly more competitive sector. The cost restructuring will not only be implemented in the human resources area, but also right across the supply chain. We have cleaned up our balance sheet following last year's R12 billion impairment on the carrying value of the legacy assets, as well as the restructuring of our post-retirement medical aid liability. It is critical that we manage this cost restructuring on an informed and consultative basis to ensure that

CHAIRMAN'S STATEMENT
(CONTINUED)

the drive to cut costs does not come at the expense of reduced productivity or customer-focus, and that it is sensitive to the challenging macro-economic context.

Constructive relationships with our stakeholders

Details of our Stakeholder Management framework can be found on page 27.

We have seen a meaningful improvement in our relationships with all our stakeholders. It has been particularly pleasing to note the progress in our relationship with government who interact with us in three distinct capacities, each of which raises its own set of important interests: as a policy-maker and regulator, as a major shareholder, and as a significant customer.

The AGM in September 2013 was characterised by the overwhelming support of our shareholders to the resolutions that were put before them for voting. I believe that the increase in our share price over the past year reflects the confidence that our shareholders have in the changes we have made, and demonstrates their belief that we can capitalise on our assets and restore shareholder dividends.

We have agreed a positive settlement with the Competition Commission, and addressed various remaining concerns that they had expressed, resulting in a much-improved dynamic with the Commission. As per the conditions of our recent settlement agreement we have implemented a functional separation of our retail operations from our wholesale business on the basis contemplated in the settlement agreement. We have also been working actively with various government agencies on the National Broadband Plan. We have made clear our commitment to work with them to deliver on this plan, but in a manner that does not undermine our commercial viability.

On some of the significant developments in the regulatory and policy environment, most notably on mobile termination rates (MTR) and local loop unbundling (LLU), we have been very clear in putting forward our views, defending our interests in a respectful manner with the aim of finding an appropriate balance between the sometimes competing interests of our different stakeholders. We are committed to playing our role in the continuing socio-economic transformation of South Africa, and believe that our significant fixed-line assets can be instrumental in effecting positive change.

We have been investing significant effort in improving communication with all our other stakeholders, including, in particular, with our customers. We acknowledge that Telkom has not been well perceived or understood by many of our stakeholders, and that to grow the Group we will need to work hard to foster an improved understanding and enhanced relationship. We are placing a particularly strong focus on improving the customer experience. In striving to instil a more customer-centric focus, we are looking to innovate and consolidate our product and service offerings, and we are working hard to improve the supporting delivery processes and our sales and customer service organisations. While it is encouraging to see some evident improvements this year in customer loyalty and satisfaction we recognise that we still have much to do here.

Our strategy for growth and transformation

An important priority focus area that I identified last year was the need to execute a compelling growth strategy that will enable Telkom to deliver solid financial returns and contribute to South Africa's economy. As the leading fixed-line network operator in South Africa, it is clear that we have not been realising our full potential. Faced with increasing competition, as well as the global industry trend in fixed-to-mobile and voice-to-data substitution, we have been seeing a decline in our market share and revenue. Given the context of the rapidly changing telecoms market, it is evident that Telkom's historic trajectory is not sustainable. We need a fundamental shift from our traditional dependency on fixed-line voice revenues, while at the same time capitalising on our unique fixed-line network.

A significant development this year has been the Board approval of our new strategic direction. Our new growth strategy recognises the need to transform our traditional business model, and explicitly seeks to address each of the key drivers that we believe have contributed to our recent difficulties. I am confident that our new strategic direction will deliver the change that our stakeholders are seeking: a stabilisation in our financial performance and a repositioning of the Group to achieve commercial sustainability, while fulfilling our role in transforming the South African economy.

Underpinning this strategy is an appreciation of the significant value of some of Telkom's legacy assets, including most notably:

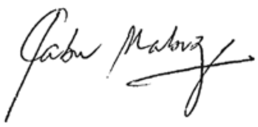
- **The largest fibre network in South Africa, with more than 147 000 kms of fibre** – Given the ability of fixed broadband to carry large volumes of data with greater speed and reliability than mobile, this network will be key to the effective rollout of the government's broadband plans and will play a vital role in the delivery of the transformational solutions that data offers.
- **Access to spectrum** – Together with our technically skilled workforce, this offers significant potential for a partnership with stronger mobile players that would enable us to build effectively on our proposition for fixed-mobile convergence.
- **Telkom's well-managed Enterprise business, which remains the market leader in SA** – This offers significant potential for building on an existing strong client base, and for replicating this success in the rest of our business.
- **The increasingly positive relationship that we have established with government** – I believe this will assist in the effective delivery of commercially viable opportunities for socio-economic development.

While the road ahead will be far from easy, and will require us to take some tough decisions and to focus hard on delivery, I believe that these core assets provide us with a very strong foundation for us to connect people and ideas for a better future.

Appreciation

I wish to thank my colleagues on the Telkom Board for their invaluable contribution over this past year. I would like also to extend my thanks to the management team, many of whom joined us this year, for their professionalism and dedication. I am privileged to be serving as the Chairman of Telkom during this significant time in its history as collectively we strive to make the Group realise its full potential: delivering significant value for our shareholders, while at the same time using our key assets to deliver real value to the broader South African community.

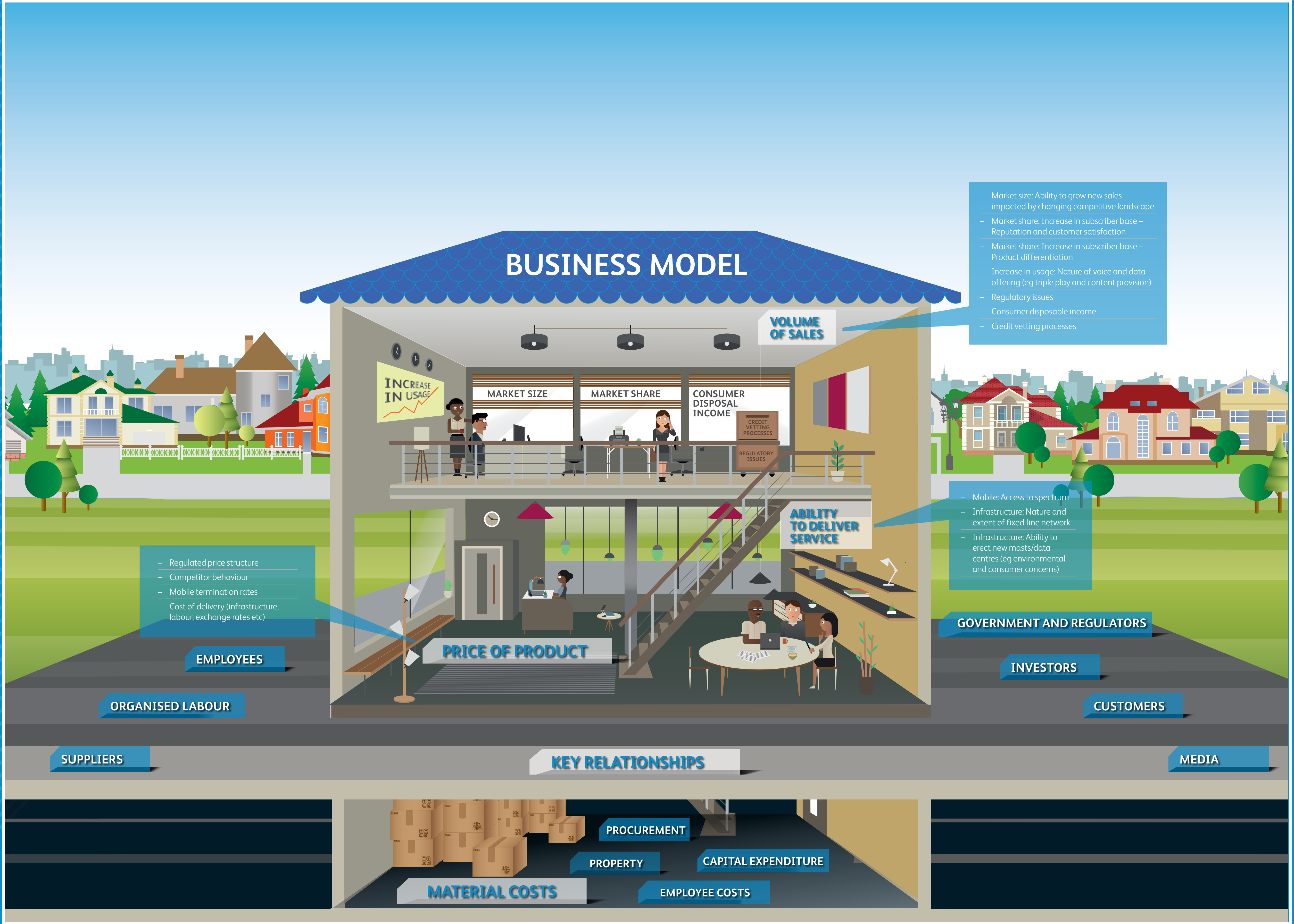
To all our employees, I recognise that we have made some mistakes in the past. It is time now to look to the future, and to work together to make Telkom an organisation of which we can be proud. I look forward to your continued support and contribution in the coming years.



Jabulane Mabuza
Chairman

Read more about our strategy in the GCEO's statement on page 41 of this integrated report

BUSINESS MODEL



Telkom is a full-service telecommunications provider for South Africa. Telkom offers wholesale, business, residential and payphone customers a wide range of voice and data services and products, in support of the Group's mission statement – "seamlessly connecting South Africans to a better life". As of 31 March 2014, Telkom had approximately 3,6 million telephone access lines in service, 475 144 ports activated via MSAN (multi-service access node) and 1 803 675 active mobile subscribers.

02

RESPONDING TO THE CHANGING BUSINESS CONTEXT

THE CONSUMER SHIFT FROM FIXED-LINE TO MOBILE, AND FROM VOICE TO DATA

One of the key changes impacting the communications sector globally is the shift by consumers from fixed-line to mobile telephony, and the move from voice to data, with significant further growth expected in data. Globally, the number of mobile broadband connections has grown tenfold from just over 200 million in 2008 to well over two billion by 2013. The growth in data is anticipated to remain strong, driven by the rising penetration of smartphones and other connected devices, with an additional four billion mobile broadband connections expected by 2020[1].

In South Africa, where Internet penetration remains comparatively low, there is seen to be substantial scope for the uptake of broadband data. Not only is there a strong policy commitment, as reflected in the government's National Broadband Strategy, but there are significant growth opportunities associated with the declining price of entry-level smart devices and data connections, and with the growing appetite for more bandwidth-intensive services, such as gaming, shopping, and video/TV streaming. As part of the uptake of mobile and data, it is anticipated that banks, retailers and the government will increasingly begin to deliver services specifically designed for a mobile data platform.

Implications for Telkom

Currently more than 50% of Telkom's revenue comes from fixed-line voice services. This revenue stream has declined by around 5% per annum over the past three years and is anticipated to continue to decline, although at a slower rate, as a result of fixed-to-mobile substitution, falling termination rates and the growth in Voice over Internet Protocol (VoIP) calls. We have a strong strategic focus on offsetting this decline by promoting growth in data revenue through the rollout of fixed broadband, and the increased provision of mobile and ICT services. We believe we have valuable opportunities for growth in converging our fixed and mobile offerings, and capitalising on our unique infrastructure assets and existing IT services. This potential has been demonstrated, for example, by the growth achieved this year in our data centre operations (DCO) and mobile services within Telkom Business. While our fixed-line broadband network offers significant advantages in terms of speed and stability, we recognise that ensuring continued growth in data revenue will depend on our ability to grow our broadband subscribers and to sell more data. We are confident that we will realise the opportunities in growing the uptake of ADSL and LTE, as well as seeing growth in our managed network sites and Cybernest, while at the same time managing capital expenditure costs, benefiting from the conclusion of our Next Generation Network (NGN) upgrade programme.

A key focus going forward will be identifying opportunities to develop and deliver content that will drive the sale of data, and to offer consumers a 'triple-play' combination of uncapped Internet access, voice services and video-on-demand for one flat-rate fee.

1 *Figures from GSMA The Mobile Economy 2014 http://www.gsmamobileeconomy.com.*

INCREASING COMPETITION FROM NEW SOURCES

Although Telkom is the clear leader in the fixed telecom space in South Africa for both voice and data, we are a distant follower in mobile, largely as a result of being the fourth entrant into a saturated mobile market. Having historically enjoyed a monopoly position in the South African telecoms sector, we are currently lagging in the overall market. At year end we had 1,8 million subscribers (compared with MTN's South African base of 25,7 million and Vodacom's 31,5 million), and 2,9% of the total broadband market share[2].

The nature of the competitive field in the local telecoms sector is continuing to change rapidly, with the mobile operators, the second network operator (Neotel) and value added network (VANS) service providers all entering into Telkom's traditional markets at the same time as we seek to expand into some of their traditional markets. The resulting convergence of fixed, mobile and IT markets will result in more aggressive scale-integrated competitors, a trend that could be further exacerbated as the South African fixed-line market is deregulated.

Implications for Telkom

The increasing competition, and the changing nature of the various service offerings within the local telecoms sector, has significant implications for the pricing and portfolio of Telkom's products and services, as well as for the nature of our engagement with customers. This increasing competitiveness highlights the importance of seeking market differentiation and leveraging off our core strengths, including the ability of our fixed broadband network to carry large data with speed and reliability, and our access to spectrum in the 1 800MHz, 2 100MHz and 2 300MHz bands. Looking to the future, as we develop the NGN that will be a key part of the national broadband plan, we believe that there are significant benefits in pursuing a more collaborative approach with other operators to more effectively realise the full potential benefits of broadband.

2 *Source: BMI Research.*

THE REGULATORY AND POLICY CONTEXT

Telkom leadership has focused on improving the relationship with key public sector stakeholders, especially the Independent Communications Authority of South Africa (ICASA) and the Department of Communications (DoC). Of primary importance to Telkom's sustainability is the need to engage with policy-makers and regulators to reduce the financial impact of regulatory compliance. This includes, *inter alia*, reducing the asymmetry between mobile and fixed call termination rates, shaping access-line regulations, reducing our share of financially burdensome universal service obligations. The pending spectrum policy and the availability of the digital dividend present us with an opportunity to expand our product and service offerings, while enabling us to lead broadband deployment in the country.

Call termination rates (CTR)

In January 2014, ICASA revealed new mobile termination rates (MTRs), the fee that mobile operators receive to complete calls received from other licenced operators (OLOs). ICASA confirmed its intention to dramatically reduce these rates, and to allow for an increased asymmetry between mobile incumbents and smaller, newer operators. The regulations issued by ICASA were contested by MTN and Vodacom in the Gauteng High Court. The court ruled in the interest of the public to set the MTR at 20 cents and an asymmetric rate of 44 cents to be implemented for six months, effective from 1 April 2014. ICASA must complete a costing exercise and follow due process to issue new termination rate regulations to be implemented in October 2014.

Telkom has been pressing for the removal of the differential between fixed-line and mobile termination rates. ICASA intends to migrate both mobile and fixed-line rates to one common rate. In 2013, the mobile operators paid Telkom a regulated average 12 cents per minute, while Telkom's fixed-line paid MTN and Vodacom 40 cents per minute for interconnection. This rate differential, coupled with the volume of traffic favouring mobile operators, resulted in a payment by Telkom of approximately R2,5 billion to mobile operators in 2013. Initially established as a means for Telkom to subsidise MTN and Vodacom as new entrants to build their networks, Telkom leadership asserts that this charging regime is no longer necessary. The introduction of the new call termination charging regime will bring the market closer to parity in termination rates, contribute to reducing the cost of communication, and support the move to convergence between fixed and mobile services.

Local Loop Unbundling (LLU)

A potentially significant regulatory development is ICASA's proposal to provide for local loop unbundling and other access-related regulations. The LLU regulations set out the terms for other telecommunications operators to use Telkom's existing fixed-line connections from our exchanges to the customer's premises (the so-called 'last mile' network). While LLU may have promoted competition in developed countries with high tele-density, it is expected to have other consequences in South Africa due to the country's low tele-density and income density. We believe that LLU will deter ICT investment and employment while only benefiting a small minority of wealthy customers and businesses in urban areas to the detriment of most South Africans. We have argued that competitors will simply cherry-pick the most profitable fixed-line customers, which would undermine our ability to service rural areas and to fund the rollout of NGN, both of which are essential to advance communications services to all South Africans. We have been open in expressing our opposition to the implementation of LLU, which we believe will not only force Telkom to reduce our network investment, but possibly also raise prices. The regulator issued a statement in February 2014 and is widening its approach to include access regulations to include both mobile and fixed. The meaning, approach and process to be followed still needs to be defined by the regulator.

Access to spectrum

Following the finalisation of the government's ICT and spectrum policies – with the national broadband plan a significant component – we are anticipating clarity soon on the process and priorities to be followed in the awarding of both digital dividend 700MHz/800MHz, and higher frequency spectrum 2,6GHz. These frequency bands, in conjunction with other frequency bands, are critical to facilitating growth in the provision of data services, including in the rollout of LTE. We anticipate that the award of spectrum may be linked to commitments in support of national broadband rather than a pure auction process to the highest bidder, and believe that this could prove beneficial to Telkom who is recognised as having a critical role to play in the delivery of the government's broadband policy.

Universal Service Obligations (USOs)

In November 2013, the regulator issued a request for submissions to 1 800MHz spectrum holders for review of their universal service obligations. Payphones are Telkom's main USO and have been a source of significant losses to the Company, well beyond USOs incurred by other operators. We have engaged with the regulator to arrive at USO commitments that are equal from a cost perspective. In this, we are reviewing our payphones and will look forward to improving efficiencies and delivery in this regard in the coming year.

South Africa's Broadband Policy

In December 2013, Cabinet approved the National Broadband Policy, Strategy and Plan (South Africa Connect). The plan seeks to deliver in the vision in the National Development Plan (NDP) of "a seamless information infrastructure by 2030 that will underpin a dynamic and connected vibrant information society and a knowledge economy that is more inclusive, equitable and prosperous". Although studies on the economic impact of broadband vary on the exact contribution made to economic growth, there is seen to be sufficient evidence that increases in broadband penetration correlate with increases in GDP, job creation, and enhanced educational opportunities, public service delivery and rural development. Implementation of this broadband plan has significant implications for Telkom as the delivery of many of the objectives provided in the plan will be underpinned by our extensive fibre network. While this presents valuable opportunities for revenue growth, and for delivering on our goal of fulfilling our role in the transformation of the South African economy, it is important that it does not entail the imposition on Telkom of financially unsustainable obligations.

Settlement agreement with the Competition Commission

The South African Competition Commission is playing an increasingly active role in seeking to fulfil its mandate, and will continue to be a key stakeholder in terms of any possible realignment within the South African telecoms sector. During this reporting period, we agreed a settlement with the Commission. The terms of the agreement include a R200 million penalty, the functional separation of our retail and wholesale divisions on the basis contemplated in the settlement agreement, a Co-operation and Dispute Resolution Procedure with the Commission, reductions of our wholesale and retail prices, and the implementation of competition compliance programme. Furthermore, one of the key conditions of the settlement agreement is that Telkom should procure an audit by an independent expert accountant or economist to determine whether Telkom's conduct is in compliance with the obligations contemplated in clause 4 (cessation of conduct) of the settlement agreement. In this regard, Telkom appointed KPMG and they concluded in their report that nothing has come to their attention which causes them to believe that Telkom is not in substantial compliance with section 4 of the settlement agreement.

For more information relating to the settlement agreement, refer to note 39 of the annual financial statements.

Telkom has been pressing for the removal of the differential between fixed-line and mobile termination rates.

RESPONDING TO THE CHANGING BUSINESS CONTEXT
(CONTINUED)

CONTINUING LOW ECONOMIC GROWTH AND CONSUMER SPEND

Although recent consumer surveys have found consumer sentiment in South Africa to have improved since 2013, this improvement is seen to be driven entirely by high-income earners. While consumers who are formally employed believe they will be secure in their jobs and will continue to receive inflation-beating wage increases, those who are unemployed are struggling to find employment and will continue to suffer reduced purchasing power as inflation rises. Discretionary spending will continue to be affected by rising fuel and food prices, and general sluggish levels of economic growth.

While there has been continuing strong penetration of smartphones in the upper end of the income group, there has been reduced mobile uptake at the lower end. Interestingly, Internet penetration, an area seen as being necessary to support wider growth in the discretionary space, has shown the highest level of growth of all categories, with increased spend of around 17%.

Implications for Telkom

The combination of relatively high penetration in the upper end of the market, coupled with low levels of anticipated economic growth and disposable income in the country, could impact negatively on opportunities for top line growth. We have seen this not only in the individual consumer market, but also within the business sector where the economic downturn has resulted in greater business consolidation and reduced demand for some of our products and services. The continuing levels of income disparity have negative implications in terms of the potential for achieving growth in average revenue per unit (ARPU).

CHALLENGING SOCIAL CONTEXT

The past year has continued to see domestic challenges in South Africa, characterised by continuing high levels of unemployment and income inequality, ongoing service delivery protests and strike action, and further delays in the rollout of Eskom's electricity generation plans. A significant development has been the evidence of declining levels of trust between and within key stakeholder groups, most notably government, labour and business.

The twin challenges of inequality and unemployment make it incumbent on business to get engaged in finding solutions, not as part of some separate social responsibility initiative, but rather in terms of core business activities. Finding pragmatic solutions to these social challenges is an economic and business imperative, as much as it is a moral imperative.

Implications for Telkom

Given Telkom's unique fixed line network and our strong government shareholding, we recognise that we have a particular responsibility in identifying profitable opportunities for shared value creation – ensuring sustained revenue growth while seeking to play a transformative role in the South African economy. This sometimes presents challenges when there may be competing expectations amongst our key stakeholders, each of whom is critical to our ability to create value. A clear example of this is the challenge associated in managing any labour restructuring as part of our commitment to cost reduction. With weaker levels of economic activity reducing the natural attrition rate of the workforce, and prompting greater pressure for above-inflation wage increases, any efforts to reduce employee costs needs to be managed with particular sensitivity. Similarly, while being committed to ensuring that Telkom's NGN contributes effectively to the government's National Broadband Plan, we need to be careful that uneconomic obligations are not imposed on Telkom, and that appropriate financial support is provided by government in the delivery of the plan.

The economic downturn has resulted in greater business consolidation and reduced demand for some of our products and services. The continuing levels of income disparity have negative implications in terms of the potential for achieving growth in average revenue per unit (ARPU)

RESPONDING TO OUR STAKEHOLDERS

At Telkom we view stakeholder management as one of the key strategic levers for attaining our Group objectives. Understanding and being responsive to the interests of our stakeholders, and establishing relationships based on trust, is critical to delivering on our core purpose. Our relations with different stakeholders are based on three pillars: trust, mutual respect and constructive engagement.

TELKOM'S ENTERPRISE STAKEHOLDER MANAGEMENT FRAMEWORK

Recognising the importance of having a structured approach to managing and engaging our stakeholders, we have built on the improvements made in the previous financial year, and this year have defined a clear governance process and management framework for stakeholder engagement. A key focus of this framework is on ensuring appropriate alignment between our enterprise risk management, stakeholder engagement and GRI-based sustainability reporting activities. Through the effective implementation of our stakeholder management framework we have already begun to see valuable improvements this year in our relationships with many of our key stakeholders.

The Telkom Board has identified eight stakeholder groups for particular focus and engagement. These groups have been prioritised on the basis of the stakeholders' ability to impact the achievement of our strategic objectives, and the extent to which our activities, products and services influence the stakeholders' activities. Each stakeholder group has been assigned a member of the Executive Committee as the 'stakeholder owner' with responsibility for managing these relationships.

A summary of the material interests of each of these priority stakeholder groups, and a brief review of our response to addressing these interests, is reviewed below.

OUR INVESTORS

At 31 March 2014, Telkom's largest shareholders included the South African Government (39,76%) and the Public Investment Corporation (13,48%). The majority of Telkom's shareholders are in South Africa, with approximately 77,03% of shareholders located in the country and 15,28% and 4,01% situated in the United States and United Kingdom respectively.

Material interests	Our response
Greater clarity on Telkom's strategic objectives and its deliverables	Our recently-approved strategic objectives are on the inside front cover. Our progress in delivering on these objectives is reviewed throughout this report.
Operational concerns including historic track record of poor investment, high execution risk and a high cost base	As outlined throughout this report we have made important progress this year in reducing costs and improving our operational performance. There is growing shareholder confidence in our business, reflected in the increase in our share price from R15,00 to R33,65 (as at 31 March 2014).
Reducing the risks associated with Telkom Mobile	Telkom Mobile has made valuable progress in curbing expenditure, preserving cash flow and reducing headcount, while also increasing revenues through new product offerings. Heads of Agreement has been signed with MTN regarding infrastructure sharing and other related matters (page 57).
Responding appropriately to regulatory risks, including access to spectrum, LLU, and competition fines	We have clearly communicated our positions on these issues and continue to engage constructively with the regulator (page 25). We have reached a settlement with the Competition Commission and are currently implementing the agreement.

What some of our investors are saying

"I have confidence in the new Board and management team and am encouraged by the recovery in the share price over the past year. However, while management have made headway there is a lot more that needs to be done, especially given Telkom's track record of poor execution."

"While Telkom has given us some financial guidance, we need to understand the strategy and get granularity around strategic objectives and deliverables."

"The new Board and management have improved investor confidence by taking some bold action, writing down the book value of the legacy fixed-line network by R12 billion in 2013, clearing the claim from the Competition Commission, and improving communication with key stakeholders."

"We believe Telkom now has one of the strongest board/management teams in its own listed history."

"Should the government decide to sell its stake, we believe it could positively impact Telkom's valuation, as management are able to make decisions purely based on profit objectives rather than socially minded objectives."

GOVERNMENT

The South African Government interacts with Telkom in three primary ways, each of which raises its own set of (sometimes conflicting) interests: as policy-maker and regulator, as a major shareholder, and as a customer. Significant progress has been made this year in rebuilding a positive and constructive relationship with government in all three capacities. Ultimately, we would like recognition that our infrastructure and capability positions us well to deliver on the rollout of broadband in South Africa.

Material interests	Our response
Promoting the rollout of broadband for all households by 2020	Telkom is committed to contributing to delivery of the National Broadband Plan and e-enablement more broadly. We recognise that this can make a significant positive contribution in transforming society (for example through e-Health and e-Education), but believe that this must but done in a manner that does not undermine our commercial viability (page 18). Telkom has held regular engagements with government to give input, align and achieve clarity around Telkom's role in broadband rollout on a commercial basis.
Telkom's strategy not being aligned with government's goals	We are exploring various partnerships with government on the rollout of broadband. Telkom participated in the drafting of the policy document, '*South Africa Connect*', and we will participate in the development of the associated strategy and implementation.

What some of our government stakeholders are saying

"While we respect the fact that Telkom is a listed company, as a majority shareholder it is important that we engage the executive leadership of the Company from time to time around its strategy going forward and its turnaround. It is up to Telkom to balance the interests of all shareholders. Telkom remains a major strategic asset for the country. We want to create a more enabling environment for us to work together." – *Previous Minister of Communications, Yunus Carrim.*

"We recognise that the private sector will only invest in areas where they get sufficient rate of returns." – *Previous Minister of Communications, Yunus Carrim.*

"The damage caused by protecting Telkom's monopoly and holding competition back for over a decade is still felt in the local telecoms arena." – *ANC election manifesto 2014.*

"As government, we are obliged to give everyone opportunities, which makes it competitive, which is good. However, from a WAN perspective, Telkom always comes out on top." – Lemmie Chappie, *CIO of the Gauteng Provincial Government.*

REGULATORS

The Competition Commission is a statutory body constituted in terms of the Competition Act, No 89 of 1998 by the Government of South Africa empowered to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy. ICASA is the regulator for the South African communications sector, responsible for the regulation of broadcasting, postal and telecommunications services. The Universal Service and Access Agency of South Africa (USAASA) is a State-owned Entity of government established through the Electronic Communications Act, No 36 of 2005, to ensure that every man, woman and child whether living in the remote areas of the Kalahari or in urban areas of Gauteng can be able to connect, speak, explore and study using ICTs.

Material interests	Our response
Call termination rates and interconnection Local loop unbundling	We have clearly communicated our positions on recent policy issues and continue to engage constructively with the regulator (page 25).
Universal service obligations	We are promoting a proportionate share among operators on the obligations to provide universal service and access to the nation.
Quality of service	We have implemented the Net Promoter Score and a specialist Customer Experience Centre, aimed at improving overall customer service.
Increased licence fees from numbering regulation	We are co-operating with ICASA to reduce the financial impact of regulatory obligations on the sector and establish a level playing field across the sector.
Competition Commission Compliance	Agreement has been reached with the Competition Commission, and measures are being taken to ensure full regulatory compliance across the Group. Among others, we have entered into a Cooperation and Dispute Resolution Procedure with the Commission, implemented a functional separation of our wholesale and retail operations on a basis contemplated in the settlement agreement, reduced our wholesale and retail prices, and developed a comprehensive competition compliance programme.

What some of our regulators are saying

"I think this has been an incredible agreement reached by both parties. It's certainly the most impressive consent agreement that I have seen here in my years at the Tribunal and no doubt it took a lot of hard work and many hours of negotiation."
– *Norman Manoim; Chairman Competition Commission Tribunal.*

RESPONDING TO OUR STAKEHOLDERS
(CONTINUED)

OUR CUSTOMERS

Telkom's customers comprise enterprise business customers, retail and consumer customers, and wholesale customers. Recognising the need to significantly improve our customer focus we have placed a strong emphasis on putting the 'Customer First'. This involves various measures to improve our products and services, the supporting delivery processes, the sales and customer service organisations, and the metrics for tracking performance. While we have seen some very encouraging improvements in our customer loyalty and satisfaction, more needs to be done to address their interests.

Material interests	Our response
Promoting greater innovation	A network transformation programme is in place aimed at stimulating product and service innovation (page 58).
Availability of products and services	We are implementing various measures aimed at tailoring our products and services to customer expectations (page 54).
Improving the management of accounts	Dedicated Telkom representatives have been appointed to manage particular accounts; a much stronger client-centric approach is being implemented as part of our 'Customer First' focus (page 55).
Communication	
Improving the turnaround time	Various measures are being implemented across the Group to provide a consistent end-to-end superior experience and improved communications with our retail customers (page 55).
Enhancing the quality and reliability of Telkom's services	We are making improvements to our products and services, primarily by replacing existing legacy technology with new technology and bundling products and services. A key strategic focus is to use our technology advantage to provide consumers with the right communication devices, improved broadband speeds and digital connectivity in their homes (page 55). We have initiated an accelerated call centre programme to improve customer interaction.
Service management	
Addressing weaknesses in service delivery processes	We are making improvements to our products and services, primarily by replacing existing legacy technology with new technology and bundling our products (page 55). We have initiated an accelerated call centre programme to improve customer interaction.
More competitive pricing	Our legacy technologies constrain our ability to reduce prices; the network transformation programme will assist us to provide greater value for money on products and services.

What some of our customers are saying

"I don't receive the level of service I pay for. The Company's inefficiency and incompetence is very frustrating!"

"Day 7 without ADSL . . . 3G is costing me an arm and a leg . . . please send pigeons . . . also maybe a @TelkomZAtechnician. Yes it's plugged in."

"Cell C is cheap but 8ta is cheaper! & Telkom I love your Wi-Fi!"

OUR EMPLOYEES

Telkom currently employs more than 19 000 permanent employees, down from 23 000 in 2010.

Material interests	Our response
Job security	We are under pressure to reduce costs to ensure our survival in a much more competitive market; this will necessarily place pressure on job security. As part of our structural reorganisation, we are providing skills development interventions to assist employees to grow into other areas of business, and to help them in finding new opportunities (page 61).
Career development and succession planning	A new succession planning map has been approved, with rollout at executive and senior management level; career development and leadership plans have been developed for employees (page 61).
Employment equity	We aim to fully align our employment equity and B-BBEE plans to support the strategy.
Skills development	This year we have invested more than R300 million in learning and development initiatives for our employees (page 60).

What some of our employees are saying

"I am supportive of what management is doing to turn the company around and think it's valuable in order for us to become competitive. The downside to this is obviously the uncertainties. Lack of consistent feedback from management, combined with corridor talk, leaves us feeling vulnerable and demotivated."

"We need to streamline a lot of our processes to sort out the company's inefficiencies."

ORGANISED LABOUR

Currently 69% of our employees are unionised. Membership is split between the Communication Workers' Union (CWU) (35% of the workforce); South African Communications Union (SACU) (19%); Solidarity (15%).

Material interests	Our response
Salary disparity between senior executives and bargaining unit	Telkom follows a balanced approach in granting annual salary increases for bargaining unit employees. The agreement with labour signed on 25 July 2013 provided for an accelerated process to address salary disparities among bargaining unit employees. The average salary increase for bargaining unit employees in the current year was 6,8%, while the average salary increase for management employees was 3% (page 89).
Employee health and safety	Various initiatives are in place to reduce employee exposure to health and safety risks, and to enhance employee wellbeing. These are reviewed in more detail in our sustainability report (see also page 106).
More trusted relationships and improved communication	While we have structures in place to ensure open and effective communication with unions, we recognise that the issues of building and maintaining trust require constant attention. We have structures in place through which the company and organised labour engage each other (page 61).
Skills development and employment equity	Progress is being made in implementing our transformation and diversity targets, driven by Telkom's National Equity and Development Transformation Forum which addresses transformation and diversity. Positive gains have been made in addressing inequalities and discrepancies in remuneration as well as ensuring a transformed environment. We are looking to increase our representation of women at management level, as well as of people with a disability in technical and management positions.

What some of our organised labour stakeholders are saying

"We cannot say we have a trust relationship at this stage." – *Marius Croucamp, Solidarity.*

02

RESPONDING TO OUR STAKEHOLDERS
(CONTINUED)

OUR SUPPLIERS

During the reporting cycle Telkom spent approximately R21,1 billion on the procurement of capital items, goods and services. Telkom has approximately 2 400 active suppliers. In a quest to select suppliers, service providers and business partners with relevant value added solutions for our business, Telkom remained committed to upholding solid Corporate Governance tendering processes through the application of the Preferential Procurement Policy Framework Act of 2000 (PPPFA), which continues to ensure a tender process which is fair, equitable, transparent, competitive and cost effective.

Material interests	Our response
Cost to suppliers due to gaps or inefficiencies in Telkom's processes	A new executive has been appointed to manage our procurement programme and various initiatives are being taken to enhance supplier relationships (page 62).
Maintaining positive relationships	We have appointed commodity managers responsible for supplier relationships, and we are implementing measures to improve the procurement cycle time to assist in containing procurement and sourcing costs.
Effective project management	Ensuring more accurate forecasting has been identified as a particular area for improvement to be addressed as part of the Company-wide integrated demand planning project, which will be implemented.

What some of our suppliers are saying

"We are wanting to advance our partnership and we see Telkom as a key player in our channel going forward."

"We… wish to place on record our commitment to working closely with Telkom to continue to offer a valued partnership as we have enjoyed for almost 20 years."

MEDIA AND OPINION FORMERS

Telkom features prominently across the spectrum of media types and platforms. Various broadcast, print, online and social media platforms from the ICT, Business and Finance, Consumer and Trade publications follow and report on Telkom.

Material interests	Our response
More frequent executive level engagement	Telkom has embarked on a high-level media engagement process for Telkom executives to improve accessibility and combat negative press. We have implemented a structured programme to promote greater engagement between the Group Chief Executive Officer (GCEO) and key media audiences.
The media also reflect the various interests and concerns raised by other stakeholders	Our response to each of these different specific issues is provided above.

What the media have been saying

"Telkom, Africa's largest fixed-line telephone group and once the darling of its sector, had lost its appeal in the past few years. Now, with new management at the helm, the Company with a history of more than 130 years appears to be ruthlessly implementing a turnaround strategy. It is winning approval from analysts, and now has a Board and management team that are in sync and seem to be focusing on one goal: to save the ailing business." – *Business Day*

"These issues form part of Telkom's larger restructuring plan, which includes: focusing on customer satisfaction; improving productivity; a focus on core products; and forming the centre of today's digital household." – *MyBroadband*

"A year has passed since Mr Maseko took over the hot seat. He has said the right things and the market seems to like the decisions he has made: Telkom's share price has risen 154% in the past year." – *Business Day*

"There appears to be no stopping the rise in Telkom's share price. The counter added nearly 5% on Thursday, to close near the R40 mark. It's now flirting with levels last seen in 2010, after it offloaded its 50% stake in Vodacom to Vodafone and to shareholders." – *TechCentral*

AWARDS: RECEIVING EXTERNAL RECOGNITION FOR OUR ACTIVITIES

TELKOM SCOOPS BROADBAND AWARDS

Telkom was awarded "Best fixed broadband service provider in South Africa" and "Best mobile broadband operator in SA" at the annual MyBroadband Conference on 9 October 2013. This marks the third consecutive year that Telkom has received the award for best fixed-broadband service provider in the country.

TELKOM AWARDED THE TOP EMPLOYERS CERTIFICATION

In August 2013, the Corporate Research Foundation awarded the Top Employers Certification to Telkom, an accolade granted only to organisations that achieve the highest standards of excellence in employee conditions. The Institute, which is a global organisation with its headquarters in the Netherlands, commended Telkom for its continued efforts towards culture transformation, and learning and development opportunities.

CYBERNEST IT SERVICE MANAGEMENT EARNS GLOBAL CERTIFICATION

The IT service management that Telkom Cybernest uses to support Basic Hosting received ISO/IEC 20000-1:2011 certification during 2013. This certification is based on international IT service standards and is valid for three years. It was granted after 18 months of preparation and the successful completion of two full audits, which included site visits at Cybernest's data centres.

TELKOM TOUCH WINS SILVER ASSEGAI AWARD

Telkom's personal lifestyle services programme for employees, Telkom Touch, was awarded the silver trophy in the employee relationship marketing category at the Assegai Integrated Marketing Awards in November 2013.
The programme has helped thousands of employees to maintain a work-life balance and provided valuable lifestyle services, including homework assistance for children, access to financial consulting and legal services, emergency assistance and a 24-hour health helpline, among many others.

TELKOM'S INTEGRATED REPORT RATED EXCELLENT BY IRAS

At the 2013 workshop of Integrated Reporting and Assurance Services (IRAS), Telkom was awarded a Certificate of Excellence in the Information and Communications Technology (ICT) category. The award confirmed the usefulness of the quantitative sustainability information provided in the 2012 Telkom Integrated Report, particularly for comparative analysis.

NKONKI SOC INTEGRATED REPORTING AWARDS

Telkom received the following at the Nkonki SOC Integrated Reporting Awards:

- A rating and overall winner of the "Ethical Leadership and Corporate Citizenship" category (certificate and trophy).
- A rating for the "Governance of Risk" category (certificate).
- A rating for the "Governing Stakeholder Relationships" category (certificate).
- B rating for the "Board of Directors" category (certificate).
- B rating and 3rd place winner for the overall Integrated Report (trophy).
- C rating for the "Integrated Reporting and Disclosure" category (certificate).

02

OUR MATERIAL BUSINESS RISKS

Our ability to create and deliver value is impacted by various risks. Some of these risks are internal to the organisation while others are a function of the changing business context (see page 23) or different stakeholder interests (page 27). The principal risks that have a material impact on Telkom's ability to create value are described below. These risks have been identified as part of the enterprise-wide risk identification and management system, described in the Governance section of this report (page 69).

INSUFFICIENT REVENUE GROWTH AND PROFITABILITY

Risk context	Our performance and mitigation measures
The perceived lack of relevance of fixed-line by customers, coupled with the increasingly competitive landscape in voice, data and IT services, has resulted in the loss of market share and revenue. Our competitors are investing heavily in fibre access networks, which impacts on our objective to increase fixed-line data growth. Increased competition could result in the loss of voice and data market share to mobile and other competitors.	To realise growth in fixed-line data, and reduce competitive risks, we are focusing on leveraging off our core strengths, notably our fibre network, mobile spectrum advantage, the Enterprise business, and the strong potential for partnerships that build on our converged proposition. We have identified opportunities to offer greater value through further investments in our network and customer experience, removing obsolete products from our product suite, improving our product and service development processes, and identifying opportunities to streamline our processes to respond quicker to opportunities. Transforming our network through the NGN initiative remains a priority.

LAGGING CUSTOMER EXPERIENCE

Risk context	Our performance and mitigation measures
Customer experience improvement through effective and efficient service delivery remains pivotal to our business.	We continue to offer competitively packaged products and services, and have placed a significant focus on improving the customer experience. We are investing in a programme aimed at addressing a number of service delivery challenges with key input coming from our customers. Towards the end of the financial year, we adopted the Net Promoter Score (NPS) as a key metric and tracker of customer experience.

ACCELERATION OF VOICE REVENUE DECLINE

Risk context	Our performance and mitigation measures
Accelerating voice revenue decline due to declining minutes of use and loss of voice market share. Traditional fixed voice represents a significant portion of our revenue .	Further progress is being made in developing profitable and innovative product offerings to drive revenue growth across both the mobile and NGN commercial pillars.

HUMAN CAPITAL HEALTH

Risk context	Our performance and mitigation measures
Appropriately skilled personnel are critical to operate and rollout our NGN technology, while a high-performance culture is needed to inform our interface with customers and other stakeholders. Our employee costs represent one of our largest operational cost drivers and are substantially higher than the industry norms. Ensuring continuity in Telkom's leadership is critical to the successful delivery of our strategic objectives and to maintaining market confidence.	Developing a technically skilled, efficient, high-performing workforce with a strong customer focus is a key strategic objective. We continue to address the skills gap through formulated training plans and the acquisition of skills in the open market. Constant monitoring of the environment is work in progress and will be incorporated into our rapid turnaround plan as part of the strategy review and execution. We continue to address our employee cost issues through the implementation of relevant programmes and natural attrition. There has been a clear improvement in leadership stability and effectiveness, and an increase in market confidence, as evidenced by positive feedback from analysts and an increase in our share price.

LEGAL LITIGATION

Risk context	Our performance and mitigation measures
Legal litigation exposure due to uncertainty regarding the outcomes of legal actions instituted against Telkom.	We have appointed legal counsel to assist and advise on our legal matters.

PROCUREMENT AND PROPERTY RISK

Risk context	Our performance and mitigation measures
Ensuring we continue to procure goods and services at commercially competitive prices, appropriate quality and within the required timelines is key to our operations. Failure to maintain current Preferential Procurement requirements due to implementation of PPPFA could negatively impact our B-BBEE rating. Ensuring statutory compliance and optimisation across our property portfolio.	We continue to focus and improve our procurement processes to ensure alignment with our strategy. We are engaging with our respective stakeholders to minimise the impact of compliance with the Preferential Procurement Policy Framework Act (PPPFA). We have started our analysis by undertaking a detailed strategic property review that is segmenting our property by usage type.

OUR MATERIAL BUSINESS RISKS
(CONTINUED)

REGULATORY AND COMPLIANCE CHALLENGES

Risk context	Our performance and mitigation measures
The telecoms sector as a whole faces significant regulatory challenges, both globally and nationally. Recent and anticipated regulatory developments in South Africa present specific risks (and opportunities) for Telkom's activities. Key developments include CTR, LLU, spectrum allocation, the national broadband policy, and an active Competition Commission (see page 23).	We have worked hard and been successful in rebuilding a positive relationship with government and regulators. The GCEO has met regularly with officials to share our views regarding the nature of policy and regulatory reform. Ongoing training and awareness programmes are in place to ensure compliance with legal and regulatory requirements. We continue to engage with ICASA on key regulatory matters affecting our business.

INFORMATION TECHNOLOGY

Risk context	Our performance and mitigation measures
The Information Technology as an enabler to business may be hampered by the following: Availability of core systems, People dependency, retention and availability of skills, Volume of IT changes and IT projects, Dependency on third parties, Complexity of system architecture, Unsupported infrastructure and applications.	We continue to ensure adequate business continuity preparedness. We continue rationalising, simplifying and standardising the product portfolio. We have implemented a human resources and training plan to ensure the augmentation of skills. We continue to prioritise and consolidate change requests and projects across all our business units. We have made improvements in Information Technology Infrastructure Library-alignment and Architecture Governance. The technology strategy and standards are reviewed, redocumented, communicated and governed.

INFORMATION SECURITY

Risk context	Our performance and mitigation measures
As with other organisations that process and store significant volumes of data, we have a particular responsibility to safeguard electronic information and to maintain continuity of service. Potential risks to information security include: theft of cable and equipment, cyber -attacks, vandalism, extreme weather, loss of power, insufficient critical skills and resources, and weak internal monitoring and control systems. With greater customer dependency on information technology, the consequences of failing to manage this risk are heightened. Inadequate information security may result in a loss of information and intellectual property leading to fines/penalties and reputational damage.	Information security in Telkom is changing significantly as part of a major revamp of the total IT security landscape. An information security management system programme plan and an IT oversight committee have been established. A significant amount of work has taken place and will continue into the future to ensure that we remain in line with best practices.

FINANCIAL

Risk context	Our performance and mitigation measures
Telkom's debt capacity could be constrained should Telkom suffer a rating downgrade to below investment grade.	We continue to monitor performance against our business plan and implement appropriate measures where required. In addition our capital budgets remain tightly controlled and we continue to focus and distinguish between profitable and non-profitable areas of business.

NON-COMPLIANCE TO COMPETITION COMMISSION SETTLEMENT AGREEMENT

Risk context	Our performance and mitigation measures
We need systems in place to ensure full legal compliance, with the settlement terms agreed with the Competition Commission.	Clear steps have been taken to ensure full compliance with all the commitments made in the settlement agreement with the Competition Commission.

NETWORK RISK

Risk context	Our performance and mitigation measures
The telecommunications sector is constantly evolving, with rapid changes in technology and continually improving thresholds via technological performance, the compatibility and synergy of the Network and IT platforms becomes key for success. The ultimate consequence of technology obsolescence on Telkom will depend on the degree of reliance on the particular technology for revenue generation. The timeous rollout of the NGN programme is a key milestone in the implementation of the Telkom network technology strategy.	We have entered into a Heads of Agreement with MTN SA, resulting in a proposed transaction that will allow for reciprocal roaming. The agreement will allow Telkom Mobile to expand their mobile coverage and to reduce their operating costs and capital expenditure significantly. The proposed transaction is subject to regulatory approval. We have made important progress this year in containing the capital and operational expenditure drivers of both our mobile and NGN investments. Our Internet Protocol Multimedia Subsystem (IMS) core has been switched on. We are now in a position to report on the progress of our NGN programme as we continue the journey to transform to an all IP network geared for the future. Evolving the core and migrating voice (IMS Converged Core) is one of the major milestones in our journey to complete the NGN transformation. We plan to replace some of our unprofitable copper-based exchanges with wireless 3G and LTE services in order to improve connectivity speeds for businesses and consumers, and reduce lag and high latency of copper-based ADSL.

OUR MATERIAL BUSINESS RISKS
(CONTINUED)

BUSINESS CONTINUITY

Risk context	Our performance and mitigation measures
Lack of Business Continuity Management knowledge and ineffective Business Continuity Management (BCM) preparedness in the event of disaster or business interruption could result in the inability or poor management of crisis and disasters. Delayed or no response to crisis and disasters and no continuity and/or recovery of the identified mission critical activities could result in reputational/financial and/or service delivery impacts.	During the current year, we successfully completed 163 business continuity exercises. We also reviewed 77 of our critical core business continuity plans and trained 88,9% of our workforce on business continuity.

BRAND, MARKETING AND STAKEHOLDERS

Risk context	Our performance and mitigation measures
Maintaining good relations with key stakeholders is key to Telkom achieving its strategic growth objectives. Telkom has a traditionally poor brand perception, associated with inconsistent customer service, and continuing perceptions regarding monopolistic behaviour and unnecessary bureaucracy.	We have developed a stakeholder management policy that affirms the importance of engaging with a diverse range of stakeholders as a critical means of achieving long-term business objectives on business continuity. We have embarked on a number of Brand projects.

OUR STRATEGIC AND OPERATIONAL PERFORMANCE

03

GROUP CEO STATEMENT

Sipho Maseko
GCEO

"Together we have made some good wins, but there is much that remains to be done in ensuring that we deliver effectively on our stated plans. I am looking forward to working with the Telkom team in the years ahead, and to consolidating the gains we have made by improving our performance even further."

Just over a year ago I joined Telkom, fully recognising the enormous challenges facing the organisation. Company costs were increasing while revenues were declining, we did not have a particularly loyal customer base, our relationship with government was poor, and our shareholders were understandably worried about our prospects. Given this context, not surprisingly many of our employees did not have the positive energy needed to drive change in the Company. Coupled with these Company-specific challenges are some broader challenges facing the telecoms sector as a whole: the rapid shift from fixed to mobile and voice to data, the increasingly stiff competition with new entrants coming into the changing market, and the need to keep abreast of significant developments in technology.

These are formidable challenges. I believe however, that our performance over the past year shows that we are taking significant steps in responding to each of these challenges. While there is much that remains to be done, our progress this year provides an important foundation for the work that lies ahead.

PERFORMANCE HIGHLIGHTS

There are various developments over the past year that show that our efforts to turn Telkom around are already starting to bear fruit:

- We have made some exciting new appointments to the executive leadership team, with several leading experts in their respective fields bringing significant experience and positive new energy. I am particularly excited by the enthusiasm and initiatives that are being pursued by the new teams responsible for enhancing the customer experience, managing our procurement spend, and driving innovation in our IT systems and services.
- In our drive for enhanced efficiency we have made valuable initial progress in reducing the costs of our workforce, our goods and services, and our procurement activities. We have identified and begun to realise some significant efficiencies in our third party spend by improving our facilities management and rationalising our property portfolio.
- We have resolved all the past Competition Commission complaints and have been working well with the Commission in implementing the settlement agreement, the terms of which Telkom is in compliance with for the period under review. We have also made good progress in building a positive relationship with government and regulators. While we might still have differences with them on certain policy issues, I believe that our interaction with each other is now characterised by mutual respect and understanding.

- We undertook a R12 billion non-cash impairment of our legacy assets in 2013, and have curtailed and settled a portion of our post-retirement medical aid liability for in-service staff members in the current year.
- We are in the process of creating an industry-leading partnership to advance our mobile business. This promises to provide an incredibly important platform for our growth ambitions, and is a significant development in terms of stemming cash flow and reducing the capital intensity of the business.
- We have seen significant improvements in consumer satisfaction reported in the Ask Afrika Orange Index survey, and we are making important progress in our work on improving the customer experience. We have appointed a new team that will be driving this area, we have improved our assessment of and response to customer feedback, and we are taking steps to improve our end-to-end processes. It is encouraging to see that we have received awards for the "Best fixed broadband service provider in SA" and the "Best mobile broadband operator in SA" at the 2013 annual MyBroadband Conference.

Reflecting on these various developments, it has been most encouraging to see the growth in shareholder confidence in our business. Over the financial year our share price increased from R15,00 to R33,65, which is the best performance in our sector.

IMPROVEMENTS IN GROUP FINANCIAL PERFORMANCE

The positive changes outlined above are already beginning to show in our financial results. Our headline earnings from continuing operations for the year was 388,0 cents, up by 35,1% on the previous year. Basic earnings per share increased to 285,2 cents from 268,5 cents in the prior financial year.

We have stabilised revenues, which increased by 1%, indicating that we still face challenges largely as a result of the sustained pressure on our fixed-line operations. Group reported revenue was R32,5 billion compared with R32,1 billion in the prior year. Our operating expenses decreased 2,1% to R18,2 billion, down from R18,5 billion last year.

This resulted in an improvement in EBITDA, which grew 3,8% to R8,4 billion. Our free cash flow remained strong at R1,2 billion, after capital investment of R6,5 billion, which increased 12,0% year-on-year. This can be largely attributed to the substantial investment in the upgrade of the Group's network. The Group is lowly geared, with year-on-year net debt decreasing 0,8% to R2,1 billion, which will ensure that we remain in a solid position to fund our capital expenditure programme.

OPERATIONAL OVERVIEW: OUR PERFORMANCE AND PROSPECTS

Telkom Business remains the Group's largest revenue generator. Although the business continues to face revenue pressure, we have seen valuable growth in our fibre-based products, our business IT services business **(Cybernest)**, and in Telkom Business Mobile. We made important progress this year in introducing an industry-specific vertical approach to servicing our clients, allowing us to provide tailor-made solutions for clients in specific industries. This year we have successfully renewed and won back several strategic client contracts. We have partnered successfully with government to provide broadband connectivity to schools across the country with very pleasing results. Looking to the future, we will be aiming to secure further growth opportunities in the large enterprise and public sector segments, as well as growing our SME offering by providing tailored cloud services to this market segment.

Telkom Consumer continues to face pressure associated with the fixed-to-mobile substitution. Customer churn improved slightly this year, following the implementation of our broadband churn reduction programme and the successful work of our customer retentions desk. Our focus this year on providing attractive calling plans to our customers, and on driving our convergence product offerings, has delivered positive results. Ensuring a positive customer experience is one of our most important priorities. We are looking at addressing additional challenges that include our universal service obligations and the continuing scourge of copper theft. To secure growth in our consumer business, we will be focusing on driving consumption in data, particularly now that high-speed quality broadband is increasingly available to our customers. Recognising the need for the content to drive consumption, we are looking to partner with a content manager.

Telkom Mobile saw some significant developments this year. A key focus was the rebranding of the business, which has received a favourable response from our customers. We made good progress in driving revenues through the launch of new product offerings (such as Sim Sonke) and rolling-out high speed broadband across new locations using wireless LTE. Encouragingly, Telkom Mobile grew its customer base by 18% to 1,804 million subscribers, while pre-paid ARPU rose 34% to R32 from the prior year. EBITDA loss for the business improved 20% to R1 334 million, driven mainly by tight cost management practices and reductions in staff headcount. An exciting recent development was the Heads of Agreement entered into with MTN to create an industry leading partnership in mobile. Once concluded, this will allow us to increase our footprint, reduce operational and capital expenditure, and move our operating cost base from fixed to variable, all of which will help to stem current free cash flow and enable us to be more competitive. ICASA's proposed mobile termination rate (MTR) glide path will also assist us to be more competitive by significantly reducing our interconnect fees.

Operating revenue at **Telkom Wholesale and Networks** declined slightly this year, mainly as a result of a decline in data revenue due primarily to a reduction in mobile leased lines following continued self-provisioning by other licenced operators (OLOs). As a result of the settlement agreement reached with the Competition Commission, we have implemented a functional separation between our Wholesale and Retail operations. In addition, we are required to treat OLOs and Telkom Retail in a non-discriminatory manner when providing specified services, which has called for us to strategically reposition our Wholesale business. Looking to the future, we will focus on accelerating the rollout of the NGN programme, and we will be exploring further opportunities to implement efficiencies, improve workforce productivity, bring down costs and enhance service delivery. Repositioning our Wholesale business will be an important task and we will continue to transform our current exchanges to achieve an access agnostic network, in support of the Group's convergence strategy.

FINANCIAL TARGETS

	2015	2016
Revenue	Stabilise to grow	Stabilise to grow
EBITDA margin (%)	26-27	27-28
Capex to revenue (%)	14-17	14-17
Net debt to EBITDA	≤1	≤1
Our intention is to reinstate the dividend in the 2015 financial year		

The information above has not been reviewed or reported on by our auditors.

OUR STRATEGIC FOCUS IN THE YEAR AHEAD

Although we have made some very encouraging progress this year we recognise that there is still much that needs to be done in the years ahead. There are several priority areas that I will be driving next year:

- Developing and maintaining a much stronger focus on improving the experience of our customers – This remains one of our biggest challenges and also one of the greatest opportunities for us to grow the Company.
- Right-sizing the Company, with the aim of enhancing execution of our growth strategy – I believe that by flattening the organisational structure, we will facilitate speedy decision-making and get closer to our customers. The affected managers were consulted in line with section 189 of the Labour Relations Act during May. A new organisational structure is planned to be rolled out in August 2014.
- Using our technology advantage to own the digital home – I believe that fixed-line will always provide a better, more reliable experience than wireless, particularly with fibre. We are developing some very exciting new products and services that we will be launching in the coming financial year, which I believe will highlight the opportunities that are available in this area.
- Making the necessary investments in technological and human resources to ensure that we have an invincible fixed and mobile network – We will continue to focus our efforts on accelerating the rollout of the NGN programme, and will be placing a strong focus on the development of an appropriate skills pipeline needed to develop, manage and maintain this network, and the associated new products and services.
- Building on the existing strengths in Telkom Business – We will be investing in the right technologies and solutions for our business customers, and realising additional opportunities associated with providing bespoke fully integrated solutions on a sector-by-sector basis.
- Supporting government to create better services for the nation through a strong digital backbone – We see significant opportunities here for shared value creation, using our infrastructure to deliver substantial social value on issues such as education, health and inclusive finance, while at the same time delivering opportunities for revenue growth.

Underpinning all of these focus areas is the drive to ensure alignment in everything that we do across the organisation, ensuring that we have the right person, in the right place, doing the right thing.

There is no doubt that we have some significant challenges ahead, but I am confident that we can address these. It will require some hard work and dedication, but I believe that we have the necessary assets (the network, the relationships and the people), that will enable us to realise the very exciting opportunities for growth within the changing telecoms sector. Our most important asset is our people. With talented and motivated teams, I am confident that we can deliver the strong network, the unrivalled IT infrastructure and the great brand that will make us win.

APPRECIATION

The significant progress that we have made this year would not have been possible without the active support and assistance of the Telkom Board as well as the collective contribution of the executive team and Telkom's employees. I wish to acknowledge and thank every one of them for their valued contribution to Telkom's turnaround over the past financial year. I have no doubt that the Group's leadership is up for the challenge of transforming Telkom into an organisation that can generate attractive returns for our shareholders, while supporting South Africa's economic and social development.

Together we have made some good wins, but there is much that remains to be done in ensuring that we deliver effectively on our stated plans. I am looking forward to working with the Telkom team in the years ahead, and to consolidating the gains we have made by improving our performance even further.

Sipho Maseko
Group Chief Executive Officer

03

OUR FINANCIAL PERFORMANCE

RESULTS FROM OPERATIONS

The Group recorded a profit after tax of R4 billion. This is significantly higher than the previous year and was driven by:

- a R2 169 million net curtailment gain recognised on the post-retirement medical aid liability and R246 million related tax benefit on the R878 million settlement;
- the R12 billion asset impairment included in the 2013 financial year;
- R592 million provision for the Competition Commission fines included in the prior year; and
- R434 million voluntary severance and early retirement cost included in the prior year.

The Company reassessed the underlying assumptions used to determine the value of the post-retirement medical aid liability for qualifying employees. The growth assumption for the subsidisation amount at retirement was capped at 0% and employees were offered a settlement calculated at the economic value of their liability. This curtailment and subsequent settlement was the main contributor to a net non-cash gain of approximately R2 169 million and a reduction in the post-retirement medical aid liability.

The once-off items above are not part of the results from core operations for the year under review and have therefore been excluded from the discussion below.

The Group recorded a profit after tax of R1 577 million (2013: R1 494 million) and EBITDA of R8 370 million (2013: R8 061 million).

The changes from our transformation process are starting to positively impact our financial performance. However, we still face significant challenges in our fixed-line voice and mobile business, including fixed-to-mobile substitution and being the fourth entrant into a highly competitive mobile market. Our net revenue decreased by 0,4%, driven by a continued decline in fixed voice revenue, partially offset by lower payments to mobile operators which resulted from the reduction in mobile termination rates. We recorded promising growth of 80,2% in mobile data revenue and 69,3% in IT Business services revenue. Data revenue now constitutes approximately 33,8% of Group revenue which increased 1,7% from the prior reporting period. Data volumes, however, were negatively impacted by an increasingly competitive pricing landscape.

We managed to reduce operating cost by 2,1%. This reduction was largely driven by lower full time and part-time employee costs and bonus payments, lower bad debts from improved credit vetting systems, and savings on materials and maintenance from efficiencies gained from various cost management initiatives. In addition, we reduced marketing expenditure and managed to limit inventory write-offs.

The Group generated strong cash flows, resulting in a healthy capital structure. In addition, interest-bearing debt decreased 38,5% to R4,1 billion at 31 March 2014.

The comparative information for March 2013 has been restated as a result of the adoption of IAS 19R, the amendment to IAS 16, the reclassification of iWayAfrica as a discontinued operation and to account for the change in accounting policy regarding the Cell Captive. Refer to note 2 in the consolidated annual financial statements.

In addition the following items have been reclassified to provide more relevant disclosure:

- Direct cost of R373 million and cost of sales of R1 176 million have been reclassified from selling, general and administrative expenses to direct cost and cost of sales, respectively.
- Sundry revenue of R128 million has been reclassified from selling, general and administrative expenses to other income.
- Motor insurance scheme expenses of R84 million, previously included in service fees, has been reclassified to employee expenses.

GROUP OPERATING REVENUE

In ZAR millions	2014	2013	%
Voice and subscriptions	**16 237**	16 951	(4,2)
Fixed-line usage	**7 934**	8 591	(7,6)
Fixed-line subscriptions	**7 812**	7 743	0,9
Mobile voice and subscriptions	**491**	617	(20,4)
Interconnection	**1 508**	1 597	(5,6)
Fixed-line domestic	**458**	562	(18,5)
Fixed-line international	**971**	959	1,3
Mobile interconnection	**79**	76	3,9
Data	**10 981**	10 801	1,7
Data connectivity	**5 544**	5 595	(0,9)
Leased line facilities	**1 789**	1 963	(8,9)
Internet access and related services	**1 676**	1 617	3,6
Managed data network services	**919**	1 005	(8,6)
Multi-media services	**50**	52	(3,8)
Mobile data	**656**	364	80,2
IT Business services	**347**	205	69,3
Customer premises equipment sales and rentals	**2 186**	1 333	64,0
Sales	**307**	327	(6,1)
Rentals	**758**	704	7,7
Mobile handset and equipment sales	**1 121**	302	271,2
Other	**367**	227	61,7
Trudon	**1 112**	1 140	(2,5)
Swiftnet	**92**	94	(2,1)
Total	**32 483**	32 143	1,1

Group operating revenue increased 1,1% to R32 483 million (2013: R32 143 million), driven by higher mobile handset and equipment sales, growth in mobile data and IT Business services data revenue, offset by a decline in voice revenue.

Fixed-line voice usage revenue continued on a downward trend, decreasing 7,6% to R7 934 million (2013: R8 591 million). This can be attributed to a 2,1% decline in voice minutes, resulting from fixed-to-mobile substitution, with a decrease of approximately R190 million relating to the pass through of reduced mobile termination rates to fixed-line customers. In addition, fixed-line voice usage was impacted by a decline in number of lines of 4,8%. The number of business lines decreased due to the consolidation of branches and brands as well as the trend of medium-sized business to reduce the number of services to save costs, including the move from standalone offices into multi-tenant office parks.

Fixed-line subscriptions revenue grew 0,9% to R7 812 million (2013: R7 743 million) as a result of average line rental tariff increases of 6%.

While revenue from our mobile operations grew 72,7%, mobile voice and subscriber revenue decreased 20,4%. This can be attributed to the expiry of bulk hybrid contracts and a clean-up of our debtors' book which has resulted in an improved quality of our customer base. The decrease in post-paid voice revenue was partially offset by higher pre-paid voice and subscriptions revenue, supported by an increase in subscribers and ARPU. Mobile interconnection revenue increased slightly by 3,9%.

Fixed-line domestic interconnection revenue decreased 18,5% to R458 million (2013: R562 million), primarily driven by the reduction in fixed termination rates.

The 1,3% increase in fixed-line international interconnection revenue to R971 million (2013: R959 million) was driven by higher switched hubbing revenue. However, this was partially offset by a reduction in volumes of international outgoing calls by mobile operators.

Revenue from data connectivity services decreased 0,9% to R5 544 million (2013: R5 595 million), caused by a decline in Diginet and Megalines revenue, due to increased competition and migration to Metro Ethernet services. This was partially offset by an increase in Metro Ethernet services revenue. ADSL revenue increased as a result of a 6,5% increase in ADSL subscribers to 926 944 (2013: 870 505).

With continued self-provisioning by other licenced operators, revenue from mobile leased line facilities remained under pressure and declined 8,9% to R1 789 million (2013: R1 963 million).

Higher Internet and IP Connect revenue was supported by a 3,6% increase in Internet access and related services revenue.

Managed data network services revenue decreased 8,6% to R919 million (2013: R1 005 million) which was caused by a reclassification of revenue to IT services revenue of approximately R62 million from 1 April 2013, discounts offered to customers and the migration of customers to lower cost solutions. We increased the number of sites by 6,3% to 47 125 (2013: 44 328).

In line with our strategy to focus on data, we offered enticing data deals and promotional products which led to an increase in data subscribers, and a 80,2% increase in mobile data revenue to R656 million (2013: R364 million).

We made some key strategic wins in the IT market during the year which boosted our IT Business services data revenue which increased 69,3% to R347 million (2013: R205 million).

A strategic decision was made to discontinue sales of PC and gaming equipment, which caused a 6,1% decline in customer premises equipment sales to R307 million (2013: R327 million). Despite this, our rentals increased 7,7% to R758 million (2013: R704 million) due to increased uptake in next generation equipment rentals and higher tariffs.

Mobile handset and equipment sales revenue increased 271,2%, driven by higher bulk sales to dealers and a sharp increase in smartphone and tablet sales.

Other revenue increased 61,7% to R367 million (2013: R227 million) as we recognised higher revenue from expired cards and higher co-location revenue generated from an increase in the number of sites.

GROUP OTHER INCOME

In ZAR millions	2014	2013	%
Telkom	**446**	432	3,2
Trudon	**31**	34	(8,8)
Swiftnet	**2**	4	(50,0)
Total	**479**	470	1,9

Other income includes profit on the disposal of property, plant and equipment as well as interest received from debtors and sundry income.

Restatements and reclassifications of comparative information.
Sundry revenue of R128 million previously included in selling, general and administrative expenses was reallocated to other income.

GROUP DIRECT EXPENSES

In ZAR millions	2014	2013	%
Payments to other operators	**3 944**	4 460	11,6
Direct cost	**560**	373	(50,1)
Cost of sales	**1 938**	1 176	(64,8)
Total	**6 442**	6 009	(7,2)

The increase in direct expenses was a result of an increase in mobile equipment sales and higher subscriber acquisition cost, which was partly offset by a decrease in mobile termination rates.

TELKOM DIRECT EXPENSES

In ZAR millions	2014	2013	%
Payments to other operators	**3 920**	4 434	11,6
Mobile network operators	**2 308**	2 901	20,4
International network operators	**946**	904	(4,6)
Fixed-line network operators	**338**	368	8,2
Data commitments	**328**	261	(25,7)
Direct cost	**560**	373	(50,1)
Cost of sales	**1 616**	856	(88,8)
Total	**6 096**	5 663	(7,6)

Payment to other operators decreased 11,6% as a result of a reduction in mobile termination rates which was moderately offset by higher data commitments.

Direct cost grew 50,1% following an increase in mobile sales acquisition costs relating to an increase in active mobile subscribers.

The 88,8% increase in cost of sales is largely attributed to the increase in cost of mobile handsets and tablets sold.

GROUP OPERATING EXPENSES

In ZAR millions	2014	2013	%
Employee expenses[1]	9 306	9 563	2,7
Selling, general and administrative expenses[2,3]	4 682	5 059	7,5
Service fees[1]	3 110	2 996	(3,8)
Operating leases	1 052	925	(13,7)
Depreciation, amortisation, impairments and write-offs[4]	5 937	6 180	3,9
Total	**24 087**	24 723	2,6

Restatements and reclassifications of comparative information

1. *Motor insurance scheme expenses of R84 million, previous included in service fees have been reclassified to employee expenses. In addition employee expenses have increased by R144 million as a result if the adoption of IAS 19R and we have excluded the voluntary severance and early retirement cost of R434 million.*
2. *Sundry revenue of R128 million previously included in other expenses was reallocated to other income.*
3. *The provision for the Competition Commission fine of R592 million are excluded from the results above and R1 229 million of direct cost and cost of sales are reclassified as direct expenses.*
4. *The R12 billion impairment has been excluded from the results and impairments and write-offs have increased by R25 million due to the amendment to IAS 16.*

Group operating expenses decreased by 2,6% to R24 087 million (2013: R24 723 million) in the year ended 31 March 2014, primarily due to depreciation savings resulting from the R12 billion impairment in the prior year and lower bad debts.

GROUP OPERATING EXPENDITURE CONTRIBUTION

In ZAR millions	2014	2013	%
Telkom	23 704	24 319	2,5
Trudon	294	322	8,7
Swiftnet	89	82	(8,5)
Total	**24 087**	24 723	2,6

TELKOM OPERATING EXPENDITURE

In ZAR millions	2014	2013	%
Employee expenses[1]	9 037	9 287	2,7
Salaries and wages	7 103	7 285	2,5
Benefits[1]	2 315	2 479	6,6
Workforce reduction expenses[2]	75	43	(74,4)
Employee related expenses capitalised	(456)	(520)	(12,3)
Selling, general and administrative expenses[3,4,5]	4 695	5 050	7,0
Materials and maintenance	3 020	3 104	2,7
Marketing[3]	799	856	6,7
Bad debts	170	315	46,0
Other[4,5]	706	775	8,9
Service fees[1]	3 096	2 984	(3,8)
Property management	1 741	1 659	(4,9)
Consultants, security and other[1]	1 355	1 325	(2,3)
Operating leases	1 004	880	(14,1)
Buildings	455	385	(18,2)
Equipment	35	35	–
Vehicles	514	460	(11,7)
Depreciation, amortisation, impairments and write-offs[6]	5 872	6 118	4,0
Depreciation	4 588	5 044	9,0
Amortisation	652	873	25,3
Impairment and write-offs[6]	632	201	(214,4)
Total	**23 704**	24 319	2,5

Restatements and reclassifications of comparative information

1. *Motor insurance scheme expenses of R84 million, previous included in service fees have been reclassified to employee expenses. In addition benefits have increased by R144 million as a result if the adoption of IAS 19R and R276 million relating to voluntary severance packages.*
2. *Voluntary severance and early retirement cost of R710 million excluded.*
3. *Market research expenses of R81 million has been reallocated from marketing expenses to other expenses.*
4. *Sundry revenue of R128 million previously included in other expenses was reallocated to other income.*
5. *The provision for the Competition Commission fine of R592 million is excluded from the results above and R1 229 million of direct cost and cost of sales are reclassified as direct expenses.*
6. *The R12 billion impairment has been excluded from the results and impairments and write-offs have increased by R25 million due to the amendment to IAS 16.*

OUR FINANCIAL PERFORMANCE (CONTINUED)

Employee expenses were 2,7% lower due to lower full time salary cost as headcount decreased by 9,5%. Part time employee costs, lower provision for bonus and lower overtime also contributed to the decrease. This was negated by a 6,8% average salary increase for bargaining unit employees and a 3,6% average salary increase for management employees.

Selling, general and administrative expenses decreased 7,0% to R4 695 million (2013: R5 050 million), as a result of lower bad debts which decreased 46,0% due to improved credit vetting, lower materials and maintenance expenses, resulting from various cost saving initiatives, lower inventory write-offs and marketing expenses. This, however, was partly offset by higher licence fees.

Space optimisation projects, repairs and renovation of mobile buildings and masts and higher electricity costs led to a 4,9% increase in property management expenses. Consultants, security and other service fees increased 2,3%, which was driven by higher costs incurred relating to the Company's transformation programme.

Building leases increased 18,2% as a result of annual escalations and an increase in the number of mobile sites acquired. The 11,7% increase in vehicle leases was mainly attributed to a cost to terminate 500 vehicles early, which saw a decrease in number of vehicles to 6 066 (2013: 6 848).

Depreciation decreased 4,0% to R5 872 million (2013: R6 118 million). This decline relates to the R12 billion impairment of the asset base in March 2013. However, this was partially offset by accelerated depreciation from reviewing the useful lives of new connections installed to customer premises and a 60,8% increase in depreciation of our mobile assets. The increase in mobile depreciation is driven by the continued expansion of the mobile network.

Impairment and write-offs increased significantly to R632 million (2013: R201 million). With effect from 1 April 2013, Telkom adopted an amendment to IAS 16, property, plant and equipment (PPE) which clarifies that spare parts previously included in inventory be classified as PPE if they meet the definition of PPE. Consequently, certain legacy and technologically aged items were reclassified to PPE from inventory. An impairment was recognised regarding these assets in line with the requirements of IFRS.

MOBILE OPERATING EXPENDITURE

Details of Telkom Mobile's operating expenditure are provided below for additional information.

In ZAR millions	2014	2013	%
Payments to other operators	**482**	482	–
Direct cost	**461**	294	(56,8)
Cost of sales	**1 056**	416	(153,8)
Employee expenses	**359**	333	(7,8)
Selling, general and administrative expenses	**988**	1 077	8,3
Service fees	**144**	245	41,2
Operating leases	**220**	187	(17,6)
Depreciation, amortisation, impairments and write-offs	**598**	372	(60,8)
Total	**4 308**	3 406	(26,5)

EBITDA

In ZAR millions	2014	2013	%
Telkom	**7 797**	7 474	4,3
EBITDA margin (%)	**24,9**	24,2	0,7
Trudon	**573**	580	(1,2)
EBITDA margin (%)	**51,5**	50,9	0,6
Swiftnet	**–**	7	(100,0)
EBITDA margin (%)	**–**	7,4	(7,4)
Total	**8 370**	8 061	3,8

INVESTMENT INCOME

Investment income consists of interest received on short-term investments and bank accounts. Investment income decreased by 36,9% to R176 million (2013: R279 million) as a result of lower cash balances held by the Group.

FINANCE CHARGES AND FAIR VALUE MOVEMENTS

Finance charges include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and foreign exchange gains and losses on foreign currency denominated transactions and balances.

Foreign exchange and fair value gains decreased 20,4% to R344 million (2013: R432 million). This decrease was caused by lower fair value gains on derivatives due to the implementation of hedge accounting effective 1 October 2013 and partially offset by higher fair value gains realised on the underlying assets held by the Cell Captive. Interest expense decreased 3,0% to R636 million (2013: R656 million) as a result of a 38,5% decrease in interest-bearing debt from 31 March 2014 and lower interest rates.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's capital structure remains strong. Net debt, including financial assets and liabilities, decreased 0,8% to R2 108 million from R2 125 million as at 31 March 2013, resulting in a net debt to EBITDA ratio of 0,3 times. On 31 March 2014, the Group had cash balances, including other financial assets and liabilities, of R1 930 million (2013: R4 461 million).

Current liabilities decreased in the year ended 31 March 2014 as we settled the R2,0 billion syndicated loan.

FREE CASH FLOW

In ZAR millions	2014	2013	%
Cash generated from operations before dividends paid as reported	**6 490**	7 649	(15,2)
Add back: Payment to Competition Commission	**291**	–	–
Add back: Payment to insurer for post-retirement medical aid liability	**878**	–	–
Add back: Voluntary severance and early retirement cost	**710**	–	–
Less: Taxation refund received	**(854)**		
Normalised cash generated from operations before dividends paid	**7 515**	7 649	(1,8)
Cash paid for capital expenditure	**(6 370)**	(5 627)	(13,2)
Free cash flow	**1 145**	2 022	(43,4)

Free cash flow decreased 43,4% to R1 145 million (2013: R2 022 million) as a result of an increase in foreign payments as a result of the weakening of the Rand against the major currencies and a 13,2% increase in our capital expenditure.

GROUP CAPITAL EXPENDITURE

Our capital expenditure programme is aligned to our strategy to build our Next Generation Network and grow mobile and converged service offerings.

Group capital expenditure, which includes spend on intangible assets, increased 12,0% to R6 458 million (2013: R5 768 million) and represents 19,9% of Group operating revenue (2013: 17,9%).

In ZAR millions	2014	2013	%
Baseline	**1 837**	2 057	10,7
Network evolution	**2 439**	1 232	(98,0)
Mobile	**1 368**	1 548	11,6
Sustenance	**198**	310	36,1
Effectiveness and efficiency	**162**	121	(33,9)
Support	**357**	377	5,3
Other	**27**	26	(3,8)
Trudon	**45**	63	28,6
Swiftnet	**25**	34	26,5
Total	**6 458**	5 768	(12,0)

Baseline capital expenditure of R1 837 million (2013: R2 057 million) consists largely of the deployment of technologies to support the growing data services business, links to the mobile cellular operators and access line deployment in selected high growth commercial and business areas. The reduction in expenditure for the year is due to the provision of ADSL and Metro Ethernet services under the Next Generation Network programme, included in the network evolution category.

Expenditure on network evolution of R2 439 million (2013: R1 232 million) related to the continued rollout of the Next Generation Network programme which aims to modernise the legacy voice network, provide high speed broadband in selected areas and to address the associated operational and business support systems. The expenditure on this programme has increased as it accelerates beyond the initial phase.

Mobile capital expenditure decreased 11,6% to R1 368 million (2013: R1 548 million), due to the shift to a more concentrated rollout in the four major metropolitan areas.

The sustenance category expenditure of R198 million (2013: R310 million) was largely linked to the replacement of obsolete power systems as well as the replacement and modernisation of the access and core network.

The increase in the effectiveness and efficiency category to R162 million (2013: R121 million) was as a result of the movement of staff from leased buildings to owned buildings and various IT efficiency projects.

The support capital expenditure of R357 million (2013: R377 million) is primarily related to rebranding Telkom stores during the year, the provision of new buildings and building extensions in support of network growth and building compliance upgrades. This capital expenditure decreased 5,3% because a number of projects which were started in previous years were completed.

03

TELKOM BUSINESS

PERFORMANCE SUMMARY

METRO-ETHERNET REVENUES
40%
GROWTH

TELKOM BUSINESS MOBILE CUSTOMERS
78%
GROWTH

BUSINESS IT SERVICES REVENUE
69,3%
GROWTH

NUMBER OF EMPLOYEES
957

INTERNET REVENUES
9%
GROWTH

STRATEGIC FOCUS AREAS

- Building a solutions-based business through vertical clusters
- Offering converged solutions, leveraging off fixed-line, mobile and data centre services capabilities
- Transforming our sales force
- Moving into adjacent markets to benefit from other profit pools
- Consolidating product suite and focus on fibre and high bandwidth products
- Implementing focused approach to network build and service offering to satisfy customer needs

MATERIAL RISKS

- Fixed-to-mobile substitution and pressure on fixed voice revenues
- Reduction in data prices
- Highly competitive and aggressive pricing environment

PERFORMANCE

Telkom Business aims to support South African corporates and businesses to thrive locally and globally by offering them converged communications solutions through combining fixed-line, mobile and data centre services.

As the industry continues to experience fixed-to-mobile substitution, our fixed-voice revenues remain under pressure. Operating revenues decreased this year due to a reduction in fixed-voice usage of around 6%, lower mobile termination rates and more competitive data pricing. Despite these trends, our fibre-based products performed well, with high bandwidth products growing roughly 55% from the prior year. Our IT infrastructure business, Cybernest, also achieved significant growth, with revenues increasing 69,3% from the prior year (see page 45). We increased our Telkom Internet revenues by around 9% from the prior year; although our subscribers for capped products remained relatively flat, our uncapped subscribers increased over 120%.

To manage the downward trend in fixed-voice revenues, we continued to transform our network through the NGN project, enabling us to offer high-speed quality broadband and increase our customer reach. We also provided a collection of calling plans offering better value to our customers and developed new products, such as Business Circle Closed User Group. This is the first product of its kind to offer a fixed and mobile user group where customers can benefit from a single price for calls group Telkom fixed lines and any Telkom Business Mobile or Telkom Mobile line forming part of the designated user group. This was aimed at reducing the cost for small and medium enterprises who migrate to mobile and offered a true convergence production from Telkom Business.

During the year, we successfully renewed and won back several strategic client contracts. This can be attributed to our tailor-made, converged product offering and a solid track record of stability and reliability.

These developments were supported by our activities to transform our sales force, by training them to adopt a unified communications skill set and to drive our sales excellence programme. Through these activities, we seek to retain and secure existing and new customers through our solutions-based selling.

In line with our strategy to build a solutions-based business, we introduced an industry specific vertical approach to servicing our clients with the aim of providing best practice tailor-made solutions for clients in specific industries. This initiative has brought about pleasing results in our customer satisfaction ratings, which have increased around 5% this year.

Operating expenditure increased during the year, driven mainly by the expansion of Telkom Business Mobile. We increased our operational and product capability in Telkom Business Mobile, which has shown pleasing growth during the year, increasing revenues by approximately 281% from the prior year. In response to customers' need for converged services, Telkom Business Mobile launched several products during the year, which have seen favourable uptake by customers and has resulted in a significant increase in our subscriber base.

Another key challenge facing the business is the decline in data prices. We operate in a highly competitive and regulated market that has required us to work more efficiently. This year, we continued to consolidate our product offering by decreasing our product portfolio, and focusing on launching fibre and high bandwidth products. In addition, we effectively implemented cost-control measures throughout the business.

As part of our role of connecting South Africans across the country and facilitating eGovernment services, we partnered with government to provide broadband connectivity and interactive learning management systems in 1 650 schools across the country, to enhance the quality of teaching and learning in rural schools (see case study below).

LOOKING AHEAD

We plan to deliver superior customer service through the implementation of the industry-specific vertical approach and our focus on building a solutions-based business. We will continue to explore and expand in IT adjacencies to benefit from other profit pools and ensure we continue to offer innovative, converged solutions to customers.

While we have concluded several strategic growth deals during the year, the public sector segment remains a key focus area for us and we plan to capture the growth in this market going forward. We will also focus on growing our SME offering by providing tailored cloud services to this market segment.

Aligning with government in connecting schools across South Africa has proved to be a successful initiative for us and we will endeavour to combine our fixed, mobile and data centre services capabilities to facilitate eGovernment into the future.

During the year, in partnership with government, we connected 1 650 schools in South Africa to Telkom's WAN solution using leased lines and satellite connectivity.

We provided 1 650 of these schools with end-user devices, including 24 laptops per school, work group servers, projectors, wireless access points and workgroup laser printers. We also implemented interactive learning management systems and created mailboxes for the schools. While this was a complex task, given the short time frame, we have been able to provide learners with the ability to use laptops, Internet portals and email, as well as assist teachers with access to learner/teacher management portals and the opportunity to teach via eLearning. This project has showcased the magnitude of our network infrastructure, our ability to provide connectivity in even remote areas of the country and the reliability of our services.

Telkom's schools connectivity project at Keledi Secondary School, Rustenburg.

03

CYBERNEST

PERFORMANCE SUMMARY

TOTAL DATA CENTRE SPACE
9 700m²

NUMBER OF DATA CENTRES
SIX

NUMBER OF EMPLOYEES
599

STRATEGIC FOCUS AREAS

- Fulfilling our acquisition strategy
- Realising opportunities for organic growth in IT and Cloud services

MATERIAL RISKS

- Managing the ability to deliver on potentially rapid growth from a small base
- Limited flexibility as a result of being part of the larger Telkom Group
- Increasing energy costs

OUR PERFORMANCE

Launched in 2009, Cybernest is Telkom's data centre offering. We provide three main services: basic hosting with cooling, power and backup-power services; managed and fully managed hosting; and disaster recovery services. The business has six fully fledged data centres, with a seventh currently being operationalised. We have 599 specialised data centre staff, managing more than R2,5 billion worth of IT assets, including around 4 000 servers, 1 500 operating systems and 1 500 databases. The Company operates 9 700 square metres of data centre space, more than any other business in sub-Saharan Africa.

Our two newest data centres, at Hartebeesthoek in Gauteng and Bellville 2 in Cape Town are state-of-the-art centres that have been custom built to provide ultra-quick service to our enterprise customers. From a capacity perspective, Bellville 2 is on par with the top 10% of the world's data centres, and among the most energy efficient facilities of its kind.

Cybernest has continued to perform incredibly well, building on our successes in the previous reporting period. This year, revenues increased by 69% to R347 million, demonstrating the value of being able to leverage off the scale of Telkom's infrastructure and its existing business client base. In doing so, Cybernest is delivering on its initial strategic rationale: reducing Telkom's significant IT costs and meeting a growing customer demand for IT hosting services that utilise Telkom's existing hosting capacity.

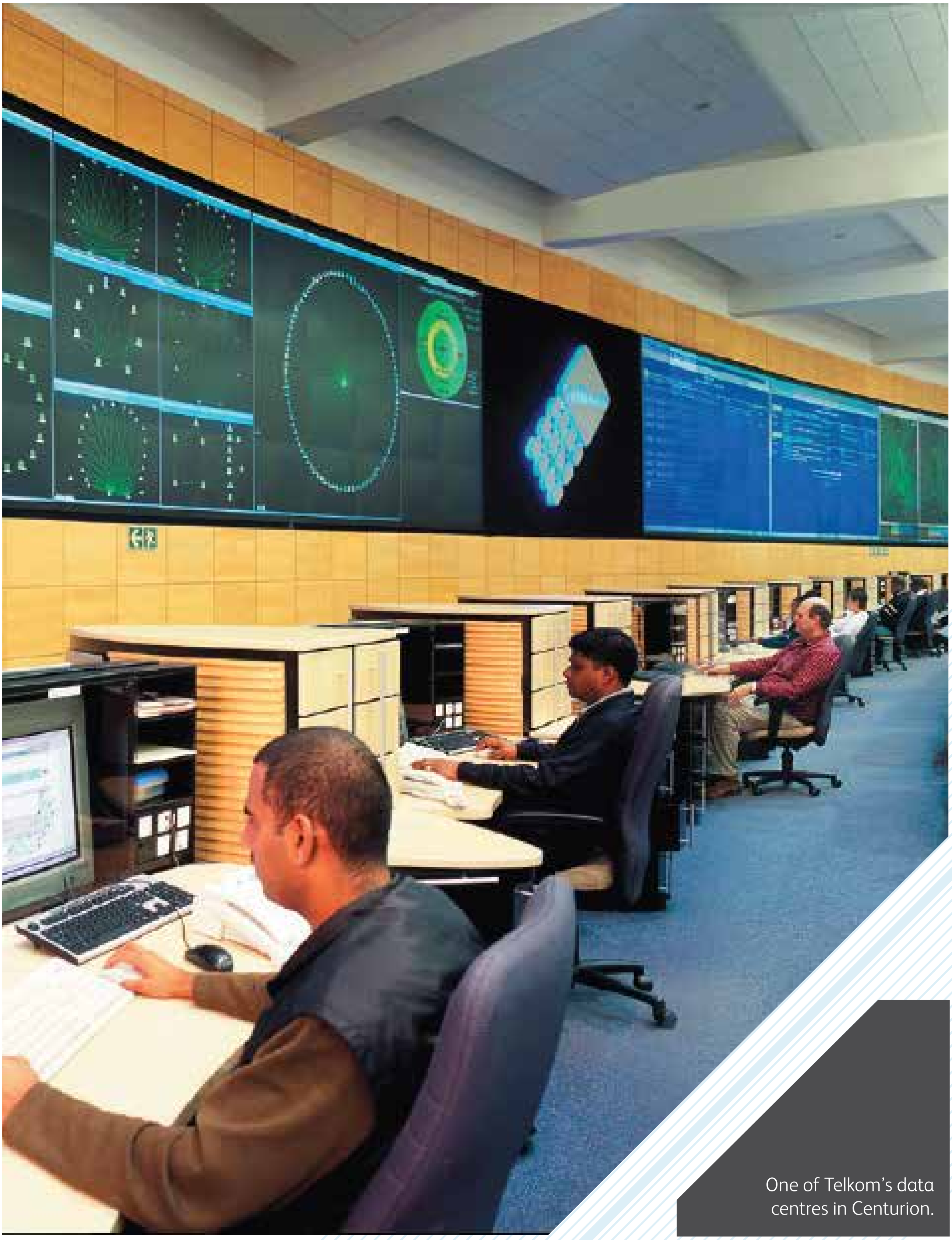
LOOKING AHEAD

Currently operating from a small base, we believe that Cybernest is well positioned to grow rapidly. We are conscious of the need to quickly build our capabilities to meet the rapidly growing end-to-end demands of our clients. To this end, in May 2014, we announced that Telkom had entered into an implementation agreement with Business Connexion (BCX), in which Telkom offered to acquire the entire issued ordinary share capital of BCX.

A key consideration of our transformation programme is to grow beyond the core business of connectivity by expanding into ICT services. BCX is a significant player in the South African ICT services market with strong capabilities in managed IT infrastructure, including data centres and application development.

This proposed transaction will enable us to expand our existing offering, through achieving scale in IT services, which will reinforce our core connectivity business and enhance the Group's convergence strategy.

While the transaction is subject to obtaining all required regulatory approvals, we endeavor to conclude the agreement by the end of this financial year.



One of Telkom's data centres in Centurion.

03

TELKOM CONSUMER

PERFORMANCE SUMMARY

DATA REVENUE
5,4%
INCREASE

FIXED LINES
6,5%
DECREASE

POST-PAID LINES
1,7%
DECREASE

PRE-PAID LINES
16%
DECREASE

ADSL SUBSCRIBERS
6,5%
INCREASE

TELKOM INTERNET SUBSCRIBERS
8,7%
INCREASE

NUMBER OF EMPLOYEES
2 923

STRATEGIC FOCUS AREAS

- Accelerating broadband penetration
- Enhance ISP services
- Enriching content and value added services (VAS)
- Optimising our voice portfolio
- Promoting fixed-mobile convergence
- Improved customer experience

MATERIAL RISKS

- Decreasing demand for fixed-line products as customers shift to mobile
- Poor customer experience
- Increasing market competitiveness

OUR PERFORMANCE

Fixed-line operating revenue for the year decreased 1,9% from the prior year, mainly as a result of decreased fixed voice revenues driven by MTR reductions and continuing fixed-to-mobile substitution. Data services revenue grew 5,4% year-on-year. Data revenue as a percentage of total revenue continued on an upward trend, contributing 26% to gross operating revenue, creating an improved balance between voice and data revenue contribution.

Fixed-voice revenues continued to decline this year, with a 5,1% decrease year-on-year. This was attributed to MTR reductions and increasing fixed-to-mobile substitution. This trend is in line with the global industry benchmark of 6%. We continued to feel the pressure from pre-paid fixed services and public payphones. We were able to increase the annuity-based calling plan penetration by 2% to 70% of our total post-paid base, thereby preserving fixed voice revenues.

Our strategy to grow broadband and mitigate voice revenue pressure has started to pay off. Over this period we grew our subscriber base for DSL by 6,5% and 8,7% for ISP. The attachment ratio for DSL in the post-paid customer base improved to 42% from 39%. This growth can be attributed to improvements made to both DSL and ISP products and to effectively managing churn.

During the year we again increased our entry-level broadband speeds from 1 Mbps to 2 Mbps as part of our investment journey to improve our fixed-line broadband value proposition, while ensuring that it is clearly differentiated from our mobile offering. Our ISP service was enhanced to provide more value to customers. Additional bolt-on services were introduced as optional add-ons to the standard ISP service; this included uncapped access for gaming platforms, social networks and movie platforms, as well as providing access to DSTV Box Office, Apple TV hub and Samsung Video hub.

Our NGN project is well underway. A reduction in faults was observed in areas where the NGN infrastructure has been rolled out.

We achieved significant progress in curbing customer churn, with a decline of 16% and 18% for post-paid voice and broadband respectively. We are focusing on churn management which is being handled by a centralised team.

Resolving service-related issues, improving customer convenience, and addressing factors contributing to poor customer experience remains a concern and is a key focus area. An improving trend in customer service perceptions has been noted in both the commissioned Customer Loyalty Measure and the independent Ask Afrika Orange Index over last three years. Our interpretation of these trends is that we are beginning to address issues that are important to customers. In the previous financial year we introduced a self-help capability for fault-logging in the form of SMS/online/I-applications; we are now seeing an average of 35% of all faults being logged through these platforms.

Stores and call-centres are critical sales channels for both the fixed consumer, mobile and SMBS markets. During the year we continued to transform our stores in terms of ambiance and customer support.

We revamped and relocated 20 stores to locations that were more convenient and accessible for our customers. This year, roughly 55 000 fixed connections were originated almost equally from stores and call centres. Both channels contributed equally to all new connections for the fixed-line services within the SMBS market. The stores are also a major contributing channel for Telkom Business mobile sales.

LOOKING AHEAD

With high-speed quality broadband now available to our customers, educating South Africans on the value and the benefits they can derive from this service will be integral to our business. Our customers will be in a position to experience world-class services with a quality similar to that experienced in the developed markets. It is our intention to effectively play in the content space through partnerships with leading content managers/ providers in the coming year.

We are investing in revolutionising our IT systems, so that they can effectively support our business into the future where converged offers will strongly feature. This will enable us to apply a more customer-centric approach. Online retail has continued to grow exponentially in South Africa; it is our intention to have an effective online retail presence in the coming year so as to expand options that customers have to acquire our products and services. Customer experience improvement through effective and efficient service delivery remains pivotal to our business. To this end we are investing in a programme aimed at addressing a number of service delivery challenges with key input coming from our customers. Towards the end of the financial year, we adopted the Net Promoter Score (NPS) as a key metric and tracker of customer experience.

Telkom was voted best fixed broadband service provider in South Africa at the MyBroadband Conference in October 2013.

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TELKOM MOBILE

PERFORMANCE SUMMARY

CONTINUED GROWTH IN DATA REVENUE
R656m
80,2% INCREASE

TOTAL SUBSCRIBER BASE
1 804k
17,6% GROWTH

NUMBER OF EMPLOYEES
403

POST-PAID ARPU
R173,28
10,5% INCREASE

PRE-PAID ARPU
R31,92
33,7% INCREASE

LTE SITES INTEGRATED
1 183
81,7% IMPROVEMENT

STRATEGIC FOCUS AREAS

- Build and position the Telkom Mobile brand
- Differentiate by providing a value-for-money product offering and using mobility to exploit any convergence opportunities
- Leapfrog technology by deploying LTE and creating ubiquitous access through Wi-Fi
- Deliver superior customer service
- Embed our coverage footprint through the existing roaming agreement
- Achieve a low cost-structure

MATERIAL RISKS

- Currently experiencing a negative free cash flow, which is improving
- Fourth entrant into a highly competitive, price-driven market
- Outcome of the heads of agreement with MTN

OUR PERFORMANCE

A key focus area for Telkom Mobile was to build the Telkom Mobile brand with the aim of differentiating ourselves by offering superior, high-speed mobile broadband. We rebranded our business in March 2013 and have received favourable responses from our customers who have experienced value in this change. In this regard, Telkom Mobile won the MyBroadband mobile broadband provider of the year in September 2013. This is to be further enhanced by making LTE mainstream as a viable broadband offering. From a customer experience perspective we were placed 12th overall in the Ask Afrika Orange index, improving from a position of 46th in the previous year.

During the year we continued to bolster the commercial rollout of base transceiver stations in the four major metropolitan areas: Johannesburg, Pretoria, Cape Town and Durban. We have 2 416 2G/3G sites, and expanded our LTE footprint to 1 183 sites integrated. With 2 426 active Wi-Fi hotspots across the country, Telkom Mobile now has the largest Wi-Fi network in South Africa. This Wi-Fi network will serve to differentiate Telkom Mobile from the other mobile operators.

During the year we launched numerous LTE products. These have seen a positive uptake where our customers are enjoying speeds of up to 80 Mbps. Our Unlimited post-paid contract with unlimited voice and on-net data has performed well during the year.

In line with our strategy of providing a value-for-money product offering, Telkom Mobile launched Sim Sonke in July 2013. Sim Sonke was marketed to the price-conscious consumer by offering them the lowest pre-paid call rate in the country at 29 cents per minute for calls within the mobile network and 75 cents per minute for calls to other networks. We have seen a high demand and rapid uptake of Sim Sonke since its launch.

Telkom Mobile grew its customer base by 18% to 1 803 675 subscribers during the year. We also achieved improved quality in our customer base, with pre-paid ARPU rising 33,7% to R31,92 from the prior year. Our post-paid subscribers declined slightly due to the expiry of the bulk hybrid contracts, but with a growth in post-paid ARPU of 10,5% to R173,28 from the prior year.

External service revenue increased by 16% as a result of continuous growth, triggered by the introduction of new data products throughout the year in support of the Group's data strategy. Data traffic volumes more than doubled during the year with above 1 billion Mbps consumed by customers on a monthly basis at 31 March 2014.

EBITDA loss improved 20,4% to R1 334 million, which was mostly driven by tight cost management in support of our aim to achieve a low-cost structure. To this end, we curtailed costs by renegotiating maintenance agreements with network maintenance vendors, implementing a focused marketing campaign and decreasing third party spend.

During the year we also revised our capital expenditure programme for the next five years. The outcome of the revision included a significant reduction in capital expenditure going forward through adopting a more focused approach to building our network.

While we have managed to contain costs to an extent, the business still faces significant challenges that come with being a fourth entrant into a highly competitive, price-driven market. In addition, the telecommunications industry is facing an unprecedented shift from voice to data, and telcoms operators need to expand their capacity and footprint to meet growth in data demand.

In response to these challenges, in March 2014 Telkom entered into a heads of agreement with MTN to extend our existing roaming agreement to include reciprocal roaming and outsourcing of the operation of our Radio Access Network (RAN). While the timing of the conclusion of this agreement is still uncertain, it will enable our and MTN's customers to roam on both networks and have the advantage of full access to capacity and coverage. The bilateral roaming arrangements will also allow us to increase our footprint and we expect a reduction in our operational and capital expenditure. Furthermore, the adjustable nature of roaming fees will assist us in moving our operating cost base from fixed to semi variable, which presents us with an opportunity to stem current free cash flow, enabling us to be more competitive.

ICASA's proposed Mobile Termination Rate (MTR) glide path will also assist us to be more competitive by significantly reducing our interconnect fees resulting from the asymmetric nature of the proposed MTRs. The new glide path will provide a level playing field for mobile operators and will reduce the cost to communicate for South Africans.

LOOKING AHEAD

In FY 2015, we will continue to build brand awareness in order to grow our subscriber base to achieve critical mass. We will also continue to manage our costs to encourage sustainable cash flow generation and derisk the mobile business.

The reduction in MTRs will bring benefits to the business and South African consumers by allowing us to offer more competitive pricing. We hope to conclude the proposed agreement with MTN during the next financial year, which will assist in alleviating the pressure on business' cash flow and operational costs.

Telkom Mobile launched Sim Sonke in July 2013.

03

TELKOM WHOLESALE AND NETWORKS

PERFORMANCE SUMMARY

PORTS ACTIVATED VIA MSAN
475 144
547% INCREASE

NUMBER OF HOMES PASSED
399 606

COPPER THEFT LOSSES
R134,8m
19,7% DECREASE

NUMBER OF EMPLOYEES
11 827

STRATEGIC FOCUS AREAS

- Creating an invincible network
- Providing high speed, fixed-line broadband
- Managing our high cost base
- Implementing efficiencies to improve workforce productivity
- Delivering superior customer service

MATERIAL RISKS

- Self-provisioning by other licensed operators
- A high cost base, largely as a result of headcount and maintenance costs of legacy network
- Copper theft

OUR PERFORMANCE

Telkom Wholesale and Networks' operating revenue declined slightly this year, mainly as a result of an approximate 3% decrease in data revenue. The decline in data revenue was largely due to a reduction in mobile leased lines, caused by continued self-provisioning by other licensed operators (OLOs). Voice revenues decreased around 6%, mainly as a result of a drop in domestic interconnection and mobile interconnection income. However, we achieved a favourable growth in our Internet access and related services revenue of over 4%.

A core focus area this year was to manage our high cost base. Operating costs decreased by approximately 7%. This was largely due to a reduction in headcount following the increased uptake in voluntary severance packages offered to staff, the savings achieved by renegotiating costs associated with maintenance contracts, and implementing efficiencies to increase workforce productivity.

In February 2014, Telkom Wholesale implemented an IPC price reduction of 15%. This replaced the 5% free IPC bandwidth allowance that was offered by Telkom Wholesale on a temporary basis from 1 October 2013. We believe that reducing IPC prices will assist Internet service providers (ISPs) to grow fixed broadband in South Africa and will also translate into reducing the cost to communicate for South Africans. Over the past two years, we have effectively reduced our IPC prices by 53%.

During the year, we successfully raised our entry-level ADSL speeds from 1 Mbps to 2 Mbps as well as the 2 Mbps to 4 Mbps, and 4 Mbps to 10 Mbps. We are certain that these speed enhancements will contribute to drive fixed broadband penetration in South Africa. We also initiated a new target to reduce the turnaround time of installations to 90% within five working days. During the year, we managed to perform 85,4% of installations within five working days, which is a significant achievement.

In July 2013, the Competition Tribunal confirmed a settlement agreement between Telkom and the Competition Commission in the Multiple Complaints Referral matter. The agreement required us to implement a functional separation between our Wholesale and Retail operations on the basis contemplated in the agreement. In addition, we were required to treat OLOs and Telkom Retail in a non-discriminatory manner when providing specified services. This agreement has called for us to strategically reposition our Wholesale business. We have revised our pricing strategy and focused on transforming our network into an all-IP network, which will assist us in offering true convergence to our customers.

Our capital expenditure increased in the region of 27% from the prior period. Creating an invincible network is a strategic objective for Telkom Networks. This year, we implemented our all new Internet Protocol Multimedia Subsystem (IMS) core, a strategic milestone in moving towards an all-IP network.

The IMS core allows for the deployment of fixed and mobile services and caters for a larger number of customers than legacy voice systems. The system also affords us significant savings in terms of space, power, cooling and maintenance.

The rollout of NGN achieved an important landmark this year with just under 400 000 homes having been connected and around 475 000 active ports provided. The NGN programme, which focuses on the top exchanges in our network, will equip us to optimise our cost base by lowering maintenance costs and reducing fault rates.

Self-provisioning by OLOs and copper line theft are significant challenges for our business. Each year we incur substantial costs from cable theft, despite the decrease of 12,9% in reported theft incidents during the year to 7 232. Through the NGN programme and the move towards being all-IP enabled, we aim to curb the trend in self-provisioning and reduce the expenses incurred to maintain our legacy network.

Telkom in conjunction with the SABC provided and successfully operated all voice, data, broadband broadcasting and mobile services during the funeral of former President Mandela to ensure that South Africans and the rest of the world could participate in this memorable event. Further to this, Telkom also developed the ‘Message for Madiba’ platform.

LOOKING AHEAD

During the next financial year, we will continue to accelerate the rollout of the NGN programme to achieve critical mass. We will also continue to find ways to implement efficiencies across the business to improve workforce productivity, bring down operational costs and enhance our service delivery.

Strategically repositioning our Wholesale business will be an important task, and we will continue to transform our current exchanges to achieve an access agnostic network, in support of the Group’s convergence strategy.

GCEO, Sipho Maseko at the launch of Telkom’s IMS core in August 2013.

03

THAMI MSUBO
CHIEF OF HUMAN RESOURCES

Thami Msubo
Chief of Human Resources

PERFORMANCE SUMMARY

NUMBER OF PERMANENT TELKOM EMPLOYEES

19 197

LABOUR TURNOVER (%)

2,1%

SKILLS DEVELOPMENT AREAS

- TECHNICAL TRAINING
  42%
- LEADERSHIP
  23%
- SALES AND MARKETING
  23%
- IP/NGN/ BROADBAND
  12%

EMPLOYEES 31 MARCH 2014

	Black		White		Foreign nationals			Black	Female
Grades	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Grand total**	**Total**	**Total**
Management									
Top management	6 50%	1 8%	3 25%	0 0%	2 17%	0 0%	12	7 58%	1 8%
Senior management	51 37%	19 14%	56 40%	13 9%	0 0%	0 0%	139	70 50%	32 23%
Middle management	847 35%	362 15%	879 37%	292 12%	19 1%	4 0%	2 403	1 209 50%	658 27%
Bargaining unit									
Junior management	7 321 46%	3 373 21%	3 732 24%	1 326 8%	21 0%	2 0%	15 775	10 694 68%	4 701 30%
Operational	249 29%	345 41%	59 7%	194 23%	0 0%	1 0%	848	594 70%	540 64%
Support	4 20%	14 70%	0 0%	1 5%	1 5%	0 0%	20	18 90%	15 75%
Total	8 478 44%	4 114 21%	4 729 25%	1 826 10%	43 0%	7 0%	19 197	12 592 66%	5 947 31%

	2014	2013	2012	2011	2010
Opening balance	**21 209**	20 939	22 884	23 247	23 520
Employee gains	**255**	915	435	439	592
Appointments	**249**	906	428	428	584
Re-instatement	**6**	9	7	11	8
Employee losses	**2 267**	645	2 380	802	865
Voluntary reduction (employee initiated)	**1 835**	55	1 873	191	1
Early retirement	**1 103**	6	1 013	110	1
Severance	**732**	49	860	81	0
Natural attrition	**432**	590	507	611	864
Closing balance	**19 197**	21 209	20 939	22 884	23 247
Contract or temporary employees	**1 846**	2 938	3 028	2 550	3 557
Total headcount	**21 043**	24 147	23 967	25 434	26 804

How would you describe your role in delivering on Telkom's growth strategy?

Our role as the Human Resources division is to be a key enabler for achieving the business strategy by providing a critical support function that makes a positive contribution to the bottom line. In delivering on this role, our primary objective is to optimise Telkom's organisational capabilities, ensuring that we have the right people, in the right roles, doing the right things. Having a skilled, motivated, culturally diverse and productive workforce is fundamental to achieving our growth strategy.

What are the challenges that you are facing in delivering on this objective?

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

As part of our strategic turnaround plan, we have focused our efforts this year on organisational redesign initiatives that seek to streamline our workforce, flatten the organisational structure, reduce bureaucracy and bring us closer to the customer. I believe that our recently launched workforce optimisation initiative will bring much needed efficiencies here. It will facilitate quicker decision-making, enable more effective implementation of the Group strategy, and improve our ability to be more responsive to the changing business context. Initially the principal focus will be on achieving improved efficiencies and streamlining reporting channels at a management level. Thereafter, as part of a three to five-year programme, we will be implementing measures aimed at rationalising the workforce more broadly. In doing so, we will be working in close consultation with our three main unions, the Communication Workers' Union (CWU), the South African Communications Union (SACU) and Solidarity. We have a constructive relationship with these unions. This year, for example, during the wage negotiations we concluded our longest standing agreement with the unions, covering the next three years. Encouragingly, we experienced no industrial action over the year.

How are you responding to the changing nature of the telecoms sector?

This is another key risk that we need to manage. If Telkom is to grow successfully in this rapidly changing sector, it is critical that we are able to attract and retain the best talent. As we adapt our business model to the realities of digital and mobile, we need to have the right people, with the right attitude and aptitude, in the right roles. We need people with the right technical skills and customer orientation to develop, rollout and service the new technologies associated with the shift from a predominantly fixed-line voice-based business, to one that will be increasingly dependent on convergence, data and cloud services.

As the need for high speed broadband grows, we anticipate there will be a significant demand for people with technical skills and experience in the new technologies. We are working hard on building an appropriate pipeline of skills. In addition to supporting graduate training programmes at different universities around the country, we have also embarked on an ambitious internal programme to retrain staff on our next generation network technology. We run six centres for learning throughout the country to develop skills for our technicians. This year, we invested over R300 million in the provision of training for our employees. This includes external technical training for 905 of our employees, as well as internal technical training for 8 294 employees at the various Centre for Learning (CFL) campuses.

An important element of our talent attraction and retention strategy is being able to offer competitive remuneration and incentive schemes. We have found that without an attractive share-option scheme it has been difficult to attract some of the much-needed skills. With the Group's recent poor financial performance, on the one hand our short-term incentives have not been very lucrative, and on the other hand there have been instances when we have been paying bonuses that we could not justifiably afford. An important development this year was the approval of our long-term incentive scheme by our shareholders at our AGM, whereby approximately 5% of the Company's issued ordinary shares were allocated to the scheme.

There has been a strong call from investors to manage employee costs. How are you faring here?

I think we have been making some very good progress in terms of managing employee costs. In addition to the valuable cost-savings achieved in reducing our headcount by approximately 3 700 people through VSPs and VERPs over the past three financial years, we are realising important employee efficiency improvements through optimising our call centres, streamlining our product offerings, and implementing more effective systems to manage overtime costs. Over the longer-term we will be seeking significant further reductions associated with flattening the management structure and rationalising the workforce.

Reducing overhead costs has not been our only focus though. We have also been implementing measures aimed at enhancing employee motivation and productivity. Recognising the need to improve how we assess, motivate and manage employee performance, we have introduced new performance rating scales that we believe more accurately assess and reward employees' contributions to achieving Telkom's strategic objectives. We have also been working to ensure that our training programmes are more closely aligned with our performance improvement plans, with a particular focus on our NGN rollout.

It is encouraging to see that our activities in the past year are being recognised by our employees. Our most recent internal survey found that 71% of employees now feel that they are being overtly engaged, up from 64% last year.

What are your immediate plans for the year ahead?

Our priority focus in the year ahead will be on rolling out our organisational redesign initiatives, ensuring the provision of technical training, and embedding our new approach to remuneration. We will also continue to place a strong emphasis on our transformation initiative. In addition to our clear focus on skills development, we will be working further on meeting our employment equity targets.

03

IAN RUSSELL
CHIEF PROCUREMENT OFFICER

Ian Russell
Chief Procurement Officer

"In finalising our property strategy we will need to ensure full alignment with the broader Telkom vision and strategy, so that we can create a fit-for-function property story."

Telkom has the ability to drive **EXCITING INITIATIVES** as part of our enterprise development strategy with our supply base.

You've recently joined Telkom as Chief Procurement Officer. Can you tell us a little bit about your previous background?

Firstly, I'd like to say how excited I am to be joining the Telkom executive team. There are some very interesting opportunities ahead and I look forward to playing a part in delivering on Telkom's turnaround vision. Previously, I was Head of Procurement at South African Breweries, and prior to that I held various positions in Barclays and Absa, including Chief Procurement Officer. My academic background is in strategic procurement issues, and I'm a Fellow of the Chartered Institute of Purchasing and Supply.

How would you describe your new job?

In a nutshell I'm responsible for managing the "non-employee costs portfolio". This is made up primarily of three key areas: our third-party procurement spend with suppliers, the costs associated with running our substantial property portfolio, and, to a smaller extent, managing our supply chain. My focus in terms of cost-reduction opportunities lies primarily with the first two of these areas, where I see useful opportunities for greater efficiencies. Each of these will require quite different journeys.

How do you foresee this journey in terms of managing Telkom's property portfolio? Are there really significant opportunities for value creation here?

Doing this issue justice is a complex discussion, but let me try and summarise it quite briefly.

Telkom has one of the largest real estate portfolios in South Africa. This portfolio has arisen through the various purchases that we have made throughout Telkom's long history, which goes right back to our role as part of the South African postal services. The portfolio includes land that we have acquired, for example, in establishing our regional and head offices, our networks, masts and towers, our retail outlets, and our back-office contact centres.

Understandably we are now asking ourselves whether this huge portfolio is appropriate for a 21st century communications company. We have started our analysis by undertaking a detailed strategic property review that is segmenting our property by usage type. We will be using this analysis to see how we can maximise shareholder value from this asset base. It is important to appreciate that property is, of course, a long-term game.

While we will be looking to realise some initial benefits within a five-year horizon, the balance will be beyond that horizon.

One of the consequences of this real estate portfolio is that we have a substantial facilities management bill (particularly in terms of energy), which is placing a significant cost burden on the business. We are exploring some interesting opportunities to reduce this bill over the next few years.

In finalising our property strategy we will need to ensure full alignment with the broader Telkom vision and strategy, so that we can create a fit-for-function property story. We plan to finalise this strategy, and our five-year implementation plan, during the second half of the 2015 financial year and will be presenting it to the Board for their consideration. In doing so, once we have a more detailed appreciation of the full nature of property assets, we will be reviewing the implications for the Telkom balance sheet.

Do you anticipate similar opportunities in terms of your procurement responsibilities?

While this is quite different to managing our property portfolio, there are some interesting possibilities here for us to build on the past successes that Telkom has achieved in this area. There are three key areas that I will be looking to prioritise in the year ahead.

Firstly, in terms of our IT procurement, we will be focusing on developing more robust and strategically aligned relationships with our principal IT suppliers. I think there is significant potential for us to see greater sharing in our research activities, and to ensure better alignment in our strategic visions. As part of this drive we will be looking, for example, to hold quarterly dialogues at a CEO level with our leading global suppliers.

A second focus area will be to realise the opportunities that exist in improving the value we receive from our non IT-procurement spend, in areas such as fleet management, travel, advertising and so on. I am confident that through a careful commodity management approach and a good analysis of our cost base, we will be able to get much closer to global benchmarks in this area.

Finally, I think we can drive some very exciting initiatives as part of our enterprise development strategy with our supply base. While we have done very well in the past from a B-BBEE scorecard perspective, given the new codes we will need to re-energise our approach here. We will be putting in place a five-year strategy with the aim of using our enterprise development activities to take a leadership role in addressing societal challenges. Telkom has a valuable asset base that, with some creativity, can be used effectively to empower enterprise development and make a positive contribution to building the South African economy.

Read more about our strategy in the GCEO's statement on page 41 of this integrated report

03

ENZO SCARCELLA
CHIEF MARKETING OFFICER

Enzo Scarcella
Chief Marketing
Officer

"My biggest challenge, and my primary role, is to help Telkom become a more consumer-centric business. For us to successfully grow the Company, we need to ensure that our decisions and actions are guided by the philosophy of 'Customer First'."

As Telkom's new head of marketing, what do you see as your main challenge?

We need to acknowledge that Telkom faces many challenges. We're in an unprecedented period of digital innovation, and operating in an increasingly competitive and rapidly changing sector. Those companies that don't change fast enough won't survive. With fixed moving to mobile, traditional voice moving to data, and individual services moving to converged services, to succeed we will need to revisit our traditional business model, and change our products and services portfolio. But changing our products and services alone won't be enough for us to succeed. We also need to deliver these products and services with a level of excellence that earns our customers' trust and their recommendations.

My biggest challenge, and my primary role, is to help Telkom become a more consumer-centric business. For us to successfully grow the Company, we need to ensure that our decisions and actions are guided by the philosophy of 'Customer First'. We need to have a disciplined process in place of understanding and acting on what our customers say and think about us, making sure that we enhance their experience with us and ultimately improve their advocacy. Repositioning Telkom in this area is an exciting challenge.

How do you plan to go about getting the business to be more customer-centric?

There are various initiatives that we will be focusing on putting the customer first but at the heart of this is our drive to enhance the customer experience.

Firstly, we need to improve our understanding of the customer experience by generating real-time customer feedback. A key initiative that we have recently implemented is to start using the Net Promoter Score (NPS) as a means of better understanding the root-cause drivers of customer advocacy. The NPS is a simple, yet powerful, metric that measures both delight and anger, and that can be used easily at all levels of the organisation to assess the nature of customer advocacy, both positive and negative. To measure our NPS we simply ask one question: "How likely would you be to recommend Telkom to friends and colleagues?" Depending on their response, we categorise customers into one of three groups: a loyal promoter, passively indifferent, or a dissatisfied detractor. By understanding their reasons for promotion, indifference or detraction, we can then identify and address the key pain points needed to improve the overall customer experience, and grow the number of promoters.

We are already piloting the NPS at different regions, and are looking to have every technical and sales agency generate and share their own NPS scores. Along with this, we will be implementing measures to ensure that we close the loop with customers and resolve any outstanding issue as quickly as possible. We will be sharing the feedback from this process with our frontline to enhance learning and improvement.

A second key focus is on ensuring consistency and customer excellence in the end-to-end delivery of our products and services. We will be streamlining our product and service offerings, and establishing clear ecosystems around each of these with a strong focus throughout on customer service. It is important that we understand, prioritise and respond quickly and effectively to any problems through a customer-centric lens.

A third area is for our executive and management team to serve as role models in demonstrating customer leadership behaviours. The leadership team will become more actively involved, for example, in making monthly customer calls, undertaking frontline visits, and celebrating those employee 'customer heroes' who have demonstrated excellence in enhancing the customer experience.

Underpinning all of these initiatives is the drive to win the hearts and minds of people, and to rebuild strength in the Telkom brand. This requires that we focus first on getting the business right and that we address any specific challenges relating to the value and quality of our service and network. At the same time, we need to be engaging more actively in communicating the Telkom brand.

How do you think the Telkom brand is currently perceived?

Not as well as it used to be. Although Telkom's history goes right back to the late 1700s and the first days of the South African postal service, as the Telkom brand we're only 23 years old. It's a brand that's had an interesting ride. Back in 2003, Telkom was voted one of the top three "most loved brands" in the country. Unfortunately things have changed since then. Our assessment of customers' perceptions of Telkom, and of their levels of brand awareness and loyalty, show that we have declined in most saliency measures each year for the past seven years. I'm determined to regain the level of confidence and trust that we had back in 2003, and I believe that we can. But it will require some hard work.

What are your plans to rebuild the Telkom brand?

A company's brand is a manifestation of the business; we need to fix the business before we fix the brand. There is much excellent work that is being undertaken throughout the Company to address some of the internal challenges that we face. From my perspective, I will be working to address what I see to be a significant cultural challenge within the Company, namely the issue of competing business silos. From an identity perspective it is critical that we are seen to have one business and one Telkom brand that engages more effectively with the consumer. It is problematic when the business creates sub-brands that might be seen to be disassociating themselves from the main brand. In the few weeks that I've been here at Telkom I've heard some of the businesses say for example that they don't want to be associated with the "old out-dated Telkom brand". We need to address this challenge.

Currently we have three main identities out in the market: Telkom (the core business), Telkom Mobile and Telkom Business. While each of them have individual strengths, all of them have been seeing a decline in consumer saliency measures, though not at the same level. Telkom Business is a leader in its category and is a source of excellence within Telkom. Telkom Mobile, by contrast, is very small, being the fourth entrant in a very competitive market. We need to pull them together into one Telkom brand that builds on the very clear collective strengths that we have as a business: our strength, for example, in having the most comprehensive fibre network in the country, on the fact that Telkom Business is the primary IT service provider for the country's banking sector, or that Telkom Mobile offers the best value in mobile and in home broadband rates. There is an exciting opportunity for us to pull these pockets of excellence together into one primary brand.

As we look to build our brand it is critical that we find the right balance between the 'emotional' and the 'rational'. As a company of engineers we tend to focus on the 'rational', on being faster and cheaper than our competitors. We need to go beyond this, and focus more on the 'emotional' aspects, on really building the customer experience along the lines of what I outlined earlier. It's important that we try and move away from the potential downward spiral of seeking differentiation simply on product and price.

Are you optimistic about delivering this turnaround?

Absolutely, I think it's encouraging that despite the recent decline we have seen, people will still give us a chance; they haven't stopped considering us. And we're seeing some encouraging signals, with some new lines of business starting to pick up very nicely. Our mobile business is starting to gain traction, our mobile broadband is the best in the country by objective measures, revenue from our IT business has grown 69,3% in the current year, and fibre services are starting to take off. And we're beginning to see some heartening results in some of our customer surveys. It was most encouraging for example that the latest HelloPeter statistics show that Telkom Mobile has the highest compliments-to-complaints ratio from consumers, and that we have improved our ranking in the Ask Afrika Orange Index over the past three years.

These are encouraging signs, but we still have a long way to go. Looking to the future, I think Telkom has huge potential for growth as part of the move to digital and Wi-Fi. Currently around 4,5 million homes in South Africa have DSTV, yet only 1 million are Wi-Fi enabled. This presents us with a great opportunity to expand our customer base and increase purchase levels amongst existing customers through the sale of enhanced in-home solutions. With this in mind, a key focus going forward will be on 'owning the digital home'. We will be seeking in particular to engage families with in-home Wi-Fi and individuals with mobile, in addition to our drive to reinforce the success of our enterprise activities and engage more small businesses.

03

OUR SUSTAINABILITY PERFORMANCE

Ouma Rasethaba
Chief Risk Officer

Telkom is committed to doing its business in a responsible and ethical manner. We have a well-defined set of policies, standards and management systems aimed at embedding sustainability principles within our business activities. Responsibility for developing and implementing these policies rests with Telkom's Empowerment and Sustainability team that forms part of our Enterprise Risk Management business unit. During the reporting cycle, Telkom established a Social, Ethics and Sustainability Council, chaired by the Chief Risk Officer.

OUR MATERIAL SUSTAINABILITY FOCUS AREAS

Those sustainability-related risks and opportunities that have a material impact on Telkom's ability to create value have been integrated within this report. These issues are reflected in our response to the changing business context (page 23), our response to stakeholders (page 27), our material business risks (page 34), our strategic objectives and enablers (inside front cover), and the separate performance reviews.

For more information on our sustainability focus areas refer to Sustainability Report www.telkom.co.za/ir.

For the purposes of our more detailed reporting on our sustainability reporting performance, we have identified the following specific 'material sustainability focus areas':

- Promoting ethical conduct and anti-corruption
- Human capital: Developing our people
- Occupational health and safety
- Broad-based black economic empowerment (B-BBEE)
- Procurement and supply chain
- Product and service responsibility
- Investing in society
- Environmental management

These areas relate to those sustainability-related issues where we are seen to have a particular societal impact, as well as those issues that substantively influence the assessments and decisions of key stakeholders. The focus areas were identified on the basis of an internal assessment of our material risks and opportunities in the context of our Group strategy, as well as a review of the interests and expectations of our stakeholders. The process of identifying and prioritising these issues drew on the materiality guidance provided by the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC).

A brief summary of our quantitative performance in each of these sustainability focus areas is provided in the table below. A more detailed review of our performance is given in Telkom's 2014 Sustainable Development Report, available on our website at www.telkom.co.za/ir .

LOOKING AHEAD

Telkom has set itself the following sustainability goals for the 2014/2015 financial year:

- Reviewing our sustainability strategy and corporate citizenship policy to align with Telkom's turnaround strategy
- Undertaking a gap analysis to incorporate the GRI G4 reporting guidelines into the performance measurement of the Company in the 2014/15 reporting cycle
- Assessing the implications of the United Nations Global Compact (UNGC), with the goal of becoming UNGC signatories in 2015
- Developing energy efficiency targets
- Conducting fraud risk assessments in our remaining business units during the next financial year.

Material sustainability focus area	Sustainability performance summary	2014	2013	2012
Ethical conduct and anti-corruption • Minimising fraud and corruption • Ensuring legislative compliance	Completed fraud risk assessments	**1**	0	0
	Number of reported cases and investigations	**2 086**	2 448	3 122
Developing our people • Maintaining a culturally diverse and adequately skilled workforce • Corporate culture and Group values • Investing in skills development that keep pace with technological evolution	Total headcount	**19 197**	21 209	20 393
	Employee turnover (%)	**2,1**	2,8	2,3
	Black representation in senior management (%)	**50,0**	53,0	53,0
	Women representation in senior management (%)	**23,0**	27,0	25,0
	Investment in learning and development (Rm)	**301,3**	255,0	244,6
	Total training days	**99 439**	122 129	101 628
Occupational health and safety • Optimising employee safety and wellbeing • Ensuring full legal compliance • Managing non-ionising electromagnetic radiation exposure	Work-related fatalities	**0**	2	2
	Injuries	**512**	694	770
	Number of occupational diseases	**0**	2	0
	Lost days	**5 667**	6 767	7 204
	Absenteeism	**136 048**	137 702	136 749
Broad-based black economic empowerment (B-BBEE) • Transformation of the ICT sector, the Telkom Group and the economy • Changes in the legislative framework	Ownership (score out of 20)	**8,93**	4,64	5,39
	Management control (score out of 10)	**10,00**	11	10,83
	Employment equity (score out of 10)	**5,29**	5,81	10,18
	Skills development (score out of 17)	**7,82**	8,08	10,40
	Preferential procurement (score out of 20)	**24,68**	24,46	19,79
	Enterprise development (score out of 11)	**11,00**	11,00	15,00
	Socio-economic development (score out of 12)	**12,00**	12,00	5,00
Procurement and supply chain • Promoting local economic transformation • Job creation • Cost containment • Promote local economic growth	Procurement spend (R billion)	**21,1**	19,8	21,2
	Local procurement (%)	**75,87**	82,79	82,33
	Procurement from black-owned suppliers (Rm)	**4 307**	4 489	3 763
	Procurement from black women-owned suppliers (Rm)	**869**	906	653
	Black-owned enterprise development beneficiaries	**105**	119	76
Product and service responsibility • Defending profitable revenue through customer retention and loyalty, improved customer experience and service quality • Managing customer churn • Innovative products and service offerings • Providing cost-effective technologies with minimal environmental impact • Broadband growth and rollout	Overall service quality (%)	**59**	51	48
Investing in society • Enhancing value added to all stakeholders • Improve and empower communities	Corporate social investment expenditure (Rm)	**45**	42	30
	Percentage of black beneficiaries (%)	**>90**	>90	>90
	Number of employee volunteers	**2 008**	1 800	1 628
Environmental management • Energy use • Climate change and carbon footprint • Environmental impact of infrastructure • Integrated waste management • Water use	Electricity consumption (kWh)*	**656 669 130**	662 086 138	672 653 921
	Carbon emissions (tonnes)*	**740,0**	762,4	774,2
	Recycled copper (tonnes)	**1 241**	1 231	1 279
	Recycled optic fibre (tonnes)	**333**	281	251

** Including subsidiaries.*

TELKOM'S RALLY TO READ PROJECT

The Telkom Foundation is in partnership with Read Educational Trust and Bidvest Group to support the improvement of literacy and numeracy in primary schools focusing on grades R to 7 across all provinces through the Rally to Read programme. The Rally to Read provides teacher and learner literacy resources as well as training and support to teachers. Telkom and Bidvest exclusively support the grade R component of the programme nationally while other corporate organisations also contribute to grades 1 to 7. The programme annually reaches over 1 300 teachers and 40 000 learners in over 100 schools. The programme enables sponsors to physically deliver learning materials and interact with benefiting learners, teachers and communities during Rally weekends

GOVERNANCE

04

TELKOM SA SOC LIMITED

Committee	Delegated Authority
Audit Committee	Monitors the Group's integrity in financial reporting
Remuneration Committee	Sets remuneration and incentives for the executive directors, approves and monitors remuneration and incentives plans for the Group
Nomination Committee	Ensures that the Board and Committee composition has the optimum balance of skills, knowledge and experience
Investment Committee	Reviews and recommends to the Board investment decisions appropriate to the Group's strategy, gearing and risk appetite
Social and Ethics Committee	Monitoring the Group's activities, having regard to any relevant legislation, policies or prevailing codes of best practice
Risk Committee	Reviews the effectiveness of the risk management framework

Board structure

04

BOARD OF DIRECTORS

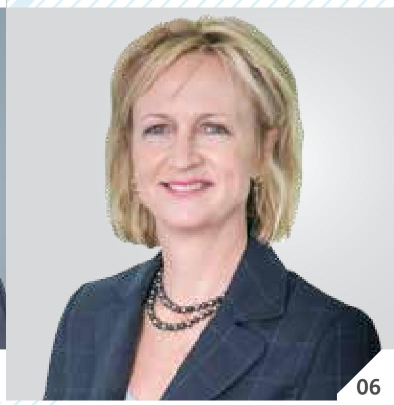

01


02


03


04


05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01
JABULANE MABUZA

Effective Leadership Programme, Executive Development Programme: Financial Statement Analysis
Independent Chairman of the Telkom Board
Nominations Committee Chairman
Remuneration Committee member

Jabulane Mabuza was appointed to the Board in November 2012. He is widely recognised as a successful entrepreneur. Mr Mabuza is also the Deputy Chairman of Tsogo Sun Holdings and President of Business Unity South Africa (BUSA). He serves on the boards of ACE Insurance Limited, Eglin Investments No 44 (Pty) Limited, Kuncedzana Investment Holdings and Lexshell 627 Investments (Pty) Limited, among others.

Prior to this he was Managing Director of Southern Sun Gaming, Group Chief Executive Officer of Tsogo Sun and Chairman of the Board of South African Tourism.

Mr Mabuza has attended several executive courses, including the Effective Leadership Programme from the Wharton School of the University of Pennsylvania and the Executive Development Program: Financial Statement Analysis from the John E Anderson Graduate School of Management at the University of California, Los Angeles.

02
SIPHO MASEKO

BA (Law), LLB
Executive Director, Group Chief Executive Officer
Investment and Transactions Committee member

Sipho Maseko was appointed as Group Chief Executive Officer of Telkom in April 2013 and serves as an Executive Director. He attends all Board Committees that he is not a member of by invitation.

Prior to joining Telkom, he served as Group Chief Operating Officer and Managing Director at Vodacom. He held various roles at BP starting in 1997, serving as the Chief Executive Officer of BP Southern Africa (Pty) Limited from 2008 to 2012 and Chief Operating Officer before this.

Mr Maseko has served as a non-executive director of the Centre for Development and Enterprise's board since 2009 and the Afrox board since 2012. He also served as Chairman of the board of SAPREF between July 2010 and August 2011.

He holds a BA degree in Law as well as an LLB degree.

03
FAGMEEDAH PETERSEN

B Bus Sci (Actuarial Science), PG Diploma (Management Practice)
Independent non-executive director
Audit Committee member
Social and Ethics Committee member
Risk Committee member

Fagmeedah Petersen was appointed to the Board in December 2012.

She is the Chief Investment Officer of Eskom Pension and Provident Fund.

Ms Petersen sits on the Board of Export Credit Insurance Corporation of South Africa and sits on the Audit Committee of Bankmed. She was previously a specialist trustee of Lifestyle Retirement Annuity and Preserver Suite of Funds and the GEPF. She was also a principal consultant and valuator at Alexander Forbes Financial Services and Sanlam Employee Benefits.

She holds a Bachelor of Business Science degree in Actuarial Science from the University of Cape Town and is a fellow of both the Actuarial Society of South Africa and Institute of Actuaries.

04
NAVIN KAPILA

BA (Eng) (Economics) (Law)
Non-executive director
Investment and Transactions Committee member
Risk Committee member

Navin Kapila was appointed to the Board in February 2011. He has over 20 years' experience in diverse fields including investment, business and product development, and relationship and alliance management. He also has in-depth telecommunications experience and was involved in policy formulation and market deregulation in India.

He took on various roles at ICO Global Communications in London, including vice president of Corporate Development, vice president of Government Affairs and director of Business Development.

He is a Special Adviser at International Telecom Union (ITU) and Managing Director of Inmarsat in India.

Mr Kapila holds a Bachelor of Arts degree in English, Economics and Law from India's Punjab University.

05
LOUIS VON ZEUNER

BCom (Economics)
Independent non-executive director
Risk Committee Chairman
Audit Committee member
Social and Ethics Committee member

Louis von Zeuner was appointed to the Board in December 2012. Louis von Zeuner completed 32 years' service at Absa and served as Deputy Group Chief Executive from 2009 until 31 December 2012. He has extensive business experience, including experience in audit, risk and capital matters, particularly in the financial sector.

He currently serves on the boards of Telkom, Edcon, Eqstra, Afgri, Cricket South Africa, MMI Holdings, Paycorp and Afrikaanse Handelsinstituut. He holds a Bachelor of Commerce degree in Economics from the University of Stellenbosch and has completed several international training programmes. He is a member of the Institute of Directors SA.

06
SUSAN BOTHA

BEcon (Hons) Stellenbosch
Independent non-executive director
Remuneration Committee Chairman
Nominations Committee member

Susan Botha was appointed to the Board in December 2012. She is currently the Chairman of both Curro Holdings Limited and Famous Brands Holdings. She serves on the boards of Liberty Holdings, Tiger Brands Limited, and Accenture Advisory Board.

She is also the Chancellor of Nelson Mandela Metropolitan University. Ms Botha was previously an executive director of MTN Group Limited (2003 to 2010) and Absa Bank Limited (1996 to 2003). She has a Bachelor of Economics degree (Honours) from the University of Stellenbosch.

07

CLIVE FYNN

PhD (Entrepreneurship), M. Phil, MBA
Independent non-executive director
Social and Ethics Committee Chairman
Investment and Transactions Committee member

Clive Fynn was appointed to the Board in December 2012. He is the Managing Director and Senior Vice President of CFIT (Pty) Limited. He is a board member of several South African companies in the industrial sector and plays an active role on various ICT policy committees. Dr Fynn was previously the Managing Director of Cisco Systems, Chairman of Cisco Systems Capital and Executive Director of Siemens Business Services.

Dr Fynn holds a PhD in Entrepreneurship from the University of Pretoria, a Master of Philosophy degree from the University of the Western Cape and an MBA from the University of Sheffield in the United Kingdom. He is also a professor, and PhD and Masters' degree external examiner for several international ICT schools.

08

ITUMELENG KGABOESELE

CA(SA), BCom, Postgraduate Diploma in Accounting
Independent non-executive director
Audit Committee Chairman
Risk Committee member
Nominations Committee member
Investment and Transactions Committee member

Itumeleng Kgaboesele was appointed to the Board in July 2011. He is the co-founder and Chief Executive Officer of Sphere Holdings (Pty) Limited, a leading mid-market investment holding and private equity company. Prior to founding Sphere in 2003, he spent several years in investment banking in London and Johannesburg and was vice president Investment Banking at Citi. He represents Sphere on the boards of a number of investments in which Sphere has invested and is also an independent non-executive director of Old Mutual Investment Group.

He is chairman of the board of trustees of the Student Sponsorship Programme and a trustee of the African Leadership Academy. Mr Kgaboesele is a chartered accountant (SA). He holds a Bachelor of Commerce degree as well as a Postgraduate diploma in Accounting from the University of Cape Town.

09

LESLIE MAASDORP

BA (Economics and Psychology), MSc (Economics)
Non-executive director
Investment and Transactions Committee Chairman
Social and Ethics Committee member
Risk Committee member

Leslie Maasdorp was appointed to the Board in November 2012. He is the President for Southern Africa at Bank of America Merrill Lynch. He has extensive experience in global investment banking and served as the former Vice Chairman of Absa Capital and Barclays Capital from 2006 until 2010. In 2002 he became the first African to be appointed as International Adviser to Goldman Sachs International.

Prior to his senior leadership roles in the private sector he served in various roles in Government including as Special Adviser to the Minister of Labour, Mr Tito Mboweni in 1994 and as Deputy Director General of the Department of Public Enterprises from 1999, where he led the restructuring and privatisation programme.

Mr Maasdorp currently serves as the Chairman of Advtech and as a Director of HCI as well as the Soros Economic Development Fund (SEDF) based in New York. He is Chairman of the Rhodes Scholarship Selection Committee for Gauteng, North West, Limpopo and Mpumalanga provinces in South Africa. He holds a Bachelor of Arts degree in Economics and Psychology from the University of Western Cape and a Masters degree in Economics from the School of Oriental and African Studies at the University of London. In 2007 he was designated as a young global leader by the World Economic Forum (WEF) and serves on their Global Agenda Council on Africa.

10

KHANYISILE KWEYAMA

MSc (Management)
Independent non-executive director
Remuneration Committee member
Nominations Committee member
Social and Ethics Committee member

Khanyisile Kweyama was appointed to the Board in December 2012. She is currently the Executive Director at Anglo American South Africa Limited. Prior to this, she was the Executive Head of Human Resources at Anglo American Platinum Limited. She gained corporate experience in a number of international companies, including BMW, Altech and Barloworld Limited, holding executive roles incorporating human resources, industrial relations, corporate affairs, stakeholder relations and transformation. She has also been elected as the Vice President of the South African Chamber of Mines. She has served as a non-executive director at various companies, including the boards of Sovereign Foods Limited, IAC and Key Mix Investments, and currently serves on the boards of Business Leadership South Africa (BLSA), New Partnership for Africa's Development (NEPAD) Business Forum and the International Geology Forum (IGF). Ms Kweyama is a trustee of the Sentebale Trust founded by Prince Harry of the UK and Prince Seeiso of Lesotho which works with vulnerable children. Ms Kweyama holds a Masters degree in Management from the University of Witwatersrand.

11

KHOLEKA MZONDEKI

FCCA (UK), BCom, Diploma in Investment Management
Independent non-executive director
Audit Committee member
Remuneration Committee member

Ms Kholeka Mzondeki was appointed to the Board in November 2012. She is a qualified UK chartered accountant and has served as Financial Director at various companies such as 3M and Masana Petroleum Solutions. Apart from her financial management and strategy experience, she has ICT transformational strategy formulation and implementation experience using technology as a customer value proposition. In 2008 she was a finalist in the Nedbank Business Woman of the year awards. Ms Mzondeki also sits on the Boards of other JSE listed companies and is an Audit Committee member of the UN World Food programme. She holds a Bachelor of Commerce degree from the University of Botswana and a diploma in Investment Management from the University of Johannesburg.

12

JACQUES SCHINDEHÜTTE*

CA(SA), BCom (Hons), Higher Diploma in Taxation
Executive director, Chief Financial Officer
Investment and Transactions Committee member

Jacques Schindehütte served his articles with Arthur Young & Company. He served as chief financial officer of Absa Group Limited from October 1999 to 2010 and was the Financial Director of the group from 2005 to February 2010. Prior to joining Absa, Mr Schindehütte was employed by Transnet Limited in a number of senior roles over more than a decade. During his career, he has amassed a broad range of experience from disciplines such as general management, financial services, finance, auditing, marketing, transport, property development and telecommunications. He is a chartered accountant, holds a Bachelor of Commerce degree with honours and a higher diploma in taxation.

*Suspended 24 October 2013.


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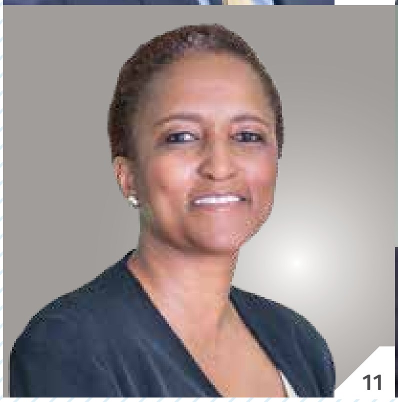
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04

GOVERNANCE REPORT

"We have been entrusted with stewardship of one of the most enduring brands in South Africa. We have developed a plan for turning the business around, we have inspired leaders and employees on board, all of whom are focused on giving our customers what they want."

Jabulane Mabuza, Chairman

CORPORATE GOVERNANCE

This statement outlines our system of corporate governance. In formulating our corporate governance framework, the legal and regulatory requirements applicable to companies listed on the JSE have been taken into account, together with the standards of good governance outlined in King III. Where appropriate, we also benchmark our policies and practices against prevailing best practice in other jurisdictions.

Commitment statement

Telkom's primary objective is the creation of value for all its stakeholders through the provision of innovative customer and market-focused solutions. In pursuing this objective, we have committed to the highest standards of governance and we strive to embed a culture that values and rewards exemplary ethical standards, personal and corporate integrity, as well as respect for others.

What is our approach to governance?

Our approach to governance is predicated on the belief that there is a link between high quality governance and the creation of sustainable value for our shareholders and all other stakeholders. It is our view that governance is not just a matter for the Board – a good governance culture must be fostered throughout the organisation.

The current economic environment underscores the need for adopting the highest standards of corporate governance. This is also clearly a time where engagement with stakeholders is more important than ever. The Board acknowledges its accountability to shareholders for the Group's performance, as such a key part of the Board's approach to governance is ensuring that shareholders' views are heard and understood. The Board governs the Group in accordance with its commitment to a transparent and high quality governance system.

Compliance and governance standards

The Board has reviewed its current governance policies and practices against the JSE's requirements and considers that it substantially met the requirements outlined in King III for the financial year ended 31 March 2014.

The following table represents the high-level King III gap analysis results as at March 2014

King III reference	Principle	Current status	Status indicator
1.	**Ethical leadership and corporate citizenship**		
1.1	The Board should provide effective leadership based on an ethical foundation	Applied	√
1.2	The Board should ensure that the company is and is seen to be a responsible corporate citizen	Applied	√
1.3	The Board should ensure that the company's ethics are managed effectively	Applied	√
2.	**Boards and directors**		
2.1	The Board should act as the focal point for and custodian of corporate governance	Applied	√
2.2	The Board should appreciate that strategy, risk, performance and sustainability are inseparable	Applied	√
2.3	The Board should provide effective leadership based on an ethical foundation	Applied	√
2.4	The Board should ensure that the company is and is seen to be a responsible corporate citizen	Applied	√
2.5	The Board should ensure that the company's ethics are managed effectively	Applied	√
2.6	The Board should ensure that the company has an effective and independent Audit Committee	Applied	√
2.7	The Board should be responsible for the governance of risk	Applied	√
2.8	The Board should be responsible for information technology (IT) governance	Applied	√
2.9	The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Applied	√
2.10	The Board should ensure that there is an effective risk-based internal audit	Applied	√
2.11	The Board should appreciate that stakeholders' perceptions affect the company's reputation	Applied	√
2.12	The Board should ensure the integrity of the company's integrated report	Applied	√
2.13	The Board should report on the effectiveness of the company's system of internal controls	Applied	√
2.14	The Board and its directors should act in the best interests of the company.	Applied	√
2.15	The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	Noted	*
2.16	The Board should elect a chairman of the Board who is an independent non-executive director. The Chief Executive Officer (CEO) of the company should not also fulfil the role of Chairman of the Board.	Applied	√
2.17	The Board should appoint the Chief Executive Officer and establish a framework for the delegation of authority.	Applied	√
2.18	Composition of the Board The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	Applied	√

King III reference	Principle	Current status	Status indicator
2.19	Board appointment processes Directors should be appointed through a formal process.	Applied	√
2.20	Director development The induction of and ongoing training and development of directors should be conducted through formal processes	Applied	√
2.21	Company Secretary The Board should be assisted by a competent, suitably qualified and experienced Company Secretary	Applied	√
2.22	Performance assessment The evaluation of the Board, its committees and the individual directors should be performed every year	In progress	•
2.23	Board Committees The Board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	Applied	√
2.24	Group boards A governance framework should be agreed between the group and its subsidiary boards	Applied	√
2.25	Remuneration of directors and senior executives Companies should remunerate directors and executives fairly and responsibly	Applied	√
2.26	Companies should disclose the remuneration of each individual director and certain senior executives	Applied	√
2.27	Shareholders should approve the company's remuneration policy	Applied	√
3.	**Audit Committees**		
3.1	The Board should ensure that the company has an effective and independent Audit Committee	Applied	√
3.2	Audit Committee members should be suitably skilled and experienced independent non-executive directors	Applied	√
3.3	The Audit Committee should be chaired by an independent non-executive director	Applied	√
3.4	The Audit Committee should oversee integrated reporting	Applied	√
3.5	The Audit Committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities	Applied	√
3.6	The Audit Committee should satisfy itself of the expertise, resources and experience of the company's finance function	Applied	√
3.7	The Audit Committee should be responsible for overseeing of internal audit	Applied	√
3.8	The Audit Committee should be an integral component of the risk management process	Applied	√
3.9	External assurance providers The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	Applied	√
3.10	Reporting The Audit Committee should report to the Board and shareholders on how it has discharged its duties	Applied	√
4.	**The governance of risk**		
4.1	The Board should be responsible for the governance of risk	Applied	√
4.2	The Board should determine the levels of risk tolerance	Applied	√
4.3	The Risk Committee or Audit Committee should assist the Board in carrying out its risk responsibilities	Applied	√
4.4	Management's responsibility for risk management The Board should delegate to management the responsibility to design, implement and monitor the risk management plan	Applied	√
4.5	Risk assessment The Board should ensure that risk assessments are performed on a continual basis	Applied	√
4.6	The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	Applied	√
4.7	Risk response The Board should ensure that management considers and implements appropriate risk responses	Applied	√
4.8	Risk monitoring The Board should ensure continual risk monitoring by management	Applied	√
4.9	Risk assurance The Board should receive assurance regarding the effectiveness of the risk management process	Applied	√
4.10	Risk disclosure The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	Applied	√

King III reference	Principle	Current status	Status indicator
5.	**The governance of IT**		
5.1	The Board should be responsible for IT governance	Applied	√
5.2	IT should be aligned with the performance and sustainability objectives of the company	Applied	√
5.3	The Board should delegate to management the responsibility for the implementation of an IT governance framework	Applied	√
5.4	The Board should monitor and evaluate significant IT investments and expenditure	Applied	√
5.5	IT should form an integral part of the company's risk management	Applied	√
5.6	The Board should ensure that IT assets are managed effectively	Applied	√
5.7	A Risk Committee and Audit Committee should assist the Board in carrying out its IT responsibilities	Applied	√
6.	**Compliance with laws, rules, codes and standards**		
6.1	The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Applied	√
6.2	The Board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	Ongoing	#
6.3	Compliance risk should form an integral part of the company's risk management process	Applied	√
6.4	The Board should delegate to management the implementation of an effective compliance framework and processes	Applied	√
7.	**Internal Audit**		
7.1	The Board should ensure that there is an effective risk-based internal audit	Applied	√
7.2	Internal audit should follow a risk-based approach to its plan	Applied	√
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management	Applied	√
7.4	The Audit Committee should be responsible for overseeing internal audit	Applied	√
7.5	Internal audit's status in the company Internal audit should be strategically positioned to achieve its objectives	Applied	√
8.	**Governing stakeholder relationships**		
8.1	The Board should appreciate that stakeholders' perceptions affect a company's reputation	Applied	√
8.2	The Board should delegate to management to proactively deal with stakeholder relationships	Applied	√
8.3	The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	Applied	√
8.4	Companies should ensure the equitable treatment of shareholders	Applied	√
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	Applied	√
8.6	Dispute resolution The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	In progress	•
9.	**Integrated reporting and disclosure**		
9.1	The Board should ensure the integrity of the company's integrated report	Applied	√
9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting	Applied	√

√ Applied: The requisite structure and/or process are in place.
 # Ongoing: The Board has put in place process to ensure ongoing monitoring of initiatives aimed at achieving targeted results.
• In progress: The Board has initiated a programme for ensuring full compliance.

Status

2.15 – There has thus far been no reason for the Board to consider business rescue proceedings.

2.22 – The Board has agreed to conduct a self-evaluation in the one year, followed by a facilitated evaluation the next. The Board and the Audit Committee have performed self-evaluations for the 2014 financial year. The other committees will perform self-evaluations in the following year, and individual director assessments will similarly be performed in the coming year.

6.2 – The Board is exposed to training on applicable laws, rules, codes and standards on a continuous basis. In addition, a self-evaluation has been performed and the Board will use the results to design an appropriate training and development programme for directors, including continuous training on relevant legislation, rules, codes and standards.

8.6 – The Board, with the assistance of the Risk Committee currently monitors all disputes, whether legal or regulatory in nature. The Board is currently reviewing the Group's approach to dispute resolution and is exploring ways of embedding a more structured and strategic approach to ensure that disputes are resolved as effectively, efficiently and as expeditiously as possible.

THE BOARD

Board structure and size

The Group has a unitary Board structure comprising a majority of independent non-executive directors. There are 12 directors in total, nine of whom are considered independent, one who is considered non-independent and two executive directors. Brief biographies of the directors are set out on page 72. The size of the Board is appropriate given the complexity of the Telkom business and the time demands placed on non-executive directors.

A number of Board Committees assist the Board in fulfilling its mandate, and the roles and responsibilities of the respective committees are set out in their formal terms of reference. The Board Charter and the terms of reference of the respective committees are reviewed annually to ensure that they remain relevant.

Skills and attributes

The Board comprises a range of skills, experiences and backgrounds among its directors, thereby ensuring robust decision-making processes. The diversity of viewpoints represented on the Board enhances the effective governance of the Group. The range of skills, experience and backgrounds currently represented on the Board includes experience in retail, corporate finance, banking, ICT, tourism, oil and gas, construction management, finance, management consultancy and telecommunications, as well as qualifications in the humanities, business management, accounting, economics and actuarial science.

The non-executive directors often meet without the executive directors present. These meetings offer the non-executive directors an opportunity to discuss management performance and other business or concerns that they might have, in the absence of executive directors.

Board and committee meetings are held in an atmosphere of intellectual honesty of purpose, integrity and mutual respect, requiring reporting of the highest standard by management and direct, robust and constructive challenge among Board or committee members. The Board Charter sets out a schedule of matters that fall within the exclusive purview of the Board. These include the approval of financial statements, the business strategy, the business plan, major capital projects, material investments and disposals as well as social, ethics and sustainability policies etc.

The Board governs through clearly mandated Board Committees, accompanied by appropriate monitoring and reporting systems. Each standing committee of the Board has specific written terms of reference. The Board charter, as well as terms of reference of the committees, are available from the Company Secretariat on request. All Committee Chairmen report orally on the deliberations and activities of their respective committees at the next meeting of the Board, and brief written reports of the meetings of all committees, prepared by the respective Chairmen, are included in the papers submitted to Board members in advance of the next Board meeting.

Details of the composition of and movements on the Telkom Board during the year are as follows:

Name of director	Status	Date	Reason
Brahm du Plessis	Resigned	27 September 2013	Retirement by rotation
Jeff Molobela	Resigned	27 September 2013	Retirement by rotation
Sipho Maseko	Appointed	1 April 2013	

Board responsibilities

The Board sets out the strategic direction for the Group, determines policies and agrees performance criteria and delegates to management the detailed planning and implementation of the Group's strategic objectives and policies in accordance with appropriate risk parameters. The Board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates. In addition, the Board receives regular updates from the respective business and functional units within the business (including Human Resources, Legal, Risk, Procurement, Information Technology, Networks and Wholesale), enabling it to explore specific issues and developments in greater detail.

All Board members are equally accountable for the proper stewardship of the affairs of the Group. The non-executive directors have a particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the directors to promote the success of the Group for the benefit of its shareholders, whilst having regard to, among other matters, the interests of employees, the fostering of trusting business relationships with customers, suppliers and others, and the impact of our operations on the environment and on the communities in which we operate.

The Board allocated its time at Board meetings and strategy workshops on the following activities, among others:

- Received reports from the Group Chief Executive Officer on strategic progress, matters considered by the Executive Committee and matters relating to stakeholder engagements;
- Received reports from the Chief Financial Officer and Acting Chief Financial Officer on the financial position of the Group;
- Received reports from each of the Board Committees;
- Received reports from the Group Executive: Risk Management on risk management and from the Group Executive: Legal Services on legal risk;
- Received reports from business units or functional areas on progress made against strategy;
- Approved the full year and half year results for the Group;
- Received reports on and debated issues relating to governance;
- Received reports on peer group comparisons following the release of results;
- Approved the strategy, business plan and budget for the Group;
- Received reports from the Chief of Human Resources on employee wellness, Union engagements and employee remuneration;
- Considered certain transaction proposed to it by the Group Chief Executive Officer; and
- Reviewed the Group's whistleblowing policy and process.

Several new strategic initiatives and projects during the course of the year led to the Board holding additional special meetings. These additional meetings discussed the rationale for the proposed initiatives and projects, in particular their impact on the agreed turnaround strategy. Decisions on these proposed initiatives and projects were only taken after rigorous debate, in the long-term interests of shareholders and other stakeholders, and after having sought external advice where this was deemed appropriate.

Chairman and Group Chief Executive Officer

In accordance with the principles set out in King III, the role of the Chairman is separate from that of the Group Chief Executive Officer. Jabulane Mabuza is an independent Chairman who is responsible for providing overall leadership to the Board and ensuring that the Board receives accurate, timely and clear information so as to ensure that the directors perform effectively. The Group Chief Executive Officer is responsible for formulating and recommending to the Board long-term strategies and policies and, through the approved framework of delegated authority, ensuring their implementation. In discharging his duties, the Group Chief Executive Officer is assisted by an Executive Committee.

Board effectiveness

The Board, through its Nominations Committee, regularly reviews its size and the required mix of skills and experience needed to provide strategic direction and leadership whilst ensuring that it is representative. The composition of the Board Committees is also reviewed on an annual basis.

At its meeting of 28 March 2014, the Board agreed to conduct an evaluation of its effectiveness on an annual basis, with externally facilitated evaluations to be conducted bi-annually. The Board has performed a self-evaluation for the 2014 financial year, aimed at assessing its effectiveness and identifying areas of development. The areas of development identified through the self-evaluation will form the basis of the Board training and development programme for the coming year.

Board meetings

Board meetings are held at least five times a year. One of these meetings is dedicated to reviewing and approving the strategy. Additional meetings are held whenever deemed necessary. The Chairman, in consultation with the Group Chief Executive Officer and Group Company Secretary, is responsible for setting the agenda of each meeting. Board meetings are scheduled well in advance and management ensures that directors are provided with all relevant information, thereby enabling the Board to reach objective and well-informed decisions.

Details of attendance by each director are set out on the next page.

	Scheduled Board meetings					Special Board meetings
	13 Jun '13	13 Sep '13	15 Nov '13	20 Feb '14	28 Mar '14	10 Jun '13
Director						
Mr JA Mabuza	√	√	√	√	√	√
Mr J Molobela	√	√	–	–	–	*
Mr B du Plessis	√	√	–	–	–	√
Mr N Kapila	√	√	√	√	√	√
Mr I Kgaboesele	√	√	√	√	√	√
Ms K Mzondeki	√	√	√	√	√	√
Mr L Maasdorp	√	√	√	√	√	√
Ms S Botha	√	√	√	√	√	X
Mr L von Zeuner	√	√	√	√	√	√
Ms K Kweyama	√	√	√	√	√	X
Ms F Petersen	√	√	√	√	√	√
Dr C Fynn	√	√	√	√	√	√
Management						
Mr SN Maseko	√	√	√	√	√	√
Mr JH Schindehütte	√	√	†	†	†	√
Group Company Secretary						
Ms X Mphongoshe	√	√	√	√	√	√

√ *Attended in person.*
* *Teleconference.*
X *Non-attendance.*
† *On suspension with effect from 24 October 2013.*
– *No longer a director.*

Group Company Secretary

The Board is cognisant of the statutory nature of the duties of the Group Company Secretary as set out in the Companies Act and King III respectively, and is committed to ensuring that an environment is created in which she is able to ensure that Board procedures and relevant regulations are fully adhered to.

The Group Company Secretary plays a pivotal role in the following, among others:
- Induction and continued training of directors;
- Tabling to the Board relevant information on regulatory and legislative changes;
- Providing guidance to directors individually and collectively on their duties and responsibilities to the Group;
- Providing guidance and advice to the Board on matters of ethics and good governance; and
- Liaising with regulatory bodies.

The Group Company Secretary is the Secretary for all the committees of the Board. The directors have unlimited access to the advice and services of the Group Company Secretary.

"I have direct access to the Chairman of the Audit Committee. The committee supports my efforts of making sure that management responds to our findings."

Mohammed Dukandar, Group Executive: Internal Audit

COMMITTEES OF THE BOARD

Audit Committee

Members	Committee member since	Attendance at meetings during 2014 Quorate meetings
Mr I Kgaboesele	1 July 2011	5/5
Mr B du Plessis	22 December 2009 to 27 September 2013	3/5
Ms K Mzondeki	18 February 2013	5/5
Ms F Petersen	18 February 2013	4/5
Mr L von Zeuner	18 February 2013	5/5

* *The GCEO and CFO attend by invitation.*

The main responsibilities of the Audit Committee include:

- Evaluating the system of internal control and management of risks;
- Overseeing activities of the Group's Internal Audit function;
- Reviewing the integrity of the financial statements; and
- Reviewing the Group's accounting and financial reporting processes.

The committee's oversight role requires it to regularly address the relationships between management and the Internal and External Auditors and understand and monitor the reporting relationships and tiers of accountability between them.

During the year, the committee, amongst others:

- Considered the key information it would require during the coming year to enable it to properly discharge its responsibilities;
- Reviewed the Integrated Report and accounts, half-year results and interim financial statements;
- Reviewed the Group's accounting policies;
- Considered Group-level control issues of significance for different areas of the business;
- Received reports on the control environment in each of the business and functional areas;
- Considered the independence and effectiveness of the Group's Internal and External Auditors;
- Approved the reappointment of the Group's External Auditor;
- Considered the provision of non-audit services by the Group's External Auditor;
- Received reports from the Internal and External Auditors;
- Considered the effectiveness of the Group's internal controls over financial reporting;
- Reviewed its terms of reference to satisfy itself that they enable the committee to fulfil its responsibilities; and
- Approved the engagement letter and remuneration of the Group's External Auditors.

The committee held five meetings during the year.

Nominations Committee

Members	Committee member since	Attendance at meetings during 2014 Quorate meetings
Mr JA Mabuza	18 February 2013	2/2
Mr B du Plessis	18 September 2008 to 27 September 2013	0/2
Mr I Kgaboesele	7 June 2012	2/2
Ms S Botha	18 February 2013	2/2
Ms K Kweyama	18 February 2013	2/2

* *The GCEO attends by invitation.*

The primary purpose of the Nominations Committee is to lead the process for the appointment of directors and to make recommendations for maintaining an appropriate balance of skills on the Board. The Nomination Committee, among other matters:

- Reviews the structure, size, and composition of the Board, and makes recommendations to the Board as appropriate;
- Identifies the balance of skills, knowledge and experience required for the Board to fulfil its mandate and is responsible for nominating candidates to fill Board vacancies as appropriate;
- Reviews the time commitment required from non-executive directors;
- Is responsible for ensuring proper succession planning, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board; and
- Is responsible for reviewing the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively; and
- Recommends directors who are retiring by rotation, for re-election.

During the year ended 31 March 2014, the Nominations Committee dealt with the following matters in addition to its normal annual work programme:

- The recommendation to re-elect or not re-elect directors who were retiring by rotation;
- The recommendation to the Board to suspend the Chief Financial Officer and to appoint the Deputy Chief Financial Officer as Acting Chief Financial Officer;
- Consideration of the adequacy of the balance of skills, experience, gender and qualifications on the Board;
- Assisting the Board with its performance evaluation process; and
- Assisting the Board with dealing with instances of conflicts of interest in relation to individual directors.

In accordance with its terms of reference, the Nominations Committee comprises only non-executive directors, one of whom is the Chairman of the Board. A quorum for Nominations Committee meetings is two directors. The committee comprises four independent non-executive directors: The Nominations Committee held two scheduled meetings during the year under review.

Remuneration Committee

Members	Committee member since	Attendance at meetings during 2014 Quorate meetings
Ms S Botha	18 February 2013	5/5
Mr JA Mabuza	18 February 2013	5/5
Ms K Kweyama	18 February 2013	3/5
Ms K Mzondeki	15 November 2013	1/5
Mr B du Plessis	18 September 2008 to 27 September 2013	3/5
Mr J Molobela	19 February 2010 to 27 September 2013	3/5

** The GCEO and CFO attend by invitation.*

The main purpose of the Remuneration Committee is to ensure the adoption of remuneration policies which aim to attract and retain top talent, are aligned to the company's strategy and drive performance in the long and short-term.

The committee's terms of reference include the following responsibilities:

- Approving the remuneration policy to be adopted by the Company;
- Ensuring that the remuneration strategy is market-related and competitive;
- Determining specific remuneration packages for senior executives of the Company;
- Ensuring that executives' remuneration, including their short and long-term incentives, is based on performance and rewards performance;
- Considering the relationship between senior executive remuneration and the remuneration of Telkom's other employees;
- Considering and recommending to the Board the fees to be paid to non-executive directors for services on the Board and its committees;
- Ensuring that disclosure of director remuneration is accurate, complete and transparent;
- Approving the design of short-term incentive schemes, including determining targets and participation thresholds;
- Approving the design of the long-term share incentive schemes, including determining the allocation criteria and performance conditions;
- Reviewing and monitoring progress in people management; and
- Reviewing of the terms of reference and activities of subsidiary company and joint venture Remuneration Committees.

The committee meets four times a year, and may hold additional meetings as required. The Group Chief Executive Officer and Chief Financial Officer attending by invitation. The Committee Chairman reports back to the Board on the activities of the committee.

Social and Ethics Committee

Members	Committee member since	Attendance at meetings during 2014 Quorate meetings
Dr C Fynn	15 November 2013	2/4
Mr L Maasdorp	18 February 2013	4/4
Ms K Kweyama	18 February 2013	4/4
Ms F Petersen	18 February 2013	4/4
Mr L von Zeuner	18 February 2013	3/4
Mr J Molobela	18 February 2013 to 27 September 2013	2/4

** The GCEO and CFO attend by invitation.*

The main purpose of the committee includes monitoring of the Company's activities, having regard to any relevant legislation, policies or prevailing codes of best practice, with regard to matters relating to social and economic development, good corporate citizenship, the environment, consumer relationships and labour and employment.

The committee's terms of reference include the following responsibilities:

- Monitoring the company's activities, having regard to any relevant legislation, and prescribed legal requirements or prevailing codes of best practice, with regard to matters relating to social and economic development, including the company's standing in terms of the goals and purposes of:
  - The 10 principles set out in the United Nations Global Compact Principles;
  - The OECD recommendations regarding corruption;
  - The Employment Equity Act; and
  - The Broad-Based Black Economic Empowerment Act;
- Good corporate citizenship, including: Telkom's promotion of equality, prevention of unfair discrimination, and reduction of corruption; our contribution to the development of the communities in which our activities are predominantly conducted or within which our products or services are predominantly marketed; our record of sponsorship, donations and charitable giving;
- Telkom's activities to manage the environment, health and safety, and the impact of the Company's activities and of its products or services;
- Consumer relationships, our advertising and public relations, and our compliance with consumer protection laws;
- Labour and employment issues, including: Telkom's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; our employment relationships; and our contribution toward the educational development of our employees;
- Drawing matters within its mandate to the attention of the Board as occasion requires;
- Providing input and recommending to the Board on the overall B-BBEE targets for the Company, the scorecard component targets and the timing thereof;
- Approving the appointment of a verification agency;
- Reviewing and recommending to the Nominations Committee targets for black and women representation at Board level, and reviewing succession plans of black and black women representation at senior executive and Board level;
- Approving the Employment Equity Plan submitted to the Department of Labour;
- Monitoring quantitative and qualitative progress towards the achievement of employment equity plans, and monitoring progress towards achievement of set equity ownership targets;
- Reviewing and recommending skills development plans in line with the Skills Development Act;
- Monitoring progress against the skills development plan;
- Reviewing and approving Telkom preferential procurement policy;
- Reviewing and approving enterprise development policies and socio-economic development targets.
- Reporting, through one of its members, to the shareholders at the Company's annual general meeting on the matters within its mandate.

The committee meets four times a year and may hold additional meetings as required. The Committee Chairman reports back to the Board on its activities.

Investment and Transactions Committee

Members	Committee member since	Attendance at meetings during 2014 Quorate meetings
Mr L Maasdorp	18 February 2013	8/8
Dr C Fynn	18 February 2013	8/8
Mr N Kapila	21 February 2011	8/8
Ms K Mzondeki	18 February 2013 to 15 November 2013	3/8
Mr I Kgaboesele	19 January 2012	6/8
Mr J Schindehütte	18 February 2013	2/8
Mr SN Maseko	20 February 2014	7/8*

** Attended the seven meetings as an invitee.*

The primary purpose of the Investment and Transactions Committee is to review and recommend to the Board any investment decision appropriate to the Group's strategy, gearing and risk appetite. For clarity, all investment decisions are drawn up by, and agreed to by, the Executive Committee prior to review by the Investment Committee.

The terms of reference of the committee include the following responsibilities:

- Reviewing and recommending to the Board acquisitions and disposals of subsidiaries and investments in line with the Telkom Group's strategy and policies;
- Reviewing and recommending to the Board the introduction of strategic partners to the Group;
- Reviewing the performance and strategies of subsidiaries and investments;
- Monitoring the performance of investments against original investment criteria and pre-investment assumptions until the conclusion of the first complete financial year after acquisition; at this stage the Executive Committee will prepare a formal post-acquisition review and ongoing performance will become part of normal reporting to the Board;
- Reviewing a semi-annual report from the CFO and making recommendations to the Board if necessary, concerning the Group's financial facilities and financing structures;
- Reviewing and monitoring major investment programmes within the Company;
- Reviewing and recommending all significant capital investments (such as the NGN initiative) that require Board approval; and
- Performing such other duties and responsibilities related to investments as the Board may determine and delegate from time-to-time.

The committee has three scheduled meetings and may hold additional meetings as required.

Risk Committee

Members	Committee member since	Attendance at meetings during 2014 Quorate meetings
Mr L von Zeuner	18 February 2013	4/4
Dr C Fynn	18 February 2013 to 15 November 2013	3/4
Mr L Maasdorp	18 February 2013	4/4
Mr I Kgaboesele	18 February 2013	4/4
Mr N Kapila	18 February 2013	4/4
Ms F Petersen	18 February 2013	4/4

** The GCEO and CFO attend by invitation.*

The main purpose of the Risk Committee is to assist the Board in ensuring that management has an effective risk management process that identifies and monitors the management of the key risks facing the Company in an integrated and timely manner.

The committee's responsibilities include:

- Assisting the directors in fulfilling their responsibility of ensuring that there is an effective and embedded risk management process in place throughout the Group;
- Assessing whether there are appropriate processes/controls in place to manage the key risks down to an acceptable level, in line with the Board's risk appetite;
- Assessing if the risk management process will ensure that emerging risks are identified and managed;
- Assessing whether all new business opportunities have been appropriately considered from a risk perspective;
- Assessing if appropriate processes/controls are in place to ensure regulatory compliance;
- Assisting the directors in fulfilling their responsibility of ensuring that there is an IT governance framework in place throughout the Group;
- Assessing whether IT risks are adequately addressed through the risk management, monitoring and assurance processes;
- Reviewing the adequacy of the Group's insurance portfolios;
- Reviewing the impact that significant litigation could have on the Group;
- Noting the outcome of the periodic audit of the risk management process; and
- Reviewing of the terms of reference and activities of subsidiary company and joint venture Risk Committees.

The committee has four scheduled meetings per year. The Group CEO, the CFO, GE: Internal Audit and the External Auditors attend all the committee meetings. Other members of management attend by invitation. The Committee Chairman reports back to the Board on the activities of the committee.

ASSURANCE OVERVIEW

Directors' responsibility for internal control

The directors are responsible for the Group's system of internal control and for maintaining and reviewing its effectiveness from both a financial and an operational perspective. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss. The Group's approach to internal control is based on the underlying principle of line management's accountability for control and risk management.

In reviewing the effectiveness of the system of internal control, the Board has taken account of the results of the work carried out to audit and review the activities of the Group. There is an ongoing process to identify, assess and manage risk, including those risks affecting the Group's reputation. This process is subject to continuous improvement and has been in place throughout the financial year to which these statements apply and up to the date of their approval. The Board has reviewed the risk management process and confirms that ongoing processes and systems ensure that the Group continues to be compliant with the King code on corporate governance.

Systems of internal control

The Executive Committee members responsible for individual business or functional areas are aware of their responsibility to operate systems of internal control which provide reasonable assurance of effective and efficient operations, reliable financial information and compliance with laws and regulations. The Group has a comprehensive budgeting system with an annual budget approved by the Board. Revised forecasts for the year are reported at least quarterly. Actual results are reported monthly against budget and variances are reviewed.

The activities of the Group are subject to review by Internal Audit, including business assurance and product introduction and lifecycle management, and the assurance functions. The Internal Audit function undertakes a programme of financial and operational audits and reviews agreed by the Audit Committee and covering all Group activities. The programme includes independent reviews of the systems of internal control and risk management. The findings and the status of corrective actions taken to address these are reported in writing to both the Audit and Risk Committees twice a year.

ORGANISATION STRUCTURE

The Group has a clearly defined organisation structure within which operational management has detailed responsibilities and levels of authorisation, supported by written job descriptions and operating manuals.

Independent Assurance Providers

A key element of the system of internal control is the review conducted by independent assurance providers who assess the adequacy and effectiveness of the controls. These independent assurance providers are outlined in more detail below.

Internal audit

The Internal Audit function provides independent assurance on the adequacy and effectiveness of the system of internal controls in place to manage the significant risks of the business down to an acceptable level. Internal Audit also engages proactively with management to drive meaningful and sustainable improvements in the control environment. This is achieved by using specialist risk and control knowledge to provide practical recommendations to improve the design of and compliance with key controls.

The annual audit coverage plan is developed applying a risk-based approach and is reviewed and approved by the Audit Committee. It is revised regularly to ensure that it remains relevant to the key business priorities and changing risk environment. Key audit findings are reported to the Audit Committee and the Risk Committee quarterly. Progress in addressing these is audited quarterly and items are reported to the committee until they have been satisfactorily resolved. This enables the committee to ensure that prompt action has been taken to address the key areas of concern.

Internal Audit retains its objectivity and independence by reporting functionally to the Audit Committee and administratively to the Chief of Finance. The Internal Audit Group Executive attends both the Audit Committee and Risk Committee meetings by invitation. The Internal Audit team has a combination of skills and expertise that includes operational, financial, accounting and information technology experience and knowledge.

External audit

Ernst & Young Inc provides stakeholders with an independent opinion on whether the annual financial statements fairly present, in all material respects, the financial position of the Company and the Group. External audit regularly liaises with internal audit to understand the scope of their work and the results of their audits. External audit performs a control-based audit approach where reliance on controls can be sought as this is the most efficient audit approach. Any control work performed by external audit is limited to the work necessary to support their audit opinion.

CORPORATE GOVERNANCE POLICIES

To drive and embed effective corporate governance practices, the Company has several policies that complement the delegation of authority.

These include:
- Board Charter and Committee' Terms of Reference
- Conflicts of Interest Policy;
- Insider Trading Policy;
- Disclosure Policy; and
- Business Code of Ethics.

Insider trading, disclosure policy and conflicts of interest policies

The Board recognises its responsibility for ensuring that there are appropriate policies in place to manage the confidentiality of price-sensitive information and ensure that individuals do not benefit from inside information. To manage this, the Company has insider trading and price-sensitive information policies, the terms of which are more restrictive than those required by the JSE Listings Requirements.

The Group Company Secretary regularly disseminates written notice to all directors and Executive Management throughout the Group, highlighting the provisions of the Securities Services Act and JSE Listings Requirements, informing them that dealing in Telkom shares during certain restricted periods may not be undertaken. No director or any employee who participates in the share scheme may trade in Telkom shares during restricted periods as defined by the JSE Listings Requirements and determined by the Board. In addition, no director of the Company may trade in the Company's shares without prior approval having been obtained. In addition, trading in shares by any employee and/or director in possession of unpublished price-sensitive information is strictly prohibited. Directors and employees involved in projects which are price-sensitive in nature are required to sign confidentiality agreements and are restricted from trading in shares.

The Conflicts of Interest Policy requires senior management to declare details of their business interests and confirmation that they are in compliance with the requirements of the policy. The Disclosure Policy ensures that disclosures about the Company's activities meet relevant statutory and listings requirements.

Ethics

The Group has a set of values that guides the manner in which it conducts business with its stakeholders. A code of ethics supports these values and sets out the standards that we expect to attain when dealing with all customers, suppliers, business partners, employees, competitors, communities and our shareholders. In addition, the code contains guidelines with respect to gifts, travel and entertainment as well as a code of conduct for our business partners.

During the reporting period, the Telkom Ethics Office compiled an ethics management framework and ethics management plan. Ethics champions will be appointed in each service organisation/business unit to assist the Ethics Office with establishing and sustaining an ethical corporate culture. The Ethics Office has reviewed and updated the business code of ethics and supplementary policies, including the conflict of interest policy and the gift policy.

Our ethics programme includes providing training and awareness on our business code of ethics and supplementary policies such as the gift and entertainment policy, conflict of interest, prevention of fraud and corruption, whistle-blowing, share dealing and the prohibition against sexual harassment and unfair discrimination. The induction of new employees includes an online course on ethics. We communicate with our employees on ethics-related issues through e-news articles, our ethics website and with banners and notice boards. An ethics helpline/mailbox is in place to provide staff with advice on ethical dilemmas. The mailbox is also displayed on telephony accounts for our customers who are faced with an ethical dilemma. The table below reflects the nature and frequency of issues addressed over the last three reporting cycles.

Type of matters	2014	2013	2012
Conflict of interest/private work	**18**	13	7
Unfair treatment/unethical behaviour	**11**	7	10
Gifts	**3**	9	5
Share dealing	**1**	7	3
Unethical behaviour of management	**5**	4	5
Telkom retirement fund	**1**	1	5
Other (ie sponsorships, dress code)	**4**	36	21
Ethics training/other	**2**	8	0
Compliance	**3**	5	0
Total	**48**	**90**	**56**

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

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

Telkom's whistle-blowing hotline: incidents reported

Incidents	2014	2013
Total incidents reported	**3 976**	4 218
Total cases resolved	**1 616**	1 994
Asset theft	**633**	845
Burglary	**34**	59
Business Code of Ethics	**281**	307
Fraud	**73**	117
Other (case types to be identified)	**8**	14
Fraud risk review	**2**	0
Reputational risk (refund scam)	**10**	15
Robbery	**17**	18
Security breaches	**4**	2
Vehicle	**23**	30
Bank line division	**7**	0
Telkom Mobile	**41**	0
Cable	**703**	770
Network	**210**	206
Solar panel theft	**15**	28
Payphones	**27**	37
Total investigations	**2 088**	**2 448**

04

REPORT FROM THE REMUNERATION COMMITTEE

DEAR SHAREHOLDER

This remuneration report is intended to provide an overview and understanding of the Group's remuneration principles and policies with a specific emphasis on non-executive directors, executive directors, the Executive Committee and prescribed officers in the Group. The Group adopted the governance and disclosure requirements stipulated in the King Code of Governance Principles for South Africa 2009 (King III) and incorporated the required information in this report.

The Remuneration Committee remains mindful of the remuneration trends in the global environment and carefully considers all practices against the business and sets remuneration levels within the context of overall company performance. The Remuneration Committee is aware of the responsibility to protect and promote shareholders' interests in setting executive remuneration and is accountable for the structure and quantum of remuneration.

Susan Botha
Chairman of the Remuneration Committee

12 June 2014

REMUNERATION REPORT

This report sets out the Group's remuneration policy for executive and non-executive directors and executive management and provides detail of their remuneration and share interests for the financial year ended 31 March 2014.

ROLE OF THE REMUNERATION COMMITTEE AND TERMS OF REFERENCE

The Remuneration Committee (Remco) acts on behalf of the Board in setting the remuneration policy. It oversees executive remuneration for executive directors and senior executives, monitors the execution of the remuneration policy, and makes recommendations to the Board on the total remuneration of the Chairman, Group CEO, members of the Board and senior executives.

The committee is responsible for the following areas:

- Determining the remuneration policy for all employees including the remuneration of executive directors and senior executives. The remuneration structure is aligned with the Group strategy and the agreed risk appetite, which seeks to reward success fairly while avoid paying more than what is necessary. The objectives of the policy are:
  - To promote sustainable value creation through transparent alignment with agreed corporate strategy;
  - To ensure that proper risk management processes are in place and that remuneration is appropriately aligned with both short and long-term performances;
  - To ensure that all employees are remunerated competitively relative to industry benchmarks, provided with appropriate incentives to encourage enhanced performance, and rewarded for their individual contributions to the success of the Group; and
  - To ensure that remuneration is affordable and reasonable in terms of sustainable value creation for shareholders.
- Determining the total individual remuneration package of each of the executive directors including guaranteed package, benefits in kind, short-term incentive payments and share options. This includes undertaking an annual review, through performance appraisals conducted by the GCEO, of the performance of senior executives and reviewing their guaranteed packages based on the extent to which senior executives have met their performance targets, goals and objectives, as well as approving the annual guaranteed package increases for all other management and bargaining unit employees.
- Determining targets for any performance-related incentive schemes implemented in the Group.
- Seeking Board and shareholder approval for any long-term incentive scheme and determining annual grants and share allocations to executive directors and senior executives.
- Reviewing annually the terms and conditions upon which the executive directors are employed and remunerated.
- Ensuring that contractual terms on termination and any payments made are fair to both the individual and the Group.
- Reviewing succession plans of executive directors and senior executive.

COMPOSITION

Telkom's Remco is chaired by an independent non-executive director and is composed of non-executive directors, all of whom are independent. Executives attending Remco meetings do so in an ex officio capacity and attend by invitation as provided for in the committee's Terms of Reference (ToR).

Ms S Botha, an independent non-executive director, was appointed Chairman of Remco as of 18 February 2013. For the 2014 financial year Remco comprised the following non-executive directors:

- S Botha
- K Kweyama
- JA Mabuza
- K Mzondeki (appointed with effect from 15 November 2013)
- J Molobela (resigned 27 September 2013)
- B du Plessis (resigned 27 September 2013)

By invitation

- SN Maseko (Group Chief Executive Officer).
- TE Msubo (Chief of Human Resources).
- JH Schindehütte (Chief Financial Officer)/ DJ Fredericks (Acting Chief Financial Officer since 24 October 2013).
- JC Smit (Group Executive: Total remuneration and performance management).

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

REMUNERATION POLICY

The Telkom remuneration strategy is designed to attract, retain and motivate high-calibre talent in a challenging ICT environment. The market environment that Telkom operates in is characterised by intensifying competition with mobile operators and new entrants to the market, which continue to put pressure on the Group. As the market expands with operators in all spheres of our business, it is increasingly challenging to retain experienced executive leadership, and to attract new talent required for the new and growing areas of our business, such as data and fixed-mobile convergence. Meeting this challenge requires having a competitive and attractive remuneration offering. In addition, we embarked on a turnaround strategy with the aim of transforming Telkom into an organisation that can generate attractive returns for shareholders, while supporting South Africa's economic and social development.

The remuneration structure is designed to ensure that individual contribution is rewarded and aligned to strategic, operating and financial performance for long-term sustainability as well as short-term business plan deliverables, both of which are imperative to shareholder interest and value creation.

We follow a holistic balanced approach across the following remuneration elements:

Elements	Type	Desired outcome
Guaranteed Package (GP)	Fixed	Influenced by the scope of the role and the knowledge, skills and experience required. Salary levels are positioned at a market median.
Short-term Incentives (STI)	Variable	Delivers reward on the achievement of annual performance targets. The level of achievement determines the level of payment against each weighted Company performance measure.
Long-term Incentives (LTI)	Variable	Motivate long-term sustainable stretch performance and align the interests of management with those of shareholders.

To ensure we remunerate employees competitively we use regular market and industry benchmarks.

REMUNERATION OBJECTIVES

The remuneration policy is designed to compete for talent in a competitive labour market, so that Telkom can successfully achieve the following objectives:

- Create value;
- Establish a formal, transparent and fair reward strategy;
- Control and manage total cost of employment;
- Retain competent employees to enhance business performance;
- Motivate individual and team performance to drive shareholder value and employee engagement;
- Differentiate payment based on individual performance; and
- Maintain a balance between guaranteed remuneration, short-term incentives and long-term incentives.

REMUNERATION PRINCIPLES

Telkom recognises that in this competitive environment, we need to differentiate based on strategic roles and growing areas of the business to value employees' contribution. Therefore, our remuneration and reward policies and practices must be based on the following principles:

- Be designed to motivate and reinforce superior performance;
- Encourage the development of organisational, team and individual performance;
- Develop the competencies required to meet future business needs;
- Be based on the premise that employees should share in the success of the Group;
- Aim to get the appropriate remuneration mix to ensure Telkom's business plan objectives are met; and
- Be fair and non-discriminatory.

GUARANTEED PACKAGES

Guaranteed packages are influenced by the scope of the role and the knowledge, skills and experience required of the position holder. The packages reflect the market median determined through external market research that yields market data and appropriate salary ranges for specific positions.

Employees do not have a right to annual guaranteed package 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 ability to pay. The packages are reviewed against individual performance, set against a market median, and determined on a total cost-to-company basis. The guaranteed packages consist of a basic pensionable salary, retirement provision and flexible benefits, which includes a non-pensionable allowance and a travel allowance where applicable.

Employees can structure their packages within the framework of the applicable policies, practices and regulatory requirements. Remuneration adjustments outside the annual remuneration review process may be considered under exceptional circumstances and will be subject to the agreed authorisation.

All positions are evaluated to determine their relative value and contribution in terms of complexity and required outcomes. Positions are evaluated using the Group's job evaluation system, which correlates with the Paterson grading system as follows:

Hierarchical level	Level of leadership	Telkom grade
Group Chief Executive Officer	Executive Committee	M0
Chief Officers	Executive Committee	M1
Managing Directors/Managing Executives	Executive Management	M2
Executives	Executive Leadership	M3
Senior Manager/Manager	Frontline Leadership	M4/5
Operations Manager/Supervisor	Frontline Leadership	M6
Support Staff/Technician/Specialist	Operational	OP1/2/A

Our overall financial performance reflects the current realities facing our business and the challenging environment we operate in. We continue to contend with challenges in our fixed voice and mobile businesses, including fixed-to-mobile substitution and being the fourth entrant into a highly competitive mobile market. Managing costs has been complex given inflationary pressures and the inability to easily increase tariffs. While fixed voice revenue continues on a downward trend, costs continue to climb. This situation has serious implications for Telkom's long-term sustainability and our ability to afford human capital costs. It is against this backdrop, that the Remco has approved an average increase of 3% for management employees for the 2013/14 financial year.

Group Chief Executive Officer

The Group Chief Executive Officer (GCEO) is rewarded on the delivery of the strategic and operational deliverables in line with shareholder expectations and business strategy. The remuneration strategy for the GCEO is designed to align remuneration with long-term shareholder growth and sustainable profitability. The reward should demonstrate the critical and pivotal role the GCEO plays in the achievement of Group strategic objectives and operational goals.

Executive Committee and Executive management team

Guaranteed packages are in line with similar roles in the applicable market according to organisational size, profitability and complexity. They are also influenced by the scope of the role and knowledge, skills and experience required of the position holder. Guaranteed packages are also reviewed against individual performance, and set against market median. For full details on the Executive management team, refer to page 10. The average guaranteed package increase for the current year was 3%, the previous year was 4,66% and the average increase for the 2015 financial year is 6%.

Executive employees

The average guaranteed package increase for the current year was 3%, the previous year was 6% and the average increase for the 2015 financial year is 6%.

Management employees

Guaranteed packages for management levels are reviewed annually as part of the Company's overall remuneration review process and are assessed against the individual's performance. The average salary increase for the current year was 3%, the previous year was 6% and the average increase for the 2015 financial year is 6%.

Bargaining unit employees

Telkom follows a balanced approach in granting annual salary increases for bargaining unit employees with due consideration of the Consumer Price Index (CPI), market movements and affordability. The Company entered into a long-term agreement with organised labour on 25 July 2013; the agreement will expire on 31 March 2016. As part of this agreement, the Company has agreed to engage trade unions in the event the CPI moves above 7,5% and stays at that level for a minimum period of six months consecutively during the life of the agreement. The negotiated annual salary increases for the current year was 6,8%, previous year was 6,5%, and the average increase for the 2015 financial year is 6,8%.

SHORT-TERM INCENTIVES (STI)

The STI component is an incentive that delivers reward on the achievement of annual performance targets. The level of achievement determines the level of payment against each weighted Group performance measure. The STI comprises a cash payment that is payable after finalisation of audited results at the end of the relevant financial year. The STI plan is designed and aligned with the shareholders' expectations which place emphasis on a remuneration policy which is performance driven, support a strong alignment between senior management and shareholders and link between STI and Group performance.

During the current financial year Remco identified the following concerns with previous STI plans:

- Inconsistent STI payments not in line with the Group's performance for the past five years; and
- No correlation between STI paid, PAT and EBITDA achievements.

The 2013/14 plan was approved by both Remco and the Board in November 2013 with the following clearly defined principles:

- Both EBITDA (earnings before interest, taxes, depreciation and amortisation) and PAT (profit after tax) must be achieved at Group level to trigger any STI payment;
- Targets are weighted equally for EBITDA and PAT (50/50); and
- No STI will be payable if the achievement is less than the target.

The size of the STI pool will depend on the actual achievement of both these measures and will be variable and will determine the final STI payment. These principles will be embedded in all future STI plans.

In line with the remuneration policy, the overall Company performance will be measured at Group, business unit and divisional level as indicated below.

Unit	Group target	Business unit target	Divisional target	Total
Business unit (30/70)	30%	60%	10%	100%
Corporate centre (70/30)	70%	20%	10%	100%

Divisional-specific measures are measured on a divisional level. The rules, targets and measurements are tabled annually on the recommendation of Remco to the Board for approval, subject to the actual audited Company performance reflected in the plan under review.

Short-term incentive plan awarded for the 2014 financial year

The Group has achieved its financial and operational targets. In accordance with the approved STI plan, STI has been allocated to business units based on the discretion of the GCEO and Chief Officers in terms of actual business units and divisional performance. Individual performance is recognised within the respective business units based on the achievement of individual performance contracts.

LONG-TERM INCENTIVES

At the 2013 annual general meeting on 27 September 2013, shareholders approved the Telkom Long-term Incentive Plan. This is a Forfeitable Share Plan (FSP) that entails a free transfer of shares to an employee, under the condition of forfeiture in the case that termination of service before the vesting/release date; and achievement of the Group's predetermined performance levels.

From the grant date, the employee has shareholder rights in respect of the forfeitable shares to receive dividend rights and voting rights. The FSP has two components: a Long-term Incentive Plan (LTIP) component for senior leadership (M3 to M0), and an Employee Share Ownership Plan (ESOP) component for middle management and bargaining unit (A to M/S4).

The share incentive plans are structured to optimise the Group's overall position, while providing benefits that will assist the Group to attract, retain and incentivise executives and top talented employees. The plan is designed to support the principle of alignment between management and shareholder interests with the ultimate aim of ensuring growth in shareholder value. The objectives are to motivate long-term sustainable performance, align the interests of top management with those of shareholders, and retain business-critical and top talented employees. The Board will annually determine performance conditions for each allocation.

In addition, Executive Committee members are also eligible to receive additional forfeitable share awards (ASA) on the achievement of share price targets.

PERFORMANCE CONDITIONS FOR VESTING

The following performance criteria were implemented from 2013:

Performance condition	Weighting	Achievement for vesting				
Total Shareholder Return (TSR)	50%	**Risk free rate (6%) plus 6%**	**Risk free rate (6%) plus 5%**	**Risk free rate (6%) plus 4%**	**Risk free rate (6%) plus 3%**	**Risk free rate (6%) plus <3%**
		100%	90%	80%	50%	0%
Free Cash Flow (FCF)	30%	**> Business plan**	**Business plan**	**< Business plan**		
		100%	50%	0%		
Net Promoter Score (NPS)	20%	**> Index score**	**Index score**	**< Index score**		
		100%	50%	0%		

Long-term Incentive Plan (LTIP)

- 50% of forfeitable shares (FS) will vest in year three based on the achievement of TSR.
- 30% of FS will vest in 2017 based on achievement of FCF.
- 20% of FS will vest in 2018 based on achievement of NPS (NPS target for both 2017 and 2019).

Employee Share Ownership Plan (ESOP)

- 100% of FS will vest in 2016 based on achievements of NPS (NPS only).

Additional share award

- The share price target is R50,00 to be achieved by 31 March 2016.

SHARE OWNERSHIP

Executive Committee members, managing and group executives and executives (M3 and higher) are expected to purchase a number of shares during the three-year vesting period of the initial award(s) in the forfeitable share plan.

The shareholding requirements are the participating requirement for the FSP scheme. No shares will vest until the minimum requirement has been met. The total number of shares purchased after three years (which are equal to 15% of GP) should be retained for a minimum of 50% for 12 months, and 50% for 24 months.

SHARES AWARDED

Details of the accrued long-term incentive plan granted under the rules of the FSP are provided below.

Executive directors

2013 – Award (with Company performance conditions)	Shares allocated	Closing number	Share price used for allocation	Value of allocation
SN Maseko				
FSP	163 866	163 866	23,80	3 900 011
ASA	54 622	54 622	23,80	1 300 004
Total	**218 488**			**5 200 015**
JH Schindehütte[1]				
FSP	–	–	–	–
ASA	–	–	–	–
Total	**–**			**–**

1. No shares were allocated to employee.

Prescribed officers

2013 – Award (with Company performance conditions)	Shares allocated	Closing number	Share price used for allocation	Value of allocation
DJ Fredericks[1]				
FSP	74 898	74 898	23,80	1 782 572
ASA	27 236	27 236	23,80	648 217
Total	**102 134**			**2 430 789**
BC Armstrong[2]				
FSP	15 126	15 126	23,80	359 999
ASA	9 832	9 832	23,80	234 002
Total	**24 958**			**594 001**
LM de Villiers				
FSP	70 603	70 603	23,80	1 680 351
ASA	25 674	25 674	23,80	611 041
Total	**96 277**			**2 291 392**
TE Msubo				
FSP	69 250	69 250	23,80	1 648 150
ASA	25 182	25 182	23,80	599 332
Total	**94 432**			**2 247 482**
GJ Rasethaba[2]				
FSP	–	–	–	–
ASA	–	–	–	–
Total	**–**			**–**
AN Samuels[2]				
FSP	–	–	–	–
ASA	–	–	–	–
Total	**–**			**–**
V Scarcella				
FSP	19 931	19 931	30,35	604 906
ASA	7 248	7 248	30,35	219 977
Total	**27 179**			**824 883**
IM Russell				
FSP	24 005	24 005	30,35	728 552
ASA	8 729	8 729	30,35	264 925
Total	**32 734**			**993 477**

1. Deon Fredericks has acted as Chief Financial Officer since 24 October 2013.

2. Employees who have signed a retention agreement or received a sign-on bonus since 2010, which have not expired, did not qualify for the full share awards for 2013. The share awards have been pro-rated with the remainder of the retention agreement/sign-on bonus amount. These employees will only qualify in 2014 or 2015 for the full share award once the total outstanding amount has been fully off-set or when the retention/sign-on agreement lapses, whichever occurs first. Therefore, both sign-on and retention payments were off-set with the 2013 share allocations, provided that these agreements are still active and the employees are still indebted to Telkom.

Share loan assistance

Share loan assistance was approved at the AGM on 27 September 2013. Subsequently, the share loan purchase scheme rules, policy and share loan agreement, were approved by Remco and the Board.

Salient features of the share loan assistance scheme

- Only Executive Committee members (Exco members) participate in the scheme
- The maximum loan granted will be equal to 100% of the guaranteed package (GP) of the executive in question, as at the date on which the loan is granted.
- The maximum loan amount (100% of guaranteed package) will not increase, should the GP of the executive increase after the date on which the loan is granted. The amount shall be used solely for the purpose of the acquisition of ordinary shares in Telkom ("Telkom purchased shares"), to the value of the loan.
- The loan is payable from the date the executive ceases to be an employee for any reason whatsoever.
- Shares will be pledged and ceded (Pledged Security) to the Company and may be disposed of by the Executive at any time, provided that: Written notice is given to Telkom of such disposal; the proceeds of the disposal are applied in cash to the repayment of the loan, free of any deduction whatsoever; where the proceeds of the disposal are not sufficient to repay the loan in full, the Executive shall pay the amount outstanding on the loan immediately on demand by the Company; and this provision shall constitute the authority on which the Escrow Agent may proceed to dispose of the shares as aforesaid.
- Fringe benefit tax is applicable as a result of the granting of an interest free loan.

The following loans were provided:

JH Schindehütte – CFO loan amount of R5 997 775 purchase date of 30 September 2013; number of shares purchased: 243 700. The loan was paid back in full by the CFO to Telkom on 16 January 2014.

TE Msubo – Chief of Human Resources: loan amount of R1 500 000; purchase date of 27 January 2014; number of shares purchased: 47 300.

FULL-TIME EMPLOYMENT CONTRACTS

Executive directors

Telkom entered into a full-time employment contract with SN Maseko effective from 1 April 2013, with a termination clause subject to three calendar months' notice given on either side.

Re-election of executive directors

Executive directors	Year of employment	Year first appointed to the Board	Year due for re-election
SN Maseko	2013	2013	2014
JH Schindehütte	2011	2011	2016

External directorships

Executive directors are allowed to hold one external directorship in any company with the approval of the Board. All compensation earned from external directorships will accrue to Telkom. The Board may decline external directorships as it may deem appropriate

Executive Committee members

The following employees were appointed to the Executive Committee:

Name	Position	Appointment date	Employment status
IM Russell	Chief Procurement Officer	1 February 2014	Full-time employment contract
V Scarcella	Chief Marketing Officer	1 February 2014	Full-time employment contract
AN Samuels	Chief Technology Officer	13 February 2014	Full-time employment contract
GJ Rasethaba	Chief Risk Officer	1 March 2014	Full-time employment contract
LM de Villiers	Chief Information Officer	1 November 2013	Fixed term contract – expiry date 31 October 2016

RETENTION AND RESTRAINT AGREEMENTS

No retention and or restraint agreements were signed with any of the Executive Committee members during the financial year.

It is important to re-emphasise those employees who have signed a retention agreement or received a sign-on bonus since 2010, which have not expired, do not qualify for the full share awards for the 2014 financial year. The share awards have been pro-rated with the remainder of the retention agreement/sign-on bonus amount. These employees will only qualify in 2014 or 2015 for the full share award once the total outstanding amount has been fully off-set or when the retention/sign-on agreement lapses, whichever occurs first. Therefore, both sign-on and retention payments were off-set with the 2013 share allocations, provided that these agreements are still active and the employees are still indebted to Telkom.

SIGN-ON BONUS

Sign-on bonuses may be allocated at the discretion of the GCEO on the recommendation of Executive Committee members to prospective staff members who meet specific criteria. The intention of the sign-on bonus is to act as a recruitment incentive to assist in talent attraction and compensate for potential loss of benefits from a previous employer. The full sign-on bonus amount will be recovered if the individual terminates his/her employment contract.

Telkom paid sign-on bonuses in February 2014 to both V Scarcella, Chief Marketing Officer, and IM Russell, Chief Procurement Officer. Mr Scarcella's bonus will be recovered should he resign before 31 January 2015, and Mr Russell's should he resign before 31 January 2016.

NON-EXECUTIVE DIRECTORS' REMUNERATION KEY PRINCIPLES AND POLICIES

The Board of Directors, on the recommendation of Remco, determines the fees of the non-executive directors. These fees are set out on page 94 and in note 40 in the consolidated annual financial statements.

Fees for Telkom's non-executive directors are determined by the Board based on market practice, within the restrictions contained in Telkom's MOI. Telkom's non-executive directors receive no other pay or benefits from Telkom other than directors' fees, with the exception of reimbursement of expenses incurred in connection with their directorships. The non-executive directors do not participate in the long-term incentive share plan or in the short-term incentive plan outlined herein and are not eligible for pension scheme membership.

The remuneration structure is considered to be fair and reasonable and in the best interest of the Group.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive directors' fees effective 1 April 2013 were as follows:

Non-executive directors' fees and remuneration	R per annum 2014	2013
Chairman of the Board	**1 110 000**	1 110 000
Non-executive director of the Board	**325 000**	325 000
International Board member	**449 811**	449 811
Audit Committee Chairman	**200 000**	200 000
Audit Committee member	**120 000**	120 000
Risk Committee Chairman	**200 000**	200 000
Risk Committee member	**120 000**	120 000
Remuneration Committee Chairman	**200 000**	200 000
Remuneration Committee member	**120 000**	120 000
Nominations Committee Chairman	**120 000**	120 000
Nominations Committee member	**90 000**	90 000
Investment and Transactions Committee Chairman	**120 000**	120 000
Investment and Transactions Committee member	**90 000**	90 000
Social Ethics and Sustainability Committee Chairman	**200 000**	200 000
Social and Ethics Committee member	**120 000**	120 000

BOARD MEETINGS – FIVE SCHEDULED PER ANNUM

Special Board meeting fees:

- Chairman — R20 000 per meeting
- Ordinary Board member — R15 000 per meeting
- International Board member — R15 000 per meeting

BOARD SUB-COMMITTEE MEETINGS

The Audit, Risk, Remuneration and Social and Ethics Committees held four scheduled committee meetings per annum, while the Nominations and Investment and Transactions Committees held five scheduled committee meetings. The fee for special committee meetings is R20 000 for the Chairman and R15 000 for a committee member per meeting. Where any Board member voluntarily attends a committee meeting that they are not a member of, there is no fee payable for their attendance. All fees are paid proportionally to the period in which office is held.

REMUNERATION AND BENEFITS AWARDED TO PRESCRIBED OFFICERS DURING 2014

Executive directors' remuneration

Remuneration and benefits paid and short-term incentives approved in respect of the 2014 financial year are set out in the following table:

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2014	Total 2013
Executive directors					
NT Moholi	–	–	–	**–**	11 636 703
SN Maseko	6 500 000	5 200 000	11 972	**11 711 972**	–
JH Schindehütte	6 000 000	–	11 972	**6 011 972**	8 407 349
Total	12 500 000	5 200 000	23 944	**17 723 944**	20 044 052

Prescribed officers (excluding executive directors)

The aggregate remuneration, benefits paid and short-term incentives approved for the 2014 financial year are set out in the following table:

Executive Committee	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2014	Total 2013
BC Armstrong	4 500 000	2 500 000	10 974	**7 010 974**	5 718 029
LM de Villiers[1]	1 272 993	574 215	4 988	**1 852 196**	–
DJ Fredericks[2]	3 241 050	2 119 155	1 220 867	**6 581 072**	5 021 374
JM Mavuso[3]	–	–	–	**–**	3 848 942
A Vitai[3]	–	–	–	**–**	8 471 366
TE Msubo	2 996 632	1 800 000	211 972	**5 008 604**	4 088 462
MJ Nzeku[4]	–	–	–	**–**	13 660 621
GJ Rasethaba	2 582 987	1 700 000	61 972	**4 344 959**	3 495 070
MB Sallie[5]	3 504 048	2 005 724	11 972	**5 521 744**	4 515 591
AN Samuels[6]	509 197	291 468	1 995	**802 660**	–
V Scarcella[7]	550 000	150 000	3 300 000	**4 000 000**	–
IM Russell[8]	662 417	150 000	6 001 995	**6 814 412**	–
Total	19 819 324	11 290 562	10 826 735	**41 936 621**	48 819 455

1. Appointed 1 November 2013 – pro rata earnings for five months.
2. Includes acting allowance from 24 October 2013 to 31 March 2014 – acting CFO.
3. Employees are no longer Prescribed Officers (members of the Executive Committee).
4 Employee retired on the 31 May 2012.
5. Employee retired and left the company on 31 March 2014.
6. Appointed 13 February 2014 – pro rata earnings for one and a half months.
7. Appointed 1 February 2014 – pro rata earnings for two months. Includes a sign on bonus of R3 300 000.
8. Appointed 1 February 2014 – pro rata earnings for two months. Includes a sign on bonus of R6 000 000.

Executive management team

The aggregate remuneration, benefits paid and short-term incentives approved for the 2014 financial year are set out in the following table:

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2014	Total 2013
Executive management team	78 366 889	34 594 031	10 624 312[1]	**123 585 232**	128 847 333
Number of employees				**37**	33

1. Includes setting in allowance leave gratuity and Voluntary Separation/Early Retirement Packages.

Non-executive directors

The following table details emoluments paid to non-executive directors for services rendered:

Non-executive directors	Directors' fees	Committee and special meetings	Total 2014	Months served as NED	Total 2013	Months served as NED
JA Mabuza *(Chairman)*	1 110 000	310 000	**1 420 000**	12	567 290	5 (14/11/12)[3]
SL Botha	325 000	360 000	**685 000**	12	151 943	4 (10/12/12)[3]
B du Plessis	162 500	240 000	**402 500**	6 (27/09/13)[2]	780 000	12 (02/12/04)[3]
CA Fynn	325 000	355 000	**680 000**	12	161 943	4 (10/12/12)[3]
N Kapila[1]	449 811	270 000	**719 811**	12	734 811	12 (16/02/11)[3]
I Kgaboesele	325 000	545 000	**870 000**	12	815 000	12 (01/07/11)[3]
KT Kweyama	325 000	345 000	**670 000**	12	101 943	4 (10/12/12)[3]
LW Maasdorp	325 000	470 000	**795 000**	12	213 004	5 (16/11/12)[3]
J Molobela	162 500	185 000	**347 500**	6 (27/09/13)[2]	795 000	12 (01/11/09)[3]
KW Mzondeki	325 000	275 000	**600 000**	12	233 004	5 (14/11/12)[3]
F Petersen	325 000	375 000	**700 000**	12	191 943	4 (10/12/12)[3]
LL von Zeuner	325 000	440 000	**765 000**	12	211 943	4 (10/12/12)[3]
PL Zim	–	–	**–**		784 089	7 (24/10/12)[2]
NP Dongwana	–	–	**–**		377 005	7 (02/11/12)[2]
RJ Huntley	–	–	**–**		488 705	7 (24/10/12)[2]
PSC Luthuli	–	–	**–**		513 705	7 (24/10/12)[2]
NP Mnxasana	–	–	**–**		428 705	7 (24/10/12)[2]
S Sibisi	–	–	**–**		243 705	7 (24/10/12)[2]
Y Waja	–	–	**–**		493 705	7 (24/10/12)[2]
JN Hope	–	–	**–**		513 705	7 (24/10/12)[2]
Total	4 484 811	4 170 000	**8 654 811**	12	8 801 148	

1. N Kapila is a foreign director with Indian nationality.
2. Exit date.
3. Appointment date.

Mr JA Mabuza's service agreement was extended for another 12-month period effective from 16 November 2013, which has a one year term, expiring 15 October 2014.

BENEFICIAL SHAREHOLDING

Director's shareholding as at 31 March 2014

Number of shares	Beneficial Direct	Beneficial Indirect	Non-beneficial Direct	Non-beneficial Indirect
Executive				
SN Maseko	52 520			
JH Schindehütte	298 700			
Non-executive				
JA Mabuza	26 000			
I Kgaboesele	12 000			
K Mzondeki	267			
CA Fynn	160			42
F Petersen				400
Total	**389 647**	**–**	**–**	**442**

Directors' interest in contracts

The directors of the Company annually and as required declare their interests in any transaction with the Company in terms of the Companies Act of 2008. In accordance with the Companies Act of 2008, Telkom SA SOC Limited maintains a register of directors' interests in contracts.

None of the directors declared an interest in any contract during the year under review.

04

ENTERPRISE RISK MANAGEMENT

RISK PHILOSOPHY

Effective risk management is critical in managing Telkom's risk profile. The realisation of our strategy depends on our ability to take calculated risks that do not jeopardise the direct interests of our shareholders, employees, customers, regulators, broader society and other stakeholders. Sound risk management helps us anticipate and respond to changes in our environment and to make informed decisions under conditions of uncertainty.

At Telkom, we are committed to optimising risk management in order to achieve our vision and objectives, and protect our core values. This requires a strategic and functional approach to risk management. Telkom's NGN project and the investment in Telkom Mobile were significant risks to the Group from a project perspective. The main focus of enterprise risk management (ERM) for 2014 has thus been to de-risk these projects as far as possible to provide sustainable value to the Group.

Telkom has adopted a Group-wide approach to risk management where each risk is managed in an integrated, structured and systematic process within a unitary framework aligned with Telkom's corporate governance responsibilities. The Board is committed to a process that complies with the principles of the King III Report on Corporate Governance 2010, COSO Integrated Enterprise Risk Management Framework of 2004, and ISO 31000. All divisions, supporting functions, processes, projects and other controlled entities are subject to the ERM Policy.

Telkom's Board of Directors has the ultimate responsibility for the Group's risk management process and the evaluation of its effectiveness. Executive management is accountable for identifying major risks, designing, implementing and monitoring the appropriate risk mitigation strategies, and integrating them into the divisions' day-to-day activities. It is important that risk management processes become embedded in the Group's systems and processes to ensure current and dynamic responses to risk. All key risks associated with major changes and significant actions by Telkom fall within the processes of risk management.

Governance structure

The Risk Committee undertakes a formal risk exposure analysis on an annual basis. The Risk Committee appointed a dedicated risk management council, the Telkom Executive Risk Management Council (TERMC) to implement risk management policies defined by the Risk Committee and approved by the Board, and to optimise risk management within the Telkom Group.

Each business unit within the Telkom Group performs ongoing risk exposure analysis in consultation with ERM who in turn produces a risk profile, demonstrating the management of key risks and opportunities identified. The various risk profiles are aggregated by ERM for presentation to the TERMC and Risk Committee on a quarterly basis, and to the Executive Committee on a monthly basis. TERMC is responsible for analysis of the exposures to ensure that risk control and management efforts are not duplicated, risk identification 'gaps' are avoided and that interdependencies are identified and managed in a timely manner.

Essential to the achievement of the ERM objectives is the implementation of an enterprise risk management structure to support the achievement of the objectives.

Key objectives of the ERM division

Oversight: To ensure all critical risks are identified Group-wide and are adequately mitigated by management and monitored under a holistic approach consistent with the Risk Committee approved risk appetite statement.

Ownership and responsibility: The ownership of risk is assigned to management individuals who are responsible for identifying, evaluating, mitigating and reporting risk exposures.

Assurance: The Board, Risk Committee, Executive Committee, Telkom Executive Risk Management Council and management have reasonable assurance that the risk is being appropriately managed within defined levels to bring value to Telkom.

To achieve these high-level objectives the Group employs the following tactics:

- De-risking all business plans based on the approved risk appetite and risk bearing capacity, through regular assessment and monitoring with management;
- Ensuring timely identification of all risks across the Group;
- Completing timely, accurate and relevant risk reporting and monitoring of key risk indicators;
- Quantifying loss events should they occur;
- Assessing unpredictable risks with management and the Group's exposure to these risks;
- Proactively identifying and addressing bottlenecks in performance with management; and
- Tracking action plans on a monthly basis for effective mitigation.

In order to optimise the risk management process, Telkom applies all resources used in its risk management process in an economic manner. This is to ensure:

- The highest standards of service delivery are achieved on a consistent basis;
- The existence of a management system that aims to minimise risk and costs in the interest of all stakeholders;
- Education and training of all our staff to ensure continuous improvement in knowledge, skills capabilities to maintain conformance with risk management principles; and
- An environment that promotes the right attitude and sensitivity towards risk management exists.

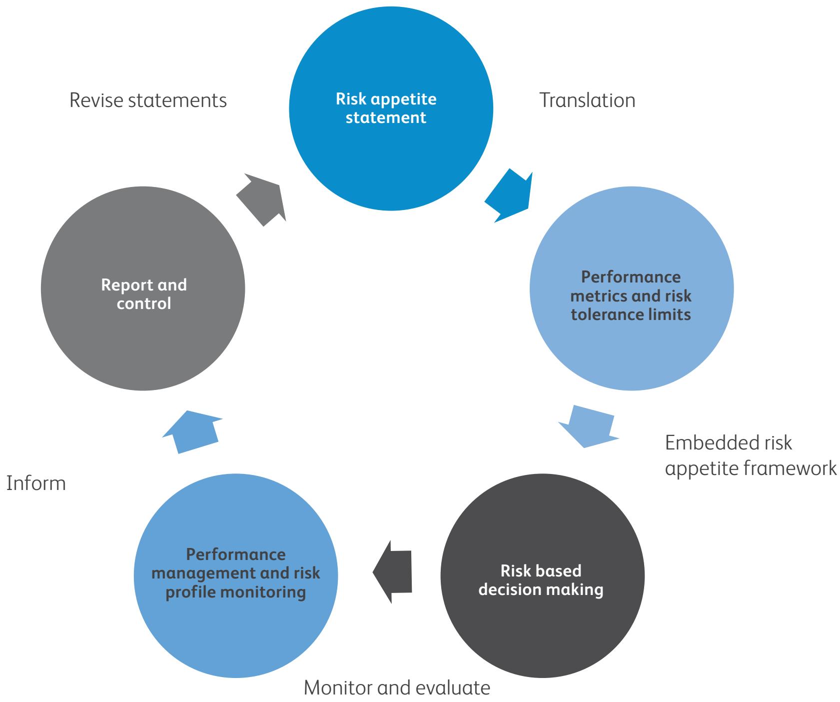
Summary of ERM achievements in the reporting period

- A risk appetite framework was implemented at a Group level; key indicators and tolerance levels are measured and monitored on a monthly basis.
- Integrated compliance framework implemented with the approved ERM framework.
- Developed a holistic Risk Management Communication and Awareness Plan and associated risk management training modules.
- Business continuity: conducted 163 business continuity plan testing exercises; created business continuity management awareness through training 88,9% of the workforce; and conducted 77 critical core business continuity plan reviews.
- Integration and convergence of the Fraud Risk Framework onto the ERM methodology.
- Integration and convergence of Ethics Risk Framework onto the ERM methodology.
- Commenced the integration and convergence of the Sustainability Framework with the ERM methodology.

ERM focus areas for the 2015 reporting period

- Continue de-risking all business plans based on approved risk appetite and risk bearing capacity, through regular assessment and monitoring with management.
- Facilitating enhanced risk management communication, awareness and training.
- Implementing risk appetite, risk bearing capacity and risk tolerance levels at business unit level.
- Reflecting a more holistic risk profile in co-operation with other risk disciplines.
- Embedding risk management within the business operating structures.
- Providing Risk Assurance.
- Enhancing ERM processes within the Telkom Group.

RISK APPETITE FRAMEWORK



Risk appetite statement

The risk appetite statement and tolerance levels were calibrated against Telkom's broad financial targets including, dividend policy and operational effectiveness as part of the Telkom planning process, combining a top-down view of the company's risk capacity with a bottom-up view of the risk profile.

Telkom's risk appetite statement:

Telkom's risk appetite sets out the level of risk that the company is willing to take in pursuit of its business objectives. This is expressed as the company's appetite for earnings volatility, in conjunction with the requirements of our stakeholders, across all business from a number of risk perspectives.

Other disciplines in the Enterprise Risk Management portfolio

Business Continuity Management (BCM)

Business continuity is an integral part of good management practice and corporate governance at Telkom. The focus of BCM is to constitute, monitor and govern the management, performance and alignment of business continuity and disaster recovery related activities, services, functions, operations, systems, structures and networks Company-wide. BCM is an integrated management process that identifies and ensures mitigation of potential business continuity threats and the consequences to the business if they occur. BCM provides a framework for building a resilient organisation capable of responding effectively to protect the interest of Telkom's key stakeholders, its reputation, and business activities.

During the current year, we successfully completed 163 business continuity exercises. We also reviewed 77 of our critical core business continuity plans and trained 88,9% of our workforce.

Security services

To ensure the cost effective and efficient protection of Telkom's employees and assets, ERM: Security Services implements and maintains best security standards and practices within Telkom. Our centralised National Security Control Centre continues to monitor and provide real time surveillance and support to business. Provision of armed escort services requirements increased due to the need to protect our staff working in dangerous areas.

Network Protection Services

Network Protection Services (NPS) are mandated to protect Telkom's network infrastructure. Although network fraud has decreased, the theft of copper cable remains a challenge. Although the losses have stabilised, NPS remains committed to finding more cost effective and efficient solutions to combat this scourge thereby ensuring a reliable and sustainable network that will allow our customers optimal use thereof.

Insurance and Risk Finance

Insurance and Risk Finance support the ERM function by providing financial protection against future risks, catastrophes and uncertainty by establishing and maintaining commercially purchased insurance programmes; managing self-insurance programmes, and managing alternative risk transfer. To achieve this, Insurance and Risk Finance designs an integrated risk financing strategy that reviews the costs and benefits to the Telkom Group that ultimately results in a reduction to the total cost of risk by self-insuring predictable losses, whilst ensuring that adequate and appropriate funds are available to reimburse Telkom for losses when they occur, such that there are minimal disruptions in pursuit of Company objectives.

Compliance

The basis of all corporate compliance activities can be found in adherence to Principle 6 of the King III Code of Good Corporate Governance, which provides for compliance with laws, regulations, rules and standards. Telkom is subject to a wide variety of legal, regulatory and professional requirements with which we must comply. Since non-compliance with these legal, regulatory and professional requirements can be costly to business and result in civil liability, the imposition of fines and penalties, adverse publicity, suspension or revocation of Telkom's licences, it is prudent to take steps to ensure that there is no basis for charges of non-compliance.

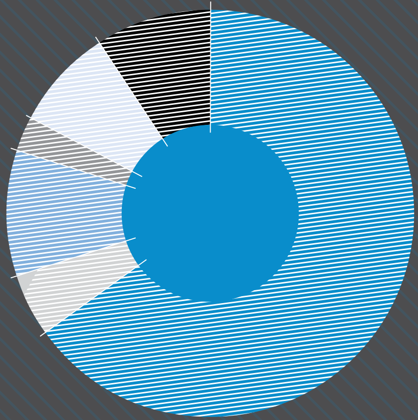
Our regulatory universe is continually reviewed and updated so to ensure adequate compliance.

We have developed a strategy to effectively increase the maturity of the Compliance Risk Management Programme and process across Telkom. The pivotal element of the strategy is the integration of compliance with the approved ERM Framework. The integration has resulted in a seamless compliance management process to business, supporting the proactive identification, assessment, response and reporting of compliance risk across Telkom.

ENTERPRISE RISK MANAGEMENT
(CONTINUED)

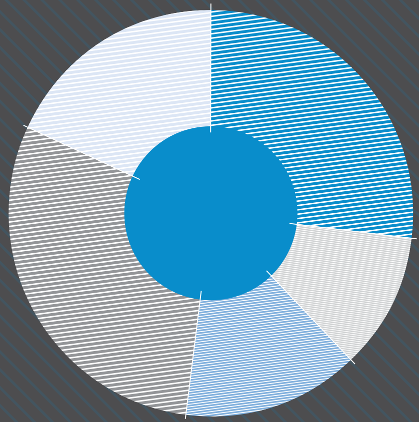
During the year under review we successfully completed risk management plans for our regulatory universe. The following provides a graphical representation of the outcome.

Residual result of completed Regulatory Universe



Priority 5	65%
Priority 4	5%
Priority 3	10%
Priority 1	3%
WIP	8%
Excluded	9%

Inherent Risk Rating of Regulatory Universe



Extreme	27%
High	11%
Moderate	14%
Low	30%
Insignificant	18%

We continue to implement actions and address areas where the exposure is undesirable. We continue to focus on the following key Acts and Codes:

1. Electronic Communications
2. Competition Act
3. Consumer Protection Act
4. Regulation and Interception of Communications and Provision of Communication Act
5. Electronic Communications and Transaction Act
6. Promotion of Access to Information Act
7. Labour Relations Act
8. Occupational Health and Safety Act
9. Companies Act
10. Disaster Management Act
11. Code of Advertising Practice
12. The 10 United Nations Global Compact Principles
13. The King III Code of Corporate Governance
14. The OECD recommendations regarding corruption

We are currently embarking on a project to address the requirements of the Protection of Personal Information Act.

Risk appetite and risk bearing capacity

Enterprise Risk Management (ERM) ensures a structured and consistent approach to risk management, aligning risk appetite to strategy, processes, people and technology. The approach to ERM and determining and setting risk appetite provides Telkom with the information and knowledge to evaluate and manage the uncertainties faced in creating shareholder value.

Our Board of Directors determine the risk appetite as required by the King III Code and international risk management standards.

Our Risk Appetite Framework is therefore a key business performance tool and is central to strategic planning, delegation of authority and establishment of aligned roles and responsibilities within Telkom.

Performance metrics and risk tolerance limits

Our risk tolerance levels monitor to ensure that our actual risk exposure does not deviate too much within our risk appetite and risk bearing capacity. Exceeding risk limits will typically act as a trigger for management action.

While risk appetite is broad, risk tolerance is tactical and operational. Our risk tolerance is expressed in such a way that it can be

- mapped into the same metrics Telkom use to measure success;
- applied to all four categories of objectives (strategic, operations, reporting, and compliance); and
- implemented by operational personnel throughout Telkom.

As our risk tolerance is defined within the context of our objectives and our risk appetite, it is communicated using the metrics in place to measure performance. In this way, risk tolerance sets the boundaries of acceptable performance variability within Telkom.

Performance management and risk profile monitoring

Our risk appetite and tolerance performance is measured on a monthly basis in conjunction with the risk profile. Appropriate actions are implemented when and where requited.

Reporting

During the current financial year monthly reports were prepared for our Executive Committee whilst quarterly reports were prepared for the TERMC and Risk Committee.

As our risk tolerance is defined within the context of our objectives and our risk appetite, it is communicated using the metrics in place to measure performance. In this way, risk tolerance sets the boundaries of acceptable performance variability within Telkom.

04

TELKOM AUDIT SERVICES

The past few years has marked an unprecedented shift in the way Telkom operates. Over the past year Telkom has placed extensive effort on aligning and streamlining the Group's strategies and operations to enhance its effectiveness, accountability, and transparency to better deliver value going forward.

As Telkom's strategy and operations shifted in response to market realities, industry regulation and stakeholder expectations, it became even more important for Telkom to maintain a high level of governance, risk management and control systems to demonstrate responsible stewardship. Maintaining high standards included the continued empowerment of assurance providers to independently assess the efficiency and effectiveness of these risk management and control mechanisms.

Telkom Audit Services (TAS) is governed by an internal audit charter which is approved by the Audit Committee (AC) and is reviewed annually. The charter defines the purpose, authority and responsibilities of the function.

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

The Telkom organisational structure promotes the independence of TAS as a whole and allows it to form its judgements objectively. In order to ensure the independence, permit sufficient objectivity and ensure the accomplishment of audit responsibilities, the Group Executive (GE): TAS functionally reports to the Chairman of the Telkom AC. The GE: TAS also interacts directly with the Board and reports administratively to the Chief Financial Officer. The GE: TAS has unlimited access to all employees of the Company, including the chairman of the Telkom Board, the chairman and members of the AC as well as the Group Chief Executive Officer (GCEO).

Annually, TAS conducts an assessment of the risk register, provided by Enterprise Risk Management, for the entire organisation, from which a comprehensive risk-based audit plan is derived. The assessment and audit plan is validated by executive management and approved by the AC. The audit plan is benchmarked by our co-sourced service providers against organisations in similar industry verticals and audit functions of a similar nature and size.

TAS also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The AC approves any changes to the plan.

A summary of audit results, performance against the approved audit plan, and progress on the resolution of management action items is presented quarterly to the AC and monthly to the Executive Committee (Exco).

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

Through the use of the Company-wide system of management action tracking TAS continues to monitor the timely remediation of reported control deficiencies. This system has empowered management to proactively manage the establishment of controls in their environments as well as to support the establishment and maintenance of a sound control environment. TAS will continue to provide reports to the AC and Exco on the status of agreed remedial actions implemented by management.

TAS was assessed as "generally conforms" to the IIA standards by KPMG in an external assurance review in 2010, which is the highest level of conformance as defined by the Standards. The next external quality assessment is planned for 2015. TAS established a Quality Assurance function in 2013, as well as developed a quality assurance and improvement programme (QAIP) to cover all aspects of the internal audit activity. The programme includes both internal and external evaluations which assess the effectiveness and efficiency of the internal audit activity. Furthermore TAS adopted strategies and techniques aimed at addressing the specific internal audit requirements of King lll, which includes better strategic alignment of the assurance efforts of TAS.

The Internal Audit activities are performed by teams of appropriate, qualified and experienced employees, supplemented by co-sourced service provider resources. This augmentation has enabled sufficient attention being directed towards the growth aspirations of Telkom in areas of new business as well as key capital-intensive programmes, whilst ensuring that existing business areas receive due attention.

The role of TAS and its prominence in improving the control environment has increased over the last two years through key contributions made towards embedding an effective combined assurance framework and model as well as the piloting of the Control Self-Assessment (CSA) process in selected functional areas.

The GE: TAS continues to chair the Telkom Combined Assurance Forum (TCAF), which has proven to provide an excellent communication platform for the assurance providers in Telkom as well as constituting a springboard for the provision of a written assessment on the effectiveness of the internal control environment. The TCAF yielded the following benefits to Telkom during the year that included:

- Avoidance of duplication of assurance effort;
- A better understanding of Telkom's business operations through sharing of knowledge of the business and emerging and current business issues;
- Timing assurance efforts to minimise business interruption and avoidance of assurance fatigue on the business; and
- Developing a portfolio view of assurance efforts for management and the AC.

TAS has implemented a number of initiatives to enable a transition from an assurance provider to a control champion. This included a strategic change in our stakeholder engagement process, implementing control awareness initiatives that included targeted information sessions, monthly newsletters as well as the establishment of a control advice centre.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of the annual financial statements of the Company and the Group. The directors are also responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets.

In presenting the accompanying financial statements, International Financial Reporting Standards have been followed and applicable accounting policies have been used incorporating prudent judgements and estimates.

The external auditors are responsible for independently auditing and reporting on the annual financial statements.

In order for the directors to discharge their responsibilities, management continues to develop and maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. The internal controls include a risk based system of internal auditing and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Group's policies and procedures.

The directors, primarily through the Audit Committee, which consists of independent non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal controls, auditing and financial reporting.

The directors are of the opinion, based on the information and explanations given by management and internal audit that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Telkom SA SOC Limited continues to adopt the going concern basis in preparing the annual financial statements.

Against this backdrop, the directors of the Group accept responsibility for the annual financial statements, which were approved by the Board of Directors on 12 June 2014 and are signed on their behalf by:

Jabulane Mabuza
Chairman of the Telkom Board

Sipho Maseko
Group Chief Executive Officer

Pretoria
12 June 2014

04

AUDIT COMMITTEE REPORT

INTRODUCTION

The Audit Committee presents its report for the financial year ended 31 March 2014. The report is presented in accordance with the Company's memorandum of incorporation, the requirements of the Companies Act, No 71 of 2008 (the Act), as well as the recommendations contained in the third King Report on Governance for South Africa (King III). Amongst others, the Audit Committee's operations are also guided by a formal charter that is in line with the JSE Listings Requirements.

Membership

The membership of the committee comprised the following independent non-executive directors:

- I Kgaboesele (Chairman)
- K Mzondeki
- F Petersen
- LL von Zeuner

In addition, the Chief Executive Officer; the Chief Financial Officer, head of internal audit, head of risk management and the external auditors are also permanent invitees to meetings. Given the size and complexity of the Group, the Board has also established a Risk Committee to ensure the appropriate focus on identifying and managing the risks facing the Group.

Qualification details of the current members of the Audit Committee and of the Risk Committee are set out on pages 73 and 74.

Details of meeting attendance can be found on pages 81 and 83.

Resignations

B du Plessis – 27 September 2013 – Retirement by rotation.

Duties performed

During the financial year ended 31 March 2014, the committee convened five times to discharge both its statutory and board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee and where appropriate, in conjunction with the Risk Committee, carried out the following duties:

- Reviewed the appropriateness of identified significant risks and the management and control thereof;
- Discussed the Group's major risk exposures and the steps management had undertaken to mitigate them;
- Reviewed the Group's statement on internal control systems prior to endorsement by the Board;
- Satisfied itself that the Internal Audit coverage plans made provision for effectively addressing the risk areas of the business;
- Considered the results of work performed by, and the conclusions of the internal audit function, in relation to:
  - Corporate governance;
  - Risk management;
  - Financial systems, internal control and reporting; and
  - Internal financial controls;
- Assessed and evaluated the independence and effectiveness of the internal auditor functions, in accordance with its mandate;
- Assessed the effectiveness of the combined assurance forum;
- Reviewed the performance and expertise of the Chief Financial Officer/Acting Chief Financial Officer;
- Took responsibility for the appointment of independent external auditors, retention, compensation, resignation or dismissal of the external auditors, as well as their terms of engagement and oversight of the work of the external auditors who report directly to the committee;
- Considered any material problems, reservations and observations, or any potentially contentious accounting treatments or judgements, or significant unusual transactions, or going concern issues arising from the external audit;
- Reviewed and recommended for adoption by the Board the interim and annual financial information that is publicly disclosed, including the integrated report;
- Reviewed the adequacy of management's corrective action taken in response to significant internal and external audit findings;
- Obtained regular updates from management regarding compliance matters;
- Obtained regular updates on the status of material open litigation and other proceedings and related reserves;
- Reviewed the adequacy and effectiveness of control framework and governance structures implemented within the IT environment; and
- Received reports on matters relating to ethical conduct and the prevention, detection and investigation of fraudulent activity or misconduct within Telkom Group companies, received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the head of risk management.

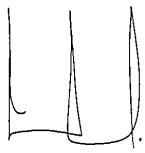
The committee is satisfied that it has fulfilled its obligations in respect of the Audit Committee charter.

CONCLUSION

Based on the results of the formal documented review of the Group's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by Telkom Audit Services during the 2014 financial year and considering information and explanations given by management and discussions with the external auditor on the results of the audit, the Audit Committee has considered all significant control matters and associated action plans. Taking the aforementioned into account, nothing has come to the attention of the Audit Committee that leads it to conclude that the Group's system of internal controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

The Audit Committee is satisfied that Ernst & Young Inc is independent and was appointed in terms of the requirements of section 90(2) of the Companies Act, No 71 of 2008 and has nominated for the re-appointment of Ernst & Young Inc. as registered auditors for the 2015 financial year.

The Audit Committee recommended the approval of the consolidated annual financial statements and the integrated report for the year ended 31 March 2014 by the Board of Directors on 12 June 2014.



Itumeleng Kgaboesele
Chairman of the Audit Committee

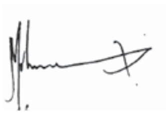
12 June 2014

CERTIFICATE FROM GROUP COMPANY SECRETARY

Xoliswa Mpongoshe
Group Company Secretary

I hereby certify in accordance with section 88(2)(e) of the Companies Act, No 71 of 2008, the Group has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

I further hereby certify that Telkom SA SOC Limited and its directors have, during the 12 months ended 31 March 2014, complied with all Listings Requirements and every disclosure requirement for continued listing on the JSE Limited imposed by the JSE Limited during that period.



Xoliswa Mpongoshe
Group Company Secretary

12 June 2014

04
DIRECTORS' REPORT

TO THE MEMBERS OF TELKOM SA SOC LIMITED

The directors have pleasure in submitting the annual financial statements of the Company and the Group for the year ended 31 March 2014.

Nature of business

Telkom is a full service communications provider for South Africa.

Financial results

Profit from continuing operations for the year ended 31 March 2014 was R3 992 million (2013: R11 532 million loss) representing basic earnings per share from continuing operations of 758,1 cents per share (2013: 2 282,6 cents loss per share) and headline earnings per share from continuing operations of 861,0 cents (2013: 86,2 cents per share). Full details of the financial position and results of the Group are set out in the accompanying Company and Group annual financial statements.

Dividends

Based on our guidance provided in November 2013, the Group plans on reinstating the dividend for the 2015 financial year, subject to uncertainties facing the Group, growth opportunities as well as debt and cash flow levels.

Subsidiaries, associates and other investments

Particulars of the material subsidiaries of the Group are set out in note 42 of the accompanying Group annual financial statements.

The attributable interest of the Group in the after tax earnings from continuing operations of its subsidiaries for the year ended 31 March 2014 were:

	2014 R million	Restated 2013 R million
Aggregate amount of profit/(loss) after taxation	**369**	377

Share capital

Details of the authorised, issued and unissued share capital of the Company as at 31 March 2014, are contained in note 24 of the accompanying Group annual financial statements.

Share repurchase

The Company did not repurchase any shares during the year under review.

Borrowing powers

In terms of the Company's MOI, Telkom has unlimited borrowing powers subject to the restrictive financial covenants of the TL20 bond and syndicated loans.

Capital expenditure and commitments

Details of the Company and Group's capital commitments on property, plant and equipment as well as intangible assets are set out in note 38 of the accompanying Group annual financial statements'.

Details of the Company and Group's capital expenditure on property, plant and equipment as well as intangibles are set out in notes 13 and 14 of the accompanying Group annual financial statements.

Events subsequent to reporting date

Events subsequent to the reporting date are set out in note 44 of the accompanying Group annual financial statements.

Directorate

The following changes occurred in the composition of the Board of Directors from 1 April 2013 to the date of this report:

Appointments

- Sipho Maseko — 1 April 2013

Resignations

- Brahm du Plessis — 27 September 2013
- Jeff Molobela — 27 September 2013

The Board of Directors at the date of this report is as follows:

- JA Mabuza *(Chairman)*
- SN Maseko *(Chief Executive Officer)*
- JH Schindehütte *(Chief Financial Officer)**
- S Botha
- Dr CA Flynn
- N Kapila
- I Kgaboesele
- K Kweyama
- L Maasdorp
- K Mzondeki
- F Petersen
- LL von Zeuner

**Suspended from 24 October 2013*

Details of each director may be found on pages 73 and 74 of this integrated report.

Directors' interests

At 31 March 2014, the following directors held an interest in Telkom's share capital:

Executive	
SN Maseko	52 520
JH Schindehütte	298 700
Non-executive	
JA Mabuza	26 000
F Petersen	400
I Kgaboesele	12 000
K Mzondeki	267
Dr CA Fynn	202

Details of the Company Secretary's business address and the Company's registered office are set out on the inside back cover of this integrated report.

SOCIAL AND ETHICS COMMITTEE REPORT

This report is presented by the committee to describe how it has discharged its statutory duties in terms of the Companies Act, as well as additional duties assigned to it by the Board in respect of the financial year ended 31 March 2014.

MANDATE OF THE COMMITTEE

The committee derives its mandate from section 72 of the Companies Act 71 of 2008, read together with section 43(5) of Regulation 43 of the Companies Regulations.

ROLE AND FUNCTIONS OF THE SOCIAL AND ETHICS COMMITTEE

The committee assists the Board in ensuring that the Group is and remains a good and responsible corporate citizen, and to perform the statutory functions required of a social and ethics committee in terms of the Companies Act, 71 of 2008, as amended. The functions of the Committee are set out in Regulation 45(3) of the Companies Regulations:

The Group's Social and Ethics Committee has grouped these functions into four broad categories, with sub-categories, namely:

(i) Workplace
- Employment equity
- Decent work
- Employee safety and health
- Education of employees

(ii) Marketplace
- Economic development
- Corruption prevention
- B-BBEE

(iii) Social
- Community development
- Donations and sponsorships
- Corruption prevention
- Public health and safety
- Consumer relationships

(iv) Natural environment
- Environmental impact

COMPOSITION OF THE COMMITTEE

The committee comprises five non-executive directors:

Dr CA Fynn *(Chairman)*

Ms K Kweyama

Mr L Maasdorp

Ms F Petersen

Mr L von Zeuner

The Group CEO and other members of senior management, professional advisers, and Board members may attend committee meeting, but only by invitation and they are not entitled to vote.

THE WORK OF THE COMMITTEE

The committee's work is governed by Board-approved terms of reference, which set out the mandate of the committee, its roles and responsibilities as well as its authority. The terms of reference are underpinned by an annual workplan which is designed to ensure that all the matters falling within the committee's remit are timeously and appropriately dealt with. The Board reviews the committee's terms of reference at least annually.

The main responsibility of the committee is to monitor the Company's activities, having regard to relevant legislation, section 43(5) of the Companies Regulations, other legal requirements or prevailing best practice in relation to matters relating to the four broad categories mentioned above. In this regard, we set out below some of the initiatives and work programmes undertaken or overseen by the Committee in the year under review:

Key sustainability highlights

- We have established a Social, Ethics and Sustainability Council to ensure the integration of sustainability issues into the Group and to promote the sustainability agenda through recommendations to the Board and Board Committees.
- We agreed a positive settlement with the Competition Commission and addressed various remaining concerns that they had expressed.
- We have made progress in implementing our transformation and diversity targets. Positive gains have been made in addressing inequalities and discrepancies in remuneration, as well as in ensuring a transformed environment.
- As evidenced by our annual customer surveys, we have made progress in improving the customer experience, however, much remains to be done.
- We are implementing organisational redesign initiatives to streamline our workforce, flatten the organisational structure, reduce bureaucracy and bring us closer to the customer.
- Through our energy efficiency initiatives, we have once again reduced our energy use and carbon footprint.
- We are pleased to report no work-related fatalities during the reporting period. There was also an encouraging decrease in the number of injuries on duty.

Promoting ethical conduct and anti-corruption

- In line with King III requirements, Telkom conducted an ethical risk assessment survey during the 2013 financial year. The results indicated:
  - A favourable indication that employees are familiar with Telkom's standards of conduct and that they are generally motivated to act ethically.
  - A need to strengthen the enforcement of ethical conduct and transparency.
- Our ethics' programme includes:
  - Provision of training and awareness on our business code of ethics and supplementary policies.
  - An ethics mailbox to provide staff with advice on ethical dilemmas (The mailbox received 48 concerns/questions during the 2014 financial year).
- Fraud risk assessments are performed for each service organisation.
- A fraud perception survey is conducted across business units.
- An independent whistle-blowing policy and crime hotline is in place, for reporting on matters relating to unethical behaviour, fraud, theft and corruption. The hotline and internal reporting channels received 2 088 cases during the reporting cycle.
- Independent, fair and objective investigations are conducted on all reported and detected cases of fraud, theft, corruption and unethical conduct.

SOCIAL AND ETHICS COMMITTEE REPORT
(CONTINUED)

Human capital – developing our people

Having a skilled, motivated, culturally diverse and productive workforce is fundamental to achieving our growth strategy.

- Through our Strategic Workforce Plan, the total workforce was reduced by 10%.
- A strategic reorganisation of the Company to drive further efficiencies has been approved by the Board and will be fully implemented during the next reporting cycle – any efforts to reduce employee costs need to be managed with particular sensitivity.
- We concluded a three-year substantive agreement with organised labour, without labour disruptions.
- During the reporting cycle we invested over R300 million in training.
- Telkom's learnership programmes form part of the government's National Skills Development Strategy. Telkom offers high school graduates a learnership opportunity, which consists of both theoretical and practical training in the work environment.
- Telkom has a graduate development scheme offering full-time bursaries primarily to undergraduate studies in core telecoms fields.
- The Telkom Centre of Excellence (CoE) postgraduate programme is an initiative to leverage investment for research and development in the telecommunications industry and to increase the pool of skills within South Africa. Approximately 240 full-time postgraduate students receive financial assistance from the CoE programme each year.

Employee safety and wellbeing

Telkom is committed to providing a safe working environment and to promoting the health and wellbeing of all its employees.

- Our OHS system is certified at the OHSAS 18001 (the international standard for OHS management systems) level.
- Every safety incident is reported and investigated to determine the root cause. Health and safety audits are conducted and corrective actions are implemented where non-conformances are identified.
- An interactive computer-based training module has been designed to inform all new employees about the basic requirements of health and safety. A target is in place to have all employees to complete this course during the 2015 financial year.
- A confidential medical surveillance programme, which includes clinical case management, is our primary means of managing occupational health. During the reporting cycle 2 425 medical examinations were undertaken across the relevant risk categories. The occupational medical practitioner also managed 400 clinical health cases.
- Occupational hygiene surveys are conducted at Telkom buildings throughout the regions. To achieve this we engage the appropriate skills, resources and knowledge necessary for Telkom to implement and manage it OHS compliance. Scheduled surveys include monitoring indoor air quality, dust, water quality and illumination at selected buildings. The main focus this year was on water surveys.

Broad-Based Black Economic Empowerment

Telkom is committed to playing its role in the continuing socio-economic transformation of South Africa.

- For the 2014 verification period we were certified as a level 3 contributor to B-BBEE, maintaining our status from the previous year.
- The Chartered Institute of Purchasing and Supply and the State-owned Enterprises Procurement Forum presented two procurement awards to Telkom. These were:
  - An award for Most Empowered SOE in Compliance to B-BBEE
  - An award for Best Supplier and Enterprise Development.
- We continue to excel in our preferential procurement performance and have met our target scores for social economic development and enterprise development. We are invigorating our efforts to improve our performance in terms of ownership, employment equity and skills development.

Procurement and supply chain

Telkom aims to ensure that when making procurement decisions we source, contract, lease, and procure goods and services from suppliers that demonstrate a commitment to sustainable business practices and that will support Telkom's compliance efforts in terms of the ICT Charter.

- To engage with a broader supplier community, tender requests are published daily on the tender bulletin on the Telkom corporate website.
- We continue making significant strides using e-Sourcing, which enables a faster, more transparent and fairer way of facilitating tenders and conducting negotiations.
- We have achieved cost reductions by:
  - Reducing unessential expenses.
  - Reduced air travel and creating opportunities to reduce air-travel by using our world-class video conferencing facilities.
  - An online employee cost saving suggestion facility was deployed.
  - A review of our warehouse facilities and associated logistics, to ensure the optimum number and location of warehouses are in place to best serve our internal customers.
- We evaluate the performance of our top suppliers in terms of their delivery, quality and B-BBEE performance. A full assessment of late deliveries is performed and suppliers are engaged to resolve any operational issues.
- During the 2014 financial year, Telkom procured R4 307 billion from black-owned companies. This equates to 30,49% of the measurable procurement spend. We also procured R1 512 million from QSE/EME companies, R869 million from black female-owned companies and R13 140 million from BEE-compliant companies. This amounts to 93,02% of the Group's total measured procurement spend.
- With regard to our further enhancement of enterprise development and short-term payment, a total of 86 black QSE/EMEs were paid within five days of receipt of correct invoices. This is in keeping with our Preferential Procurement Policy.
- We have also actively driven efficiencies through our supply chain portal.
  By providing access to tenders from public and private sectors our online e-portal facilitates access to markets for our suppliers. It also enables our buyers to access verified suppliers, who meet SARS, B-BBEE and other compliance requirements. This Telkom – facilitated process increases the pool of black suppliers, QSE/EMEs and black women-owned suppliers. As a means of expanding its coverage Telkom is exploring the possibility of advertising tenders through the e-portal.
- Enterprise development expos (ED EXPOs) provide brand exposure, business support and growth opportunities to SMMEs so that there is less dependency on Telkom. This year, a total of 36 black SMMEs participated in three ED EXPOs.
- Telkom's Supplier Development efforts resulted in 95 active SMMEs trained this year in various fields to enhance their delivery and performance.

Investing in society

The Telkom Foundation manages Telkom's corporate social investment initiatives. The Foundation is committed to making meaningful contributions to improving livelihoods in disadvantaged communities through a range of structured programmes.

- The Telkom Foundation spent R37,7 million on projects during the 2014 financial year.
- During the past year Telkom Foundation connected 32 schools. Each school received an ICT laboratory comprising 21 computers and appropriate software, an interactive white board and projector, furniture, as well as two years' Wi-Fi Internet access, and training for 20 teachers. The programme reached approximately 6 000 learners and 240 educators.

Minimising environmental impact

Telkom is committed to managing and minimising its environmental impacts.

- The Telkom SHE Governance division has obtained the required ISO 14001:2004 recertification of its Environmental Management System (EMS).
- Telkom did not experience any environmental management related fines or penalties for non-compliance with environmental laws and regulations during the reporting cycle.
- Energy Efficiency Initiatives (Our electricity use has reduced by 1%) include:
  - Our NGN programme is replacing legacy POTS and ADSL networks with MSAN and/or wireless technology and will reduce/or eliminate the digital primary and secondary switching units, reducing energy consumption.
  - We have implemented 113 smart meters, which monitor energy consumption, at our priority sites.
  - We use ambient air controls (free cooling) to cool our Bellville data centre, which saves an estimated 4,7 million kWh per annum.
  - We have a programme in place to replace our tank chillers and clip-clip-on-units with energy efficient units.
- Initiatives to reduce fleet fuel consumption (Our fleet travel has reduced by 14%):
  - Smart dispatching of vehicles and improved management of technician related travel significantly reduce kilometres travelled.
  - A pilot project was successfully undertaken in Gauteng to monitor and manage driver behaviour, including inefficient driving. We are in the process of rolling the monitoring system out to our fleets in the other regions.
  - We replaced approximately 850 one-ton fleet vehicles with fuel-efficient half-ton light delivery vehicles during the reporting cycle.
- Initiatives to reduce general fuel consumption (Our air travel has reduced by over 40%) include:
  - Fuel use by our standby diesel generators is reduced through a change in the monthly testing process.
  - Telkom's subsistence and travel policy requires employees to consider video conferencing or teleconferencing as an alternative to travelling. The policy also encourages sharing car rental and shuttle services and using public transport where possible. This has resulted in marked reductions in our air and other business travel during the reporting period.

INTERACTION BETWEEN THE SOCIAL AND ETHICS COMMITTEE AND OTHER BOARD COMMITTEES

The nature and span of the work of the committee is such that certain of its activities are of relevance to the work of other committees. As such, certain reports and submissions are used by the Social and Ethics Committee as well as other Board committees in the discharge of their respective responsibilities, eg the Legal Report, Compliance Report, Risk Report, Internal Audit Report, etc. In the interests of efficient utilisation of Company resources, the various committees have adopted an "integrated" approach in regard to areas of commonality in their work such that overlaps are avoided as far as possible. Some of the members who serve on the Social and Ethics Committee also serve on and/or chair other committees of the Board. This allows for efficiency and interoperability in respect of the work of the committees.

CONCLUSION

The committee is satisfied that the Group has discharged its responsibilities in respect of the requirements of the Act, the Company's Memorandum of Incorporation, its Terms of Reference as well as other relevant requirements in regard to those matters falling within its ambit.

Dr CA Fynn
Chairman of the Social and Ethics Committee

12 June 2014

PREPARER AND SUPERVISOR OF ANNUAL FINANCIAL STATEMENTS

These Company and Group financial statements were prepared by Mr Robin Coode (Group Executive: Accounting) and supervised by Mr Deon Fredericks (Acting Chief Financial Officer).

GROUP ANNUAL FINANCIAL STATEMENTS

05

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 March 2014

EY
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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TELKOM SA SOC LIMITED

Report on the Financial Statements

We have audited the accompanying Group and Company financial statements of Telkom SA SOC Limited set out on pages 112 to 187, which comprise the Group and Company statements of financial position as at 31 March 2014, and the Group and Company statements of comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these Group and Company financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Group and Company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Group and Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Group and Company financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group and Company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Group and Company financial statements present fairly, in all material respects, the financial position of Telkom SA SOC Limited as at 31 March 2014, and of the Group and Company financial performance and the Group and Company cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the Group and Company financial statements for the year ended 31 March 2014, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited Group and Company financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited Group and Company financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst & Young Inc.

Ernst & Young Inc.
Director – Andrew Mashifane
Registered Auditor
Chartered Accountant (SA)
12 June 2014

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2014

		Group		Company	
	Notes	2014 Rm	Restated* 2013 Rm	2014 Rm	Restated* 2013 Rm
Continuing operations					
Total revenue	4.1	**33 061**	32 853	**32 115**	31 997
Operating revenue	4.2	**32 483**	32 143	**31 307**	30 972
Payments to other operators	6.1	**3 944**	4 460	**3 950**	4 479
Cost of sales	6.2	**2 498**	1 549	**2 177**	1 230
Net operating revenue		**26 041**	26 134	**25 180**	25 263
Other income	5	**479**	470	**498**	483
Operating expenses		**21 918**	37 749	**21 583**	37 423
Employee expenses	6.3	**7 137**	9 997	**6 867**	9 718
Selling, general and administrative expenses	6.4	**4 682**	5 651	**4 733**	5 723
Service fees	6.5	**3 110**	2 996	**3 108**	2 984
Operating leases	6.6	**1 052**	925	**1 004**	880
Depreciation, amortisation, impairment, write-offs and losses	6.7	**5 937**	18 180	**5 871**	18 118
Operating profit/(loss)		**4 602**	(11 145)	**4 095**	(11 677)
Investment income	7	**176**	279	**387**	581
Finance charges and fair value movements	8	**292**	224	**292**	222
Finance charges		**636**	656	**636**	654
Foreign exchange and fair value movements		**(344)**	(432)	**(344)**	(432)
Profit/(loss) before taxation		**4 486**	(11 090)	**4 190**	(11 318)
Taxation	9	**494**	442	**320**	294
Profit/(loss) from continuing operations		**3 992**	(11 532)	**3 870**	(11 612)
Loss from discontinued operations	10	**(49)**	(104)	**–**	–
Profit/(loss) for the year		**3 943**	(11 636)	**3 870**	(11 612)
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Exchange gains/(losses) on translating foreign operations	11	**4**	(3)	**–**	–
Recycling of foreign currency translation reserve	11	**122**	–	**–**	–
Items that will not be reclassified to profit or loss					
Defined benefit plan actuarial gains/(losses)	31	**2 277**	(138)	**2 277**	(138)
Defined benefit plan asset ceiling limitation	31	**(1 106)**	(38)	**(1 106)**	(38)
Income tax relating to components of other comprehensive income	11	**(157)**	49	**(157)**	49
Other comprehensive income/(loss) for the year, net of taxation		**1 140**	(130)	**1 014**	(127)
Total comprehensive income/(loss) for the year		**5 083**	(11 766)	**4 884**	(11 739)
Profit/(loss) attributable to:					
Owners of Telkom		**3 822**	(11 759)	**3 870**	(11 612)
Non-controlling interest		**121**	123	**–**	–
Profit/(loss) for the year		**3 943**	(11 636)	**3 870**	(11 612)
Total comprehensive income/(loss) attributable to:					
Owners of Telkom		**4 962**	(11 889)	**4 884**	(11 739)
Non-controlling interests		**121**	123	**–**	–
Total comprehensive profit/(loss) for the year		**5 083**	(11 766)	**4 884**	(11 739)
Total operations					
Basic earnings/(loss) per share (cents)	12	**748,5**	(2 303,0)		
Diluted earnings/(loss) per share (cents)	12	**744,8**	(2 303,0)		
Continuing operations					
Basic earnings/(loss) per share (cents)	12	**758,1**	(2 282,6)		
Diluted earnings/(loss) per share (cents)	12	**754,3**	(2 282,6)		

The amounts have been restated due to the adoption of IAS 19R, amendment to IAS 16 as well as the change in the accounting policy related to the Cell Captive. Group amounts have also been restated due to the sale of the iWayAfrica Group. The layout of the statement of profit or loss and other comprehensive income has been changed to provide more relevant disclosures. Other income, employee expenses, selling, general and administrative expenses and service fees have been restated. Refer to notes 5 and 6.

STATEMENTS OF FINANCIAL POSITION

at 31 March 2014

	Notes	Group 2014 Rm	Group Restated* 2013 Rm	Group Restated* 2012 Rm	Company 2014 Rm	Company Restated* 2013 Rm	Company Restated* 2012 Rm
Assets							
Non-current assets		**31 039**	30 353	42 714	**30 906**	30 226	42 547
Property, plant and equipment	13	**25 123**	24 881	36 507	**24 961**	24 716	36 331
Intangible assets	14	**2 833**	2 581	3 555	**2 677**	2 425	3 418
Investments in subsidiaries	16.1	**–**	–	–	**202**	237	202
Other investments	16.2	**2 759**	2 499	2 260	**2 755**	2 496	2 257
Deferred expenses	17	**35**	50	47	**35**	50	47
Other financial assets	22	**74**	83	48	**74**	83	48
Finance lease receivables	18	**202**	219	244	**202**	219	244
Deferred taxation	19	**13**	40	53	**–**	–	–
Current assets		**8 366**	11 222	9 825	**7 520**	10 192	8 862
Inventories	20	**646**	760	617	**539**	620	503
Income tax receivable	36	**8**	16	26	**–**	–	–
Current portion of finance lease receivables	18	**118**	131	128	**118**	131	128
Trade and other receivables	21	**5 565**	5 797	5 692	**4 929**	5 059	4 951
Other financial assets	22	**187**	2 134	2 195	**187**	2 124	2 185
Cash and cash equivalents	23	**1 842**	2 384	1 167	**1 747**	2 258	1 095
Total assets		**39 405**	41 575	52 539	**38 426**	40 418	51 409
Equity and liabilities							
Equity attributable to owners of the parent		**22 771**	17 798	29 687	**21 532**	16 637	28 376
Share capital	24	**5 208**	5 208	5 208	**5 208**	5 208	5 208
Treasury shares	25	**(771)**	(771)	(771)	**(775)**	(775)	(775)
Share-based compensation reserve	26	**11**	–	–	**11**	–	–
Non-distributable reserves	27	**2 580**	2 164	1 887	**1 859**	1 569	1 289
Retained earnings		**15 743**	11 197	23 363	**15 229**	10 635	22 654
Non-controlling interest	28	**377**	379	434	**–**	–	–
Total equity		**23 148**	18 177	30 121	**21 532**	16 637	28 376
Non-current liabilities		**6 156**	10 270	12 715	**6 112**	10 220	12 669
Interest-bearing debt	29	**3 775**	3 899	5 897	**3 775**	3 895	5 891
Other financial liabilities	22	**–**	12	26	**–**	12	26
Employee related provisions	30	**1 388**	5 152	4 885	**1 373**	5 133	4 866
Non-employee related provisions	30	**108**	238	36	**95**	228	34
Deferred revenue	17	**869**	952	1 132	**869**	952	1 132
Deferred taxation	19	**16**	17	739	**–**	–	720
Current liabilities		**10 101**	13 128	9 703	**10 782**	13 561	10 364
Trade and other payables	32	**5 119**	4 659	4 285	**5 828**	5 167	5 004
Shareholders for dividend	37	**21**	22	23	**21**	22	23
Current portion of interest-bearing debt	29	**321**	2 758	1 289	**319**	2 756	1 287
Current portion of employee related provisions	30	**1 597**	2 605	1 652	**1 574**	2 577	1 631
Current portion of non-employee related provisions	30	**731**	786	240	**731**	786	231
Current portion of deferred revenue	17	**1 431**	1 740	1 995	**1 428**	1 699	1 968
Income tax payable	36	**782**	501	87	**782**	494	85
Current portion of other financial liabilities	22	**98**	54	129	**98**	57	133
Credit facilities utilised	23	**1**	3	3	**1**	3	2
Total liabilities		**16 257**	23 398	22 418	**16 894**	23 781	23 033
Total equity and liabilities		**39 405**	41 575	52 539	**38 426**	40 418	51 409

**The amounts have been restated due to the adoption of IAS 19R and the amendment to IAS 16 as well as the change in the accounting policy related to the Cell Captive.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

	Attributable to equity holders of Telkom							
Group	**Share capital Rm**	**Treasury shares Rm**	**Non-distri-butable reserves Rm**	**Share-based compen-sation reserve Rm**	**Retained earnings Rm**	**Total Rm**	**Non-controlling interest Rm**	**Total equity Rm**
Balance at 31 March 2012	5 208	(771)	1 887	–	23 383	29 707	434	30 141
Change in accounting policy (refer to note 2)					(20)	(20)		(20)
Restated balance at 1 April 2012	5 208	(771)	1 887	–	23 363	29 687	434	30 121
Total comprehensive (loss)/income			(3)	–	(11 886)	(11 889)	123	(11 766)
(Loss)/profit for the year					(11 759)	(11 759)	123	(11 636)
Other comprehensive loss			(3)	–	(127)	(130)	–	(130)
Exchange gains/(losses) on translating foreign operations (refer to note 27)			(3)			(3)		(3)
Net defined benefit plan remeasurements					(127)	(127)		(127)
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 27)			320		(320)	–		–
Realised gain of the Cell Captive (refer to note 27)			(40)		40			
Contributions by and distributions to non-controlling interest								
Dividends paid (refer to note 28)*						–	(176)	(176)
Acquisition of non-controlling interests							(2)	(2)
Restated balance at 31 March 2013	5 208	(771)	2 164	–	11 197	17 798	379	18 177
Balance at 31 March 2013	5 208	(771)	2 164		11 249	17 850	379	18 229
Change in accounting policy (refer to note 2)					(52)	(52)		(52)
Restated balance at 1 April 2013	5 208	(771)	2 164	–	11 197	17 798	379	18 177
Total comprehensive income			**126**	**–**	**4 836**	**4 962**	**121**	**5 083**
Profit for the year					**3 822**	**3 822**	**121**	**3 943**
Other comprehensive income			**126**	**–**	**1 014**	**1 140**	**–**	**1 140**
Recycling of foreign currency translation reserve (refer to note 27)			**122**			**122**		**122**
Exchange gains/(losses) on translating foreign operations (refer to note 27)			**4**			**4**		**4**
Net defined benefit plan remeasurements					**1 014**	**1 014**		**1 014**
Transactions with owners recorded directly in equity								
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 27)			**343**		**(343)**	**–**		**–**
Realised gain of the Cell Captive (refer to note 27)			**(53)**		**53**			
Increase in share-compensation reserve (refer to note 26)				**11**		**11**		**11**
Contributions by and distributions to non-controlling interest								
Dividends declared (refer to note 28)*						**–**	**(123)**	**(123)**
Balance at 31 March 2014	**5 208**	**(771)**	**2 580**	**11**	**15 743**	**22 771**	**377**	**23 148**

**Dividend declared to non-controlling interests of the Trudon Group.*

Company	Share capital Rm	Treasury shares Rm	Non-distributable reserves Rm	Share-based compensation reserve Rm	Retained earnings Rm	Total Rm
	Attributable to equity holders of Telkom					
Balance at 31 March 2012	5 208	(775)	–	–	22 674	27 107
Change in accounting policy (refer to note 2)			1 289		(20)	1 269
Restated balance at 1 April 2012	5 208	(775)	1 289	–	22 654	28 376
Total comprehensive loss					(11 739)	(11 739)
Loss for the year					(11 612)	(11 612)
Other comprehensive loss					(127)	(127)
Net defined benefit plan remeasurements					(127)	(127)
Transactions with owners recorded directly in equity						
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 27)			320		(320)	–
Realised gain of the Cell Captive (refer to note 27)			(40)		40	–
Restated balance at 31 March 2013	5 208	(775)	1 569		10 635	16 637
Balance at 31 March 2013	5 208	(775)	–	–	10 687	15 120
Change in accounting policy (refer to note 2)			1 569		(52)	1 517
Restated balance at 1 April 2013	5 208	(775)	1 569	–	10 635	16 637
Total comprehensive income					**4 884**	**4 884**
Profit for the year					**3 870**	**3 870**
Other comprehensive income					**1 014**	**1 014**
Net defined benefit plan remeasurements					**1 014**	**1 014**
Transactions with owners recorded directly in equity						
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 27)			**343**		**(343)**	**–**
Realised gain of the Cell Captive (refer to note 27)			**(53)**		**53**	**–**
Increase in share-compensation reserve (refer to note 26)				**11**		**11**
Balance at 31 March 2014	**5 208**	**(775)**	**1 859**	**11**	**15 229**	**21 532**

05

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2014

	Notes	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Cash flows from operating activities		**6 366**	7 472	**6 303**	7 412
Cash receipts from customers		**32 455**	31 693	**31 231**	30 244
Cash paid to suppliers and employees		**(26 143)**	(23 211)	**(25 420)**	(22 411)
Cash generated from operations	33	**6 312**	8 482	**5 811**	7 833
Interest received		**358**	520	**295**	430
Dividend received	34	**–**	–	**230**	325
Finance charges paid	35	**(585)**	(666)	**(584)**	(625)
Taxation refund	32	**854**	–	**854**	–
Taxation paid	36	**(449)**	(687)	**(302)**	(550)
Cash generated from operations before dividend paid		**6 490**	7 649	**6 304**	7 413
Dividend paid	37	**(124)**	(177)	**(1)**	(1)
Cash flows from investing activities		**(4 333)**	(5 519)	**(4 234)**	(5 519)
Proceeds on disposal of property, plant and equipment and intangible assets		**67**	39	**66**	39
Proceeds on disposal of investment		**–**	31	**–**	–
Additions to property, plant and equipment and intangible assets		**(6 370)**	(5 627)	**(6 297)**	(5 557)
Decrease in repurchase agreements		**1 970**	29	**1 970**	30
Loans repaid by joint venture		**–**	9	**–**	–
Loans repaid from/(advanced) to subsidiaries		**–**	–	**27**	(31)
Cash flows from financing activities		**(2 583)**	(731)	**(2 579)**	(729)
Loans raised		**300**	2 042	**300**	2 042
Loans repaid		**(3 036)**	(2 743)	**(3 033)**	(2 743)
Finance lease repaid		**(156)**	(189)	**(155)**	(187)
Settlement of derivatives		**309**	159	**309**	159
Net (decrease)/increase in cash and cash equivalents		**(550)**	1 222	**(510)**	1 164
Net cash and cash equivalents at beginning of year*		**2 381**	1 164	**2 255**	1 093
Effect of foreign exchange rate gains/(losses) on cash and cash equivalents		**10**	(5)	**1**	(2)
Net cash and cash equivalents at end of year	23	**1 841**	2 381	**1 746**	2 255

Refer to note 10 for cash flow activities on discontinued operations of the iWayAfrica Group over which control was relinquished on disposal.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2014

1. CORPORATE INFORMATION

Telkom SA SOC Limited (Telkom), the ultimate parent of the Group, is a Company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded. The main objective of Telkom, its subsidiaries and associate (the Group) is to supply telecommunication, multimedia, technology, information and other related information technology services to Telkom's customers, as well as mobile communication services, in South Africa. The Group's services and products include:

- fixed-line retail voice services to post-paid, pre-paid and private payphone customers using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription based value-added voice services and calling plans;
- fixed-line customer premises equipment rental, sales and services both voice and data needs and these include PABX, computers, routers, modems, telephone handsets and other ancillary equipment;
- interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;
- fixed-line data services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services;
- Data Centre Operations which includes e-commerce, application service provider, hosting, data storage, email and security services;
- W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services;
- mobile communication services, including voice services, data services and handset sales through its mobile brand called Telkom Mobile (previously known as 8.ta); and
- other services including directory services, through Trudon (Pty) Limited, wireless data services, through Swiftnet (Pty) Limited and included internet services outside South Africa.

Convergence is one of our key strategic initiatives in building a sustainable future for Telkom. We will lead the provision of Converged Services in South Africa in support of our mission statement: Seamlessly connecting people to a better life. Our strategy is to transform Telkom into an integrated fixed, mobile, IT and content provider, leveraging our unique strengths in the fixed, mobile and IT markets in order to drive sustainable revenue growth, defend our core business and create efficiencies over the longer term.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated annual financial statements comply with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and with the Companies Act of South Africa, 2008.

The consolidated annual financial statements are presented in South African Rand, which is the Group's functional currency. All financial information presented in Rand has been rounded to the nearest million.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. Details of the Group's significant accounting policies are set out below and are consistent with those applied in the previous financial year except for the adopted standards as listed below:

The following revisions and amendments to standards have been adopted and have a material impact on the Group:

- **IAS 16 (amendment) Property, Plant and Equipment: Classification of service equipment; and**
- **IAS 19R (revised) Employee Benefits.**

The following new standards and amendments to standards have been adopted and do not have a material impact on the Group:

Standard(s), Amendment(s)	Salient feature of the changes	Effective date
IFRS 1 First-time Adoption of IFRS	Exception to the retrospective application of IAS 20 to existing government loans at the date of transaction.	1 January 2013
IFRS 1 First-time Adoption of IFRS	Amendments permits the repeated application of IFRS 1, borrowing costs on certain qualifying assets.	1 January 2013
IFRS 1 First-time Adoption of IFRS	Amendment to the Basis of Conclusion to clarify the meaning of 'effective IFRS'.	Immediately
IFRS 2 Share-based Payments	Amendments of the definition of 'vesting conditions' and 'market conditions' and the addition of the definitions of 'performance condition' and 'service condition'.	1 July 2014
IFRS 3 Business Combinations	Accounting for contingent consideration that is classified as an asset or liability. The contingent consideration shall be measured at fair value at each reporting date.	1 July 2014
IFRS 7 Financial Instruments Disclosures	Amendments enhancing disclosures about offsetting of financial assets and financial liabilities.	1 January 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Standard(s), Amendment(s)	Salient feature of the changes	Effective date
IFRS 13 Fair Value Measurement	Amendment to clarify the measurement of short-term receivables and payables with no stated interest rate, at invoice amount without discounting, when the effect of not discounting is immaterial.	Immediately
IAS 32 Financial Instruments: Presentation	Amendments to clarify tax effects of distribution to holders of equity instruments.	1 January 2013
IAS 34 Interim Financial Reporting	Amendments to clarify interim financial reporting segment information for total assets and total liabilities to enhance consistency with the requirements of IFRS 8.	1 January 2013
IAS 36 Impairment of Assets	Amendment to disclosures of the recoverable amount of impaired non-financial assets as a consequence of issuing IFRS 13 Fair Value Measurement.	1 January 2014
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	Recognition, classification and measurement of the production Stripping Costs as an asset.	1 January 2013

Standards and interpretations in issue not yet adopted and not yet effective.

The following new standards, amendments to standards and interpretations in issue have not yet been adopted and are not yet effective. All standards are effective for annual periods beginning on or after the effective date.

Pronouncement	Title	Effective date
IFRS 3 Business Combinations	Amendment to scope exception of joint ventures in paragraph 2(a).	1 July 2014
IFRS 7 Financial Instruments Disclosures	Amendments requiring disclosures about the initial application of IFRS 9.	1 January 2018*
IFRS 7 Financial Instruments Disclosures	Additional hedge accounting disclosures resulting from the introduction of a hedge accounting chapter in IFRS 9.	1 January 2018*
IFRS 8 Operating Segments	Amendment relating to aggregation of segments and reconciliation of the total reportable segments' assets to the entity's assets if segment assets are reported regularly.	1 July 2014
IFRS 9 Financial Instruments	Classification and measurement of financial assets and financial liabilities and derecognition requirements.	1 January 2018*
IFRS 13 Fair Value Measurement	Amendment of scope exclusion in IFRS 13.52 to include all contracts accounted for within the scope of IAS 39 and IFRS 9, regardless of whether they meet the definition of financial asset or financial liability as defined in IAS 32.	1 July 2014
IFRS 14 Regulatory Deferral Accounts	The new standard describes the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.	1 January 2016
IFRS 15 Revenue from contracts with customers	Revenue from contracts with customers.	1 January 2017
IAS 16 Property, Plant and Equipment	Revaluation method: proportionate restatement of accumulated depreciation of an item of property, plant and equipment.	1 July 2014
IAS 19 Employee Benefits	Defined Benefit Plans: Employee Contributions. The amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014
IAS 24 Related Party Disclosures	Amendment requires disclosure of key management personnel services, provided to the reporting entity or to the parent of the reporting entity, as a related party in the reporting entity.	1 July 2014
IAS 32 Financial Instruments: Presentation	Amendments to application guidance on the offsetting of financial assets and financial liabilities and the related net credit exposure.	1 January 2014
IAS 38 Intangible Assets	Revaluation method: proportionate restatement of accumulated amortisation of an intangible asset.	1 July 2014
IAS 39 Financial instruments: Recognition and Measurement	Amendments for novation of derivatives and the continuation of hedge accounting.	1 January 2014
IAS 40 Investment Property	Interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 July 2014
IFRIC 21 Levies	Interpretation on the accounting for levies imposed by governments.	1 January 2014

**The International Accounting Standards Board (IASB) has announced the amendments tentatively.*

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new standards and amendments

The Group adopted IAS 19R Employee Benefits (revised) and IAS 16 Property, plant and equipment (amendment) from 1 April 2013.

IAS 16 (amendment) Property, Plant and Equipment: Classification of service equipment

The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. Previously the Group classified strategic spare parts, which were not considered as major parts, as inventory.

Following the amendment, the Group reclassified spare parts with a carrying amount of R357 million (31 March 2012: R352 million) from inventory to property, plant and equipment. The useful lives of the spare parts have been estimated to be approximately five years.

IAS 19R (revised) Employee Benefits

IAS 19R Employee benefits prescribes a number of changes to the accounting for employee benefits. As a result of adopting the revised standard, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to the Group's defined benefit plans. These adjustments were made on a retrospective basis.

The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. This has increased profit or loss charge as the discount rate applied to assets is lower than the expected return on assets. This has no effect on total comprehensive income as the increased charge in profit or loss is offset by a credit in other comprehensive income relating to actuarial gains and losses and asset limitations.

In addition, unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead all past service costs are recognised at the earlier of when the amendment occurs and when the Group recognises related restructuring or termination costs. Until 2013, the Group's unvested past service costs were recognised as an expense on a straight-line basis over the average period until the benefits became vested. With the transition to IAS 19R, past service costs are recognised immediately if the benefits have vested immediately following the introduction of, or changes to a pension plan.

The effect has been that the loss has increased by R104 million (2012: R95 million). The effect on the defined benefit obligation was an increase of R3 million (2012: R5 million). IAS 19R does not require mandatory application of transitional provisions in applying the revised standard.

Employee Benefits and Strategic Inventory Impact

Impact on consolidated statement of financial position as at 31 March 2013

	As at 31 March 2013 Rm	As at 31 March 2012 Rm
Increase in the defined benefit obligation due to past service cost recognition	(3)	(5)
Decrease in deferred tax liabilities	–	9
Increase in property, plant and equipment due to service equipment restatement	357*	352
Decrease in strategic inventory due to service equipment restatement	(406)	(376)
Net impact	(52)	(20)

Depreciated amount.

Impact on consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2013

	Year to 31 March 2013 Rm	Year to 31 March 2012 Rm
Statement of profit or loss:		
Increase in employment benefits expenses	(144)	(132)
Decrease in tax expenses	40	37
Increase in depreciation due to service equipment restatement	(25)	(24)
Decrease in deferred tax liabilities	7	7
Net increase in loss for the year	(122)	(112)
Equity holders of the parent	(122)	(112)
Other comprehensive income		
Increase in remeasurement movement in OCI	146	127
Decrease in tax effect on remeasurement movement in OCI	(41)	(35)
Net increase in other comprehensive income	105	92
Equity holders of the parent	105	92

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new standards and amendments (continued)

There was no material impact on the Group's consolidated statement of cash flows. The basic and diluted earnings per share moved from a loss of 2 276,2 cents as previously reported to a loss of 2 303,0 cents for the year ended 31 March 2013. The headline earnings and diluted headline earnings per share moved from 87,0 cents as previously reported to 60,1 cents for the year ended 31 March 2013.

IFRS 10: Consolidated Financial Statements

The Company has changed its accounting policy with respect to the basis for determining the cost of the investment to fair value basis in line with IFRS 10. The effect has been that the loss has decreased by R280 million (2012: R1,289 million). As a result the Group has deconsolidated the Cell Captive and the net effect in the Group is zero.

Impact on Company statement of financial position as at 31 March 2013

	As at 31 March 2013 Rm	As at 31 March 2012 Rm
Increase in the investment in Cell Captive preference shares	1 569	1 289
Net impact on non-distributable reserves	1 569	1 289

Impact on company statement of profit or loss and other comprehensive income for the year ended 31 March 2013

	Year to 31 March 2013 Rm	Year to 31 March 2012 Rm
Statement of profit or loss:		
Increase in fair value gains	1 569	1 289
Net increase in profit or loss	1 569	1 289

Impact on Group statement of financial position as at 31 March 2013

	As at 31 March 2013 Rm	As at 31 March 2012 Rm
Increase in the investment in Cell Captive preference shares	7	–
Decrease in trade and other receivables	(7)	(5)
Decrease in cash and cash equivalents	(3)	(1)
Decrease in trade and other payables	3	6
Net impact	–	–

Impact on Group statement of profit or loss and other comprehensive income for the year ended 31 March 2013

	Year to 31 March 2013 Rm	Year to 31 March 2012 Rm
Statement of profit or loss:		
Decrease in other income	(16)	(8)
Decrease in service fees	6	3
Decrease in investment income	(22)	(23)
Increase in fair value gains	28	28
Decrease in taxation	4	–
Net increase in profit or loss	–	–

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates and assumptions are based on management's best knowledge of current events and actions that the Group may undertake in the future, actual results may ultimately differ from those estimates and assumptions.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Group's accounting policies. These, together with the key estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, are as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

Property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, customer service requirements, availability of capital funding and required return on assets and equity to determine the optimum useful life expectation for each of the individual categories of property, plant and equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry as well as Telkom's plan to migrate to a Next Generation Network over the next few years, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the roll-out strategy. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 13. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives and what their condition will be like at that time. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimate.

For intangible assets that incorporate both a tangible and intangible portion, management uses judgement to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

Asset retirement obligations

Management's judgement is exercised when determining whether an asset retirement obligation exists, and in determining the expected future cash flows and the discount rate used to determine its present value when the legal or constructive obligation to dismantle or restore the site arises, as well as the estimated useful life of the related asset.

Impairments of property, plant and equipment and intangible assets

Management is required to make judgements concerning the cause, timing and amount of impairment as indicated in notes 13 and 14. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services, market changes, legal changes, operating environments and other circumstances that could indicate that an impairment exists. The Group applies the impairment assessment to its cash-generating unit. This requires management to make significant judgements concerning the existence of impairment indicators, identification of cash-generating units, remaining useful lives of assets and estimates of projected cash flows and fair value less costs of disposal. Management's analysis of cash-generating units involves an assessment of a group of assets' ability to independently generate cash inflows and involves analysing the extent to which different products make use of the same assets. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the fair value less costs of disposal and value in use. Recoverable amount is calculated using the discounted cash flow valuation method. Key assumptions on which management has based its determination of recoverable amount include the existence of binding sale agreements, the weighted average cost of capital, projected revenues, gross margins, average revenue per customer, capital expenditure, expected customer bases and market share.

In calculating value in use, consideration is given to the completion of a network that is still partially completed at the date of performing the impairment test. Significant judgement is applied in determining if network expansion should be treated as the completion of a partially completed asset or the enhancement of an asset (which cash flows are not allowed to be considered in the calculation of value in use). Refer to notes 13 and 14.

Impairment of receivables

An impairment loss is recognised on trade receivables that are assessed to be impaired (refer to notes 15 and 21). The impairment is based on an assessment of the extent to which customers have defaulted on payments already due and an assessment on their ability to make payments based on their creditworthiness and historical write-offs experience. Should the assumptions regarding the financial condition of the customer change, actual write-offs could differ significantly from the impairment loss recognised.

Customer relationship periods

The average customer relationship periods for Wholesale, Voice and Non-Voice services are utilised to amortise the deferred installation revenue and cost. Management makes judgements about the customer relationship period estimate based on the historical churn information. The churn is determined by considering the service installation and disconnection dates, the weighted customer base ageing and the service connection status of the customers. Changes in average customer relationships periods are accounted for as a change in accounting estimates.

Deferred taxation asset

Management's judgement is exercised when determining the probability of future taxable profits which will determine whether deferred taxation assets should be recognised or derecognised. The realisation of deferred taxation assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised deferred taxation credits as deferred tax assets, management needs to determine the extent that the future obligations are likely to be available for set-off against the deferred taxation asset. In the event that the assessment of the future obligation and future utilisation changes, the change in the recognised deferred taxation asset is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

***Deferred taxation asset** (continued)*

The period of assessment of probable future taxable income for the purpose of assessing whether a deferred tax asset should be raised was has been restricted to three years. The Company has included the tax implications in the three-year forecast of taxable income which required the application of significant judgement and estimates in line with the requirements of IAS 12, these include (a) the planned restructuring of post-employment benefits; and (b) the tax deduction relating to the scrapping of assets which is in line with management's decision to discontinue and scrap legacy technologies and legacy technology assets and non-profitable areas of its operations.

Taxation

Management determines income tax charge in accordance with the applicable complex tax laws and rules which are subject to interpretation. The calculation of the Group's total tax charge necessarily involves judgements, including those involving estimations, in respect of certain items whose tax treatment cannot be finalised until resolution has been reached with the tax authority or, as appropriate, through a formal legal process. The resolution of some of these items may give rise to material profits, losses and/or cash flows. Where the effect of these laws and rules is not clear, the taxation liability estimates are made by management on all highly probable tax positions based on the single most likely outcome approach. Tax assets are only recognised when the amounts receivable are virtually certain.

The resolution of taxation issues is not always within the control of the Group and is often dependent on the efficiency of the legal processes. Some complex tax issues may take a number of years before they are resolved. Payments in respect of taxation liabilities for an accounting period results from payments on account and on the final resolution of open items. As a result; there can be substantial differences between the taxation charge in the statement of profit or loss and comprehensive income and the current tax payments.

Deferred taxation rate

Management makes judgements on the tax rate applicable based on the Group's expectations at reporting date on how the asset is expected to be recovered or the liability is expected to be settled.

Employee benefits

The Group provides defined benefit plans for certain post-employment benefits. The obligation and assets related to each of the post-retirement benefits are determined through an actuarial valuation. The actuarial valuation relies heavily on assumptions as disclosed in note 31. The assumptions determined by management make use of information obtained from the Group's employment agreements with staff and pensioners, market related returns on similar investments, market related discount rates and other available information. The assumptions concerning the interest on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post-employment benefits may be affected materially.

The discount rate reflects the average timing of the estimated defined benefit payments. The discount rate is based on long-term South African Government bonds with the longest maturity period as reported by the Bond Exchange of South Africa. The discount rate is expected to follow the trend of inflation.

The overall interest on assets is determined based on the market prices prevailing at that date, applicable to the period over which the obligation is to be settled.

The interest cost on the defined benefit obligation and the interest on assets are accounted for through the net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year.

The forfeitable share incentives are allocated to employees based on vesting conditions linked to time and performance measures. The total shareholders return, free cash flow and net promoter score are considered in estimating the fair value of the grant at grant date. Telkom allocates the number of shares per employee, based on a formula taking into account the annual guaranteed package, percentage of gross profit and share price at grant date. The shares to be allocated are limited to approximately 5% of issued share capital and vest between 3 to 5 years. The additional share scheme award provides for the granting of shares to eligible participating employees, equivalent in value to the increase in share price from the grant date (based on the specific grant price) to the vesting date.

Leases

The Group provides customer specific solutions to certain entities using access network equipment and involving leases with the Group acting as the lessor. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains, all the significant risks and rewards of ownership of these equipment and accounts for the contracts as finance leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. This can be the case for fibre optical cables. Judgement is applied in determining if a fibre arrangement specifies the fibre/spectrum/wavelength or merely capacity. If a portion is not physically distinct, it is not considered to be a specified asset.

Site co-location and tower sharing agreements are assessed to determine whether they should be classified as a finance lease or operating lease on the basis of transfer of significant risks and rewards. Telkom acts as a lessor and lessee in these agreements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

Provisions

For other provisions, estimates are made of legal or constructive obligations resulting in the raising of provisions, and the expected date of probable outflow of economic benefits to assess whether the provision should be discounted. Refer to note 30. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the reporting date.

Contingent liabilities

On an ongoing basis the Group is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised where, based on the Group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of other contingent liabilities is made in note 39 unless the possibility of a loss arising is considered remote.

Contingent assets

Contingents assets are not recognised in the financial statements. When there is a probability that there will be an inflow of economic benefits to Telkom relating to a contingent asset; the contingent asset is disclosed in the Contingencies note. The related income and asset are only recognised when it is virtually certain that there will be an inflow of economic benefits.

Segment information

For judgements, estimates and assumptions relating to Operating Segments refer to note 3.

Summary of significant accounting policies

Classification of associates

Telkom holds 20% ownership of the investment in the Number Portability Company. The Group has determined that it has significant influence because it has the right to appoint directors and has representation on the board of the Number Portability Company but decisions taken by the company does not require unanimous consent from investors.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Telkom and entities (including special purpose entities) controlled by Telkom, its subsidiaries and associates.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group consolidates the financial statements of subsidiaries from the date the control of the subsidiary commences until the date that control ceases.

Transactions with non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to equity owners of Telkom.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Joint arrangements

A joint arrangement is an arrangement where two or more parties have joint control over another entity. In a joint arrangement parties are bound by a contractual arrangement that gives two or more of the parties joint control of the arrangement. A joint arrangement is classified and accounted for as either a joint operation or joint venture.

In a joint operation parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are the joint operators. The Group recognises its own assets, liabilities, revenues and expenses that are incurred or earned separately to other joint operators. Otherwise the Group recognises its share of assets, liabilities, revenues and expenses when these items are incurred jointly.

In a joint venture parties that jointly control the joint arrangement have rights to the net assets of the arrangement. These parties are called joint venturers. The Group accounts for the joint venture using the equity method. Under the equity accounting method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the joint venture. The share of the profit of the joint venture is shown on the face of the statement of profit or loss and other comprehensive income.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used in line with those used by the Group. At the end of the financial year there were no joint arrangements.

Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the investee. The Group recognises its interests in associates by applying the equity method.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree and non-controlling interest.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the date of acquisition. Subsequent changes in such fair values are adjusted against the consideration transferred only where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Any transaction costs that the Group incurs in connection with the business combination such as legal fees, due diligence fees and other professional and consultation fees are expensed as incurred.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation which arises as a result of a past event, and its fair value can be measured reliably.

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party/parties both before and after the business combinations (and where control is not transitory) are referred to as common control business combinations. The carrying amounts of the acquired entity are the consolidated carrying amounts as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions, is allocated to equity. This is in accordance with the pooling of interest method.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are carried at cost at Company and adjusted for any impairment losses.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date of acquisition.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net fair value of the acquiree's identifiable net assets.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Goodwill (continued)

Goodwill is not amortised but is reviewed for impairment at least annually. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns and rebates and after eliminating sales within the Group.

Revenue is recognised when there is evidence of an arrangement, collectability is probable, and the delivery of the product or service has occurred. In certain circumstances revenue is split into separately identifiable components and recognised when the related components are delivered in order to reflect the substance of the transaction. The consideration of each component is allocated on a relative fair value basis.

Telkom assesses whether it is acting as an agent or principal in its revenue arrangement using the specific criteria in IAS 18.IE21 (Revenue – Illustrative Example 21). According to this criteria; the principal has exposure to the significant risks and rewards associated with the sale of goods or rendering of services. Examples of principalship include assumption of inventory risk, customer credit risk, responsibility to provide products or services and having latitude in setting prices.

Dealer incentives

The Group provides incentives to its dealers by means of trade discounts. Incentives are based on sales volume and value of transactions. Revenue is recognised gross of discounts to the extent that the discounts are not granted to the customer. Revenue is recognised net of discounts when the discounts are granted to the customer.

Retail voice

The Group provides telephone and data communication services under post-paid and pre-paid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected customer relationship period. Costs incurred on first-time installations that form an integral part of the network are capitalised and depreciated over the expected average customer relationship period. All other installation and activation costs are expensed as incurred.

Post-paid and pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Pre-paid

Pre-paid traffic service revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. The terms and conditions of certain pre-paid products allow unused minutes to be carried over. Revenue related to the unused minutes carried over is deferred until usage or expiration.

Payphones

Payphone service coin revenue is recognised when the service is provided.

Payphone service card revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first.

Post-paid

Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided.

Interconnection

Interconnection revenue for call termination, call transit, and network usage is recognised as the traffic flow occurs.

Customer premises equipment

Revenue related to the sale of communication equipment, products and value-added services is recognised upon delivery and acceptance of the product or service by the customer.

Data

The Group provides data communication services under post-paid and pre-paid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected average customer relationship period. Costs incurred on first-time installations that form an integral part of the network are capitalised and depreciated over the life of the expected average customer relationship period. All other installation and activation costs are expensed as incurred. Post-paid and pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Directory services

Included in operating revenue are directory services. Revenue is recognised when printed directories are released for distribution, as the significant risks and rewards of ownership have been transferred to the buyer. Electronic directories' revenue is recognised on a monthly basis, as earned.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Sundry revenue

Sundry revenue is recognised when the economic benefit flows to the Group and the earnings process is complete.

Deferred revenue and expenses

Activation revenue and costs are deferred and recognised systematically over the expected duration of the customer relationship because it is considered to be part of the customers' ongoing rights to telecommunication services and the operator's continuing involvement. Any excess of the costs over revenues is expensed immediately.

Post-paid contract and pre-paid products

Contract products are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a selling price standalone basis as a percentage of the aggregated fair value of individual deliverables.

- Revenue from the handset is recognised when the handset is delivered.
- Monthly service revenue received from the customer is recognised in the period in which the service is delivered.
- Airtime revenue is recognised on the usage basis commencing on activation date. Unused airtime is deferred in full and recognised in the month of usage or on termination of the contract by the subscriber.
- Revenue from the sale of pre-paid products is recognised when the product is delivered to the customer.
- Revenue from the sale of pre-paid airtime is deferred until such time as the customer uses the airtime, or the credit expires.
- Free minutes are accounted for as a separate identifiable deliverable and revenue allocated to free minutes is deferred and recognised when the free minutes are used, or expire.

Equipment sales

For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the equipment are transferred to the intermediary and the intermediary has no general right of return. If the significant risks are not transferred, revenue recognition is deferred until sale of the equipment to an end-customer by the intermediary or the expiry of the right of return.

Customer loyalty programmes

The free minutes (award credits) granted to Telkom Mobile pre-paid customers are accounted for as a separately identifiable component of a sales transaction in which they are granted. Award credits are determined by reference to their fair value. The fair value of award credits takes into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from the initial sale transaction. Revenue from award credits is deferred and recognised as revenue when the customer redeems the award credit.

Connection incentives

Intermediaries and customers are paid cash as a connection incentive. Cash incentives paid to intermediaries are expensed in the period in which they are incurred. Cash incentives paid to customers are recognised as intangible assets and expensed over the contract period.

Interest on debtors' accounts

Interest is raised on overdue accounts by using the effective interest rate method and recognised in profit or loss.

Incentives

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed in the period that the related revenue is recognised.

Government grants

Government grants are recognised on the income approach when there is reasonable assurance that Telkom will comply with conditions attaching to them and the grants will be received. Grants related to income are recognised on a systematic basis over the period in which the related costs are expensed.

Roaming agreements

Amounts paid to other mobile operators in terms of roaming agreements are expensed at the earlier of minutes being utilised or expiry thereof. A prepayment to this effect is recognised if it is probable that the Group will obtain future economic benefits from such unused minutes.

Marketing

Marketing costs are recognised as an expense when incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Taxation

Current taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Taxable profit differs from the profit as reported in the consolidated statement of profit or loss because some items of income or expenses are taxable or deductible in different years or may never be taxable or deductible.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the company and its subsidiaries operate and generate taxable income.

Deferred taxation

Deferred taxation is accounted for using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred taxation is not provided on the initial recognition of goodwill or initial recognition of assets or liabilities which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses, unused tax credits and deductible temporary differences can be utilised. The carrying amount of deferred taxation assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised. In respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred income taxation assets are recognised only to the extent that it is probable that temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised. Deferred taxation is not recognised in respect of temporary differences associated with investments in subsidiaries and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation relating to equity items or other comprehensive income is recognised directly in equity or other comprehensive income and not in profit or loss.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when the asset is realised or the liability is settled, based on taxation rates (and taxation laws) that have been enacted or substantively enacted by the reporting date.

Deferred taxation assets and deferred taxation liabilities are offset if a legally enforceable right exists to set off current taxation assets against current taxation liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends withholding tax

Dividends withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012.

Telkom withholds dividends tax on behalf of its shareholders at a rate of 15% on dividends declared. The amounts withheld are not recognised as part of the Telkom's tax charge but are, reported as part of the dividend paid, recognised in equity.

Where withholding tax is withheld on dividends received, the dividend is recognised at the gross amount with the related withholdings tax recognised as part of tax expense unless it is otherwise reimbursable in which case it is recognised as an asset.

Property, plant and equipment

At initial recognition acquired property, plant and equipment are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use and is adjusted for cumulative gains or losses of firm commitments accounted for under fair value hedges, when such items are denominated in a foreign currency.

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised. Idle assets continue to attract depreciation.

The estimated useful life of individual assets and the depreciation method thereof are reviewed on an annual basis at reporting date and adjusted prospectively as required. The depreciable amount is determined after taking into account the residual value of the asset. The residual value is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual values of assets are reviewed on an annual basis at reporting date and adjusted prospectively as required.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Assets under construction represents freehold buildings, operating software, network and support equipment and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Freehold land is stated at cost and is not depreciated. Amounts paid by the Group on improvements to assets which are held in terms of operating lease agreements are depreciated on a straight-line basis over the shorter of the remaining useful life of the applicable asset or the remainder of the lease period. Where it is reasonably certain that the lease agreement will be renewed, the lease period equals the period of the initial agreement plus the renewal periods.

The estimated useful lives applied are provided in note 6.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Intangible assets

At initial recognition acquired intangible assets are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use. Internally generated intangible assets are recognised at cost comprising all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management. Licences, software, trademarks, copyrights and other intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful lives. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The residual value of intangible assets is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Due to the nature of the asset the residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life or when there is an active market that is likely to exist at the end of the asset's useful life, which can be used to estimate the residual values. The residual values of intangible assets, the amortisation methods used and their useful lives are reviewed on an annual basis at reporting date and adjusted prospectively as required.

Intangible assets with indefinite useful lives, for example goodwill, and intangible assets not yet available for use (under construction), are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Assets under construction represent application and other non-integral software and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Intangible assets are derecognised when they have been disposed of or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of assets are recognised in profit or loss in the year in which they arise.

The expected useful lives applied are provided in note 6.

Asset retirement obligations

Asset retirement obligations related to property, plant and equipment are recognised at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in finance charges and fair value movements. Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate are accounted for as increases or decreases to the original cost of the recognised assets. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

Non-current assets held for sale/discontinued operation

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification.

In the statement of profit or loss and other comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss after tax is reported separately in the statement of profit or loss and other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Non-current assets held for sale/discontinued operation (continued)

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell and are not depreciated or amortised subsequent to classification as held for sale. Only those assets within the measurement scope of IFRS 5 are measured in terms of IFRS 5. Refer to note 10.

Impairment of property, plant and equipment and intangible assets

The Group regularly reviews its non-financial assets and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes of the asset's or cash-generating unit's estimated recoverable amount, an impairment test is performed.

Intangible assets that have an indefinite useful life, for example goodwill, are tested annually for impairment.

The recoverable amount of assets or cash-generating units is measured using the higher of the fair value less costs of disposal and its value in use, which is the present value of projected cash flows covering the remaining useful lives of the assets. The discount rate used is the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised when the asset's carrying value exceeds its estimated recoverable amount. Where applicable, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Previously recognised impairment losses, other than goodwill, are reviewed annually for any indication that they may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed in profit or loss if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

Repairs and maintenance

The Group expenses all costs associated with day-to-day repairs and maintenance, unless it is probable that such costs would result in future economic benefits flowing to the Group, and the costs can be reliably measured.

Borrowing costs

Financing costs directly associated with the acquisition or construction of assets that require more than three months to complete and place in service are capitalised at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Group borrowings was utilised. Other borrowing costs are expensed as incurred.

Inventories

Merchandise, installation material and maintenance inventories are stated at the lower of cost, determined on a weighted average basis and estimated net realisable value. Write-down of inventories arises when, for example, goods are damaged or when net realisable value is lower than carrying value.

Initial cost of inventories includes the transfer of gains and losses on qualifying fair value hedges, recognised as firm commitments, in respect of foreign currency denominated purchases.

Telkom Mobile's inventory cost is determined according to the first-in-first-out basis.

Financial instruments

Recognition and initial measurement

All financial instruments are initially recognised at fair value, plus, in the case of financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue. Financial instruments are recognised when the Group becomes a party to the contractual arrangements. All regular way transactions are accounted for on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Subsequent to initial recognition, the Group classifies financial assets as at fair value through profit or loss, held-to-maturity investments, loans and receivables, or available-for-sale. Financial liabilities are classified as at fair value through profit or loss or other financial liabilities. The measurement of each is set out below and presented in a table in note 15.

Fair value measurement

The fair value of financial assets and liabilities that are actively traded in financial markets is determined by reference to quoted market prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques such as discounted cash flow analysis that maximise the use of relevant observable inputs and minimises the use of unobservable inputs.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the event or change in circumstances that caused the transfer has occurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets at fair value through profit or loss

The Group classifies financial assets that are held for trading in the category financial assets at fair value through profit or loss (FVTPL). Financial assets are classified as held for trading if they are acquired for the purpose of selling in the future. Derivatives and embedded derivatives not designated as hedges are also classified as held for trading. On remeasurement to fair value the gains or losses on held for trading financial assets are recognised in finance charges and fair value movements for the year. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Held-to-maturity financial assets

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity dates as held-to-maturity when the Group has the positive intention and ability to hold the instrument to maturity. These assets are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method. This calculation includes all fees paid or received between parties to the contract. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are sold or impaired as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables are carried at amortised cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss (FVTPL) where the financial liability is held for trading.

A financial liability is classified as held for trading:
- if it is acquired for the purpose of settling in the near term; or
- if it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any resultant gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, with interest expense recognised in finance charges and fair value movements, on an effective interest rate basis.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial guarantee contracts

A financial guarantee contract is initially measured at fair value. It is subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets or the amount initially recognised less, when appropriate, cumulative amortisation, recognised in accordance with IAS 18 Revenue.

Cash and cash equivalents

Cash and cash equivalents are subsequently measured at amortised cost. This comprises cash on hand, deposits held on call and term deposits with an initial maturity of less than three months when entered into.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.

Repurchase agreements

Securities sold under repurchase agreements are not derecognised. These transactions are treated as collateralised arrangements and classified as non-trading financial liabilities and carried at amortised cost.

Securities purchased under repurchase agreements are not recognised. These transactions are treated as collateralised lending arrangements and classified as loans and receivables.

All associated finance charges are expensed in profit or loss.

Capital and money market transactions

New bonds and commercial paper bills issued are subsequently measured at amortised cost using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Financial instruments (continued)

Derecognition

A financial instrument or a portion of a financial instrument is derecognised and a gain or loss recognised when the Group's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year.

Bonds and commercial paper bills are derecognised when the obligation specified in the contract is discharged. The difference between the carrying value of the bond and the amount paid to extinguish the obligation is included in finance charges and fair value movements for the year.

Impairment of financial assets

At each reporting date an assessment is made of whether there are any indicators of impairment of a financial asset or a group of financial assets based on observable data about one or more loss events that occurred after the initial recognition of the asset or the group of assets. For loans and receivables carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or capital payments and the probability that they will enter bankruptcy. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss for financial assets decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed the value that would have been its amortised cost at the reversal date.

Remeasurement of embedded derivatives

The Group assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when it first becomes party to the contract. The Group reassesses the contract when there is a change in the terms of the contract which significantly modifies the cash flows that would otherwise be required under the contract.

Financial instruments: Disclosures

The Group groups its financial instruments into classes of similar instruments and where disclosure is required, it discloses them by class. It also discloses information about the nature and extent of risks arising from its financial instruments as indicated in note 15.

Foreign currencies

Each entity within the Group determines its functional currency. The Group's presentation currency is the South African Rand (ZAR).

Transactions denominated in foreign currencies are measured at the rate of exchange at transaction date. Monetary items denominated in foreign currencies are remeasured at the rate of exchange at settlement date or reporting date whichever occurs first. Exchange differences on the settlement or translation of monetary assets and liabilities are included in finance charges and fair value movements in the period in which they arise, except where hedge accounting is applied. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined adjusted by the firm commitment's cumulative gains or losses.

The Group uses foreign exchange forward contracts and cross currency swaps to economically hedge some of its transaction exposures. These derivative instruments are not designated as hedge instruments when hedge accounting is not applied. The cross-currency swaps are not designated as fair value hedges. The foreign exchange forward contracts are designated as fair value hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months.

Hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, cross-currency swaps and options, to hedge its foreign currency risks and interest rate risks. Derivative financial instruments including forward currency contracts that are designated as hedging instruments in an effective hedge are initially recognised at fair value on the date on which a derivative contract is entered into. Telkom applies fair value hedge accounting. Telkom applies fair value hedge accounting for firm commitments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Financial instruments (continued)

Hedge accounting (continued)

Designated hedging instruments and firm commitments are subsequently remeasured at fair value at each reporting date. The gain or loss relating to both the effective and ineffective portion of hedging instruments is recognised immediately in profit or loss on remeasurement. When a firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit and loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Treasury shares

Where the Group acquires, or in substance acquires, its own shares, such shares are measured at acquisition cost and disclosed as a reduction of equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such shares are not remeasured for changes in fair value.

Where the Group chooses or is required to buy equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement by delivery of its own shares, the transaction is accounted for as equity-settled. This applies regardless of whether the employee's rights to the equity instruments were granted by the Group itself or by its shareholders or was settled by the Group itself or its shareholders.

Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Where the Group enters into a service agreement as a supplier or a customer that depends on the use of a specific asset, and conveys the right to control the use of the specific asset, the arrangement is assessed to determine whether it contains a lease. Once it has been concluded that an arrangement contains a lease, it is assessed against the criteria in IAS 17 to determine if the arrangement should be recognised as a finance lease or operating lease. This also applied when assessing indefeasible rights to use (IRUs).

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

Lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

Assets acquired in terms of finance leases are capitalised at the lower of fair value or the present value of the minimum lease payments at inception of the lease and depreciated over the lesser of the useful life of the asset or the lease term. The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease finance costs are amortised in profit or loss over the lease term using the interest rate implicit in the lease. Where a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in profit or loss over the term of the lease.

Lessor

Operating lease revenue is recognised in profit or loss on a straight-line basis over the lease term.

Assets held under a finance lease are recognised in the statement of financial position and presented as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

Employee benefits

Post-employment benefits

The Group provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Group, taking into account recommendations of the independent actuaries. The post-retirement telephone rebate liability is unfunded.

Defined contribution plans

The Group's funding of the defined contribution plans is charged to employee expenses in the same year as the related service is provided.

Defined benefit plans

The Group provides defined benefit plans for pension, retirement, post-retirement medical aid benefits and telephone rebates to qualifying employees. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount reported in the statement of financial position represents the present value of the defined benefit obligations, using the Projected Credit Unit method, reduced by the fair value of the related plan assets. To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised. The effects of this asset limitation and actuarial gains and losses are recognised in other comprehensive income. Interest and service cost related to the defined benefit plan are recognised in the statement of profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

Employee benefits (continued)

Asset ceiling

IAS 19R requires that the asset to be recognised on the Group's statement of financial position be limited to a maximum of the present value of any economic benefits available to the Group in the form of refunds or reductions in future contributions. The Group will only recognise the asset in respect of benefits to be derived.

Leave benefits

Annual leave entitlement is provided for over the period that the leave accrues and is subject to a cap of 22 days.

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the year the employees render services, unless the Group uses the services of employees in the construction of an asset and the benefits received meet the recognition criteria of an asset, at which stage it is included as part of the related property, plant and equipment or intangible asset item.

Voluntary employee severance package costs are payable when employment is terminated by the Group before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Voluntary employee severance package benefits are recognised when the entity is demonstrably committed to the plan and it is probable that the expenses will be incurred. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

Long-term Incentive Plan (LTIP) and the Employee Share Ownership Plan (ESOP)

Grants of equity instruments, made to employees in terms of the Long-term Incentive Plan (LTIP) and the Employee Share Ownership Plan (ESOP), are classified as equity-settled share-based payment transactions. The expense relating to the services rendered by the employees, and the corresponding increase in equity, is measured at the fair value of the equity instruments at their date of grant based on the market price at grant date. This compensation cost is recognised over the vesting period, based on the best available estimate at each statement of financial position date of the number of equity instruments that are expected to vest.

During the vesting period; participants have all the shareholders rights; including the right to vote and share in the dividend distribution. The dividend received by employees is recognised as a reduction in equity. The amount of dividend received by employees who have left service prior to vesting conditions being met is recognised in profit and loss at the end of each reporting date.

Additional share award scheme

The additional share scheme award provides for the granting of shares to eligible participating employees, equivalent in value to the increase in share price from the grant date (based on the specific grant price) to the vesting date.

The vesting conditions are:
- a requirement to be in continued employment up to the date of vesting; and
- a performance condition

Cell Captive

The Cell Captive is accounted for at fair value and all fair value movements are accounted for in the statement of profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3. SEGMENT INFORMATION

The Executive Committee (Chief operating decision-maker) manages the business on a combined basis. This reflects the financial information reviewed by the Executive Committee when making decisions about performance and resource allocation and is consistent with the manner in which the Telkom network generates revenue, i.e. on a combined basis. As a result, Telkom has a single operating and reporting segment. No Group geographical information is provided as the majority of the Group's operations are carried out in South Africa.

The Telkom segment provides fixed-line access, fixed-line usage, data communications services (through Telkom and Cybernest), mobile voice services and handset sales.

4. REVENUE

Revenue recognition

The Group provides fixed-line, mobile and data communication services and communication-related products. The Group provides such services to business, residential, payphone and mobile customers. Revenue represents the fair value of fixed or determinable consideration that has been received or is receivable.

	Group		Company	
	2014 Rm	Restated 2013 Rm	2014 Rm	Restated 2013 Rm
4.1 *Total revenue*	**33 061**	32 853	**32 115**	31 997
Operating revenue	**32 483**	32 143	**31 307**	30 972
Other income (excluding profit on disposal of property, plant and equipment, intangible assets, investments and profit on disposal of subsidiary)*	**402**	431	**421**	444
Investment income	**176**	279	**387**	581
4.2 *Operating revenue*	**32 483**	32 143	**31 307**	30 972
Voice	**16 237**	16 818	**16 242**	16 818
Interconnection	**1 508**	1 597	**1 508**	1 597
Data	**11 073**	10 801	**11 003**	10 813
Customer premises equipment	**2 186**	1 466	**2 186**	1 466
Sundry revenue	**1 479**	1 461	**368**	278

Operating revenue increased due to higher mobile handset and equipment sales, growth in mobile and IT Business services data revenue, offset by a decline in voice revenue.

**Refer to note 5*

5. OTHER INCOME

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
5. OTHER INCOME	**479**	470	**498**	483
Other income (included in total revenue, refer to note 4)	**402**	431	**421**	444
Interest received from trade receivables	**160**	199	**191**	213
Sundry income	**242**	232	**230**	231
Profit on disposal of property, plant and equipment and intangible assets	**77**	39	**77**	39

Change in comparative

Sundry income has increased by R128 million as it was reclassified from selling and administrative expenses to sundry income.

This is income in nature and it is more appropriate to report this income under the other income category instead of being offset against selling, general and administration expenditure.

6. OPERATING EXPENSES

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
6.1 *Payments to other operators*	**3 944**	4 460	**3 950**	4 479
6.2 *Cost of sales*	**2 498**	1 549	**2 177**	1 230

6.1 *Payments to other operators*

Payments to other network operators (interconnection fees) has decreased due to the reduction in the mobile termination rates.

6.2 *Cost of sales*

The increase in the cost of sales is mainly due to increased customer premises equipment sales.

Change in comparatives

In order to achieve a more relevant presentation a decision was made to reclassify items from selling, general and administrative expenses to cost of sales. Refer to note 6.4.

	Group		Company	
		Restated		Restated
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm

6. OPERATING EXPENSES (continued)

### 6.3 *Employee expenses*	**7 137**	9 997	**6 867**	9 718
Salaries and wages	**7 274**	7 460	**7 103**	7 283
Medical aid contributions	**15**	14	**–**	–
Retirement contributions: Defined contribution plan	**615**	620	**601**	606
Post-retirement pension and retirement fund (refer to notes 30 and 31)**	**104**	1	**104**	1
Current service cost	**6**	5	**6**	5
Interest cost	**875**	794	**875**	794
Interest on plan assets	**(879)**	(798)	**(879)**	(798)
Curtailment loss – TRF***	**103**	–	**103**	–
Curtailment gain – TPF	**(1)**	–	**(1)**	–
Post-retirement medical aid (refer to notes 30 and 31)**	**(1 836)**	266	**(1 836)**	265
Current service cost	**62**	110	**62**	110
Interest cost	**468**	622	**468**	621
Settlement	**234**	(3)	**234**	(3)
Interest on plan asset	**(197)**	(190)	**(197)**	(190)
Curtailment gain	**(2 403)**	(273)	**(2 403)**	(273)
Telephone rebates (refer to notes 30 and 31)**	**34**	56	**34**	56
Current service cost	**4**	6	**4**	6
Interest cost	**31**	44	**31**	44
Curtailment loss	**(1)**	6	**(1)**	6
Share-based compensation expense (refer to note 26)	**11**	–	**11**	–
Other benefits*	**1 376**	2 101	**1 306**	2 028
Employee expenses capitalised	**(456)**	(521)	**(456)**	(521)

The decrease in employee expenses is mainly due to a net curtailment gain of R2,2 billion related to the post-retirement medical aid benefit that has been reduced. The average salary increase and the adoption of IAS 19R adversely impacted employee expenses. Refer to note 31 with regard to the curtailment gain.

**Other benefits include skills development, annual leave, performance incentive, service bonuses and voluntary employee severance/voluntary early retirement packages costs.*
***Restated due to the adoption of IAS19R. Refer note 2.*
****Impact of the VSP/VERP process related to 31 March 2013.*

Change in comparatives

Other benefits increased by R84 million due to the reclassification of employee vehicle insurance expense from security and other expenses (under service fees). These are short-term employee benefits derived from employment with Telkom and has therefore been reclassified accordingly to provide more relevant disclosure.

### 6.4 *Selling, general and administrative expenses*	**4 682**	5 651	**4 733**	5 723
Selling and administrative expenses	**612**	1 311	**726**	1 437
Maintenance	**3 044**	3 109	**3 038**	3 101
Marketing	**826**	888	**799**	870
Impairment of receivables	**200**	343	**170**	315

The decrease in selling, general and administrative expenses is mainly due to a decrease in maintenance and material expenses, lower bad debts and the Competition Commission fine that was accounted for in 2013.

Included in selling, general and administrative expenses is a net loss of R29 million on the disposal of the iWayAfrica Group. This net loss includes a foreign exchange loss of R122 million and disposal costs of R6 million. This relates to the cumulative amount of foreign exchange differences previously recognised in other comprehensive income, now realised in the profit or loss due to the disposal of the iWayAfrica Group.

Change in comparatives

Selling, general and administrative expenses have decreased by R1 549 million for Group and R1 230 million for Company, due to the reclassification of expenses to cost of sales. In addition sundry income of R128 million was reclassified to other income for Group and Company. This was done to provide more relevant disclosure.

Sundry income is income in nature and it is more appropriate to report this income under the other income category instead of being offset against selling, general and administration expenditure. Refer note 5.

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
6. OPERATING EXPENSES (continued)				
6.5 Service fees	**3 110**	2 996	**3 108**	2 984
Facilities and property management	**1 741**	1 659	**1 741**	1 659
Consultancy, security and other services	**1 304**	1 279	**1 308**	1 273
Auditors' remuneration	**65**	58	**59**	52

The increase in service fees is driven by costs relating to the transformation process, higher utilities and maintenance costs on Telkom properties.

Change in comparative

Service fees decreased by R84 million due to the reclassification of employee vehicle insurance expense from consultancy, security and other expenses (under service fees). These are short-term employee benefits derived from employment with Telkom and has therefore been reclassified accordingly to provide more relevant disclosure.

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
6.6 Operating leases*	**1 052**	925	**1 004**	880
Land and buildings	**481**	412	**455**	385
Transmission and data lines	**22**	18	**–**	–
Equipment	**35**	35	**35**	35
Vehicles	**514**	460	**514**	460

Operating leases increased as a result of annual escalations and an increase in the number of mobile sites acquired. The increase in vehicle leases was mainly attributable to a payment made to terminate 500 vehicles early.

**Operating lease commitments are disclosed in note 38.*

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
6.7 Depreciation, amortisation, impairment, write-offs and losses	**5 937**	18 180	**5 871**	18 118
Depreciation of property, plant and equipment	**4 616**	5 097	**4 587**	5 070
Amortisation of intangible assets	**689**	906	**652**	871
Impairment of property, plant and equipment and intangible assets	**392**	12 000	**392**	12 000
Write-offs of property, plant and equipment and intangible assets	**240**	177	**240**	177

Depreciation and amortisation decreased as a result of a lower asset base after a R12 billion impairment of assets in March 2013, partially offset by accelerated depreciation emanating from the review of the useful lives of drop wires installed at customer premises. The impairment at year end relates to property, plant and equipment that was reclassified from inventories following a change in the accounting policy.

Property, plant and equipment

The estimated useful lives assigned to groups of property, plant and equipment are:

	Group 2014 Years	Group 2013 Years	Company 2014 Years	Company 2013 Years
Freehold buildings	**15 to 40**	15 to 40	**15 to 40**	15 to 40
Leasehold buildings	**1 to 10**	4 to 6	**1 to 10**	6
Network equipment				
Cables	**4 to 30**	20 to 40	**4 to 30**	20 to 40
Switching equipment	**5 to 18**	5 to 18	**5 to 18**	5 to 18
Transmission equipment	**5 to 18**	5 to 18	**5 to 18**	5 to 18
Other	**2 to 20**	2 to 20	**2 to 20**	2 to 20
Support equipment	**5 to 13**	5 to 13	**5 to 13**	5 to 13
Furniture and office equipment	**1 to 15**	1 to 15	**11 to 15**	11 to 15
Data processing equipment and software	**1 to 10**	1 to 10	**5 to 10**	5 to 10
Other	**1 to 20**	1 to 20	**2 to 20**	2 to 20
The expected useful lives assigned to intangible assets are:				
Licences	**3 to 11**	3 to 11	**–**	–
Software	**2 to 10**	2 to 10	**5 to 10**	5 to 10
Trademarks, copyrights and other	**4 to 13**	4 to 13	**4 to 13**	4 to 13

As a result of rolling out of the Next Generation Network transformation program, the Group reassessed the useful lives of certain legacy equipment. The reassessment of useful lives had the effect of increasing the depreciation expense for the year ended 31 March 2014 by R463 million (2013: R667 million). Depreciation for each year of the remaining useful lives of the individually reassessed equipment could be significantly lower as a result of the impairment loss recognised on the legacy assets in 2013.

The 2013 impairment loss relates to property, plant and equipment of R11 025 million and relates to intangible assets of R975 million of the Telkom Cash Generating Unit. This is based on value-in-use. Refer to note 14.

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
7. INVESTMENT INCOME	**176**	279	**387**	581
Interest income	**173**	277	**157**	256
Dividend income from subsidiaries	**–**	–	**230**	325
Equity income from associate	**3**	2	**–**	–

Interest income relates to interest earned from financial assets not measured at fair value through profit or loss.

Dividends from investments are recognised on the date that the Group is entitled to the dividend. Interest is recognised on a time proportionate basis taking into account the principal amount outstanding and the effective interest rate.

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
8. FINANCE CHARGES AND FAIR VALUE MOVEMENTS	**292**	224	**292**	222
Finance charges on interest-bearing debt*	**636**	656	**636**	654
Local debt	**729**	736	**729**	734
Less: Finance charges capitalised	**(93)**	(80)	**(93)**	(80)
Foreign exchange and fair value movement	**(344)**	(432)	**(344)**	(432)
Foreign exchange losses	**336**	151	**336**	151
Fair value adjustments	**(680)**	(583)	**(680)**	(583)
Capitalisation rate for borrowing costs (%)	**11,4**	10,0	**11,4**	10,0

Included in finance charges is an amount of R636 million (2013: R656 million (Group) and R654 million (Company)) which relates to interest expense on financial liabilities not measured at fair value through profit or loss.

Fair value adjustments on derivative instruments were due to currency fluctuations and higher interest rates impacting on forward exchange contracts, cross-currency swaps and interest rate swap agreements, as well as the growth in the assets held by the Cell Captive.

**For interest-bearing debt movement, refer to note 29.*

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
9. TAXATION	**494**	442	**320**	294
South African normal company taxation	**625**	1 101	**477**	959
Current taxation	**401**	1 075	**253**	933
Under provision for prior year	**224**	26	**224**	26
Deferred taxation (refer to note 19)*	**(131)**	(659)	**(157)**	(665)
Capital allowances	**(16)**	(301)	**(17)**	(308)
Provision other allowances	**(143)**	(358)	**(137)**	(364)
Underprovision prior year	**23**	–	**(3)**	7
Tax loss	**5**	–	**–**	–

Normal tax decreased mainly as a result of employee related provisions that realised during the current year.

Deferred tax income decreased due to the deferred tax asset which is limited to zero. During 2013 the full deferred tax balance was limited through the statement of profit or loss.

Reconciliation of taxation rate	**%**	%	**%**	%
Effective rate	**10,9**	(4,0)	**7,6**	(2,6)
South African normal rate of taxation	**28,0**	28,0	**28,0**	28,0
Adjusted for:	**(17,1)**	(32,0)	**(20,4)**	(30,6)
Exempt income	**(3,6)**	1,0	**(4,5)**	1,7
Disposal group	**–**	0,2	**–**	–
Disallowable expenditure	**3,8**	(4,1)	**3,2**	(3,8)
Deferred tax asset limitation	**(22,9)**	(28,8)	**(24,5)**	(28,3)
Underprovision for prior years	**5,6**	(0,3)	**5,4**	(0,2)

The significant decrease between the standard and effective taxation rate at 31 March 2014 is mainly due to the curtailment gain realised and the settlement of the post-retirement medical liability related to current employees.

Refer to note 19 with regard to the deferred tax asset limitation.

**Restated due to the adoption of IAS 19R, IAS 16, the disposal of the iWayAfrica Group and the change in the accounting policy regarding the consolidation of the Cell Captive preference shares.*

	Group 2014 Rm	Group 2013 Rm
10. DISCONTINUED OPERATION		
Pan African business, iWayAfrica and Africa Online Mauritius		
On 20 December 2013, Telkom sold the Pan African business, iWayAfrica and Africa Online Mauritius, through a private sale to Gondwana International Networks.		
iWayAfrica was formed as the result of the amalgamation of MWEB Africa and Africa Online in 2007 when MWEB Africa was purchased by Telkom. The iWayAfrica business operates in eight countries on the continent offering terrestrial wireless and VSAT services to business and residential markets, as well as via its channel partners in many other countries on the continent.		
Telkom's investment in iWayAfrica was already fully impaired at 31 March 2012. Gondwana took over the assets and liabilities (including amounts owed by Telkom) for a nominal consideration.		
Analysis of the results of the discontinued operations:		
Revenue*	**240**	403
Expenses*	**(289)**	(496)
Loss before taxation of the discontinued operations	**(49)**	(93)
Taxation	**–**	(11)
Loss after taxation of the discontinued operations	**(49)**	(104)
Revenue comprises operating revenue, other income and investment income. Expenses comprise operating expenses and finance charges.		
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:		
Operating cash flows	**(38)**	–
Total cash outflow*	**(38)**	–

Cash flows included for 2014 are up to 20 December 2013. At 20 December 2013, on the date of disposal, iWayAfrica had R48 million cash on hand.

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
11. TAXATION EFFECTS OF OTHER COMPREHENSIVE INCOME				
Tax effects relating to each component of other comprehensive income				
Exchange gains/(losses) on translating foreign operations	**4**	(3)	**–**	–
Recycling of foreign currency translation reserve	**122**	–	**–**	–
Net foreign currency translation differences for foreign operations	**126**	(3)	**–**	–
Defined benefit plan actuarial gains/(losses)*	**2 277**	(138)	**2 277**	(138)
Tax effect of defined benefit plan actuarial gains/(losses)*	**(306)**	39	**(306)**	39
Net defined benefit plan actuarial gains/(losses)*	**1 971**	(99)	**1 971**	(99)
Defined benefit plan asset ceiling limitation	**(1 106)**	(38)	**(1 106)**	(38)
Tax effect of defined benefit plan asset ceiling limitation	**149**	10	**149**	10
Net defined benefit plan asset ceiling limitation	**(957)**	(28)	**(957)**	(28)
Other comprehensive income for the year before taxation	**1 297**	(179)	**1 171**	(176)
Tax effect of other comprehensive income for the year	**(157)**	49	**(157)**	49
Other comprehensive income for the year, net of taxation	**1 140**	(130)	**1 014**	(127)

Restated due to the adoption of IAS 19R.

	Group 2014 Rm	Restated 2013 Rm
12. EARNINGS PER SHARE		
Total operations		
Basic earnings/(loss) per share (cents)	**748,5**	(2 303,0)
The calculation of earnings per share is based on a profit attributable to equity holders of Telkom for the year of R3 822 million (2013: loss of R11 759 million) and 510 593 816 (2013: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted earnings/(loss) per share (cents)	**744,8**	(2 303,0)
The calculation of earnings per share is based on a profit attributable to equity holders of Telkom for the year of R3 822 million (2013: loss of R11 759 million) and 513 181 445 (2013: 510 593 816) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Share Plan.		
Headline earnings headline earnings per share (cents)*	**851,4**	60,1
The calculation of headline earnings per share is based on headline earnings of R4 347 million (2013: R307 million) and 510 593 816 (2013: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted headline earnings per share (cents)*	**847,1**	60,1
The calculation of headline earnings per share is based on headline earnings of R4 347 million (2013: R307 million) and 513 181 445 (2013: 510 593 816) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Share Plan.		
Continuing operations		
Basic earnings/(loss) per share (cents)	**758,1**	(2 282,6)
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R3 871 million (2013: loss of R11 655 million) and 510 593 816 (2013: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted earnings/(loss) per share (cents)	**754,3**	(2 282,6)
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R3 871 million (2013: loss of R11 655 million) and 513 181 445 (2013: 510 593 816) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Share Plan.		
Headline earnings per share (cents)*	**861,0**	86,2
The calculation of headline earnings per share is based on headline earnings of R4 396 million (2013: R440 million) and 510 593 816 (2013: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted headline earnings per share (cents)*	**856,6**	86,2
The calculation of headline earnings per share is based on headline earnings of R4 396 million (2013: R440 million) and 513 181 445 (2013: 510 593 816) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Share Plan.		
Discontinued operations		
Basic loss per share (cents)	**(9,6)**	(20,4)
The calculation of earnings per share is based on loss attributable to equity holders of Telkom for the year of R49 million (2013: loss of R104 million) and 510 593 816 (2013: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted loss per share (cents)	**(9,5)**	(20,4)
The calculation of earnings per share is based on loss attributable to equity holders of Telkom for the year of R49 million (2013: loss of R104 million) and 513 181 445 (2013: 510 593 816) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Share Plan.		
Headline loss per share (cents)*	**(9,6)**	(26,1)
The calculation of headline earnings per share is based on headline loss of R49 million (2013: loss of R133 million) and 510 593 816 (2013: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted headline loss per share (cents)*	**(9,5)**	(26,1)
The calculation of headline earnings per share is based on headline loss of R49 million (2013: loss of R133 million) and 513 181 445 (2013: 510 593 816) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Share Plan.		

12. EARNINGS PER SHARE (continued)

	Number of shares	Number of shares
Reconciliation of weighted average number of ordinary shares:		
Ordinary shares in issue	**520 783 900**	520 783 900
Weighted average number of treasury shares	**(10 190 084)**	(10 190 084)
Weighted average number of shares outstanding	**510 593 816**	510 593 816
Reconciliation of diluted weighted average number of ordinary shares		
Weighted average number of shares outstanding	**510 593 816**	510 593 816
Expected future vesting of shares	**2 587 629**	–
Diluted weighted average number of shares outstanding	**513 181 445**	510 593 816

The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular 2/2013 issued in this regard.

Total operations	Rm Gross	Rm Net*
2014		
Reconciliation between earnings and headline earnings:		
Profit for the year		**3 943**
Non-controlling interest		**(121)**
Profit attributable to owners of Telkom		**3 822**
Loss on disposal of subsidiary	**23**	**23**
Profit on disposal of property, plant and equipment and intangible assets	**(77)**	**(63)**
Impairment loss on property, plant and equipment and intangible assets	**392**	**392**
Write-offs of property, plant and equipment and intangible assets	**240**	**173**
Headline earnings		**4 347**
2013		
Reconciliation between earnings and headline earnings:* **		
Loss for the year		(11 636)
Non-controlling interest		(123)
Loss attributable to equity holders of Telkom		(11 759)
Profit on disposal of property, plant and equipment and intangible assets	(39)	(32)
Profit on disposal of joint venture	(30)	(30)
Impairment loss on property, plant and equipment and intangible assets**	12 000	12 000
Write-offs of property, plant and equipment and intangible assets	178	128
Headline earnings		307
Continuing operations		
2014		
Reconciliation between earnings and headline earnings:		
Profit from continuing operations		**3 992**
Non-controlling interest		**(121)**
Profit from continuing operations attributable to equity holders of Telkom		**3 871**
Loss on disposal of subsidiary	**23**	**23**
Profit on disposal of property, plant and equipment and intangible,assets	**(77)**	**(63)**
Impairment loss on property, plant and equipment and intangible assets	**392**	**392**
Write-offs of property, plant and equipment and intangible assets	**240**	**173**
Headline earnings		**4 396**
2013		
Reconciliation between earnings and headline earnings:* **		
Loss from continuing operations		(11 532)
Non-controlling interest		(123)
Loss from continuing operations attributable to equity holders of Telkom		(11 655)
Profit on disposal of property, plant and equipment and intangible assets	(39)	(32)
Impairment loss on property, plant and equipment and intangible assets**	12 000	12 000
Write-offs of property, plant and equipment and intangible assets	177	127
Headline earnings		440

	Rm Gross	Rm Net*

12. EARNINGS PER SHARE (continued)

Discontinued operations

2014

	Rm Gross	Rm Net*
Reconciliation between earnings and headline earnings:		
Loss from discontinued operations		**(49)**
Loss from discontinued operations attributable to equity holders of Telkom		**(49)**
Headline loss		**(49)**

2013

	Rm Gross	Rm Net*
Reconciliation between earnings and headline earnings:		
Loss from discontinued operations		(104)
Loss from discontinued operations attributable to equity holders of Telkom		(104)
Profit on disposal of joint venture	(30)	(30)
Profit on disposal of property, plant and equipment and intangible assets	1	1
Headline earnings		(133)

*Net of taxation.
**The impairment resulted in deferred taxation consequences that were not recognised in the statement of financial position. Refer to note 19.
***The amounts have been restated due to the adoption of IAS 19R and the amendment to IAS 16 as well as the sale of the iWayAfrica Group.

13. PROPERTY, PLANT AND EQUIPMENT

	2014					2013				
Group	**Cost Rm**	**Accumulated depreciation and write-offs Rm**	**Carrying value before impairment Rm**	**Impairment Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm
Freehold land and buildings	**6 515**	**(4 205)**	**2 310**	**–**	**2 310**	6 404	(2 905)	3 499	(1 101)	2 398
Leasehold buildings	**551**	**(460)**	**91**	**–**	**91**	558	(445)	113	–	113
Network equipment	**65 798**	**(47 725)**	**18 073**	**–**	**18 073**	64 740	(37 071)	27 669	(9 158)	18 511
Support equipment	**4 303**	**(2 957)**	**1 346**	**(392)**	**954**	4 262	(2 817)	1 445	(356)	1 089
Furniture and office equipment	**301**	**(243)**	**58**	**–**	**58**	325	(264)	61	(19)	42
Data processing equipment and software	**4 634**	**(3 675)**	**959**	**–**	**959**	5 271	(4 105)	1 166	(346)	820
Under construction	**2 530**	**–**	**2 530**	**–**	**2 530**	1 823	(11)	1 812	–	1 812
Other	**552**	**(404)**	**148**	**–**	**148**	561	(420)	141	(45)	96
	85 184	**(59 669)**	**25 515**	**(392)**	**25 123**	83 944	(48 038)	35 906	(11 025)	24 881
Company										
Freehold land and buildings	**6 515**	**(4 205)**	**2 310**	**–**	**2 310**	6 404	(2 905)	3 499	(1 101)	2 398
Leasehold buildings	**432**	**(341)**	**91**	**–**	**91**	436	(323)	113	–	113
Network equipment	**65 514**	**(47 626)**	**17 888**	**–**	**17 888**	64 255	(36 770)	27 485	(9 158)	18 327
Support equipment	**4 302**	**(2 956)**	**1 346**	**(392)**	**954**	4 262	(2 817)	1 445	(356)	1 089
Furniture and office equipment	**281**	**(230)**	**51**	**–**	**51**	296	(242)	54	(18)	36
Data processing equipment and software	**4 452**	**(3 586)**	**866**	**–**	**866**	5 075	(4 010)	1 065	(346)	719
Under construction	**2 652**	**–**	**2 652**	**–**	**2 652**	1 939	–	1 939	–	1 939
Other	**550**	**(401)**	**149**	**–**	**149**	551	(410)	141	(46)	95
	84 698	**(59 345)**	**25 353**	**(392)**	**24 961**	83 218	(47 477)	35 741	(11 025)	24 716

The 2013 impairment loss of R12 billion was allocated to the asset categories of the cash-generating unit on a pro rata basis in line with the requirements of IAS 36. R11 025 million of the impairment was processed to property, plant and equipment and R975 million to Intangible assets. The allocation basis has been reviewed.

The pro rata basis of the allocation of the impairment at 31 March 2013 was reassessed and the impairment was reallocated to individually impaired assets. The impairment allocation ratio per asset category in all material respects approximated the original allocations on the pro rata basis.

Fully depreciated assets with a cost of R3 679 million (2013: R2 205 million) were derecognised in the 2014 financial year. This has reduced both the cost price and accumulated depreciation of property, plant and equipment.

The Company Capital Expenditure under property, plant and equipment relates to expansions of R2 109 million and maintenance of R3 559 million (2013 expansions: R2 255 million and maintenance: R2 508 million).

A total of 55 properties are held for sale as at the end of March 2014. These assets have a total net book value of R4,4 million with a total market value of R251,9 million as at the end of March 2014. The accumulated depreciation on these assets is R11,4 million. These properties are being sold because they do not form part of the Company's core business.

Property, plant and equipment with a carrying value of R73 million (2013: R89 million) has been pledged as security. Details of the loans are disclosed in note 29.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying amounts of property, plant and equipment can be reconciled as follows:

Group	Carrying value at beginning of year* Rm	Additions Rm	Transfers** Rm	Foreign currency translation Rm	Disposals Rm	Depreciation Rm	Write-offs Rm	Carrying value before impairment Rm	Impairment*** Rm	Carrying value at end of year Rm
2014										
Freehold land and buildings	**2 398**	**135**	**13**	**–**	**–**	**(231)**	**(5)**	**2 310**	**–**	**2 310**
Leasehold buildings	**113**	**(3)**	**–**	**–**	**–**	**(19)**	**–**	**91**	**–**	**91**
Network equipment	**18 511**	**2 796**	**728**	**–**	**(17)**	**(3 880)**	**(65)**	**18 073**	**–**	**18 073**
Support equipment	**1 089**	**229**	**225**	**–**	**–**	**(189)**	**(8)**	**1 346**	**(392)**	**954**
Furniture and office equipment	**42**	**3**	**37**	**–**	**–**	**(22)**	**(2)**	**58**	**–**	**58**
Data processing equipment and software	**820**	**183**	**212**	**–**	**–**	**(247)**	**(9)**	**959**	**–**	**959**
Under construction	**1 812**	**2 330**	**(1 543)**	**–**	**–**	**–**	**(69)**	**2 530**	**–**	**2 530**
Other	**96**	**22**	**60**	**–**	**–**	**(29)**	**(1)**	**148**	**–**	**148**
	24 881	**5 695**	**(268)**	**–**	**(17)**	**(4 617)**	**(159)**	**25 515**	**(392)**	**25 123**
2013										
Freehold land and buildings	3 227	374	159	–	(1)	(252)	(8)	3 499	(1 101)	2 398
Leasehold buildings	127	4	–	–	–	(18)	–	113	–	113
Network equipment	28 824	2 458	636	(4)	(21)	(4 069)	(155)	27 669	(9 158)	18 511
Support equipment	1 475	167	68	–	–	(261)	(4)	1 445	(356)	1 089
Furniture and office equipment	73	1	2	–	–	(15)	–	61	(19)	42
Data processing equipment and software	1 402	156	34	–	–	(418)	(8)	1 166	(346)	820
Under construction	1 195	1 627	(1 004)	(1)	–	–	(5)	1 812	–	1 812
Other	184	20	(2)	–	–	(64)	3	141	(45)	96
	36 507	4 807	(107)	(5)	(22)	(5 097)	(177)	35 906	(11 025)	24 881

The carrying amounts of property, plant and equipment can be reconciled as follows:

Company	Carrying value at beginning of year* Rm	Additions Rm	Transfers** Rm	Disposals Rm	Depreciation Rm	Write-offs Rm	Carrying value before impairment Rm	Impairment*** Rm	Carrying value at end of year Rm
2014									
Freehold land and buildings	**2 398**	**135**	**13**	**–**	**(231)**	**(5)**	**2 310**	**–**	**2 310**
Leasehold buildings	**113**	**(3)**	**–**	**–**	**(19)**	**–**	**91**	**–**	**91**
Network equipment	**18 327**	**2 772**	**733**	**(16)**	**(3 863)**	**(65)**	**17 888**	**–**	**17 888**
Support equipment	**1 089**	**229**	**225**	**–**	**(189)**	**(8)**	**1 346**	**(392)**	**954**
Furniture and office equipment	**36**	**1**	**37**	**–**	**(21)**	**(2)**	**51**	**–**	**51**
Data processing equipment and software	**719**	**182**	**212**	**–**	**(238)**	**(9)**	**866**	**–**	**866**
Under construction	**1 939**	**2 330**	**(1 548)**	**–**	**–**	**(69)**	**2 652**	**–**	**2 652**
Other	**95**	**22**	**60**	**–**	**(27)**	**(1)**	**149**	**–**	**149**
	24 716	**5 668**	**(268)**	**(16)**	**(4 588)**	**(159)**	**25 353**	**(392)**	**24 961**
2013									
Freehold land and buildings	3 227	374	159	(1)	(252)	(8)	3 499	(1 101)	2 398
Leasehold buildings	126	5	–	–	(18)	–	113	–	113
Network equipment	28 630	2 428	655	(21)	(4 052)	(155)	27 485	(9 158)	18 327
Support equipment	1 475	167	68	–	(261)	(4)	1 445	(356)	1 089
Furniture and office equipment	70	–	–	–	(16)	–	54	(18)	36
Data processing equipment and software	1 303	143	33	–	(406)	(8)	1 065	(346)	719
Under construction	1 316	1 626	(998)	–	–	(5)	1 939	–	1 939
Other	185	20	(2)	–	(65)	3	141	(46)	95
	36 332	4 763	(85)	(22)	(5 070)	(177)	35 741	(11 025)	24 716

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group does not have temporarily idle property, plant and equipment.

29% of capital expenditure relates to the expansion of existing networks and services. Expansion of the Mobile network also contributed to the growth of property, plant and equipment with a contribution of 22%. 37% of capital expenditure contributed to the new Next Generation Network programme. The balance of 12% capital expenditure is mainly attributable to investment in submarine cable systems, Network Evolution initiatives, Sustainment programmes, IT and OSS systems and property upgrade and growth projects. An extensive build programme that provides capacity for growth in services, focusing on Next Generation Network and Mobile technologies is expected to continue over the next few years.

An amount of R15,9 million (2013: R8,5 million) under property, plant and equipment disposals relates to the sale of Customer Premises Equipment in terms of a finance lease.

The impairment charge of R11 025 million in 2013 relates to the Telkom Cash Generating Unit. Refer to key valuation assumptions detailed in note 14. Impairment of property, plant and equipment was mainly as a result of outdated legacy technologies.

A change in the accounting policy resulted in an amount of R406 million transferred from inventory to property, plant and equipment at March 2013. The transfer to property, plant and equipment resulted in a restatement of the 2012 and 2013 financial years and an increase in support equipment of R30 million for 2013 (2012: R376 million). Depreciation increased by R25 million in 2013 (2012: R24 million).

A change in estimate on the First Time Installs (Drop Wire at Customer Premises) asset category resulted in an additional depreciation charge to the value of R729,7 million for the financial year, due to a prospective adjustment. Additional changes to the estimated useful lives on Network equipment were necessary due to the impact of the NGNEC (Next Generation Network, Enterprise and Consumer) strategy and associated transformation program, resulting in an increase in the depreciation by a further R463 million.

** The carrying value at the beginning of the 2013 financial year has been restated by R352 million due to the adoption of the amendment to IAS 16 resulting in the adjustment of the support equipment carrying value.*

*** The Group and Company has a process of determining whether an asset which incorporates both a tangible and an intangible element, should be recognised as tangible or intangible assets, based on management's judgement and on facts available and the significance of each element to the total value of the asset. Assets with a carrying value to the net amount of R268 million (2013: R85 million) and R268 million (2013: R86 million) for Company and Group respectively were reclassified from property, plant and equipment to intangible assets in the current year. Group assets with a carrying value of Rnil (2013: R21 million) were reclassified from property, plant and equipment to inventory.*

**** The amount impaired for support equipment relates to assets transferred from inventory to property, plant and equipment (refer to note 2). The assets relate to an asset class previously impaired and thus had to be assessed for impairment in the current financial year. As there are no future cash flows related to these assets, the recoverable amount based on value in use has been assessed as Rnil and the assets have been impaired.*

14. INTANGIBLE ASSETS

	2014					2013				
Group	Cost Rm	Accumulated amortisation Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm	Cost Rm	Accumulated amortisation Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value Rm
Goodwill	**63**	**–**	**63**	**–**	**63**	588	(517)	71	–	71
Trademarks, copyrights and other	**463**	**(319)**	**144**	**–**	**144**	621	(444)	177	(31)	146
Software	**9 197**	**(7 065)**	**2 132**	**–**	**2 132**	8 915	(6 042)	2 873	(944)	1 929
Connection incentive bonus*	**–**	**–**	**–**	**–**	**–**	180	(180)	–	–	–
Under construction	**494**	**–**	**494**	**–**	**494**	435	–	435	–	435
	10 217	**(7 384)**	**2 833**	**–**	**2 833**	10 739	(7 183)	3 556	(975)	2 581
Company										
Trademarks, copyrights and other	**235**	**(183)**	**52**	**–**	**52**	211	(117)	94	(31)	(63)
Software	**9 183**	**(7 051)**	**2 132**	**–**	**2 132**	8 893	(6 022)	2 871	(944)	1 927
Connection incentive bonus*	**–**	**–**	**–**	**–**	**–**	180	(180)	–	–	–
Under construction	**493**	**–**	**493**	**–**	**493**	435	–	435	–	435
	9 911	**(7 234)**	**2 677**	**–**	**2 677**	9 719	(6 319)	3 400	(975)	2 425

**The Connection incentive bonus amortisation is not included in the amortisation category of the statement of profit or loss and other comprehensive income but is included under the selling, general and administration expenses category.*

14. INTANGIBLE ASSETS (continued)

The carrying amounts of intangible assets can be reconciled as follows:

Group	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Disposals Rm	Amortisation Rm	Write-offs Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value at end of year Rm
2014									
Goodwill	**71**	**–**	**–**	**–**	**–**	**(8)**	**63**	**–**	**63**
Trademarks, copyrights and other	**146**	**68**	**(23)**	**–**	**(47)**	**–**	**144**	**–**	**144**
Software	**1 929**	**278**	**616**	**–**	**(642)**	**(49)**	**2 132**	**–**	**2 132**
Under construction	**435**	**417**	**(325)**	**–**	**–**	**(33)**	**494**	**–**	**494**
	2 581	**763**	**268**	**–**	**(689)**	**(90)**	**2 833**	**–**	**2 833**
2013									
Goodwill	71	–	–	–	–	–	71	–	71
Trademarks, copyrights and other	148	71	18	(1)	(58)	(1)	177	(31)	146
Software	2 992	471	259	–	(849)	–	2 873	(944)	1 929
Connection incentive bonus	137	–	–	–	(137)	–	–	–	–
Under construction	207	419	(191)	–	–	–	435	–	435
	3 555	961	86	(1)	(1 044)	(1)	3 556	(975)	2 581

The carrying amounts of intangible assets can be reconciled as follows:

Company	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Disposals Rm	Write-offs Rm	Amortisation Rm	Carrying value before impairment Rm	Impairment Rm	Carrying value at end of year Rm
2014									
Trademarks, copyrights and other	**63**	**24**	**(23)**	**–**	**–**	**(12)**	**52**	**–**	**52**
Software	**1 927**	**278**	**616**	**–**	**(48)**	**(641)**	**2 132**	**–**	**2 132**
Under construction	**435**	**416**	**(325)**	**–**	**(33)**	**–**	**493**	**–**	**493**
	2 425	**718**	**268**	**–**	**(81)**	**(653)**	**2 677**	**–**	**2 677**
2013									
Trademarks, copyrights and other	83	17	18	–	–	(24)	94	(31)	63
Software	2 991	468	259	–	–	(847)	2 871	(944)	1 927
Connection incentive bonus	137	–	–	–	–	(137)	–	–	–
Under construction	207	420	(192)	–	–	–	435	–	435
	3 418	905	85	–	–	(1 008)	3 400	(975)	2 425

There are no intangible assets whose titles are restricted, or that have been pledged as security for liabilities at 31 March 2014.

The goodwill in Group relates to Trudon.

Intangible assets that are material to the Group consist of software, copyrights and trademarks whose average remaining amortisation period is 3,75 years (2013: 4,6 years).

No intangible asset apart from goodwill has been assessed as having an indefinite useful life.

Approximately R190 million (2013: R263 million) and R145 million (2013: R207 million) of additions relate to externally acquired intangible assets for Group and Company respectively while R573 million (2013: R698 million) relates to internal developments for Group and Company.

Included in the impairment charge is Rnil (2013: R975 million) on software and trademarks relating to the impairment of Telkom Cash Generating Unit.

Impairment testing of cash-generating units (CGU): Group and Company

During 2013, the Group decided to significantly reduce the size of its legacy network. In line with other fixed line incumbents globally, the Group has, for more than a decade, faced technology changes, competition from mobile operators and an evolving regulatory landscape which have contributed to lower investment returns generated from legacy network assets. While the assets form a significant part of the asset base, they are not relevant in the efficiency focused service offering of the Group, with a emphasis on Internet Protocol compliant assets.

In addition, Telkom shares had also traded significantly lower than the net asset value (NAV) of a Telkom share which at 31 March 2013 was R58 per share. In accordance with IAS 36, when the carrying value of an entity's net assets is more than it's market capitalisation, it is an indication that the carrying value of the assets be impaired.

An impairment charge had been processed after the requisite approval by the Board of Directors at 31 March 2013.

In determining the recoverable amount of the Telkom CGU, the Company considered several sources of estimation uncertainty and made certain assumptions/judgements about the future. The disclosure presented below provides information about these sources of estimation uncertainty and assumptions as well as the impact thereof on the CGU's carrying amounts.

14. INTANGIBLE ASSETS (continued)

Valuation key assumptions

The recoverable amount of a CGU is determined based on value in use. These calculations use post-tax cash flow projections based on financial budgets approved by the Board covering a five year period (2013: 5 years extrapolated to ten years) in order to more appropriately reflect the implications of terminal growth.

The determined value in use of each CGUs is most sensitive to the discount rate. The discount rate applied is the company's weighted average cost of capital (WACC). The key assumptions used for value-in-use calculations are as follows:

	Telkom	
Assumptions	**2014**	2013
Discount rate (WACC) % – Terminal	**12,1%**	13,6%

Discount rates

Management determined these rates based on past experience as well as external sources of information such as risk free return based on government bond R186 and the beta.

The discount rates reflect the specific risks related to the future cash flows of the CGU.

	Telkom	
Impairment test	**2014**	2013
Changes in key assumptions	**Rm**	Rm
Recoverable amount	**22 196**	22 741
Shortfall of recoverable amount over carrying amount*	**–**	(12 000)
Discount rate used in recoverable amount calculation	**12,1%**	13,6%
Discount rate to reduce recoverable amount to carrying amount*	**0,0%**	10,1%

Sensitivity analysis for 2013

A one percentage point change in the discount rate would have the following effects on the balances:	**1% Decrease**	**1% Increase**
	12,6%	14,6%
	Rm	Rm
Effect on property, plant and equipment	**(8 671)**	(13 056)
Effect on intangible assets	**(754)**	(1 135)
Effect on aggregate assets	**(9 425)**	(14 191)

**The disclosure of these amounts are not relevant as there was no impairment in the current financial year. The recoverable amount exceeded the carrying value of the CGU.*

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise of interest-bearing debt and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group's operations. The Group has finance lease receivables, trade and other receivables and cash and cash receivables and short-term deposits that arise directly from its operations. The Group also enters into derivative transactions as hedging instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. All derivative activities for risk management purposes are carried in accordance with the Group's policy. The Group does not speculate in derivative instruments.

Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. Treasury policies, risk limits and control procedures are continuously monitored by the Board of Directors through its Audit and Risk Committee to manage the financial risks.

The Group holds or issues financial instruments to finance its operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments for example trade receivables and payables arise directly from the Group's operations.

The Group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The Group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, cross-currency swaps and forward exchange contracts. Hedge accounting is now applied and this is a change in the risk management process.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The table below sets out the Group's classification of financial assets and liabilities.

2014	Notes	At fair value through profit or loss held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
Assets		**3 016**	**–**	**–**	**7 169**	**10 185**	**10 185**
Other investments*	16.2	**2 755**	**–**	**–**	**–**	**2 755**	**2 755**
Trade and other receivables**	21	**–**	**–**	**–**	**5 007**	**5 007**	**5 007**
Other financial assets	22	**261**	**–**	**–**	**–**	**261**	**261**
Forward exchange contracts		**139**	**–**	**–**	**–**	**139**	**139**
Firm commitments		**4**	**–**	**–**	**–**	**4**	**4**
Cross-currency swaps		**118**	**–**	**–**	**–**	**118**	**118**
Finance lease receivables	18	**–**	**–**	**–**	**320**	**320**	**320**
Cash and cash equivalents	23	**–**	**–**	**–**	**1 842**	**1 842**	**1 842**
Liabilities		**(98)**	**(9 237)**	**–**	**–**	**(9 335)**	**(9 991)**
Interest-bearing debt	29	**–**	**(4 096)**	**–**	**–**	**(4 096)**	**(4 752)**
Trade and other payables	32	**–**	**(5 119)**	**–**	**–**	**(5 119)**	**(5 119)**
Shareholders for dividend	37	**–**	**(21)**	**–**	**–**	**(21)**	**(21)**
Other financial liabilities	22	**(98)**	**–**	**–**	**–**	**(98)**	**(98)**
Forward exchange contracts		**(61)**	**–**	**–**	**–**	**(61)**	**(61)**
Firm commitments		**(37)**	**–**	**–**	**–**	**(37)**	**(37)**
Credit facilities utilised	23	**–**	**(1)**	**–**	**–**	**(1)**	**(1)**

2013	Notes	At fair value through profit or loss held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
Assets		2 733	–	1 980	7 994	12 707	12 707
Other investments*	16.2	2 496	–	–	–	2 496	2 496
Trade and other receivables**	21	–	–	–	5 260	5 260	5 260
Other financial assets	22	237	–	1 980	–	2 217	2 217
Forward exchange contracts		132	–	–	–	132	132
Cross-currency swaps		105	–	–	–	105	105
Repurchase agreements		–	–	1 980	–	1 980	1 980
Finance lease receivables	18	–	–	–	350	350	350
Cash and cash equivalents	23	–	–	–	2 384	2 384	2 384
Liabilities		(66)	(11 341)	–	–	(11 407)	(12 411)
Interest-bearing debt	29	–	(6 657)	–	–	(6 657)	(7 661)
Trade and other payables	32	–	(4 659)	–	–	(4 659)	(4 659)
Shareholders for dividend	37	–	(22)	–	–	(22)	(22)
Other financial liabilities	22	(66)	–	–	–	(66)	(66)
Interest rate swaps		(51)	–	–	–	(51)	(51)
Forward exchange contracts		(15)	–	–	–	(15)	(15)
Credit facilities utilised	23	–	(3)	–	–	(3)	(3)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The table below sets out the Company's classification of financial assets and liabilities.

2014	Notes	At fair value through profit or loss held-for-trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
Assets		**3 016**	**–**	**–**	**6 458**	**9 474**	**9 474**
Other investments	16.2	**2 755**	**–**	**–**	**–**	**2 755**	**2 755**
Trade and other receivables**	21	**–**	**–**	**–**	**4 391**	**4 391**	**4 391**
Other financial assets	22	**261**	**–**	**–**	**–**	**261**	**261**
Forward exchange contracts		**139**	**–**	**–**	**–**	**139**	**139**
Firm commitments		**4**	**–**	**–**	**–**	**4**	**4**
Cross-currency swaps		**118**	**–**	**–**	**–**	**118**	**118**
Finance lease receivables	18	**–**	**–**	**–**	**320**	**320**	**320**
Cash and cash equivalents	23	**–**	**–**	**–**	**1 747**	**1 747**	**1 747**
Liabilities		**(98)**	**(9 944)**	**–**	**–**	**(10 042)**	**(10 698)**
Interest-bearing debt	29	**–**	**(4 094)**	**–**	**–**	**(4 094)**	**(4 750)**
Trade and other payables	32	**–**	**(5 828)**	**–**	**–**	**(5 828)**	**(5 828)**
Shareholders for dividend	37	**–**	**(21)**	**–**	**–**	**(21)**	**(21)**
Other financial liabilities	22	**(98)**	**–**	**–**	**–**	**(98)**	**(98)**
Firm commitment		**(37)**	**–**	**–**	**–**	**(37)**	**(37)**
Forward exchange contracts		**(61)**	**–**	**–**	**–**	**(61)**	**(61)**
Credit facilities utilised	23	**–**	**(1)**	**–**	**–**	**(1)**	**(1)**

The table below sets out the Company's classification of financial assets and liabilities.

2013	Notes	At fair value through profit or loss held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
Classes of financial instruments per statement of financial position							
Assets		2 733	–	1 970	7 156	11 859	11 859
Other investments	16.2	2 496	–	–	–	2 496	2 496
Trade and other receivables**	21	–	–	–	4 548	4 548	4 548
Other financial assets	22	237	–	1 970	–	2 207	2 207
Forward exchange contracts		132	–	–	–	132	132
Cross-currency swaps		105	–	–	–	105	105
Repurchase agreements		–	–	1 970	–	1 970	1 970
Finance lease receivables	18	–	–	–	350	350	350
Cash and cash equivalents	23	–	–	–	2 258	2 258	2 258
Liabilities		(69)	(11 843)	–	–	(11 912)	(12 916)
Interest-bearing debt	29	–	(6 651)	–	–	(6 651)	(7 655)
Trade and other payables	32	–	(5 167)	–	–	(5 167)	(5 167)
Shareholders for dividend	37	–	(22)	–	–	(22)	(22)
Other financial liabilities	22	(69)	–	–	–	(69)	(69)
Interest rate swaps		(54)	–	–	–	(54)	(54)
Forward exchange contracts		(15)	–	–	–	(15)	(15)
Credit facilities utilised	23	–	(3)	–	–	(3)	(3)

** Other investments are disclosed net of any investments in associates and joint ventures of R4 million (2013: R3 million).*
*** Trade and other receivables are disclosed net of prepayments of R538 million (2013: R511 million) for the Company and R558 million (2013: R537 million) for the Group.*

The fair value of financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and short-term deposits, trade and other receivables, other financial assets, finance leases, trade and other payables, and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

15.1 *Fair value of financial instruments*

Valuation techniques and assumptions applied for the purposes of measuring fair value

Fair value of all financial instruments noted in the statement of financial position approximates carrying value except as disclosed below.

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debts which are at amortised cost.

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The fair value of financial instruments that are not traded in an active market is determined by using other valuation techniques.

The fair values of interest-bearing debts are based on quoted prices or, where such prices are not available, the expected future payments discounted at market interest rates, as a result they differ from carrying values.

The fair values of listed investments and bonds are based on quoted market prices. The values are not necessarily indicative of the amounts that the Group could realise in the normal course of business.

Type of financial instrument – Group	Fair value at 31 March 2014	Valuation technique	Significant inputs
Receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	**R4 783 million**	Undiscounted future estimated cash flows due to short-term maturities of these instruments	Probability of default
Derivatives	**R163 million**	Discounted cash flows	Yield curves Market interest rate Market Foreign exchange rate
Borrowings	**R4 752 million**	Discounted cash flows and quoted bond prices	Market interest rate Market foreign exchange rate

Fair value hierarchy

The following table presents the Group's assets and liabilities that are measured at fair value at reporting date. The different levels have been defined as follows:
Level 1: Quoted prices in active markets.
Level 2: All significant inputs required to value an instrument are observable market data.
Level 3: Significant inputs required to value an instrument are not based on observable market data.

Group 2014	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Assets measured at fair value				
Cross-currency swaps	**118**	**–**	**118**	**–**
Forward exchange contracts	**139**	**–**	**139**	**–**
Firm commitments	**4**	**–**	**4**	**–**
Investment in Cell Captive preference shares	**2 755**	**2 755**	**–**	**–**
Liabilities measured at fair value				
Forward exchange contracts	**(61)**	**–**	**(61)**	**–**
Firm commitments	**(37)**	**–**	**(37)**	**–**
Liabilities measured at amortised cost				
Interest-bearing debt	**(4 752)**	**(3 445)**	**(1 307)**	**–**
2013				
Assets measured at fair value				
Cross-currency swaps	105	–	105	–
Forward exchange contracts	132	–	132	–
Investment in Cell Captive preference shares	2 496	595	1 901	–
Transfer to level 1*		1 901	(1 901)	
Liabilities measured at fair value				
Interest rate swaps	(51)	–	(51)	–
Forward exchange contracts	(15)	–	(15)	–
Liabilities measured at amortised cost				
Interest-bearing debt	(7 661)	(3 882)	(3 779)	–

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

15.1 *Fair value of financial instruments* (continued)

Company 2014	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Assets measured at fair value				
Cross-currency swaps	**118**	**–**	**118**	**–**
Forward exchange contracts	**139**	**–**	**139**	**–**
Firm commitments	**4**	**–**	**4**	**–**
Investment in Cell Captive preference shares	**2 755**	**2 755**	**–**	**–**
Liabilities measured at fair value				
Forward exchange contracts	**(61)**	**–**	**(61)**	**–**
Firm commitments	**(37)**	**–**	**(37)**	**–**
Liabilities measured at amortised cost				
Interest-bearing debt	**(4 750)**	**(3 445)**	**(1 305)**	**–**
2013				
Assets measured at fair value				
Cross-currency swaps	105	–	105	–
Forward exchange contracts	132	–	132	–
Investment in Cell Captive preference shares	2 496	2 496	–	–
Liabilities measured at fair value				
Interest rate swaps	(54)	–	(54)	–
Forward exchange contracts	(15)	–	(15)	–
Liabilities measured at amortised cost				
Interest-bearing debt	(7 655)	(3 882)	(3 773)	–

* *During the year ended 31 March 2013, the Investment in Cell Captive's preference shares with a market value of R1 901 million was transferred from fair value level 2 to fair value level 1. The reason for transfer is that the price for each of the assets held in the absolute portfolio is obtained from the recognised market sources.*

15.2 *Credit risk management*

Credit risk or the risk of financial loss is the risk that a counterparty will not meet its contractual obligations as they fall due. The Group is exposed to credit risk from its operating activities and from financing activities, including deposits with banks and financial institutions. The Group is not exposed to significant concentrations of credit risk as credit limits are set on an individual basis and reviewed regularly.

The Group's maximum exposure to credit risk is represented by the carrying amount of the financial assets that are exposed to credit risk.

The maximum exposure to the Group from counterparties in respect of derivative contracts is a net favourable position of R261 million (2013: R237 million). No collateral is required when entering into derivative contracts. The Group limits the exposure to any counterparty and exposures are monitored daily. The Group expects that all counterparties will meet their obligations.

With respect to credit risk arising from other financial assets of the Group, which comprises held-to-maturity investments, financial assets held at fair value through profit or loss, loans and receivables and available-for-sale assets, (other than equity investments) and preference shares, the Group's exposure to credit risk arises from a potential default by counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management reduces the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counter party failure, limits are set based on the individual ratings of counterparties by well-known ratings agencies. Trade receivables comprise a large widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than prepaid customers, on application for new services on an ongoing basis where appropriate.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets as well as expected future cash flows, refer to note 21.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed annually or when the need arises. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

15.2 *Credit risk management* (continued)

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was.

	Group – Carrying amount		Company – Carrying amount	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm
Trade receivables (refer to note 21)				
Telkom SA	**3 951**	4 166	**3 673**	3 853
Business and residential	**1 291**	1 573	**1 321**	1 609
Global, corporate and wholesale	**1 789**	1 968	**1 832**	2 013
Government	**423**	393	**434**	402
Other customers	**448**	232	**459**	237
Impairment of Company trade receivables (refer to note 21)	**–**	–	**(373)**	(408)
International	**–**	140	**–**	–
South Africa	**742**	772	**–**	–
Impairment of Group trade receivables (refer to note 21)	**(412)**	(548)	**–**	–
Subtotal for trade receivables	**4 281**	4 530	**3 673**	3 853
Other receivables*	**726**	730	**718**	695
Derivatives	**261**	237	**261**	237
Investments and loans receivable**	**2 755**	2 496	**2 755**	2 496
Finance lease receivables	**320**	350	**320**	350
Cash	**1 841**	2 384	**1 746**	2 255
	10 184	10 727	**9 473**	9 886

**Other receivables for Group are disclosed net of prepayments of R558 million (2013: R537 million) and Company of R538 million (2013: R511 million).*

***Investments are disclosed net of equity investments of R4 million (2013: R3 million).*

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
The ageing of trade receivables at the reporting date was:				
Not past due/current	**3 305**	3 544	**2 733**	2 982
Past due but not impaired				
21 to 60 days	**479**	535	**476**	510
61 to 90 days	**99**	88	**94**	72
91 to 120 days	**55**	93	**48**	77
120+ days	**755**	818	**696**	620
	4 693	5 078	**4 047**	4 261
The ageing in the allowance for the impairment of trade receivables at reporting date was:				
Current defaulted trade	**10**	44	**10**	51
21 to 60 days	**27**	24	**31**	24
61 to 90 days	**13**	33	**15**	33
91 to 120 days	**12**	12	**13**	12
120+ days	**350**	435	**304**	288
	412	548	**373**	408

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 21.

Included in the allowance for doubtful debts, for Telkom SA are individually impaired receivables with a balance of R201 million (2013: R214 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the future cash flows. The Group does not hold any collateral over these balances.

15.3 *Liquidity risk management*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is exposed to liquidity risk as a result of uncertain cash flows as well as capital commitments of the Group.

Liquidity risk is managed by the Group's treasury department in accordance with policies and guidelines formulated by the Group's Executive Committees. In terms of its borrowing requirements the Group ensures that sufficient facilities exist to meet its immediate obligations. Short-term liquidity gaps may be funded through undrawn facilities and commercial paper bills.

There were no material changes in the exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2014 financial year.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

15.3 *Liquidity risk management* (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted contractual cash flow at the reporting date.

Group 2014	Note	Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	> 5 years Rm
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	29	**3 358**	**4 228**	**236**	**1 367**	**15**	**2 610**
Credit facilities utilised	23	**1**	**1**	**1**	**–**	**–**	**–**
Trade and other payables	32	**5 119**	**5 437**	**5 437**	**–**	**–**	**–**
Finance lease liabilities	29	**738**	**1 029**	**180**	**193**	**656**	
Shareholders for dividend	37	**21**	**21**	**21**	**–**	**–**	**–**
Derivative financial liabilities							
Firm commitment	22	**37**	**37**	**37**	**–**	**–**	**–**
Forward exchange contracts	22	**61**	**61**	**61**	**–**	**–**	**–**
		9 335	**10 814**	**5 973**	**1 560**	**671**	**2 610**
2013							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	29	5 887	6 859	2 707	206	1 354	2 562
Credit facilities utilised	23	3	3	3	–	–	–
Trade and other payables	32	4 659	4 935	4 935	–	–	–
Finance lease liabilities	29	770	1 154	157	172	620	205
Shareholders for dividend	37	22	22	22	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	51	54	43	8	3	–
Forward exchange contracts	22	15	15	15	–	–	–
		11 407	13 042	7 882	386	1 977	2 767

The table below summarises the maturity profile of the Company's financial liabilities based on undiscounted contractual cash flow at the reporting date.

Company 2014	Note	Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	> 5 years Rm
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	29	**3 358**	**4 228**	**236**	**1 367**	**15**	**2 610**
Credit facilities utilised	23	**1**	**1**	**1**	**–**	**–**	**–**
Trade and other payables	32	**5 828**	**6 146**	**6 146**	**–**	**–**	**–**
Finance lease liabilities	29	**736**	**1 027**	**178**	**193**	**656**	**–**
Shareholders for dividend	37	**21**	**21**	**21**	**–**	**–**	**–**
Derivative financial liabilities							
Firm commitment	22	**37**	**37**	**37**	**–**	**–**	**–**
Forward exchange contracts	22	**61**	**61**	**61**	**–**	**–**	**–**
		10 042	**11 521**	**6 680**	**1 560**	**671**	**2 610**
2013							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	29	5 885	6 857	2 707	206	1 354	2 590
Credit facilities utilised	23	3	3	3	–	–	–
Trade and other payables	32	5 167	5 441	5 441	–	–	–
Finance lease liabilities	29	766	1 150	155	170	620	205
Shareholders for dividend	37	22	22	22	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	54	57	43	8	6	–
Forward exchange contracts	22	15	15	15	–	–	–
		11 912	13 545	8 386	384	1 980	2 795

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

15.4 *Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposure. Market risks comprise three types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk.

Changes in the market prices have an impact on the values of the underlying derivatives and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant.

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt as well as incremental funding or new borrowings and refinancing of existing borrowings.

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the Group makes use of interest rate swaps. Fixed rate debt represents approximately 98% (2013: 83,3%) of the total debt. The debt profile of mainly fixed rate debt has been maintained to limit the Group's exposure to interest rate increases.

The guideline is to target a fixed/floating debt ratio of 65% fixed, but adjusted to market conditions. In a scenario of low interest rates, a higher ratio may be established.

The table below summarises the interest rate swaps outstanding as at the reporting date:

	Group		Company	
	Average maturity	Notional amount Rm	Average maturity	Notional amount Rm
2014				
Interest rate swaps outstanding				
Pay fixed and receive floating	**2,5 years**	**500**	**2,5 years**	**500**
2013				
Interest rate swaps outstanding				
Pay fixed and receive floating	0-4 years	1 750	0-4 years	1 750

Pay fixed and receive floating

The floating rate is based on the three-month JIBAR, and is settled in arrears. The interest rate swaps are used to manage interest rate risk on debt instruments.

Foreign currency exchange rate risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in exchange rates. The Group manages its foreign currency exchange rate risk by economically hedging all identifiable exposures via various financial instruments suitable to the Group's risk exposure. The Group implemented fair value hedge accounting during the current year.

The Group enters into forward exchange contracts and cross-currency swaps to hedge foreign currency exposure on the Group's operations and liabilities. These forward exchange contracts are treated as fair value hedges.

The following table details the forward exchange contracts and cross-currency swaps outstanding at the reporting date:

	Group		Company	
Purchased	Foreign contract value Mil	Contract value Rm	Foreign contract value Mil	Contract value Rm
2014				
Currency				
USD	**251**	**2 546**	**247**	**2 542**
Euro	**23**	**343**	**23**	**343**
Other	**–**	**8**	**–**	**8**
		2 897		**2 893**
Cross-currency swaps				
USD	32	226	32	226
2013				
Currency				
USD	280	2 504	280	2 504
Euro	25	298	25	298
Other	5	73	5	73
		2 875		2 875
Cross-currency swaps				
USD	46	322	46	322

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)
15.4 *Market risk* (continued)

Sell	Group Foreign contract value Mil	Group Contract value Rm	Company Foreign contract value Mil	Company Contract value Rm
2014				
Currency				
USD	**115**	**1 208**	**115**	**1 208**
Euro	**1**	**13**	**1**	**13**
Other	**–**	**3**	**–**	**3**
		1 224		**1 224**
2013				
Currency				
USD	21	186	21	186
Euro	12	142	12	142
Other	3	37	3	37
		365		365

The Group has various monetary assets and liabilities in currencies other than the Group's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group according to the different foreign currencies.

	Group Euro Rm	Group United States Dollar Rm	Group Other Rm	Company Euro Rm	Company United States Dollar Rm	Company Other Rm
2014						
Net foreign currency monetary assets/(liabilities)						
Functional currency of Company operation						
South African Rand	**(55)**	**(152)**	**(3)**	**(55)**	**(152)**	**(3)**
2013						
Net foreign currency monetary assets/(liabilities)						
Functional currency of Company operation						
South African Rand	(110)	(410)	(14)	(110)	(410)	(14)

Sensitivity analysis

Interest rate and foreign currency risk

An interest rate sensitivity analysis is based on an increase or decrease of 1% (100 basis points) in market interest rates and the prevailing information as at the reporting date.

The analysis assumes that all other variables remain constant. The analysis and changes in interest rates is performed on the same basis as was used in prior years.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's and Company's profit for the year ended 31 March 2014 would decrease by R15 million and increase by R15 million (2013: decrease by R34 million and increase by R34 million).

The following table illustrates the sensitivity to a 100 basis points change in the interest rates on profit before tax:

Classes of financial instruments per statement of financial position	Group movement +1% Profit Rm	Group movement -1% Profit Rm	Company movement +1% Profit Rm	Company movement -1% Profit Rm
2014				
Assets				
Other financial assets	**6**	**(6)**	**6**	**(6)**
Cross-currency swaps	**1**	**(1)**	**1**	**(1)**
Forward exchange contract	**5**	**(5)**	**5**	**(5)**
Liabilities				
Other financial liabilities	**9**	**(9)**	**9**	**(9)**
Interest rate swaps	**9**	**(9)**	**9**	**(9)**
	15	**(15)**	**15**	**(15)**

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

15.4 *Market risk* (continued)

Sensitivity analysis (continued)

Interest rate and foreign currency risk (continued)

Classes of financial instruments per statement of financial position	Group movement +1% Profit Rm	Group movement -1% Profit Rm	Company movement +1% Profit Rm	Company movement -1% Profit Rm
2013				
Assets				
Other financial assets	11	(11)	11	(11)
Cross-currency swaps	2	(2)	2	(2)
Forward exchange contract	9	(9)	9	(9)
Liabilities				
Other financial liabilities	23	(23)	23	(23)
Interest rate swaps	23	(23)	23	(23)
	34	(34)	34	(34)

Foreign exchange currency risk

The foreign currency sensitivity analysis is based on a 10% strengthening or weakening of the Rand against all currencies, from the rates applicable and prevailing information as at the reporting date.

If foreign exchange rates had been 10% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2014 would increase/decrease by R47 million (2013: increase/decrease by R233 million) and Company increase/decrease by R47 million (2013: increase/decrease by R233 million).

The following table illustrates the sensitivity to a reasonably possible change in the exchange rates before tax, with all other variables held constant.

Classes of financial instruments per statement of financial position	Group +10% movement (Depreciation) Rm	Group -10% movement (Appreciation) Rm	Company +10% movement (Depreciation) Rm	Company -10% movement (Appreciation) Rm
2014				
Assets				
Other financial assets	**207**	**(207)**	**207**	**(207)**
Forward exchange contract	**172**	**(172)**	**172**	**(172)**
Cross-currency swaps	**35**	**(35)**	**35**	**(35)**
Cash and cash equivalents				
Liabilities				
Other financial liabilities	**(103)**	**103**	**(103)**	**103**
Firm commitment	**(103)**	**103**	**(103)**	**103**
Interest bearing debt	**(57)**	**57**	**(57)**	**57**
	47	**(47)**	**47**	**(47)**
2013				
Assets				
Other financial assets	302	(302)	302	(302)
Forward exchange contract	258	(258)	258	(258)
Cross-currency swaps	44	(44)	44	(44)
Cash and cash equivalents	1	(1)	1	(1)
Liabilities	(70)	70	(70)	70
Interest-bearing debt	(70)	70	(70)	70
	233	(233)	233	(233)

15.5 *Equity price risk*

The Group's listed and unlisted investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. Changes in the fair value of equity securities held by the Group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market. The Group is not exposed to commodity price risk. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the total amount for local equity investments was R3 648 million (2013: R3 285 million). A 5% increase in the local and foreign equity portfolios at the reporting date would have increased profit or loss by R118 million (2013: R110 million) before tax. An equal and opposite change would have decreased profit or loss. A 5% fluctuation represents management's assessment of the reasonably possible changes in equity prices.

There will be no other impact on equity as the equity securities are classified as at fair value through profit or loss. The analysis assumes that all other variables remain constant and is performed on the same basis as the prior year.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

15.6 *Capital management*

The Group's policy is to manage the capital structure to ensure that it maximises shareholders return, growth and ability to meet it's obligations. Capital comprises equity and net debt which it monitors using, inter alia, a net debt to EBITDA ratio. The Group's guidance is to keep the ratio below 1.4 times.

Net debt is defined as interest-bearing debts, credit facilities utilised and other financial liabilities, less cash and cash equivalents and other financial assets. EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation.

The Group's dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The Group may revise its dividend policy from time to time. The determination to pay dividends, and the amount of dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, net debt levels and growth opportunities.

The net debt to EBITDA ratio at reporting date was as follows:

	Group		Company	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm
Non-current portion of interest-bearing debt	**3 775**	3 899	**3 775**	3 895
Current portion of interest-bearing debt	**321**	2 758	**319**	2 756
Credit facilities utilised	**1**	3	**1**	3
Non-current portion of other financial liabilities	**–**	12	**–**	12
Current portion of other financial liabilities	**98**	54	**98**	57
Less: Cash and cash equivalents	**(1 842)**	(2 387)	**(1 747)**	(2 258)
Less: Other financial assets	**(261)**	(2 217)	**(261)**	(2 207)
Net debt	**2 092**	2 122	**2 185**	2 258
EBITDA	**10 539**	7 036	**9 966**	6 441
Net debt to EBITDA ratio	**0,20**	0,30	**0,22**	0,35

16. INVESTMENTS

	Company	
	2014 Rm	2013 Rm
16.1 *Investments in subsidiaries*	**202**	237
Trudon (formerly known as TDS Directory Operations) Proprietary Limited		
64,90% shareholding at cost	**167**	167
Swiftnet Proprietary Limited		
100% shareholding at cost	**25**	25
Rossal No 65 Proprietary Limited		
100% shareholding at cost (R100)	**–**	–
Acajou Investments Proprietary Limited		
100% shareholding at cost (R100)	**–**	–
Intekom Proprietary Limited		
100% shareholding at cost	**10**	10
Q-Trunk Proprietary Limited	**–**	–
100% shareholding at cost	**10**	10
Impairment	**(10)**	(10)
iWayAfrica	**–**	35
100% shareholding at cost	**–**	150
Loan	**–**	305
Impairment of loan	**–**	(270)
Impairment of investment	**–**	(150)
Telkom International Proprietary Limited	**–**	–
100% shareholding at cost (R100)	**–**	–
Loan	**–**	2 481
Impairment of loan	**–**	(2 481)

16. INVESTMENTS (continued)

16.1 *Investments in subsidiaries* (continued)

Investments and loans key assumptions

Loans and investments are tested for impairment losses whenever there are impairment indicators, by comparing the recoverable amounts of the cash-generating units (CGU) with the carrying amounts of the investments and loans. At 31 March 2014 there were no impairment indicators.

For continuing operations the recoverable amount of a CGU is determined based on value-in-use calculations. Value in use is based on the discounted cash flow method.

The key assumptions used for value-in-use calculations are as follows for 2013:

Gross margin %	27 to 30
Growth rate %	2,0
Discount rate %	13,87

Gross margin

The budgeted gross margin is based on past experience and management's future expectations of business performance.

Growth rates

The growth rates are determined based on the forward looking Consumer Price Index, and reflect management's assessment of the long-term growth prospects of the sector in which the CGU operates.

Discount rates

The discount rates used are post-tax and reflect specific risks relating to the relevant cash-generating units.

Sensitivity to changes in assumptions

Management believes that no reasonably possible changes in the assumptions would cause the carrying amount of the continuing cash-generating unit to exceed their recoverable amount in the short term.

Disposal of Pan African business, iWayAfrica and Africa Online Mauritius

On 20 December 2013, Telkom sold the Pan African business, iWayAfrica and Africa Online Mauritius, through a private sale to Gondwana International Networks.

iWayAfrica was formed as the result of the amalgamation of MWEB Africa and Africa Online in 2007 when MWEB Africa was purchased by Telkom. The iWayAfrica business operates in eight countries on the continent offering terrestrial wireless and VSAT services to business and residential markets, as well as via its channel partners in many other countries on the continent.

Telkom's investment in iWayAfrica was already fully impaired during the 2012 financial year. Gondwana has taken over the assets and liabilities (including amounts owed by Telkom) for a nominal consideration. Refer to note 10.

	Group		Company	
	2014 Rm	Restated 2013 Rm	2014 Rm	Restated 2013 Rm
16.2 *Other investments*	**2 759**	2 499	**2 755**	2 496
At fair value through profit and loss	**2 755**	2 496	**2 755**	2 496
Cell Captive preference shares	**2 755**	2 496	**2 755**	2 496
Available-for-sale				
Unlisted investment				
Rascom				
0,69% interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast, at cost.	**–**	–	**–**	–
Cost	**–**	–	**1**	1
Impairment	**–**	–	**(1)**	(1)
Investment in associate	**4**	3	**–**	–
Equity investment in Number Portability Company	**4**	3	**–**	–

Cell Captive investment in preference shares

The fair value through profit or loss investment is used to fund the post-retirement medical aid liability. These investments are made through a Cell Captive in which Telkom holds 100% of the preference shares, and represent the fair value of the underlying investments of the Cell Captive. These are equity investments. Refer to note 2.

Investment in associate

The Number Portability Company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. The NPC was previously classified as a joint venture jointly controlled by Vodacom, MTN and Cell C. The investment has been classified as an associate in line with the requirements of the revised IAS 28 Investments in Associates and Joint Ventures and IFRS 11 Joint Arrangements. The year end of the associate is different to that of the Company and the impact is not material.

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm

17. DEFERRED EXPENSES AND DEFERRED REVENUE

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Deferred expense	**35**	50	**35**	50
Non-current deferred expenses	**35**	50	**35**	50
Telkom Pension Fund asset (note 31)	**35**	50	**35**	50
Deferred revenue	**2 300**	2 692	**2 297**	2 651
Non-current deferred revenue	**869**	952	**869**	952
Current portion of deferred revenue	**1 431**	1 740	**1 428**	1 699

Included in deferred revenue is profit on the sale and leaseback of certain Telkom buildings of R53 million (2013: R64 million) and short-term portion of R11 million (2013: R11 million). A profit of R11 million per annum is recognised in income on a straight-line basis, over the period of the lease ending 2019.

18. FINANCE LEASE RECEIVABLES

The Group provides voice and non-voice services through the use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to those arrangements which were assessed to be finance leases in terms of IAS 17.

Group	Total Rm	< 1 year Rm	1 to 5 years Rm	> 5 years Rm
2014				
Minimum lease payments receivable				
Lease payments receivable	**373**	**144**	**229**	**–**
Unearned finance income	**(53)**	**(26)**	**(27)**	**–**
Present value of minimum lease income	**320**	**118**	**202**	**–**
Lease receivables	**320**	**118**	**202**	**–**
2013				
Minimum lease payments receivable				
Lease payments receivable	409	161	248	–
Unearned finance income	(59)	(30)	(29)	–
Present value of minimum lease income	350	131	219	–
Lease receivables	350	131	219	–
Company				
2014				
Minimum lease payments receivable				
Lease payments receivable	**373**	**144**	**229**	**–**
Unearned finance income	**(53)**	**(26)**	**(27)**	**–**
Present value of minimum lease income	**320**	**118**	**202**	**–**
Lease receivables	**320**	**118**	**202**	**–**
2013				
Minimum lease payments receivable				
Lease payments receivable	409	161	248	–
Unearned finance income	(59)	(30)	(29)	–
Present value of minimum lease income	350	131	219	–
Lease receivables	350	131	219	–

19. DEFERRED TAXATION

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
	(3)	23	**–**	–
Opening balance	**23**	(686)	**–**	(720)
Profit and loss movements*	**131**	653	**157**	665
Capital allowances	**16**	301	**17**	308
Provisions and other allowances	**143**	358	**137**	364
Underprovision prior year	**(23)**	(6)	**3**	(7)
Tax losses	**(5)**	–	**–**	–
Other adjustment	**–**	7	**–**	6
Other comprehensive income tax impact (refer note 7)	**(157)**	49	**(157)**	49
The balance comprises:	**(3)**	23	**–**	–
Capital allowances	**2**	(3 035)	**20**	(3 015)
Provisions and other allowances	**152**	2 880	**137**	2 844
OCI	**(157)**	171	**(157)**	171
Tax losses	**–**	7	**–**	–
Deferred taxation balance is made up as follows:	**(3)**	23	**–**	–
Deferred taxation assets	**13**	40	**–**	–
Deferred taxation liabilities	**(16)**	(17)	**–**	–

Deferred tax assets are recognised for deductible temporary differences to the extent of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of R1 880 million (2013: R3 200 million) in respect of temporary differences amounting to R6 714 million (2013: R11 300 million) that can be carried forward against future taxable income.

** Profit and loss movements for 2013 in note 9 were restated for the impact on the disposal of the iWayAfrica Group.*

20. INVENTORIES

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
20. INVENTORIES	**646**	760	**539**	620
Gross inventories	**757**	1,067	**650**	924
Write-down of inventories to net realisable value	**(111)**	(307)	**(111)**	(304)
Inventories consist of the following categories:	**646**	760	**539**	620
Installation material, maintenance material and network equipment	**274**	333	**274**	321
Merchandise	**372**	427	**265**	299
Write-down of inventories to net realisable value	**111**	307	**111**	304
Opening balance	**307**	266	**304**	265
Charged to selling, general and administrative expenses	**63**	133	**63**	131
Reversal of write down due to the disposal of iWayAfrica Group	**(3)**	–	**–**	–
Inventories written off	**(256)**	(92)	**(256)**	(92)

March 2013 has been restated due to the adoption of the amendment IAS 16. Maintenance spares were subsequently reclassified to property, plant and equipment. Refer to note 2.

Decrease in inventory is mainly due to a decrease in network equipment and minor materials partly offset by an increase in installation and maintenance, minor materials and general stock provisions. This is offset by an increase in merchandise, redeployment material and CPE work in progress.

The write-down of inventory is mainly due to the provision for technology obsolescence and slow moving stock.

21. TRADE AND OTHER RECEIVABLES

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company 2013 Rm
21. TRADE AND OTHER RECEIVABLES	**5 565**	5 797	**4 929**	5 059
Trade receivables	**4 281**	4 530	**3 673**	3 853
Gross trade receivables	**4 693**	5 078	**4 046**	4 261
Impairment of receivables	**(412)**	(548)	**(373)**	(408)
Prepayments and other receivables	**1 284**	1 267	**1 256**	1 206
Allowance account for credit losses	**412**	548	**373**	408
Opening balance	**548**	583	**408**	473
Charged to selling, general and administrative expenses	**350**	582	**319**	496
Reversal of allowance due to the disposal of iWayAfrica Group	**(91)**	–	**–**	–
Receivables written off	**(395)**	(617)	**(354)**	(561)

The repayment terms of trade receivables vary between 21 days and 30 days from date of invoice. Interest charged varies between prime + 1% and 18%, depending on the contract terms.

Refer to note 15.2 for detailed credit risk analysis.

22. OTHER FINANCIAL ASSETS AND LIABILITIES

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Non-current other financial assets consist of:	**74**	83	**74**	83
Total other financial assets	**261**	2 217	**261**	2 207
– Repurchase agreements	**–**	1 980	**–**	1 970
– Derivative instruments	**261**	237	**261**	237
Forward exchange contracts	**139**	132	**139**	132
Firm commitments	**4**	–	**4**	–
Cross-currency swaps	**118**	105	**118**	105
***Less:* Current portion of other financial assets**	**187**	2 134	**187**	2 124
– Repurchase agreements	**–**	1 980	**–**	1 970
– Derivative instruments	**187**	154	**187**	154
Forward exchange contracts	**139**	132	**139**	132
Firm commitments	**4**	–	**4**	–
Cross-currency swaps	**44**	22	**44**	22

Repurchase agreements

The Group manages a portfolio of repurchase agreements, with a view to generate additional investment income on the favourable interest rates and security provided on these instruments. They are short-term, usually seven days and are held to maturity.

Derivative instruments

Financial assets consists of forward exchange contracts of R139 million (2013: R132 million), firm commitments of R4 million (2013: Rnil) and cross-currency swaps of R118 million (2013: R105 million).

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Non-current other financial liabilities consist of:	**–**	(12)	**–**	(12)
At fair value through profit or loss				
Total other financial liabilities	**(98)**	(66)	**(98)**	(69)
– Derivative instruments	**(98)**	(66)	**(98)**	(69)
Forward exchange contracts	**(61)**	(15)	**(61)**	(15)
Firm commitments	**(37)**	–	**(37)**	–
Interest rate swaps	**–**	(51)	**–**	(54)
***Less:* Current portion of other financial liabilities**	**(98)**	(54)	**(98)**	(57)
– Derivative instruments	**(98)**	(54)	**(98)**	(57)
Forward exchange contracts	**(61)**	(15)	**(61)**	(15)
Firm commitments	**(37)**	–	**(37)**	–
Interest rate swaps	**–**	(39)	**–**	(42)

Financial liabilities includes interest rate swaps of Rnil (2013: R51 million) for the Group and Rnil (2013: R54 million) for the Company, firm commitments of R37 million (2013: Rnil) for the Group and Company and forward exchange contracts of R61 million (2013: R15 million) for Group and Company.

Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses forward exchange contracts, interest rate swaps and cross-currency swaps to economically and fair value hedge its transaction exposures. The cross-currency and interest rate swaps are not designated as fair value hedges whereas forward exchange contracts are used for economic and fair value hedging.

Derivative instruments are measured at fair value through profit or loss.

Fair value hedge

The Company implemented hedge accounting during the year in an attempt to mitigate earnings volatility and better reflect the underlying economics of hedges.

The foreign exchange forward contracts designated as fair value hedges and are being used to hedge the exposure to changes attributable to movement in the spot exchange rate of its firm commitments.

An increase in fair value of the forward exchange contracts designated as fair value hedges of R90 million (2013: Rnil) has been recognised in finance charges and fair value movements and offset with a similar gain or loss on the hedged items (property, plant and equipment and inventory). The ineffectiveness recognised in the 2014 financial year was immaterial.

	Group		Company	
	2014 Rm	Restated 2013 Rm	2014 Rm	2013 Rm

23. NET CASH AND CASH EQUIVALENTS

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company 2013 Rm
Cash disclosed as current assets	**1 842**	2 384	**1 747**	2 258
Cash and bank balances	**193**	231	**153**	137
Short-term deposits	**1 649**	2 153	**1 594**	2 121
Credit facilities utilised	**(1)**	(3)	**(1)**	(3)
Net cash and cash equivalents	**1 841**	2 381	**1 746**	2 255
Undrawn borrowing facilities	**5 950**	6 450	**5 950**	6 450

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2014, R4 billion (2013: R4 billion) of these undrawn facilities were committed. There is no restriction on cash.

Short-term deposits

Short-term deposits are made mostly for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Borrowing powers

To borrow money, Telkom's directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose the borrowing powers of Telkom are unlimited and subject to the provisions of any applicable law. The borrowing powers are also subject to the restrictive financial covenants as well as specific restrictive clauses in the current funding arrangements. Refer to note 10 for the effect of the disposal of the iWayAfrica Group.

24. SHARE CAPITAL

Authorised and issued share capital is made up as follows:

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Authorised				
1 000 000 000 ordinary shares of R10 each	**10 000**	10 000	**10 000**	10 000
Issued and fully paid				
520 783 900 (2013: 520 783 900) ordinary shares of R10 each	**5 208**	5 208	**5 208**	5 208

The following table illustrates the movement within the number of shares issued:

	Group 2014 Number of shares	Group 2013 Number of shares	Company 2014 Number of shares	Company 2013 Number of shares
Shares in issue at beginning of year	**520 783 900**	520 783 900	**520 783 900**	520 783 900
Shares in issue at end of year	**520 783 900**	520 783 900	**520 783 900**	520 783 900

The unissued shares are under the control of the directors until the next annual general meeting. The directors have been given the authority by the shareholders to buy back Telkom's own shares up to a limit of 10% of the current issued share capital.

Capital management

Refer to note 15.6 for detailed capital management disclosure.

25. TREASURY SHARES

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Treasury shares	**(771)**	(771)	**(775)**	(775)

The reserve represents amounts paid by Telkom to Rossal No 65 Proprietary Limited and Acajou Investments Proprietary Limited, subsidiaries for the acquisition of Telkom's shares to be utilised in terms of the Telkom Share Plan.

At 31 March 2014, 2 046 528 (2013: 2 046 528) and 8 143 556 (2013: 8 143 556) ordinary shares in Telkom, with a fair value of R69 million (2013: R31 million) and R274 million (2013: R122 million) are held as treasury shares by its subsidiaries Rossal No 65 Proprietary Limited and Acajou Investments Proprietary Limited, respectively (refer to note 12). An amount of 7 101 388 shares will vest from these allocations and will be allocated to employees as part of the new share plan.

Although the treasury shares are held by a separate subsidiary, the value is shown as a separate reserve at Company level.

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
26. SHARE-BASED COMPENSATION RESERVE				
Telkom's shareholders approved the Telkom Share Plan at the September 2013 annual general meeting. The scheme covers both operational and management employees and is aimed at giving shares to Telkom employees, at a Rnil exercise price, at the end of the vesting period. Although the number of shares awarded to employees as communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met. On appointment, certain directors may be granted awards under the scheme. (Refer to note 31).				
The fund has been created but the related compensation expense will be recognised over the vesting period of shares granted, commencing on the grant date.				
The movement within the share-based compensation reserve is:				
Net increase in equity	**11**	–	**11**	–
Employee cost	**11**	–	**11**	–
Balance at end of year	**11**	–	**11**	–
27. NON-DISTRIBUTABLE RESERVES	**2 580**	2 164	**1 859**	1 569
Opening balance	**2 164**	1 887	**1 569**	1 289
Movement during the year	**416**	277	**290**	280
Foreign currency translation reserve (net of tax of Rnil; 2013: Rnil)	**4**	(3)	**–**	–
Recycling of foreign currency translation reserve in profit and loss	**122**	–	**–**	–
Gains of the Cell Captive reserve	**(53)**	(40)	**(53)**	(40)
Revaluation of the Cell Captive reserve	**343**	320	**343**	320
The balance comprises:	**2 580**	2 164	**1 859**	1 569
Foreign currency translation reserve	**–**	(126)	**–**	–
Cell Captive reserve	**2 580**	2 290	**1 859**	1 569

The Group has a Cell Captive preference share investment to fund Telkom's post-retirement medical aid liability.

The fair value gains from the Cell Captive are recognised in profit or loss and then transferred to non-distributable reserves. Refer to note 2.

As the Group has disposed of its last foreign subsidiary all of the foreign currency translation reserve has been recycled.

	Group 2014 Rm	Group 2013 Rm
28. NON-CONTROLLING INTEREST	**377**	379
Balance at beginning of year	**379**	434
Share of earnings	**121**	123
Acquisition of non-controlling interest	**–**	(2)
Dividend declared	**(123)**	(176)

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
29. INTEREST-BEARING DEBT				
Non-current interest-bearing debt	**3 775**	3 899	**3 775**	3 895
Total interest-bearing debt (refer to note 15)	**4 096**	6 657	**4 094**	6 651
Gross interest-bearing debt	**4 228**	6 855	**4 228**	6 853
Discount on debt instruments issued	**(870)**	(968)	**(870)**	(968)
Finance leases	**738**	770	**736**	766
***Less:* Current portion of interest-bearing debt**	**(321)**	(2 758)	**(319)**	(2 756)
Local debt	**–**	(2 494)	**–**	(2 494)
Call borrowings	**–**	(1 998)	**–**	(1 998)
Commercial paper bills	**–**	(496)	**–**	(496)
Foreign debt	**(236)**	(207)	**(236)**	(207)
Finance leases	**(85)**	(57)	**(83)**	(55)
Total interest-bearing debt is made up as follows:	**4 096**	6 657	**4 094**	6 651
(a) Local debt	**2 815**	5 224	**2 815**	5 224
Locally registered Telkom debt instruments	**2 815**	5 224	**2 815**	5 224
Name, maturity, rate p.a., nominal value				
TL15, 2015, 11,9%, R1 160 million (2013: R1 160 million)	**1 160**	1 160	**1 160**	1 160
TL20, 2020, 6%, R2 500 million (2013: R2 500 million)	**1 655**	1 570	**1 655**	1 570
Other local loans, 2013, 6,3%, Rnil (2013: R500 million)	**–**	496	**–**	496
Syndicated loans, 2013, 7,11%, Rnil (2013: R2 000 million)	**–**	1 998	**–**	1 998
Total Group interest-bearing debt is made up of R4 096 million debt at amortised cost (2013: R6 657 million debt at amortised cost). Finance costs accrued on debt are included in trade and other payables (refer to note 32).				
The local Telkom bonds are unsecured, but a Side letter to the Subscription Agreement (as amended) of the TL20 bond contains a number of restrictive covenants, which, if not met, could result in the early redemption of the loan at the option of the specific bondholder. The local bonds limit Telkom's ability to create encumbrances on revenue or assets, and secure any indebtedness without securing the outstanding bonds equally and rateably with such indebtedness.				
The Side letter's conditions and restrictive covenants fell away subsequently, with effect from 11 April 2014.				
(b) Foreign debt	**543**	663	**543**	661
Maturity, rate p.a., nominal value				
Euro: 2022 – 2025, 0,14% (2013: 0,14%), €7,6 million (2013: €7,6 million)	**111**	90	**111**	90
USD: 2011 – 2016, 2,1318% (2013: 2,449%), USD43 million (2013: USD66 million)	**432**	571	**432**	571
Other debt				
Kalahari Holdings				
iWayAfrica Group had a loan with its non-controlling shareholder, Kalahari Holdings. This loan bore interest at 0% with no repayment terms. This has been disposed of as part of the iWayAfrica Group sale.	**–**	2	**–**	–
(c) Finance leases	**738**	770	**736**	766
The finance leases are secured by buildings with a carrying value of R73 million (2013: R89 million) (refer to note 13). These amounts are repayable within a period of five years. Interest rates are approximately 13,43%. Refer to note 38.				
Included in non-current and current debt is:				
Debt guaranteed by the South African Government	**111**	90	**111**	90

The Company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act, No 85 of 1991. The borrowing powers of the Company are set out as per note 23.

Repayments/refinancing of current portion of interest-bearing debt

The Company repaid the syndicated loan of R2 billion during the reporting period from available cash.

The repayment of the current portion of interest-bearing debt of R321 million (nominal) for Group and R319 million (nominal) for Company as at 31 March 2014 is expected to be repaid from available cash, operational cash flow and/or the issue of new debt instruments.

Management believes that sufficient funding facilities will be available at the date of repayment.

30. PROVISIONS

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
Non-current employee-related	**1 388**	5 152	**1 373**	5 133
Annual leave	**533**	510	**527**	501
Balance at beginning of year	**510**	521	**501**	512
Charged to employee expenses	**78**	1	**78**	–
Reversal of provision due to the disposal of the iWayAfrica Group	**(3)**	–	**–**	–
Leave paid/utilised	**(52)**	(12)	**(52)**	(11)
Post-retirement medical aid (refer to note 31)	**1 374**	5 328	**1 353**	5 305
Balance at beginning of year	**5 328**	4 909	**5 305**	4 886
Interest cost	**468**	622	**468**	621
Current service cost	**62**	110	**62**	110
Interest on plan asset	**(197)**	(190)	**(197)**	(190)
Actuarial (gain)/loss	**(1 026)**	306	**(1 026)**	306
Curtailment gain	**(2 403)**	(273)	**(2 403)**	(273)
Transfer from sinking fund to annuity policy	**(85)**	(71)	**(85)**	(71)
Settlement loss	**234**	(3)	**234**	(3)
Contributions paid*	**(1 007)**	(82)	**(1 005)**	(81)
Telephone rebates (refer to note 31)	**375**	422	**375**	422
Balance at beginning of year	**422**	521	**422**	521
Interest cost	**31**	44	**31**	44
Current service cost	**4**	6	**4**	6
Curtailment loss	**(1)**	6	**(1)**	6
Actuarial gain	**(56)**	(130)	**(56)**	(130)
Benefits paid	**(25)**	(25)	**(25)**	(25)
Bonus	**703**	787	**692**	772
Balance at beginning of year	**787**	586	**772**	577
Charged to employee expenses	**754**	775	**747**	769
Payments made	**(838)**	(574)	**(827)**	(574)
Voluntary Severance Packages	**–**	710	**–**	710
***Less*: Current portion of employee related provisions**	**(1 597)**	(2 605)	**(1 574)**	(2 577)
Annual leave	**(533)**	(510)	**(527)**	(501)
Post-retirement medical aid	**(329)**	(563)	**(323)**	(559)
Telephone rebates	**(32)**	(35)	**(32)**	(35)
Bonus	**(703)**	(787)	**(692)**	(772)
Voluntary severance Packages	**–**	(710)	**–**	(710)
Non-current non-employee related	**108**	238	**95**	228
Other	**839**	1 024	**826**	1 014
***Less*: Current portion of other provisions**	**(731)**	(786)	**(731)**	(786)
Other	**(731)**	(786)	**(731)**	(786)

* *Includes an amount of R878 million paid in terms of the settlement of the active members' liability.*

Annual leave

In terms of the Telkom's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 days (2013: 22 days) which must be taken within an 18-month (2013: 18-month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

The bonus scheme consists of performance bonuses which are dependent on the achievement of certain financial and non-financial targets. The bonus is payable annually to all qualifying employees after the Company's results have been made public.

Other

Non-employee related provisions decreased due to the partial payment of the fine imposed by the Competition Commission.

Other provisions contain provisions for certain legal matters that have been disclosed in the contingencies note (refer to note 39).

31. EMPLOYEE BENEFITS

The Group provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership to one of the funds is compulsory. In addition, certain retired employees receive medical aid benefits and a telephone rebate. The liabilities for all of the benefits are actuarially determined in accordance with accounting requirements each year. In addition, statutory funding valuations for the retirement and pension funds are performed at intervals not exceeding three years.

Actuarial valuations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented.

The Telkom Pension Fund

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act, No 85 of 1991. The Telkom Pension Fund consists only of active members.

The latest actuarial valuation performed at 31 March 2014 indicates that the pension fund is in a surplus position of R180 million (2013: R100 million). The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19R Employee Benefits. The Telkom Pension Fund is closed to new members. The pension plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

The funded status of the Telkom Pension Fund is disclosed below.

	Group		Company	
	2014 Rm	Restated 2013 Rm	2014 Rm	Restated 2013 Rm
The Telkom Pension Fund				
The net periodic pension costs include the following components:				
Interest cost on projected benefit obligations	**20**	22	**20**	22
Curtailment gain	**(1)**	–	**(1)**	–
Service cost on projected benefit obligations	**6**	5	**6**	5
Interest on plan assets	**(24)**	(26)	**(24)**	(26)
Net periodic pension gain recognised in profit and loss	**1**	1	**1**	1
The net periodic other comprehensive income include the following components:				
Actuarial gain from financial assumption changes	**(82)**	(42)	**(82)**	(42)
Asset ceiling in terms of IAS 19.64	**96**	38	**96**	38
Net periodic pension expense recognised in other comprehensive income	**14**	(4)	**14**	(4)
Cumulative actuarial gain	**84**	2	**84**	2
Pension fund contributions	**(2)**	(2)	**(2)**	(2)
The status of the pension plan obligation is as follows:				
At beginning of year	**262**	242	**262**	242
Interest cost	**20**	22	**20**	22
Current service cost	**6**	5	**6**	5
Employee contributions	**2**	2	**2**	2
Benefits paid	**(34)**	(13)	**(34)**	(13)
Curtailment gain	**(18)**	(4)	**(18)**	(4)
Actuarial (gain)/loss	**(44)**	8	**(44)**	8
Benefit obligation at end of year	**194**	262	**194**	262
Plan assets at fair value:				
At beginning of year	**362**	301	**362**	301
Interest on plan assets	**24**	26	**24**	26
Benefits paid	**(34)**	(13)	**(34)**	(13)
Contributions	**1**	2	**1**	2
Curtailment loss	**(17)**	(4)	**(17)**	(4)
Actuarial gain	**38**	50	**38**	50
Plan assets at end of year	**374**	362	**374**	362
Present value of funded obligation	**194**	262	**194**	262
Fair value of plan assets	**(374)**	(362)	**(374)**	(362)
Fund surplus	**(180)**	(100)	**(180)**	(100)
Asset ceiling in terms of IAS 19.64	**145**	50	**145**	50
Recognised net asset (refer to note 17)	**(35)**	(50)	**(35)**	(50)
Interest on plan assets	**24**	26	**24**	26
Actuarial gain on plan assets	**38**	50	**38**	50
Actual return on plan assets	**62**	76	**62**	76

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
31. EMPLOYEE BENEFITS (continued)				
The Telkom Pension Fund (continued)				
Plan assets comprise:				
Cash and cash equivalents	**67**	27	**67**	27
Equity securities	**238**	213	**238**	213
Bonds	**35**	34	**35**	34
Foreign investments	**34**	88	**34**	88
Plan asset mix	**374**	362	**374**	362
Sensitivity analysis				
Increasing discount rate by 0,5%	**(7)**	(9)	**(7)**	(9)
Decreasing discount rate by 0,5%	**6**	10	**6**	10
Funding arrangements				
The Telkom Pension Fund investment strategy has been implemented through the appointment of two asset managers with global balanced mandates. Within these mandates the manager is responsible for and has sole discretion of determining the asset allocation, ie the mix of the various asset classes used, based on their investment views. In addition a small additional allocation to a specialist manager in the Africa Equity and SA Cash asset classes was added to further diversify the portfolio and to provide return enhancement. The Telkom Pension Fund's total asset allocation is thus derived by combining the two balanced asset managers' portfolios with the Africa and additional cash allocation.				
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	**16,3**	16,2	**16,3**	16,2
Females over 65	**20,4**	20,3	**20,4**	20,3
Discount rate (%)	**9,2**	7,6	**9,2**	7,6
Interest on plan assets (%)	**9,2**	7,6	**9,2**	7,6
Salary inflation rate (%)	**7,7**	7,1	**7,7**	7,1
Pension increase allowance (%)	**6,2**	5,6	**6,2**	5,6
The overall long-term expected interest on assets is 9,2%. This is based on the new IAS 19R net interest requirement				
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Funding level per statutory actuarial valuation (%)	**100**	100	**100**	100
The number of employees registered under the Telkom Pension Fund	**71**	95	**71**	95
The fund portfolio consists of the following:				
Equities (%)	**64**	59	**64**	59
Bonds (%)	**9**	9	**9**	9
Cash (%)	**18**	7	**18**	7
Foreign investments (%)	**9**	25	**9**	25

The total expected contributions payable to the pension fund for the year ending 31 March 2015 are R1,5 million.

The Telkom Retirement Fund

The Telkom Retirement Fund was established on 1 July 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer the government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments will belong to the Telkom Retirement Fund but will not be able to retire from the Telkom Retirement Fund at retirement age. These members would be required to purchase their pensions from an insurance company.

The Telkom Retirement Fund is a defined contribution plan with regards to in-service members. On retirement, an employee is transferred from the defined contribution plan to a defined benefit plan. Telkom, as a guarantor, is contingently liable for any deficit in the Telkom Retirement Fund. Moreover, all of the assets in the fund, including any potential excess belong to the participants of the scheme. Telkom is unable to benefit from the excess in the form of future reduced contributions. The pensioner pool of the Telkom Retirement Fund only consists of pensioners and is funded through a liability driven investment strategy (LDI). Pensioner increases are subject to affordability targeting between 70% and 100% of CPI.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund.

The Telkom Retirement Fund is governed by the Pension Funds Act, No 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced. If therefore the present value of the funded obligation were to exceed the fair value of plan assets, Telkom would be required to fund the statutory deficit.

31. EMPLOYEE BENEFITS (continued)

The Telkom Retirement Fund (continued)

The funded status of the Telkom Retirement Fund is disclosed below:

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
The Telkom Retirement Fund				
The net periodic retirement costs include the following components:				
Interest cost on projected benefit obligations	855	772	855	772
Interest on plan assets	(855)	(772)	(855)	(772)
Net periodic pension expense recognised in profit and loss	–	–	–	–
The net periodic other comprehensive income includes the following components:				
Actuarial gain due to financial assumptions	1 128	–	1 128	–
Acturial loss due to demographic assumptions	(14)	–	(14)	–
Asset ceiling in terms of IAS 19.64	(1 011)	–	(1 011)	–
Net periodic pension expense recognised in other comprehensive income	103	–	103	–
Cumulative actuarial loss	(666)	(1 780)	(666)	(1 780)
Retirement fund contributions	601	606	601	606
Benefit obligation:				
At beginning of year	10 704	9 015	10 704	9 015
Interest cost	855	772	855	772
Benefits paid	(799)	(740)	(799)	(740)
Liability for new pensioners	168	195	168	195
Curtailment loss*	772	–	772	–
Actuarial (gain)/loss	(749)	1 462	(749)	1 462
Benefit obligation at end of year for the defined benefit paln	10 951	10 704	10 951	10 704
Plan assets at fair value:				
At beginning of year	10 704	9 015	10 704	9 015
Interest on plan assets	855	772	855	772
Benefits paid	(799)	(740)	(799)	(740)
Asset backing new pensioners' liabilities	168	195	168	195
Curtailment gain*	669	–	669	–
Actuarial gain	365	1 462	365	1 462
Plan assets at end of year	11 962	10 704	11 962	10 704
Present value of funded obligation	10 951	10 704	10 951	10 704
Asset celing in terms of IAS 19.64	1 011	–	1 011	–
Fair value of plan assets	(11 962)	(10 704)	(11 962)	(10 704)
Unrecognised net asset	–	–	–	–
Interest on plan assets	855	772	855	772
Actuarial gain on plan assets	365	1 462	365	1 462
Actual return on plan assets	1 220	2 234	1 220	2 234
Plan assets comprise:				
Equity securities	6 579	3 960	6 579	3 960
Bonds	5 383	6 744	5 383	6 744
Plan asset mix	11 962	10 704	11 962	10 704

** Impact of the VSP/VERP process related to 31 March 2013.*

31. EMPLOYEE BENEFITS (continued)

The Telkom Retirement Fund (continued)

Funding arrangements

The Telkom Retirement Fund Pensioner portfolio's strategic asset allocation (SAA) is determined by an Asset Liability Model (ALM) based on the fund's unique liabilities, as determined by its member data and fund rules. The SAA is a reflection of the Fund's targeted post-retirement interest rate (PRI), and the investment strategy is built around the target of providing consistent annual pension increases of between 75% to 100% of CPI.

	Group		Company	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm
Included in the fair value of plan assets is:				
Office buildings occupied by Telkom	**953**	831	**953**	831
Telkom shares	**10**	27	**10**	27
The Telkom Retirement Fund invests its funds in South Africa and internationally. Twelve fund managers invest in South Africa and five of these managers specialise in trades with bonds on behalf of the retirement fund.				
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	**16,3**	16,2	**16,3**	16,2
Females over 65	**20,4**	20,3	**20,4**	20,3
Discount rate (%)	**9,2**	7,6	**9,2**	7,6
Interest on plan assets (%)	**9,2**	7,6	**9,2**	7,6
Pension increase allowance (%)	**6,2**	5,6	**6,2**	5,6
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) Ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Funding level per statutory actuarial valuation (%)	**100**	100	**100**	100
The number of pensioners registered under the Telkom Retirement Fund	**12 744**	13 136	**12 744**	13 136
The number of in-service employees registered under the Telkom Retirement Fund	**19 127**	21 257	**19 127**	21 257
The fund portfolio consists of the following:				
Equities (%)	**55**	37	**55**	37
Bonds (%)	**45**	63	**45**	63

The expected contributions payable to the Retirement Fund for the year ending 31 March 2015 are R364 million.

Medical benefits

Telkom makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in note 6.3. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in note 30. Telkom has terminated future post-retirement medical benefits in respect of employees joining after 1 July 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ('Pre-94'); those who retired after 1994 ('Post-94'); and the in-service members. The Post-94 and the in-service members' liability is subject to a Rand cap, which increases as per Board's approval.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent actuarial valuation of the benefit was performed as at 31 March 2014.

Telkom has allocated certain investments to fund this liability as set out in note 16.2. The annuity policy of the Cell Captive investment is the medical plan asset.

31. EMPLOYEE BENEFITS (continued)

Medical benefits (continued)

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
Medical aid				
Benefit obligation:				
At beginning of year	**7 821**	7 142	**7 798**	7 119
Interest cost	**468**	622	**468**	621
Service cost	**62**	110	**62**	110
Actuarial (gain)/loss	**(863)**	507	**(863)**	507
Curtailment gain	**(2 403)**	(273)	**(2 403)**	(273)
Settlement loss*	**234**	(3)	**234**	(3)
Benefits paid from plan assets	**(210)**	(202)	**(210)**	(202)
Contributions paid by Telkom*	**(1 007)**	(82)	**(1 005)**	(81)
Benefit obligation at end of year	**4 102**	7 821	**4 081**	7 798
Plan assets at fair value:				
At beginning of year	**2 493**	2 233	**2 493**	2 233
Interest on plan assets	**197**	190	**197**	190
Benefits paid from plan assets	**(210)**	(202)	**(210)**	(202)
Transfer from sinking fund to annuity policy	**85**	71	**85**	71
Actuarial gain	**163**	201	**163**	201
Plan assets at end of year	**2 728**	2 493	**2 728**	2 493
Present value of funded obligation	**4 102**	7 821	**4 081**	7 798
Fair value of plan assets	**(2 728)**	(2 493)	**(2 728)**	(2 493)
Liability as disclosed in the statement of financial position (refer to note 30)	**1 374**	5 328	**1 353**	5 305
The net periodic other comprehensive income includes the following components:				
Acturial gain/(loss) due to financial assumptions	**246**	(306)	**246**	(306)
Actuarial gain due to demographic assumptions	**780**	–	**780**	–
Net periodic pension expense and income recognised in other comprehensive income	**1 026**	(306)	**1 026**	(306)

Refer to note 30.

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company Restated 2013 Rm
Cumulative actuarial loss	**(1 500)**	(2 526)	**(1 500)**	(2 526)
Plan assets at fair value:				
Interest on plan assets	**197**	190	**197**	190
Actuarial gain on plan assets	**163**	201	**163**	201
Actual return on plan assets	**360**	391	**360**	391
Plan assets comprise:				
Cash and cash equivalents	**246**	249	**246**	249
Equity securities	**1 336**	1 321	**1 336**	1 321
Bonds	**382**	225	**382**	225
Foreign investments	**764**	698	**764**	698
Plan asset mix	**2 728**	2 493	**2 728**	2 493

All equity securities and government bonds have quoted prices in active markets.

Funding arrangements

The general funding arrangements from the plan assets is to maximise long-term capital growth and long-term total return on Telkom's portfolio. The portfolios are managed as a segregated portfolio, which includes international investments. The investment objective is to provide an absolute return, measured over a 36-month period, in excess of CPI-X plus 5% per annum. The funding arrangements of the plan assets is driven by designated asset managers to manage Telkom's portfolios by applying a flexible approach, which includes holding equities, property fixed income or money market assets as part of the investment strategy, in variable weightings, at any point in time.

31. EMPLOYEE BENEFITS (continued)

Medical benefits (continued)

Risks associated with its defined benefit plan

The fund is an absolute return fund that consists of equities, bonds, cash and international investments with normal market risk exposure. The fund is managed by reputable asset managers.

	Group		Company	
	Years	Years	Years	Years
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	**16,3**	16,2	**16,3**	16,2
Females over 65	**20,4**	20,3	**20,4**	20,3
Discount rate (%)	**9,2**	8,9	**9,2**	8,9
Interest on plan assets (%)	**9,2**	8,9	**9,2**	8,9
Salary inflation rate (%)	**7,7**	7,4	**7,7**	7,4
Medical inflation rate (%)	**8,2**	7,9	**8,2**	7,9
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Contractual retirement age	**65**	65	**65**	65
Average retirement age	**60**	60	**60**	60
Number of in service members	**1 830**	9 492	**1 830**	9 492
Number of pensioners	**8 640**	8 761	**8 640**	8 761

Group and company

The valuation results are sensitive to changes in the underlying assumptions. The following table provides an indication of the impact of changing the significant assumptions above:

The Trudon (Pty) Limited benefit obligation of R20 million has been excluded from the sensitivity analysis below.

2014	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	**8,2%**	**-1%**	**+1%**
Benefit obligation	**4 081**	**(347)**	**411**
Percentage change		**(8,5%)**	**10,1%**
Service cost and interest cost 2014/2015	**530**	**(32)**	**38**
Percentage change		**(6,0%)**	**7,2%**
Discount rate	**9,2%**	**-1%**	**+1%**
Benefit obligation	**4 081**	**457**	**(380)**
Percentage change		**11,2%**	**(9,3%)**
Service cost and interest cost 2014/2015	**530**	**(+1)**	**(1)**
Percentage change		**0%**	**0%**
Post-retirement mortality rate	**PA(90) Ultimate-1**	**-10%**	**+10%**
Benefit obligation	**4 081**	**14**	**(14)**
Percentage change		**0,3%**	**(0,3%)**
Service cost and interest cost 2014/2015	**530**	**–**	**–**
Percentage change		**0%**	**0%**

31. EMPLOYEE BENEFITS (continued)

Medical benefits (continued)

2013	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	7,9%	-1%	+1%
Benefit obligation	7 798	(1 108)	1 406
Percentage change		(14,2%)	18,0%
Service cost and interest cost 2013/2014	731	(110)	143
Percentage change		(15,0%)	19,6%
Discount rate	8,9%	-1%	+1%
Benefit obligation	7 798	1 456	(1 126)
Percentage change		18,7%	(14,4%)
Service cost and interest cost 2013/2014	731	55	(46)
Percentage change		7,5%	(6,3%)
Post-retirement mortality rate	PA(90) Ultimate-1	-10%	+10%
Benefit obligation	7 798	44	(43)
Percentage change		0,6%	(0,6%)
Service cost and interest cost 2013/2014	731	6	(5)
Percentage change		0,8%	(0,7%)

	Group		Company	
	2014	2013	**2014**	2013
The fund portfolio consists of the following:				
Equities (%)	**49**	53	**49**	53
Bonds (%)	**14**	9	**14**	9
Cash and money market investments (%)	**9**	10	**9**	10
Foreign investments (%)	**28**	28	**28**	28

Telephone rebates

Telkom provides telephone rebates to its pensioners who joined prior to 1 August 2009. The most recent actuarial valuation was performed as at 31 March 2014. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

	Group		Company	
	2014	2013	**2014**	2013
The status of the telephone rebate liability is disclosed below:				
Benefit obligation:	**422**	521	**422**	521
Current service cost	**4**	6	**4**	6
Interest cost	**31**	44	**31**	44
Actuarial gain	**(56)**	(130)	**(56)**	(130)
Curtailment loss	**(1)**	6	**(1)**	6
Benefits paid	**(25)**	(25)	**(25)**	(25)
Liability as disclosed in the statement of financial position (refer to note 30)	**375**	422	**375**	422
The net periodic other comprehensive income includes the following components:				
Acturial gain due to demographic assumptions	**6**	–	**6**	–
Actuarial gain/(loss) due to financial assumptions	**50**	130	**50**	130
Net periodic pension income recognised in other comprehensive income	**56**	130	**56**	130
Cumulative actuarial gain	**131**	75	**131**	75
Sensitivity analysis				
Increase in discount rate by 0,5%	**(16)**	(21)	**(16)**	(21)
Decrease in discount rate by 0,5%	**18**	23	**18**	23
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	**16,3**	16,2	**16,3**	16,2
Females over 65	**20,4**	20,3	**20,4**	20,3
Discount rate (%)	**9,2**	7,6	**9,2**	7,6
Contractual retirement age	**65**	65	**65**	65
Average retirement age	**60**	60	**60**	60

	Group 2014	Group 2013	Company 2014	Company 2013
31. EMPLOYEE BENEFITS (continued)				
Telephone rebates (continued)				
The assumed rates of mortality are determined by reference to the standard published mortality table PA(90) Ultimate standard tables, as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year to value the pensioners.				
Number of members	**12 498**	14 447	**12 498**	14 447
Number of pensioners	**10 746**	10 090	**10 746**	10 090
Telkom Share Plan				
Telkom's shareholders approved the Telkom Share Plan at the September 2013 Annual General Meeting. The scheme covers both operational and management employees and is aimed at giving shares to Telkom employees, at a Rnil exercise price, at the end of the vesting period. Although the number of shares awarded to employees was communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met. On appointment, certain directors may be granted awards under the scheme.				
The weighted average remaining vesting period for the shares outstanding as at 31 March 2014 is 2,8 years (2013: Nil years).				
The following table illustrates the movement of the maximum number of shares that were granted to employees for the 2014 grant:				
Outstanding at beginning of the year	**–**	–	**–**	–
Granted during the year	**7 101 388**	–	**7 101 388**	–
Outstanding at end of the year	**7 101 388**	–	**7 101 388**	–
The fair value of the shares granted have been calculated by an actuary using the Black-Scholes-Merton model and the following values at grant date:				
	November 19, 2013 Grant		**November 19, 2013 Grant**	
Market share price (R)	**27,30**	–	**27,30**	–
Dividend yield (%)	**–**	–	**–**	–
Share price volatility	**35% p.a**	–	**35% p.a**	–
Future risk free interest rate	**8,5% p.a**	–	**8,5% p.a**	–
The principal assumptions used in calculating the expected number of shares that will vest are as follows:				
Employee turnover (%)	**3**	–	**3**	–
Meeting specified performance criteria (%)	**100**	–	**100**	–
The two key performance indicators are free cash flow targets and net promoter score targets.				

	Group 2014 Rm	Group Restated 2013 Rm	Company 2014 Rm	Company 2013 Rm
32. TRADE AND OTHER PAYABLES	**5 119**	4 659	**5 828**	5 167
Trade payables	**2 632**	2 805	**2 680**	2 750
Finance cost accrued	**74**	86	**74**	86
Accruals and other payables	**2 413**	1 768	**3 074**	2 331

The increase in accruals and other payables are mainly related to the SARS refund of R854 million. Refer to note 39.

Accruals and other payables mainly represent amounts payable for goods received, net of value added tax obligations and licence fees.

Telkom's standard payment terms of trade payables is at the end of the following month following the date of the invoice. This averages to 45 days. Telkom does not allow for interest on late payments, and none has been paid in the 2013 and 2014 financial year.

	Group		Company	
	2014 Rm	Restated 2013 Rm	2014 Rm	Restated 2013 Rm
33. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO CASH GENERATED FROM OPERATIONS				
Cash generated from operations	**6 312**	8 482	**5 811**	7 833
Profit/(loss) for the year	**3 943**	(11 636)	**3 870**	(11 612)
Finance charges and fair value movements	**292**	236	**292**	222
Taxation	**494**	453	**320**	294
Investment income	**(176)**	(279)	**(387)**	(581)
Interest received from trade receivables and subsidiaries	**(160)**	(199)	**(191)**	(213)
Non-cash items	**1 429**	20 705	**1 360**	20 573
Depreciation, amortisation, impairment and write-offs	**5 937**	18 317	**5 872**	18 255
Debtors impairment	**340**	573	**310**	496
Cost of equipment disposed when recognising finance leases	**16**	8	**16**	8
Telkom retirement fund curtailment	**103**	–	**103**	–
Post-retirement medical aid curtailment and settlement	**(2 169)**	–	**(2 169)**	–
Increase in provisions	**(2 712)**	1 969	**(2 696)**	1 962
Profit on disposal of property, plant and equipment and intangible assets	**(66)**	(58)	**(66)**	(28)
Cell Captive transfer*	**350**	320	**344**	320
Loss on disposal of subsidiary	**23**	–	**–**	–
Deferred revenue	**(393)**	(424)	**(354)**	(440)
Increase in working capital	**490**	(798)	**547**	(850)
Inventories	**114**	(173)	**82**	(147)
Accounts receivable	**111**	(830)	**(6)**	(670)
Accounts payable	**265**	205	**471**	(33)
**Transfer from sinking fund to annuity.*				
34. DIVIDEND RECEIVED	**–**	–	**230**	325
Dividend received from subsidiaries	**–**	–	**230**	325
35. FINANCE CHARGES PAID	**(585)**	(666)	**(584)**	(625)
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	**(293)**	(235)	**(292)**	(222)
Non-cash items	**(292)**	(431)	**(292)**	(403)
Movements in interest accruals	**135**	(54)	**135**	(54)
Net discount amortised	**92**	118	**92**	118
Borrowing costs capitalised (refer to note 8)	**(89)**	(80)	**(89)**	(80)
Capitalised finance leases	**124**	108	**124**	108
Hedging costs	**(305)**	–	**(305)**	–
Fair value adjustment	**(363)**	(600)	**(363)**	(632)
Cash effects of foreign exchange rates	**(1)**	2	**(1)**	2
Unrealised foreign exchange loss	**115**	75	**115**	135
36. TAXATION PAID	**(449)**	(687)	**(302)**	(550)
Net tax payable at beginning of year	**(485)**	(61)	**(494)**	(85)
Current taxation	**(625)**	(1 111)	**(477)**	(959)
Uncertain tax provisions	**(113)**	–	**(113)**	–
Net tax payable at end of year	**774**	485	**782**	494
37. DIVIDEND PAID	**(124)**	(177)	**(1)**	(1)
Dividend payable at beginning of year	**(22)**	(23)	**(22)**	(23)
Dividends paid to non-controlling interests	**(123)**	(176)	**–**	–
Dividend payable at end of year	**21**	22	**21**	22

38. COMMITMENTS

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Capital commitments authorised	**5 055**	7 542	**5 000**	7 500
Commitments against authorised capital expenditure	**1 132**	2 855	**1 132**	2 854
Authorised capital expenditure not yet contracted	**3 923**	4 687	**3 868**	4 646

Capital commitments are largely attributable to purchases of property, plant and equipment and software.
Management expects these commitments to be financed from internally generated cash and borrowings.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Group				
Operating lease commitments and receivables				
2014				
Land and buildings	**1 910**	**380**	**1 430**	**100**
Rental receivable on buildings	**(727)**	**(269)**	**(451)**	**(7)**
Customer premises equipment receivables	**(46)**	**(28)**	**(18)**	**–**
Vehicles	**496**	**496**	**–**	**–**
Swap bodies	**12**	**12**	**–**	**–**
Total	**1 645**	**591**	**961**	**93**
2013				
Land and buildings	1 321	340	772	209
Rental receivable on buildings	(522)	(226)	(288)	(8)
Customer premises equipment receivables	(40)	(22)	(18)	–
Total	759	92	466	201
Company				
Operating lease commitments and receivables				
2014				
Land and buildings	**1 785**	**355**	**1 330**	**100**
Rental receivable on buildings	**(727)**	**(269)**	**(451)**	**(7)**
Customer premises equipment receivables	**(46)**	**(28)**	**(18)**	**–**
Vehicles	**496**	**496**	**–**	**–**
Swap bodies	**12**	**12**	**–**	**–**
Total	**1 520**	**566**	**861**	**93**
2013				
Land and buildings	1 164	309	670	185
Rental receivable on buildings	(522)	(226)	(288)	(8)
Customer premises equipment receivables	(40)	(22)	(18)	–
Total	602	61	364	177

Operating leases

The Group leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises are 10 years with other leases signed for five and three years. The majority of the leases contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 6% to 15%.

Penalties in terms of the lease agreements are only payable should Telkom vacate a premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note. Onerous leases for buildings, of which the Company has no further use, no possibility of sub-lease and no option to cancel are provided for in full and included in other provisions.

Telkom is in negotiations with various suppliers to renew the commitments.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
38. COMMITMENTS (continued)				
Group Finance lease commitments				
2014				
Building				
Minimum lease payments	**997**	**172**	**825**	**–**
Finance charges	**(284)**	**(91)**	**(193)**	**–**
Finance lease obligation	**713**	**81**	**632**	**–**
Software				
Minimum lease payments	**33**	**8**	**25**	**–**
Finance charges	**(8)**	**(3)**	**(5)**	**–**
Finance lease obligation	**25**	**5**	**20**	**–**
2013				
Building				
Minimum lease payments	1 153	157	792	204
Finance charges	(383)	(100)	(271)	(12)
Finance lease obligation	770	57	521	192
Company Finance lease commitments				
2014				
Building				
Minimum lease payments	**995**	**170**	**825**	**–**
Finance charges	**(284)**	**(91)**	**(193)**	**–**
Finance lease obligation	**711**	**79**	**632**	**–**
Software				
Minimum lease payments	**33**	**8**	**25**	**–**
Finance charges	**(8)**	**(3)**	**(5)**	**–**
Finance lease obligation	**25**	**5**	**20**	**–**
2013				
Building				
Minimum lease payments	1 149	155	790	204
Finance charges	(383)	(100)	(271)	(12)
Finance lease obligation	766	55	519	192

Finance leases

Finance leases on software relates to the lease of Content Delivery Platform software. The lease term for the software is for a period of five years.

A major portion of the finance leases relates to the sale and lease-back of the Group's office buildings. The lease term negotiated for the buildings is for a period of 25 years ending 2019. The minimum lease payments are subject to an annual escalation of 10% p.a. Telkom has the right to sublet part of the buildings. In case of breach of contract, the lessor is entitled to cancel the lease agreement and claim damages.

Telkom has the option to renew the lease and the first option to purchase the buildings. Telkom expects to pay R0,99 billion on these buildings over the next five years. Refer to note 18 for lease payments.

Telkom has a commitment to migrate customers to new cable systems with regard to long-term capacity leases on cables when the existing cables are decommissioned before the lease period expires. Refer to note 18 for lease payments.

There are no major restrictions imposed by lease arrangements.

39. CONTINGENCIES

Contingent liabilities

Competition matters

Competition Commission Multiple Complaints Referral

In 2009 the Competition Commission (CC) referred complaints against Telkom by MWEB and IS as well as the internet Service Providers' Association, MWEB, IS and Verizon respectively, to the CT (the Multiple Complaints Referral). Telkom and the CC signed a settlement agreement on 14 June 2013, in settlement of the Multiple Complaints Referral. In terms of this settlement agreement, Telkom admitted that its conduct during the complaint period amounted to a contravention of sections 8(c) (margin squeeze) and 8(d)(iii) (bundling and tying) of the Competition Act. In terms of the settlement agreement, Telkom has agreed to pay an administrative penalty of R200 million, payable in three equal instalments, payable in 2013, 2014 and 2015. Telkom furthermore committed to certain price reductions in the 2014, 2015 and 2016 financial years as well as to certain behavioural remedies.

Matters before ICASA

Phutuma Networks (Pty) Limited (Phutuma)

Phutuma filed a complaint against Telkom at ICASA's Complaints and Compliance Committee (the 'CCC') in February 2010. The matter was ultimately heard during May 2014. At this hearing, it was Telkom's understanding that Phutuma withdrew its complaint against Telkom at the CCC, and that the CCC intimated that it would recommend to ICASA that certain regulatory issues be addressed by ICASA.

End-User and Service Charter Regulations

Allegations have been made at the CCC regarding Telkom's alleged non-compliance with the requirements of the End-User and Service Charter Regulations relating to the clearance of reported faults. A hearing has taken place and, the CCC has ruled that Telkom is not in breach of the regulations and recommend that ICASA review the regulations which, as they stand, are not capable of implementation. Telkom, however has already initiated administrative review proceedings seeking to set-aside the applicability of the Regulations since the CCC ruling is not binding on ICASA and the risk remains for similar referrals. The review application has not been finalised as yet.

Telkom/ICASA, Neotel and CCC

Neotel requested Telkom to provide access to Telkom's local loop in November 2010 in terms of the Electronic Communications Facilities Leasing Regulations of 2010. Telkom declined the request and Neotel submitted a formal complaint to ICASA. ICASA referred the complaint to the CCC, which made an order (the CCC Order), directing Telkom to provide Neotel access to Telkom's local loop. Telkom launched an interim relief application (for an order that the CCC Order not be implemented pending the review application) and a review application in the High Court to review and set aside the CCC Order. The parties have since agreed to a court order by consent in terms of which Telkom withdrew its application for interim relief and ICASA in turn undertook not to implement the CCC Order pending the outcome of Telkom's application for review. No date has been set down as yet for the hearing of the review application.

Supplier dispute

Radio Surveillance Security Services (Pty) Ltd (RSSS)

RSSS served two summonses on Telkom for the sums of R215 661 866 (including VAT) and R9 913 782 (including VAT) respectively but Telkom has settled the lesser amount. Telkom is defending the larger claim and has filed a plea and counterclaim for R22 million. Pleadings have closed and preparation for trial is under way.

High Court

Phutuma Networks (Pty) Limited (Phutuma)

In August 2009 Phutuma served a summons on Telkom, claiming for damages arising from a tender published by Telkom in November 2007 for the outsourcing of the Telex and Gentex services and for the provision of a solution to support the maritime industry requirements. Phutuma has claimed damages of R3 730 433 545 , alternatively R5 513 876 290, and further alternatively R1 771 683 580, plus interest at 15,5% per annum to date of payment from April 2008, alternatively from 30 April 2009 being the date of a notice in terms of Act, No 40 of 2002, further alternatively from date of service of this summons plus legal costs. At the hearing of the matter of the court granted absolution from the instance plus costs. Phutuma has filed a notice of appeal against the judgement but has not yet set down its application for leave to appeal.

African Pre-paid Services Nigeria Limited (APSN) v Multi-Links: Arbitration matter

Multi-Links Telecommunications (MLT), a previously wholly owned subsidiary of Telkom in Nigeria, concluded a Super Dealer Agreement (SDA) with African Prepaid Services (APS). APS ceded and assigned all of its rights and obligations in terms of the SDA to African Pre-paid Services Nigeria (APSN). APSN cancelled the SDA on the basis of an alleged repudiation by MLT of the agreement and APSN launched arbitration proceedings in South Africa against MLT claiming damages (nine claims) in the total sum of USD481 199 101. MLT defended the matter and filed a counterclaim in the amount of USD123 million. Telkom sold its shareholding in MLT to HIP Oils Topco Limited (HIP Oils). In terms of an indemnity contained in the Sale and Purchase Agreement between Telkom and HIP Oils, Telkom is liable for all amounts in excess of USD10 million in respect of the claim between APSN and MLT. APSN has since reduced its claim to USD457 million. MLT has obtained a High Court order to stay the arbitration hearing pending the outcome of the damages action instituted by Telkom and MLT against Blue Label Telecoms, APSN and others.

39. CONTINGENCIES (continued)

Contingent liabilities (continued)

Other

HIP Oils Topco Limited (HIP Oils)

With the sale of Telkom's shares in Multi-Links to HIP Oils, Telkom provided a taxation indemnity and a creditors indemnity to HIP Oils and Multi-Links where such liability or obligation was incurred prior to 3 October 2011 and to the extent that such liability exceeded the amounts set out in Schedule 4 (the creditors list) to the Sale and Purchase Agreement. Telkom has undertaken to indemnify any actual or contingent liabilities, obligations or other indebtedness of any nature owed or owing to trade, financial and other creditors of Multi-Links where such liability, obligation or other indebtedness was incurred and not disclosed to HIP Oils prior to the completion date. Multi-Links and HIP Oils ceded the balance of the proceeds of their claim which was instituted against Blue Label Telecoms and others by Multi-Links, to Telkom, in terms of an out and out a cession, which balance will be determined after consideration of all amounts due by Telkom to Multi-Links and vice versa.

Tax matters

Telkom received an assessment from SARS in respect of the 2010 year of assessment to which Telkom has objected.

The Group is regularly subject to an evaluation, by tax authorities, of its direct and indirect tax filings. The consequence of such reviews is that disputes can arise with tax authorities over the interpretation or application of certain tax rules applicable to the Group's business. These disputes may not necessarily be resolved in a manner that is favourable to the Group. Additionally, the resolution of the disputes could result in an obligation to the Group.

Contingent assets

High Court

Former Senior Executive of Telkom

In April 2013 Telkom issued a summons against a former senior executive of Telkom, claiming an amount of USD6 million, for damages suffered as a result of certain irregularities. The matter arises from the former executive's conduct whilst at Multi-Links. The matter is being defended and is set down for hearing on 2 September 2014.

Blue Label Telecoms Limited and 5 Others

In May 2013 Telkom (and Multi-Links Telecommunications, Nigeria) issued a summons against Blue Label Telecoms Limited, certain subsidiaries of Blue Label and certain individuals, including a former senior executive of Telkom, claiming an amount of USD528 071 116. The claim is for damages suffered by Telkom arising out of a Super Dealer Agreement (SDA) concluded between African Pre-paid Services (Pty) Limited (a subsidiary of Blue Label) and Multi-Links as well as for a breach of fiduciary duties owed to Telkom and Multi-Links. In October 2013, HIP Oils (the holding company of Multi-Links) and Multi-Links ceded the balance of proceeds of its claim against Blue Label and others to Telkom by way of a cession, which balance will be determined after consideration of monies due by Telkom and itself under the Share Sale Agreement concluded between Telkom and HIP Oils. In November 2013 APSN filed its plea and a counterclaim for damages against Telkom for USD451 million or so much of it as APSN does not recover from Multi-Links arising from Telkom's alleged unlawful interference in the contractual relationship between APSN and Multi-Links causing Multi-Links to repudiate the SDA. APSN also filed a counterclaim against Multi-Links for USD457 million. Both Telkom and Multi-Links have opposed the counterclaim.

Multi-Links (MLT)

Telkom is claiming an amount of USD20,9 million from MLT in respect of amounts due by MLT to Telkom with regards to the provision of resources, legal costs and an interest free loan. In October 2013, MLT signed an out and out cession of its claim against Blue Label and five other defendants in favour of Telkom, which made provision for the payment of monies due by MLT to Telkom and vice versa from the proceeds of any monies recovered in the Blue Label action, by way of an accounting and deduction process.

Tax matters

As noted in the 2013 consolidated annual financial statements, the 2012 tax return was submitted and has since then been provisionally assessed. In 2014 a similar transaction arose, however the 2014 tax return has not been submitted. Since the tax treatment of the loss arising in 2012 and 2014 is based on a specific set of circumstances and a complex legislative environment, the contingent asset will only be recognised once the matter has been resolved with SARS. The outcome of the SARS process, will determine the recognition of the tax refund of R854 million in relation to 2012, currently included in trade and other payables.

40. DIRECTORS' INTEREST AND PRESCRIBED OFFICERS

Group and Company

		Beneficial		Non-beneficial	
Number of shares	**Notes**	**Direct**	**Indirect**	**Direct**	**Indirect**
Directors' shareholding					
2014					
Executive					
SN Maseko	1	**52 520**	**–**	**–**	**–**
JH Schindehütte		**298 700**	**–**	**–**	**–**
		351 220	**–**	**–**	**–**
Non-executive					
JA Mabuza		**26 000**	**–**	**–**	**–**
F Petersen		**–**	**–**	**–**	**400**
I Kgaboesele		**12 000**	**–**	**–**	**–**
K Mzondeki		**267**	**–**	**–**	**–**
Dr CA Fynn		**160**	**–**	**–**	**42**
		38 427	**–**	**–**	**442**
2013					
Executive					
NT Moholi		37 004	–	–	–
		37 004	–	–	–
Non-executive					
J Molobela		267			
K Mzondeki		267	–	–	–
Dr CA Fynn		202	–	–	–
		736	–	–	–

1. Appointed as Telkom Group Chief Executive Officer on 1 April 2013.

	2014 Rm	2013 Rm
Directors' emoluments	**27**	29
Executive		
For services as directors	**18**	20
Non-executive		
For other services	**9**	9

40. DIRECTORS' INTEREST AND PRESCRIBED OFFICERS (continued)

Group and Company	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits* R	Total R
2014					
Emoluments per director:					
Non-executive	**4 170 000**	**4 484 811**	**–**	**–**	**8 654 811**
B du Plessis	**240 000**	**162 500**	**–**	**–**	**402 500**
N Kapila	**270 000**	**449 811**	**–**	**–**	**719 811**
I Kgaboesele	**545 000**	**325 000**	**–**	**–**	**870 000**
J Molobela	**185 000**	**162 500**	**–**	**–**	**347 500**
JA Mabuza	**310 000**	**1 110 000**	**–**	**–**	**1 420 000**
KW Mzondeki	**275 000**	**325 000**	**–**	**–**	**600 000**
LW Maasdorp	**470 000**	**325 000**	**–**	**–**	**795 000**
SL Botha	**360 000**	**325 000**	**–**	**–**	**685 000**
Dr CA Fynn	**355 000**	**325 000**	**–**	**–**	**680 000**
KT Kweyama	**345 000**	**325 000**	**–**	**–**	**670 000**
F Petersen	**375 000**	**325 000**	**–**	**–**	**700 000**
LL von Zeuner	**440 000**	**325 000**	**–**	**–**	**765 000**
Executive	**–**	**12 500 000**	**5 200 000**	**23 944**	**17 723 944**
SN Maseko (CEO)	**–**	**6 500 000**	**5 200 000**	**11 972**	**11 711 972**
JH Schindehütte (CFO)***	**–**	**6 000 000**	**–**	**11 972**	**6 011 972**
Total emoluments – paid by Telkom	**4 170 000**	**16 984 811**	**5 200 000**	**23 944**	**26 378 755**
2013					
Emoluments per director:					
Non-executive	4 266 667	4 534 481	–	–	8 801 148
NP Dongwana	185 000	192 005	–	–	377 005
B du Plessis	455 000	325 000	–	–	780 000
JN Hope	330 000	183 705	–	–	513 705
RJ Huntley	305 000	183 705	–	–	488 705
N Kapila	285 000	449 811	–	–	734 811
PSC Luthuli	330 000	183 705	–	–	513 705
I Kgaboesele**	490 000	325 000	–	–	815 000
NP Mnxasana	245 000	183 705	–	–	428 705
J Molobela	470 000	325 000	–	–	795 000
SP Sibisi	60 000	183 705	–	–	243 705
Y Waja	310 000	183 705	–	–	493 705
PL Zim	156 667	627 422	–	–	784 089
JA Mabuza	145 000	422 290	–	–	567 290
KW Mzondeki	105 000	128 004	–	–	233 004
LW Maasdorp	85 000	128 004	–	–	213 004
SL Botha	50 000	101 943	–	–	151 943
Dr CA Fynn	60 000	101 943	–	–	161 943
KT Kweyama	–	101 943	–	–	101 943
F Petersen	90 000	101 943	–	–	191 943
LL von Zeuner	110 000	101 943	–	–	211 943
Executive	–	11 378 400	4 896 893	3 768 759	20 044 052
NT Moholi (CEO)	–	6 402 150	2 659 133	2 575 420	11 636 703
JH Schindehütte (CFO)	–	4 976 250	2 237 760	1 193 339	8 407 349
Total emoluments – paid by Telkom	4 266 667	15 912 881	4 896 893	3 768 759	28 845 200

** Included in fringe and other benefits is motor car insurance for SN Maseko of R11 972, JH Schindehütte, motor car insurance of R11 972 (2013: R11 964) and a settling in allowance of Rnil (2013: R1 181 375).*
SN Maseko received on allocation of 218 488 shares amounting to IRFS 2 expense recognised of R327 732.
Refer to remuneration report for appointments and resignations.
*** Paid to Sphere Holdings (Pty) Limited.*
**** Refer to note 41 with regard to financial assistance.*

40. DIRECTORS' INTEREST AND PRESCRIBED OFFICERS (continued)

Emoluments per prescribed officer:

Group and Company	Notes	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension –TRF13%*** R
2014						
Emoluments per prescribed officer:						
BC Armstrong		**4 500 000**	**2 500 000**	**10 974**	**7 010 974**	**409 500**
DJ Fredericks		**3 241 050**	**2 119 155**	**1 220 867**	**6 581 072**	**347 346**
TE Msubo		**2 996 632**	**1 800 000**	**211 972**	**5 008 604**	**233 737**
GJ Rasethaba		**2 582 987**	**1 700 000**	**61 972**	**4 344 959**	**194 757**
MB Sallie	1	**3 504 048**	**2 005 724**	**11 972**	**5 521 744**	**296 092**
AN Samuels	2	**509 197**	**291 468**	**1 995**	**802 660**	**46 336**
V Scarcella	3	**550 000**	**150 000**	**3 300 000**	**4 000 000**	**42 900**
LM de Villiers	4	**1 272 993**	**574 215**	**4 988**	**1 852 196**	**162 943**
IM Russell	5	**662 417**	**150 000**	**6 001 995**	**6 814 412**	**51 669**
Total emoluments – paid by Telkom		**19 819 324**	**11 290 562**	**10 826 735**	**41 936 621**	**1 785 280**
2013						
Emoluments per prescribed officer:						
A Vitai		1 833 333	689 700	5 948 333	8 471 366	–
BC Armstrong		3 537 432	1 222 536	958 061	5 718 029	321 906
DJ Fredericks		3 162 000	1 179 300	680 074	5 021 374	338 874
JM Mavuso		2 931 497	905 481	11 964	3 848 942	228 657
TE Msubo		2 996 632	1 079 866	11 964	4 088 462	233 737
MB Sallie	1	3 336 218	1 167 409	11 964	4 515 591	281 910
GJ Rasethaba		2 582 987	900 119	11 964	3 495 070	194 757
MJ Nzeku		660 621	–	13 000 000	13 660 621	57 540
Total emoluments – paid by Telkom		21 040 720	7 144 411	20 634 324	48 819 455	1 657 381

Share allocation per prescribed officer:	Notes	Number of shares	IFRS 2 expense R
2014			
BC Armstrong		**24 958**	**37 437**
DJ Fredericks		**102 134**	**153 201**
TE Msubo		**94 432**	**141 648**
GJ Rasethaba		**–**	**–**
AN Samuels	2	**–**	**–**
V Scarcella	3	**27 179**	**40 769**
LM de Villiers	4	**96 277**	**144 416**
IM Russell	5	**32 734**	**49 101**
Total emoluments – paid by Telkom		**377 714**	**566 572**

The Group has identified Executive committee members as prescribed officers because they exercise general executive control over the business.

** Remuneration has been apportioned based on the period served as prescribed officers. Comparative information has been provided for members identified as prescribed officers.*
*** Fringe and other benefits include motor car insurance, retention agreements, sign on bonuses, flexible allowance, acting allowances, leave gratuity and voluntary severance packages/voluntary early retirement packages benefits.*
**** The pension contribution is a Company contribution.*
1. Resigned 31 March 2014.
2. Appointed to Executive committee 13 February 2014.
3. Appointed to Executive committee 1 February 2014.
4. Appointed to Executive committee 1 November 2013.
5. Appointed to Executive committee 1 February 2014.

41. RELATED PARTIES

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows:				
With shareholders:				
Government of South Africa				
Related party balances				
Trade receivables	**456**	446	**456**	446
Related party transactions				
Revenue	**(3 307)**	(3 017)	**(3 307)**	(3 017)
Individually significant revenue*	**(1 322)**	(1 345)	**(1 322)**	(1 345)
City of Cape Town	**(45)**	(66)	**(45)**	(66)
Department of Correctional Services	**(90)**	(93)	**(90)**	(93)
Department of Health: Gauteng	**(51)**	(50)	**(51)**	(50)
Department of Justice	**(114)**	(118)	**(114)**	(118)
South African National Defence Force	**(72)**	(72)	**(72)**	(72)
South African Police Services	**(597)**	(601)	**(597)**	(601)
South African Revenue Services	**(38)**	(42)	**(38)**	(42)
S.I.T.A. (Pty) Limited	**(206)**	(195)	**(206)**	(195)
South African Post Office	**(52)**	(50)	**(52)**	(50)
Department of Internal Affairs	**(57)**	(58)	**(57)**	(58)
Collectively significant revenue**	**(1 985)**	(1 672)	**(1 985)**	(1 672)

** The nature of the individually and collectively significant revenue consists mostly of data revenue.*
*** Restated.*

At 31 March 2014, the Government of South Africa held 39,8% (2013: 39,8%) of Telkom's shares, and has the ability to exercise significant influence, and the Public Investment Corporation held 13,5% (2013: 11,7%) of Telkom's shares.

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
With associate:				
Number Portability Company				
Dividend received			**2**	–
With subsidiaries:				
Trudon (Pty) Limited				
Related party balances				
Trade receivables			**2**	6
Trade payables			**(300)**	(304)
Related party transactions				
Revenue			**(69)**	(76)
Expenses			**11**	14
Dividend received			**(227)**	(325)
Swiftnet (Pty) Limited				
Related party balances				
Trade receivables			**–**	1
Trade payables			**(2)**	(1)
Related party transactions				
Revenue			**(5)**	(8)
Expenses			**43**	29
Rossal No 65 (Pty) Limited				
Related party balances				
Accruals and other payables			**(285)**	(285)
Acajou Investments (Pty) Limited				
Related party balances				
Accruals and other payables			**(163)**	(163)

	Company	
	2014 Rm	2013 Rm
41. RELATED PARTIES (continued)		
Intekom (Pty) Limited		
Related party balances		
Accruals and other payables	**(82)**	(69)
Related party transactions		
Expenses	**17**	16
Q-Trunk (Pty) Limited		
Related party balances		
Loan to subsidiary	**4**	4
Impairment of loan	**(4)**	(4)
The loan is unsecured, interest free and has no fixed repayment terms. The loan has been subordinated in favour of other creditors.		
Related party transactions		
Expenses	**5**	5
Africa Online Limited (Africa Online)		
Related party balances		
Loan to subsidiary	**–**	297
Impairment of loan	**–**	(262)
Trade receivables	**–**	32
Impairment of trade and other receivables	**–**	(32)
Trade payables	**–**	(1)
Related party transactions		
Revenue	**–**	(2)
Expenses	**1**	5
The loan is unsecured, interest free and has no fixed repayment terms. Disposed of as at 31 December 2013.		
Telkom International (Pty) Limited		
Related party transactions		
Loan to subsidiary	**–**	2 481
Impairment of loan	**–**	(2 481)
The loan has been used to purchase a 75% shareholding in Multi-Links Telecommunications (Pty) Limited. The loan was unsecured and has no fixed repayment terms. Disposed of as at 31 December 2013.		
iWayAfrica (Pty) Limited (formerly MWEB Africa (Pty) Limited)		
Related party balances		
Loan to subsidiary	**–**	98
Impairment of loan	**–**	(98)
Other receivables	**–**	49
Impairment of trade and other receivables	**–**	(49)
The loan is unsecured, interest free and has no fixed repayment terms. Disposed of as at 31 December 2013.		
Related party transactions		
Revenue	**(2)**	(5)
Expenses	**2**	3
Telkom Foundation		
Related party balances		
Sundry provision	**(1)**	(9)
Assets	**4**	–
Related party transactions		
Expenses	**40**	52
Telkom Management Services (Pty) Limited		
Related party balances		
Loan to subsidiary	**–**	45
Impairment of loan	**–**	(45)
The loan is unsecured, interest free and has no fixed repayment terms. Disposed of as at 31 December 2013.		

The sales to and purchases from related parties of telecommunication services are made at normal market prices. Except as indicated above, outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2014, the Company has not made any impairment of amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

	Group		Company	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm

41. RELATED PARTIES (continued)

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
With entities under common control:				
Major public entities				
Related party balances				
Trade receivables	**35**	48	**35**	48
Trade payables	**(1)**	–	**(1)**	–
Related party transactions				
Revenue*	**(253)**	(260)	**(249)**	(259)
Expenses	**250**	237	**250**	237
Individually significant expenses	**236**	223	**236**	223
South African Post Office	**89**	96	**89**	96
Eskom	**136**	127	**136**	127
South African Broadcasting Corporation	**11**	–	**11**	–
Collectively significant expenses	**14**	14	**14**	14
Rent received	**(49)**	(43)	**(49)**	(43)
Individually significant rent received: South African Post Office	**(43)**	(39)	**(43)**	(39)
Collectively significant rent received	**(6)**	(4)	**(6)**	(4)
Rent paid	**29**	26	**29**	26
Individually significant rent paid: South African Post Office	**19**	17	**19**	17
Collectively significant rent paid	**10**	9	**10**	9

*Restated

	Group 2014 Rm	Group 2013 Rm	Company 2014 Rm	Company 2013 Rm
Key management personnel compensation:				
(Including directors and prescribed officers' emoluments)				
Related party transactions				
Short-term employee benefits	**190**	189	**172**	165
Post-employment benefits	**10**	10	**9**	9
Termination benefits	**2**	24	**2**	24
Equity compensation benefits	**6**	–	**2**	–

Transactions with non-executive directors are disclosed in note 40.

Financial assistance to executive director

During the period under review, the shareholders at an annual general meeting approved a share scheme which inter alia provides for financial assistance to top management to purchase Telkom shares. A loan in the amount of approximately R6 million was paid to the CFO to purchase Telkom's shares during the current financial year. However, the granting of the loan was inconsistent with the provisions of the Companies Act, making the transaction null and void. The Board acknowledged that it could not ratify the granting of the loan and was obligated to claim the approximately R6 million back from the CFO. The loan was paid back in full by the CFO to Telkom on 16 January 2014.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.

42. GROUP INTEREST IN SUBSIDIARIES AND ASSOCIATES

Subsidiaries

Set out below is a list of the significant subsidiaries of the Group at 31 March 2014. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interest held equals to the voting rights held by the Group.

Country of incorporation: RSA – Republic of South Africa

	Country of incorporation	Issued share capital 2014	Interest in issued ordinary share capital 2014 %	Ownership interest held by non-controlling interest 2014 %	Issued share capital 2013	Interest in issued ordinary share capital 2013 %	Ownership interest held by non-controlling interest 2013 %
Trudon (Pty) Limited	RSA	**R100 000**	**64,9**	**35,1**	R100 000	64,9	35,1
Rossal No 65 (Pty) Limited	RSA	**R100**	**100**	**–**	R100	100	–
Acajou Investments (Pty) Limited	RSA	**R100**	**100**	**–**	R100	100	–
Telkom Management Services (Pty) Limited	RSA	**–**	**–**	**–**	R100	100	–
Intekom (Pty) Limited	RSA	**R10 001 000**	**100**	**–**	R10 001 000	100	–
Q-Trunk (Pty) Limited	RSA	**R10 001 000**	**100**	**–**	R10 001 000	100	–
Telkom International (Pty) Limited	RSA	**–**	**–**	**–**	R100	100	–
Swiftnet (Pty) Limited	RSA	**R5 000 000**	**100**	**–**	R5 000 000	100	–
iWayAfrica Group	RSA	**–**	**–**	**–**	–	–	–
Number Portability Company	RSA	**R100**	**20**	**–**	R100	20	–

The total non-controlling interest for the period is R377 million (2013: R375 million), which all relates to Trudon and is not considered material to the Group.

Cash and short term deposits of Rnil (2013: R72 million) were held in African subsidiaries and were subject to local exchange control regulations. These local exchange control regulations provided for restrictions on exporting capital from those countries, other than through normal dividends.

The Group's interest in the Number Portability Company is not regarded as individually material. The equity method is used to account for the financial information of the associate. The investment is recorded at cost.

Interest in operating profits from subsidiaries and associates*

2014	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/(loss) Rm
Trudon (Pty) Limited	**1 112**	**515**	**469**	**345**
Rossal No 65 (Pty) Limited	**–**	**–**	**–**	**–**
Acajou Investments (Pty) Limited	**–**	**–**	**–**	**–**
Intekom (Pty) Limited	**–**	**11**	**11**	**12**
Q-Trunk (Pty) Limited	**–**	**3**	**3**	**3**
Swiftnet (Pty) Limited	**89**	**40**	**20**	**15**
Number Portability Company	**–**	**–**	**–**	**3**
Telkom Foundation	**–**	**(9)**	**(9)**	**(9)**
Interest in operating profits from subsidiaries and associates*				
2013				
Trudon (Pty) Limited	1 141	485	473	350
Rossal No 65 (Pty) Limited	–	–	–	–
Acajou Investments (Pty) Limited	–	–	–	–
Telkom Management Services (Pty) Limited**	–	–	–	–
Intekom (Pty) Limited	–	11	11	11
Q-Trunk (Pty) Limited	–	3	3	3
Telkom International (Pty) Limited**	–	–	–	–
Swiftnet (Pty) Limited	89	31	14	11
iWayAfrica Group**	350	(83)	(84)	(108)
Number Portability Company	–	–	–	2
Satellite Data Networks Mauritius (Pty) Limited***	–	–	–	–
Telkom Foundation	–	–	–	–

None of the Group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations.

There are no significant restrictions on the ability of the joint venture or the associate to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

Amounts shown are after eliminations and reflect the results which contribute to the Group results.
***Disposed of during the year. Refer to note 10.*
****Satellite Data Networks Mauritius (Pty) Limited was disposed of during the 2013 financial year.*

43. SIGNIFICANT EVENTS

Results of the Telkom annual general meeting regarding Directors re-appointments

All Board members were re-elected as per the annual general meeting ordinary resolutions with the exception of Mr J Molobela who withdrew his nomination to be re-elected as director with effect from 27 September 2013. Mr B du Plessis did not stand for re-election for the Board.

Suspension of Chief Financial Officer

Shareholders are advised that Mr Jacques Schindehütte, the Chief Financial Officer of Telkom SA SOC Limited (Telkom) has been suspended by the Board of Directors of Telkom (the Board) effective 24 October 2013, pending the finalisation of a disciplinary process. The suspension follows the findings of an investigation by an independent law firm, commissioned by the Board, following receipt of certain allegations levelled against Mr Schindehütte by an anonymous whistleblower. A disciplinary process was instituted against Mr Schindehütte, which is still ongoing.

Mr Deon Fredericks has been acting as Chief Financial Officer of Telkom with effect from 24 October 2013.

Employee Forfeitable Share Plan (Employee FSP)

A new forfeitable share plan was approved at the annual general meeting per Special resolution where no more than 5% of Telkom's amount of issued shares will be allocated to employees.

Post-Retirement Medical Aid curtailment

Telkom announced during August 2013 that eligible employees have the option to transfer their post-retirement medical aid benefit to an insurer. The Company curtailed the medical cap increase to 0% as from 1 October 2013 for active members due to revenue remaining under pressure, rising operational costs and affordability. Of the 9 302 eligible employees 7 654 employees exercised their option to transfer their benefit to an insurer on 11 October 2013. The approximate net curtailment gain recognised was R2.2 billion.

Appointment of Chief Information Officer

Telkom announced on 21 October 2013 that Mr L de Villiers has been appointed as Chief Information Officer with effect from 1 November 2013.

Appointment of Chief Marketing Officer

Telkom announced on 15 November 2013 that Mr V Scarcella has been appointed as Chief Marketing Officer with effect from 1 February 2014.

Appointment of Chief Procurement Officer

Telkom announced on 5 December 2013 that Mr IM Russel has been appointed as Chief Procurement Officer with effect from 1 February 2014.

Appointment of Chief Technology Officer

Telkom announced on 15 February 2014 that Mr AN Samuels has been appointed as Chief Technology Officer with effect from 13 February 2014.

Appointment of Chief Risk Officer

Telkom announced on 1 April 2014 that Adv GJ Rasethaba has been appointed as Chief Risk Officer with immediate effect.

Fair value hedge accounting

The Group implemented fair value hedge accounting for foreign currency risk hedging instruments from 1 October 2013 in an attempt to mitigate earnings volatility.

MTN and Telkom Radio Access Network assets Transaction

On 7 March 2014, Telkom announced it signed a heads of agreement with MTN South Africa to take over financial and operational responsibility for the roll-out and operation of Telkom's RAN. The parties will conclude reciprocal roaming agreements to enable customers of either party to roam on the network of the other party. The telecoms industry, in both South Africa globally, are facing an unprecedented shift from traditional voice towards data. In order to meet this demand the parties have entered into the proposed transaction. Telkom will be able to provide its customers with effective access to the latest state of the art networks without having to incur the significant capital expenditure needed to achieve such national coverage. As a result of the proposed transaction, the range of services available to customers will increase, the customer experience will be enhanced and significant scale efficiencies, beneficial to both parties and their customers, would be realised.

The proposed transaction is subject to conclusion by the parties of various binding commercial agreements to give effect to the proposed transaction, and various other approvals, including approvals by regulatory authorities as may be required for the implementation of the proposed transaction.

44. SUBSEQUENT EVENTS

Restructuring of the organisation

The Company has been experiencing significant challenges as manifested in the financial underperformance. The Company continues to experience declining revenues and increasing costs to serve customers. This makes for an unsustainable financial position.

In response to these challenges Telkom has undertaken a thorough review and investigation into all operations and processes which entailed, among others, looking at issues such as cost drivers and the effectiveness of the organisational structure. By flattening the organisational structure or reducing the number of layers in the structure, Telkom aims to facilitate speedy decision-making and be as close to customers as possible. Telkom aims to manage employee costs down to be competitive in different areas of business.

Telkom identified flattening and delayering its structure as a critical action. Telkom has undertaken a consultation process in line with section 189(a) of the Labour Relations Act to carry out the proposed delayering.

Acquisition of Business Connexion (BCX)

Telkom announced its firm intention to make an offer regarding the possible acquisition of BCX. The company has embarked on a strategy to improve performance and restore profitability. One of the key considerations of this strategy is to grow beyond its core business of connectivity by expanding into IT services.

BCX is a leading player in the South African IT services market with strong capabilities in managed IT infrastructure, including data centres. This proposed acquisition enables Telkom's scale expansion into IT services and helps reinforce the company's core connectivity business. Telkom believes that this combination will create a leading ICT company in South Africa with unrivalled capabilities throughout the country.

The proposed acquisition is in line with the global trend of IT and telecoms convergence that is driving the development of rapidly changing products and services and re-shaping the overall ICT and telecoms business landscape. This convergence trend has seen many traditional IT companies merge with telecommunications companies and is fundamental to the strategies of trailblazing companies such as Google, Apple and Amazon. This is the beginning of the process and there are a number of key milestones to attain and work to be done, including approval by the Competition Authorities and the Regulator.

Additional funding

The Company has secured a R1 billion loan to extend its debt maturity profile.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2014 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

SHAREHOLDER ANALYSIS

	Number of shareholders	Percentage	Holdings	Percentage
Range of shareholders				
1 – 100 shares	55 862	69,47	1 910 503	0,37
101 – 1 000 shares	21 994	27,35	5 915 179	1,14
1 001 – 10 000 shares	1 982	2,46	5 295 053	1,02
10 001 – 50 000 shares	241	0,30	5 894 660	1,13
50 001 – 100 000 shares	85	0,11	6 118 538	1,17
100 001 – 1 000 000 shares	197	0,24	62 354 046	11,97
1 000 001 and more shares	59	0,07	433 295 921	83,20
	80 420	100,00	520 783 900	100,00
Type of shareholder				
Banks	116	0,14	89 585 352	17,20
Close corporations	48	0,06	96 094	0,02
Endowment funds	141	0,18	1 005 527	0,19
Individuals	78 004	97,00	15 102 811	2,90
Insurance companies	37	0,05	11 807 252	2,27
Investment companies	40	0,05	17 867 944	3,43
Medical aid schemes	15	0,02	633 470	0,12
Mutual funds	166	0,21	72 571 012	13,93
Nominees and trusts	1 570	1,95	2 416 639	0,46
Other corporations (including the Government of the Republic of South Africa)	67	0,08	207 127 265	39,78
Own holdings	2	0,00	10 190 084	1,96
Retirement funds	135	0,17	90 417 106	17,36
Private companies	75	0,09	1 923 096	0,37
Public companies	4	0,00	40 248	0,01
	80 420	100,00	520 783 900	100,00
Geographical holdings by owner				
South Africa	80 217	99,75	401 159 276	77,04
United States	70	0,09	79 595 087	15,28
United Kingdom	43	0,05	20 878 575	4,01
Europe	39	0,05	13 772 370	2,64
Other	51	0,06	5 378 592	1,03
	80 420	100,00	520 783 900	100,00
Beneficial shareholders of more than 2%				
The Government of the Republic of South Africa			207 038 058	39,76
Government Employees Pension Fund			70 192 151	13,48
Old Mutual			14 352 518	2,76
Allan Gray			11 427 560	2,19
Investment Solutions			10 738 228	2,06
			313 748 515	60,25

Public and non-public shareholders	**Holdings**	**%**
Non-public shareholders	217 645 077	41,80
The Government of the Republic of South Africa	207 038 058	39,76
Government buffer account	9 461	0,00
Telkom Treasury Stock	10 190 084	1,96
Executive and non-executive directors*	390 089	0,08
Subsidiaries directors*	17 385	0,00
Public shareholders		
Institutional and retail investors	303 138 823	58,20
	520 783 900	100,00

**Director holdings consist of direct and indirect holdings.*

The information above is based on registered shareholders, except where only beneficial shareholders' information was available.

05
ACRONYMS

ADSL	Asymmetrical Digital Subscriber Line
AGM	Annual General Meeting
ARPU	Average monthly revenue per customer
ASA	Additional forfeitable share awards
B-BBEE	Broad-Based Black Economic Empowerment
BCM	Business continuity management
BEPS	Basic earnings per share
CAGR	Compound Annual Growth Rate
CDN	Core data network
CFL	Centre for Learning
CLM	Customer loyalty management
CPI	Consumer Price Index
CWU	Communication Workers' Union
DCO	Date centre operations
DTT	Digital terrestrial television
EBIDTA	Earnings before interest, taxes, depreciation and amortisation
ERM	Enterprise risk management
ESOP	Employee share ownership plan
EXCO	Executive committee
FCF	Free cash flow
FMC	Fixed mobile convergence
FSP	Forfeitable Share Plan
FTR	Fixed termination rates
GCEO	Group Chief Executive Officer
GP	Guaranteed Package
GRI	Global Reporting Initiative
HEPS	Headline earnings per share
ICASA	Independent Communications Authority
ICT	Information and communications technology
IMS	Internet Protocol Multimedia Subsystem
IP	Internet Protocol
IPC	IP Connect
IRRC	International Integrated Reporting Council
IT	Information technology
LAN	Local Area Network
LLU	Local Loop Unbundling
LTE	Long-Term Evolution
LTI	Long-Term Incentive
LTIP	Long-Term Incentive Plan
Mbps	Megabytes per second
MCO	Mobile Cellular Operator
MOI	Memorandum of incorporation
MTR	Mobile termination rates
NDP	National Development Plan
NGN	Next generation network
NPS	Net promoter score
NPS	Network Protection Services
O&O	Owned and operated
OLO	Other licenced operator
PAT	Profit After Tax
RAN	Radio Access Network
REMCO	Remuneration committee
SABC	South African Broadcasting Corporation
SACU	South African Communications Union
SME	Small and medium sized enterprises
SOEs	Stated owned enterprises
STI	Short term incentive
TSR	Total shareholder return
USO	Universal service obligations (such as provision of payphones)
VAS	Value added services
VoIP	Voice over Internet Protocol
WAN	Wide area network

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