Integrated Report

For the year ended
31 March 2015

Telkom

About this report

Telkom SA SOC Limited, which is listed on the Johannesburg Stock Exchange, chooses to report in an integrated manner because we believe that doing so can help our stakeholders make better informed decisions about our business.

This integrated report, which is our primary report to stakeholders, covers the period 1 April 2014 to 31 March 2015. The scope of this report includes the Telkom group's operations, projects and the key functions over which we exercise control. The only change to Telkom's size, operating structure or ownership during FY 2015 is that our subsidiary, Trudon (Pty) Ltd has been made available for sale. There have been no significant changes from the previous reporting period in the scope, boundary or measurement methods applied in this report. We would refer you to page 17 for details of our structure. Our previous report covered the period of 1 April 2013 to 31 March 2014.

For ease of reference we have used Telkom or the group to represent the company and its group entities. All our subsidiaries, business divisions and products are referred to by their branded names. With respect to comparability all items are reported on a like-for-like basis with no major restatements. Any restatements are noted and explained.

Reporting frameworks

Our integrated report conforms to the requirements of local and international reporting frameworks, including those of the South African Companies Act 71 of 2008 and the JSE Listings Requirements. We have used the International Integrated Reporting Framework to guide us in structuring our report to show the connectivity between material information on our strategy, governance, performance and prospects and how our strategy affects and is affected by environmental, social and financial matters. We have been guided by the Global Reporting Initiative's (GRI) 3.1 indicators. Selected sustainability information in this report has been assured by independent auditors Ernst & Young Inc. For more information see the assurance statement available on the Telkom website.

Any financial discussion from pages 2 to 134 excludes retrenchment expenses, voluntary early retirement and severance packages costs of R591 million, the related tax impact of R165 million and the tax benefit on the post-retirement medical aid payment of R546 million for the year ended 31 March 2015. The comparative numbers exclude the R2 169 million net curtailment gain on the post-retirement medical aid liability and the related tax benefit of R246 million.

Building stability.
Unlocking potential

We have also applied King III and have been guided by the Global Reporting Initiative's GRI G3.1 guidelines.

Telkom was included in the JSE Social Responsibility Index (SRI) in 2014.

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Our annual financial statements (pages 143 to 235), which comply with International Financial Reporting Standards, were audited by Ernst & Young Inc. whose unqualified audit report can be found on page 142.

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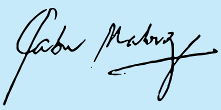
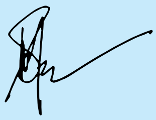
Board approval

The Telkom board acknowledges its responsibility to ensure the integrity of this integrated report. The board confirms that it has collectively reviewed the report's contents and to the best of its knowledge and belief it addresses Telkom's material issues and presents fairly the integrated performance of the organisation and its impact on the environment and its stakeholders. The report, for the year ended 31 March 2015, was approved by the board of directors on 1 July 2015 and signed on its behalf by:



Jabu Mabuza
Chairman
1 July 2015



Sipho Maseko
Group chief executive officer

Give us feedback

We would welcome your feedback on our reporting for the financial year ended 31 March 2015 and any suggestions you have in terms of what you would like to see incorporated in our report for the financial year ended 31 March 2016. To do so please contact Nwabisi Piki at telkomir@telkom.co.za.

Icons

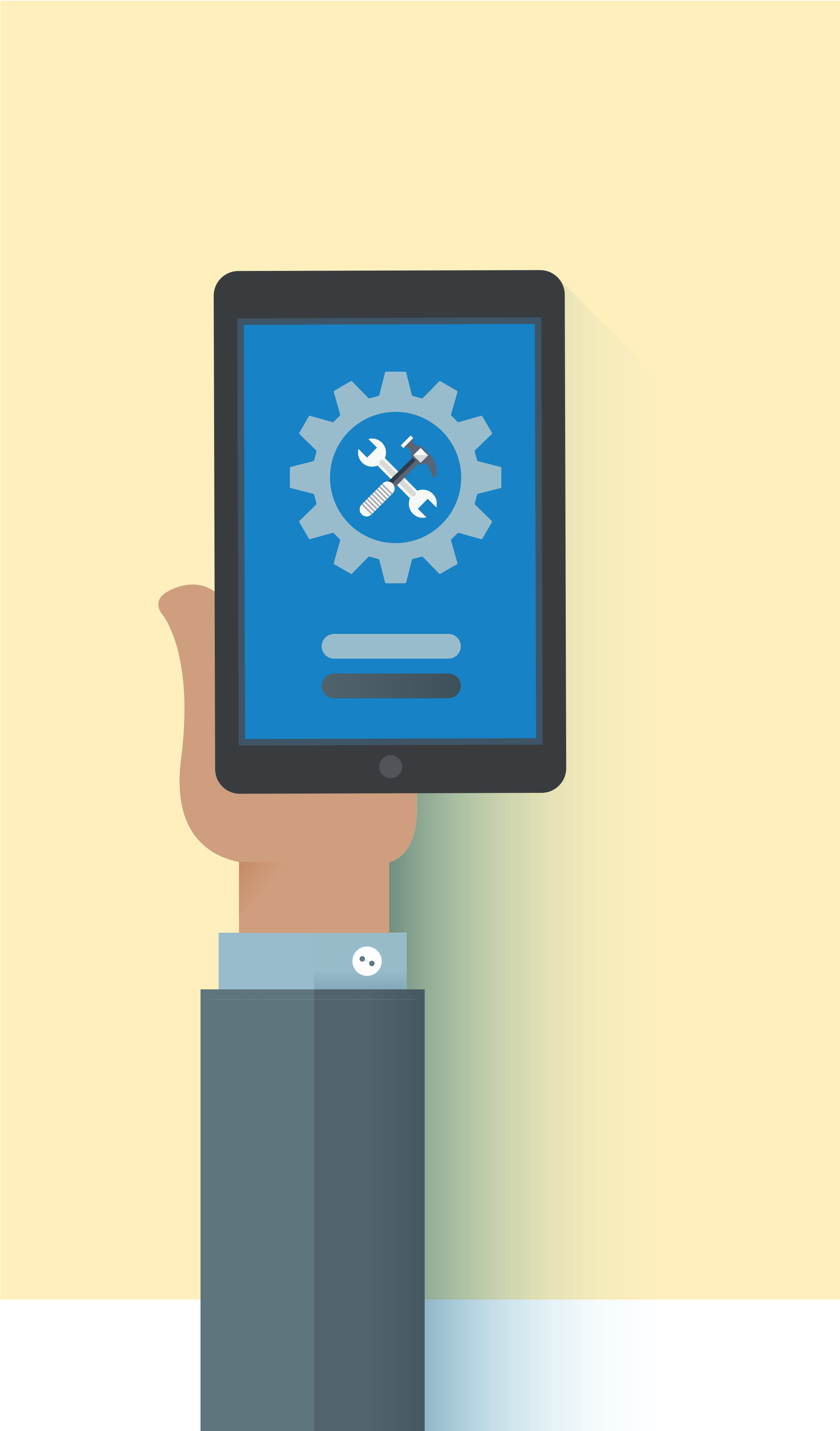
King III

Refers the reader to a specific action (e.g. to read further).

Read more

Go to Telkom website

Contents

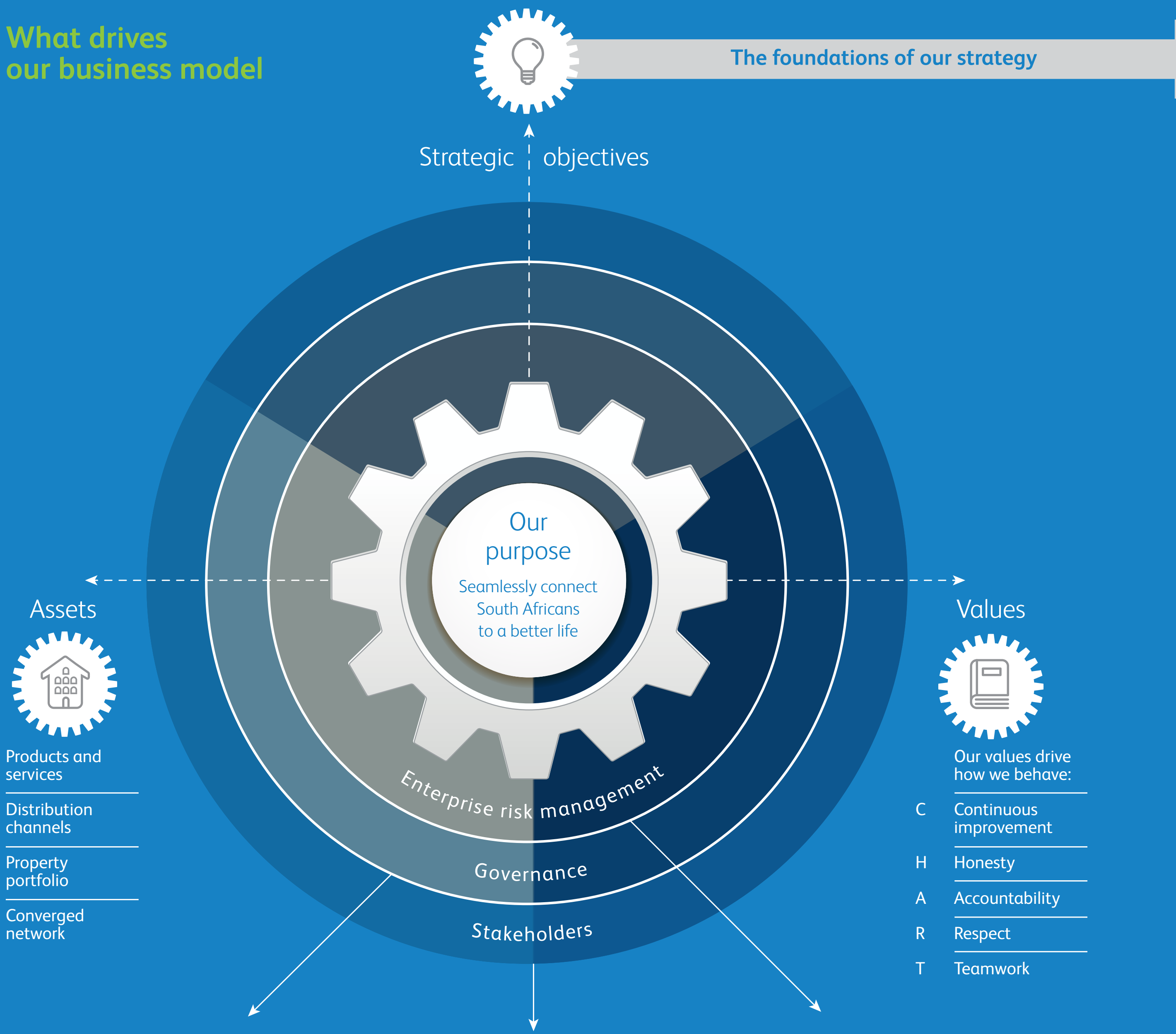


1

An overview of our business

Strategic objectives and business model

What drives our business model



Governance

Our framework of stringent and clear rules of governance

Stakeholders

We communicate with the people connected with us in every possible way. We listen, we inform and our ultimate goal is to connect and gain insight

Enterprise risk management

Risk management is at the core of Telkom's operating structure. As well as identifying threats or uncertainties it also provides us with opportunities to grow and develop our business

Telkom's business model targets long-term value creation for its stakeholders by delivering profitability and growth, improving efficiencies and mitigating risks. The main capitals used by Telkom to create value for the group and its stakeholders are financial capital, productive capital, intellectual capital, human capital, social and relationship capital and natural capital - as defined in the International <IR> Framework. This diagram articulates how Telkom's actions affect the quality and availability of its stock of capitals and how the efficient use of the various capitals creates value for the group and its stakeholders.

We use the unique combination of our people, technology and networks and our financial strength, to create products and services, deliver customer service, transform our cost base and invest in our future.

Capitals

Leading provider of converged ICT solutions

Productive

- Centre of the digital home and lifestyle by delivering simple and compelling bundles and converged products
- Leader in enterprise, business and government communication and networked services to South African business
- Wholesaler of choice

Intellectual

- An invincible network
- Connect people to the future by building innovative products and services that create the future they desire
- Future-proof technology meeting next generation customer expectations

Customer First

Social and Relationship

- Transforming our business to put the customer first
- Actively listen and respond in order to deliver on our customer needs first, regardless of our own internal complexity
- Provide access to the digital life and be part of the global economy and social ecosystem
- Partner to deliver a better life for all

Human

- Attract and develop the best talent
- Be considered an employer of choice
- Create the best environment for our people to flourish
- Ensure our people feel the reward of personal progress
- Performance incentives aligned to company objectives

Building a sustainable business

Financial

- Achieve level playing field in terms of regulatory environment
- Grow EBITDA margin by between 26 and 27% in FY2016
- Strong free cash flow
- Normalise capex to revenue in line with benchmark and peers at 15 to 18%
- Competitive cost base and efficiencies
- Partner for scale and capability in mobile
- Acquisitions providing scale and capability in IT infrastructure services
- Strategic technology investments
- Capitalise on the investment we have made in our infrastructure

Natural

- Doing business in a responsible and ethical manner and having a low environmental impact by minimising our energy and resource consumption and mitigating any impacts we have on the environment

Deliver value to our stakeholders

Detailed information on our performance against each capital is available in the Performance section of this report

Capitals

Our stock of capitals, which is increased, decreased or transformed through our activities and outputs, allows us to deliver value to our stakeholders

Our performance

Key features

Achievements

- Net revenue up **3.1 percent** to R26 billion
- Net debt decreased **92.8 percent** to R151 million
- Decreased operating expenses by **5.2 percent in real terms**
- Achieved **one million ADSL subscribers**
- A fatality-free year
- Invested **R300 million** in training and development
- Social investment of **R40.0 million**

Improvements

- Lost time incident frequency rate **decreased 1.7 percent** to 1.18
- Fixed line data revenue increased 1.5 percent to **R10.4 billion**

Challenges

- **22 percent decrease** in leased line revenue
- **11.9 percent decrease** in fixed-line voice and interconnection revenue

HEPS at 532.5cps up
+60 %*

BEPS at 542.3cps, up
+135.7 %*

Group revenue
R31.7bn

Total dividend
245cps

Strong free cash flow generation at
R3.9 bn

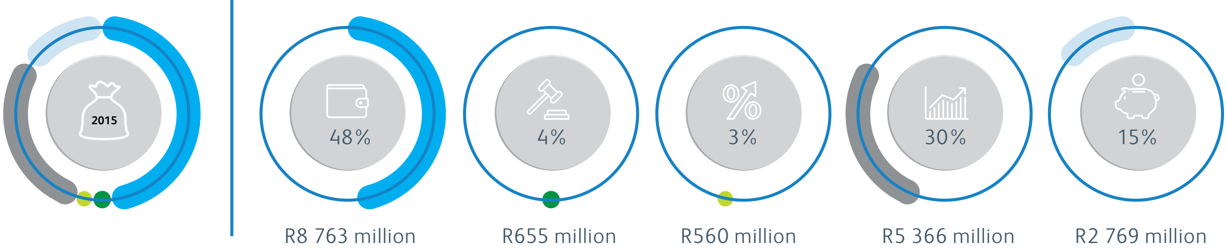
EBITDA excluding one-off items increased 15.1 % to
R9.0 bn*

*Excluding retrenchment expenses, voluntary early retirement and severance packages costs of R591 million, the related tax impact of R165 million and the tax benefit on the post-retirement medical aid payment of R546 million for the year ended 31 March 2015. The comparative numbers exclude the R2 169 million net curtailment gain on the post-retirement medical aid liability and the related tax benefit of R246 million.

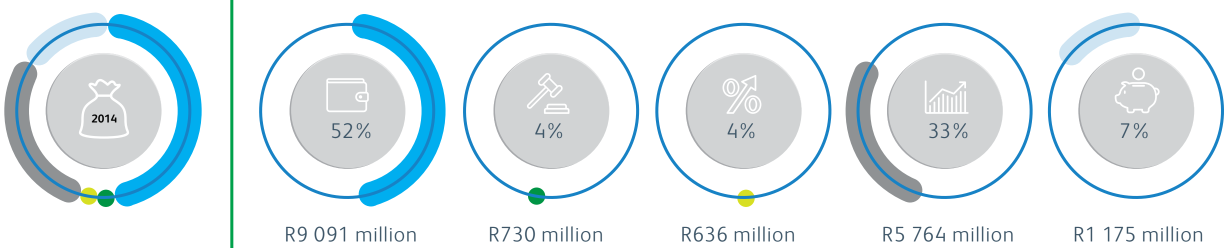
Wealth creation

	Notes	2015 Rm	%	Restated 2014 Rm	%
Value added					
Revenue		31 675	175	31 288	180
Net costs of services and other operating expenses*		(14 544)	(80)	(14 586)	(84)
Investment income		283	1	163	1
Other income		699	4	531	3
		18 113	**100**	**17 396**	**100**
Value distributed					
Distributed to employees as salaries, wages and other benefits		8 763	48	9 091	52
To government as taxation		655	4	730	4
To providers of finance as finance expense		560	3	636	4
Value reinvested	1	5 366	30	5 764	33
Net earnings retained		2 769	15	1 175	7
		18 113	**100**	**17 396**	**100**
*included in the figure above is the following distributions:					
Distributed to suppliers		14 504		14 541	
Distributed to corporate social investment through Telkom Foundation		40		45	
Value reinvested		**5 366**		**5 764**	
Depreciation, amortisation, impairments and write-offs		5 478		5 891	
Deferred taxation		(112)		(127)	

Wealth distributed 2015



Wealth distributed 2014



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

Our performance (continued)

Integrated performance indicators

(In R million unless otherwise stated)	2015	Restated 2014*	% Change
Financial capital			
Financial information			
Net revenue	25 958	25 167	3.1
EBITDA	8 978	7 798	15.1
Opex as a % of operating revenue*	55.8	57.2	1.4
Capex as a % of operating revenue	16.3	21.0	(4.7)
Cash flow from operating activities	6 226	6 366	(2.2)
Normalised free cash flow	3 898	1 145	240.4
Headline earnings per share from continuing operations (cents)	532.5	332.9	60.0
Basic earnings per share from continuing operations (cents)	542.3	230.1	135.7
Economic information			
Distributed to employees	8 763	9 091	(3.6)
Capital expenditure	5 164	6 566	(21.4)
Distributed to government	655	730	(10.3)
Distributed to providers of finance	560	636	(11.9)
Human capital			
Number of group employees	18 441	19 313	(4.5)
Employee expenses to revenue (%)	27.7	29.1	1.4
Revenue per employee (R)	1 717 640	1 620 049	6.0
Employee voluntary turnover (%)	3.1	2.1	(1.0)
Women representation in senior management (%)	24	23	1.0
Historically disadvantaged South African (HDSA) representation in senior management (%)	49	50	(1.0)
Investment in training and development	300	301	(0.3)
Total training days	76 641	99 439	(22.9)
Lost time injury frequency rate (LTIFR)	1.18	1.20	(1.7)
Productive capital			
Active mobile subscribers	2 186 774	1 803 675	21.2
Fixed access lines (thousands)	3 439	3 618	(4.9)
Social and Relationship capital			
B-BBEE procurement spend (R billion)	11.4	13.1	(13.0)
B-BBEE enterprise development cumulative spend	248	102	143.1
Telkom Foundation spend	40	45	(11.1)
Natural capital			
Electricity consumption (MWh)	677 547^	657 047	(3.1)
Carbon emissions (tonnes)	772 007^	739 976	(4.3)
Recycled copper (tonnes)	2 129	1 241	71.6
Recycled optic fibre (tonnes)	300	333	(9.9)

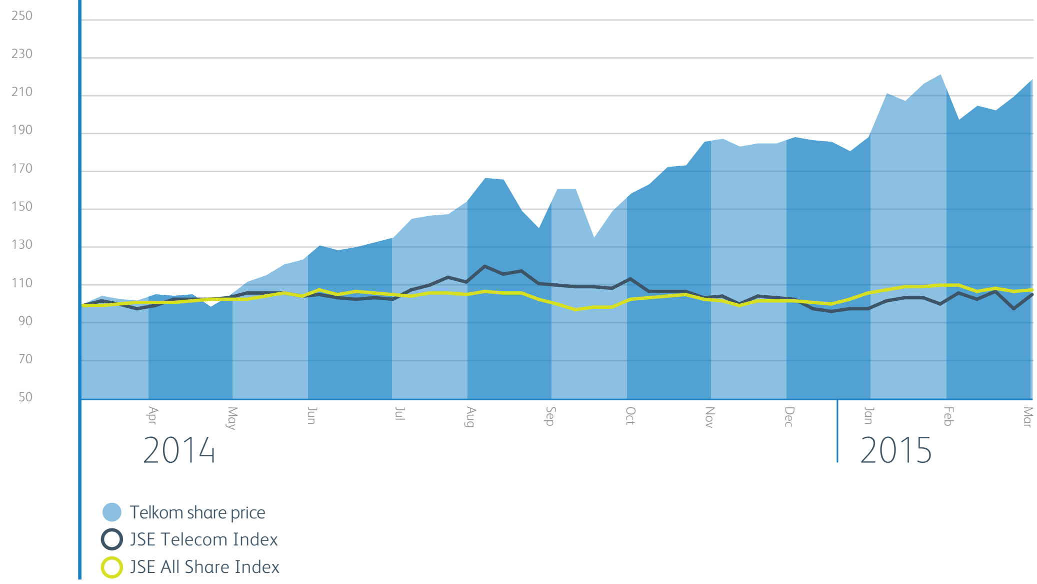
*Excluding direct cost, cost of sales, payments to other operators and depreciation
The carbon emissions and electricity consumption numbers in this table include those of our subsidiaries Swiftnet (Pty) Ltd and Trudon (Pty) Ltd
^These numbers have been assured by Ernst & Young Inc.

Rack on which fibre to the home technology terminates in the exchange

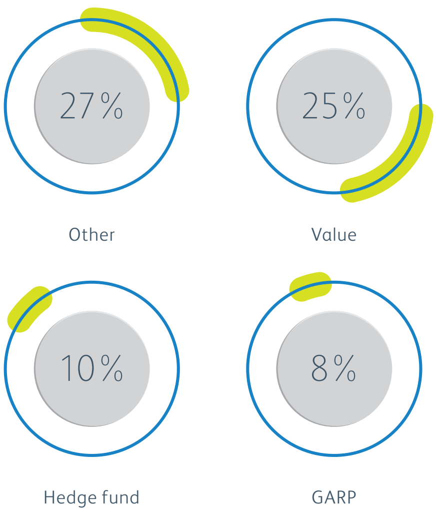
Our performance (continued)

Our share price performance

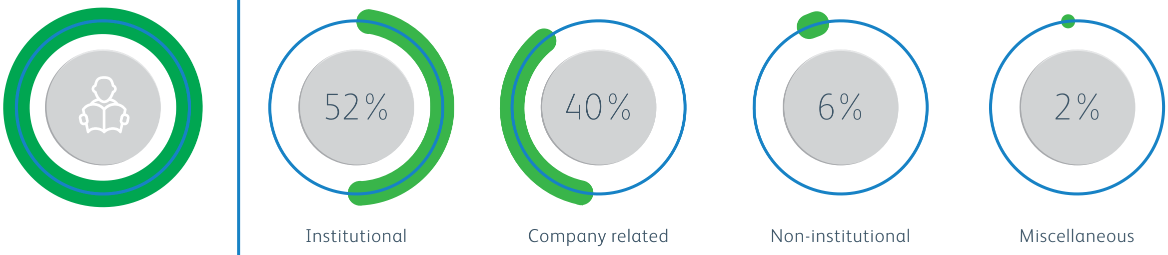
Telkom relative share price performance versus the JSE Telecom Index and the JSE All Share Index (rebased to 100)



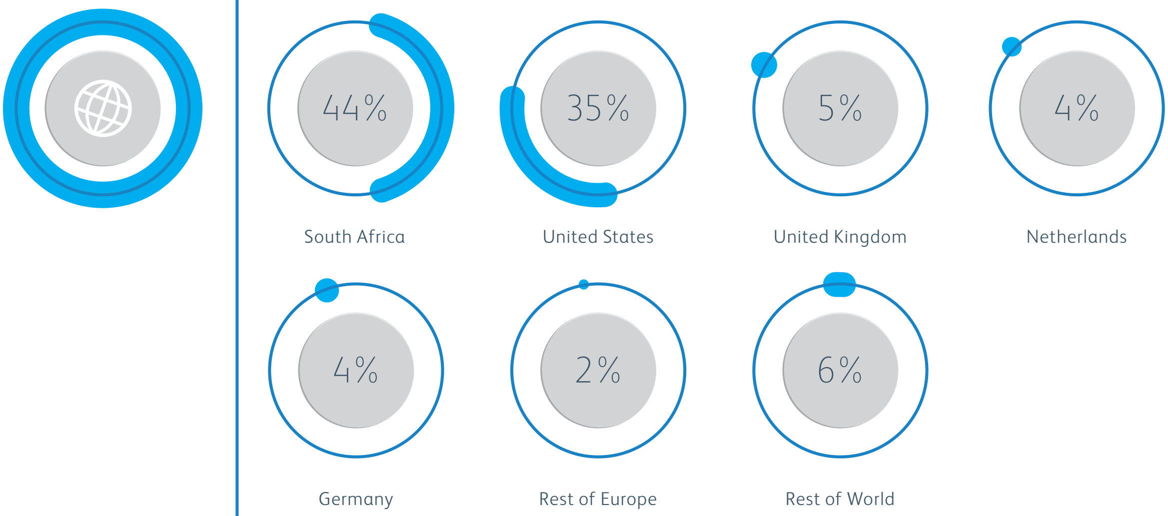
Institutional shares by investment style



Total free float shareholder composition (excluding government shareholding)



Institutional shares by geography



Share performance

	2015	2014
Number of ordinary shares	520 783 900	520 783 900
Weighted number of ordinary shares in issue	510 593 816	510 593 816
Normalised headline earnings per share (cents)	532.5	332.9
Market capitalisation at 31 March (Rm)	41 246	17 524
Number of ordinary shares traded ('000)	400 765	306 787
Highest price traded (R)	85.00	34.15
Lowest price traded (R)	34.43	11.93
Closing price at 31 March (R)	79.20	33.65

Top 10 shareholders

Rank	Name	% Share ownership
1	Government of the Republic of South Africa	39.76
2	Public Investment Corporation Limited	11.65
3	Visio Capital Management (Pty) Ltd.	4.11
4	Acadian Asset Management LLC*	3.84
5	Dimensional Fund Advisors, L.P.	2.56
6	LSV Asset Management	1.85
7	The Vanguard Group, Inc.	1.84
8	Robeco Institutional Asset Management B.V.	1.68
9	Old Mutual Investment Group (South Africa) (Pty) Ltd.	1.60
10	Sanlam Investment Management (Pty) Ltd.	1.58
Total		70.47

*Subsidiary of Old Mutual plc

Our philosophy, mission, vision and values

We know that connectivity is most powerful when it helps us do what we need to do. We connect to others and help them to connect to each other to create today what we need to thrive tomorrow.

By connecting every person, every home, every business big and small we will create real progress.

Our promise

We connect you to a better life

By talking and listening to you so that we understand your needs, then we meet them with products and solutions that keep you connected to what matters, both today and tomorrow.

Steps to success

This is how we run our business to deliver on our business intent:

We will:

Keep it simple

Technology is complicated. We don't do complicated. We solve complicated problems simply

Be different

Our difference is the way we connect with our customers, understand their needs and co-create solutions that make both our worlds better

Make a difference

Products and services allow us to bridge social divides and inspire triumph over adversity. We strive to do more than the ordinary: we offer freedom through technology

Our vision

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

- Leading the provision of converged solutions
- Providing a quality network with a 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
- Being the best place to work for if you are committed and accountable

1
Leading provider of converged ICT solutions

2
Customer First

3
Building a sustainable business

Our operating structure

The Telkom group consists of Telkom SA SOC Limited and one material wholly owned operating subsidiary Swiftnet (Pty) Limited. We have classified our 64.9 percent in Trudon* as held for sale. Telkom SA SOC Limited is managed as a single business based on an integrated network, providing a range of services to our consumer, business and wholesale customers.

Consumer

Telkom Retail's products, which serve our residential customers throughout South Africa, include Internet and broadband, landlines and mobile solutions.

Our customers can choose to converge fixed-line and mobile solutions in a single service.

Telkom Mobile was launched in 2010 to provide mobile connectivity to our South African customers.

Business

Telkom Business offers communication and managed network services. It is dedicated to serving small and medium enterprises (SMEs), large corporations, government organisations and global enterprises.

Our Cybernest data centre offers basic hosting, as well as cooling power and backup power, managed hosting and disaster recovery.

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

Wholesale and Networks

Telkom Wholesale and Networks is South Africa's leading provider of ICT wholesale facilities, services and solutions to mobile cellular operations, international ICT companies, service providers, fixed-line operators and broadcasters, both locally and internationally.

Our Networks section provides and maintains the infrastructure which supports the company's revenue generating capability.

Swiftnet

Provides a suite of services including traditional connectivity services for point of sale, managed SIM services and customised wireless and wired virtual private network (VPN) services.

*Trudon (Pty) Limited is a provider of yellow and white page directories, an electronic directory service, the 'Talking Yellow Pages' and an online web directory service.

Our customer value proposition

At Telkom we help to create the futures our customers desire.
We orchestrate enabling experiences through seamless, intuitive solutions and responsive, reliable service.

External service promise

- **Customer First –** Our job is to help you create the future you desire. Through simple, intuitive and responsive service, we aim to connect you to your life, your business, your world, and opportunity
- **Understanding your needs –** Only by truly understanding your needs and circumstances can we deliver what you need to thrive. We listen, understand, then act to deliver enabling experiences
- **We never stop working to get it right –** Whether it is our service or our products, we take ownership and strive to get it right for you – in one click, one call, one visit

Internal customer service commitment

- **We exist to serve the customer –** Our job is to enable people with connectivity, empowering them to live more richly. Even if we don't serve customers directly, we work to enable the person who does. Through simple, intuitive, responsive service, we aim to change their world
- **Interaction is opportunity –** We are always seeking new ways to connect with, share with and discover more about our customers – so that we can deliver the right solutions to make their worlds easier, simpler and better
- **We are relentless in getting it right –** It is our responsibility to provide our customers with fit for purpose solutions and processes that work. We strive for zero defect, zero faults and zero downtime. We never stop working to get it right – in one click, one call, one visit

Our employee value proposition

Our employee value proposition is underpinned by our values:

Continuous improvement – There is always a better way to do something. And we don't stop trying to find it.
Honesty – It is not only the policy, it's the only policy. No compromise.
Accountability – We take credit when it is due, and blame too. It's our job to see it through to the end.
Respect – We show it to ourselves, to each other, to our customers and to our world.
Teamwork – Two heads are better than one and many heads have untold potential.

To meet our value commitments we continually strive to improve our engagement with and responsiveness to our people. We invest in their training and development and the development of effective leaders. We also invest in keeping our people safe.

Health

A healthy workforce is an advantage to our business. We aim to provide a workplace free from health and hygiene hazards and to ensure all our employees are members of an effective healthcare programme.

Labour relations

We negotiate in good faith to achieve mutually beneficial wage agreements and together we strive to honour our responsibilities and commitments contained in these agreements.

We work together to achieve our objectives.

Our social commitment

The Telkom Foundation's purpose is to achieve sustainable improvements in education, health and social welfare through Telkom's resources and ICT capabilities.

Our environmental commitment

Telecommunications companies are classified as having a low impact on the environment. We have identified the environmental issues that present both challenges and opportunities for Telkom and we continually review these to ensure they are addressed. The greenhouse gas emissions (GHGs) we generate, both in terms of our use of electricity generated by burning fossil fuel and the fuel used in our group vehicles, are a material issue for Telkom. To address this issue we focus on reducing our carbon intensity. Reducing our carbon intensity will not only address a material environmental issue, it will also help us reduce costs.

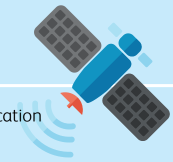
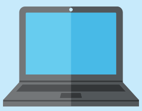
A catalyst of change

Communication technology began with the invention of the telegraph in the 1830s, followed by the telephone, in the second half of the 19th century.

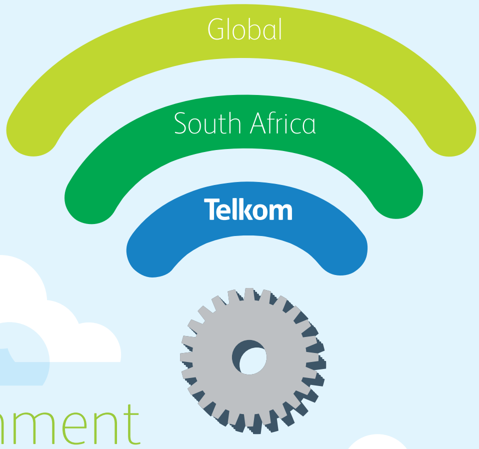
By making communication over distances possible these inventions changed the world. Initially, they were limited by their reliance on copper wire, then, with the discovery that electronic signals and voice could be transmitted over vast distances by means of radio waves, the world suddenly got smaller. (The discovery of radio waves also saw the introduction of broadcasting by means of radio and television.)

	1838	Mid 1880s	Early 1900s	1970s
Radio		Radio used for both inland and intercontinental telegraphic communication	Radio used for both inland and intercontinental telegraphic communication First transatlantic phone calls made by radio in 1927	Radio used for both inland and intercontinental telegraphic communication
Copper wire	Copper wire used for land-based fixed-line telecommmunications	Copper wire Manual mechanical exchanges	Copper wire Automated electromechanical switching	Copper wire Electronic switching
Copper wire used for intercontinental telegraphic and telecommunications			First transatlantic telephone cable using copper wire went into operation in 1956	Copper wire
Use of satellites in telecommmunication				First satellite communications at Hartebeeshoek
Fibre optics (high data carrying capacity and low loss of signal over long distances)				
Internet protocol (IP)				
Personal computers				
	First practical telegraph using Morse code First commercial telephone service set up in New Haven, USA and London, England	Manually operated telephone exchanges in every major US city – 32 000 kms of copper cable laid Wireless telegraphy introduced Pretoria exchange starts with 127 subscribers in 1891 and SA Department of Posts and Telegraphs created in 1910	First electromechanical switching systems introduced eliminating need for switchboard operators	Electronic switching systems introduced 1.8 million telephone lines in South Africa

These inventions served us well as they went through various developments over the next century. Then in the 1980s things started to change very rapidly with the arrival of another world-changing invention, the personal computer, followed by the cellular phone and the Internet and the instant connectivity and access to information and entertainment that they provided. Even before the end of the 20th century early versions of the smartphone were already available. Nowadays, the convergence of telecommunications (telecoms) and information technology (IT) into information communication technology (ICT) has made ICT an essential part of how we run our businesses, our cities, hospitals, etc, and our personal lives.

1980s	1990s	2000s	2009 and onwards
Radio used for both inland and intercontinental telegraphic communication	Introduction of digital cellular networks – 2G for mobile voice communication and microwave transmission used in point-to-point communications	Introduction of 3G to meet demand for data use with mobile phones and laptops.	Introduction of long-term evolution (LTE) standards (4G) using an all Internet protocol (IP) network
Copper wire Digital switching	Copper wire now used for fixed-line voice and data (broadband data delivery) by means of asymmetrical digital subscriber lines (ADSL) providing access to the Internet Telkom's network provides connectivity for both Internet service providers (ISPs) and mobile telecoms	Use of fixed-line voice declines By 2005 use of ADSL to deliver fixed broadband in South Africa had grown 188 %	Use of fixed-line voice declines By March 2015 Telkom has over 1 005 286 fixed broadband subscribers
Copper wire	Copper wire 		
Satellite communication	Satellite communication	Satellite communication	Satellite communication
First transatlantic cable using fibre optics laid in 1988 and first use of fibre on land in late 1980s	Telkom's network provides connectivity for both Internet service providers (ISPs) and mobile telecoms Telkom commissions SAT-2 fibre optic link	Fibre optic cabling starts to replace copper to the home and business	Demand for ever greater fixed- line speeds creates race to provide fibre to business and home
	First email services made available by Internet service providers in early 1990s		Used as means of communication
First personal computers generate need for private data which did not exist previously	Personal computers 	Personal computers Introduction of Ethernet, a physical and data link layer technology for local area networks (LANs)	Acquisition of IT companies by telecoms to expand into ICT as part of converged offerings to the home and business
Digital switches introduced which are smaller and faster than their predecessors First commercially available cellular phone	Worldwide web conceived in 1991 First publicly available global positioning satellite (GPS) Telkom is formed in 1991 and applies for mobile GSM (global system for mobile communication) licence Starting in 1992 capabilities of fourth generation of fibre optic cables resulted in rapid increase in the use of fibre optic cabling in telecommunication systems	3G transformed telecoms industry as its data capabilitiies enabled media streaming of television and movie content and music to handsets and computers	Every smartphone has a GPS Every smartphone has Internet connectivity and receives emails With introduction of LTE voice calls now transmitted as data, not separately as in the past Telkom switches on its all new Internet Protocol Multimedia Subsystems (IMS) core

Our operating environment



'Twenty years ago telecom infrastructure was used to provide mostly basic voice and data communication services; today it is playing an essential part in the greatest innovation story of the current age while forming the backbone of the future economy.'

Dalibor Vavruksa
Head of CEEMEA
Citibank Telecom Research

Citi GPS:
Global Perspective & Solutions
November 2014

Our global environment

Current global industry trends

- Migration from voice to data resulting in falling profitability
- Fixed-mobile substitution is ongoing
- Industry consolidation to enable scale and scope
- Move to the cloud
- Rapid growth in machine-to-machine (M2M) revenues
- Convergence of telecoms, multimedia and ICT (TMT) to enable new ways of achieving profitability
- New sources of competition, as the natural entry barriers, which historically protected telecoms companies against competition from other industries such as over the tops (OTTs), e.g. Google and WhatsApp, continue to weaken traditional margins
- Evolving regulatory environment not favourable to fixed-line investment and innovation
- The role of government is critical to broadband take-up in developing countries

Risks and opportunities

- The major structural imbalances and potentially disruptive undercurrents affecting the global economy are impacting the telecoms industry in terms of a fall-off in business spend
- Even in a slow growing economy consumers are prioritising smartphones and Internet connectivity
- In order to be sustainable telecoms companies need to be in a position to take advantage of opportunities created by the global megatrends, of digital disruption and waves of creative destruction. This will require substantial investment
- Opportunities include those arising from the convergence of telecoms and IT into ICT
  This has resulted in the purchase of IT companies by telecoms companies

Rapid change

Globally, telecoms companies are grappling with the impact of new technologies and the speed of the change they bring with them. A major challenge for telecoms companies is making the shift from highly profitable legacy voice services, which are in decline, to less profitable data services.

Change is being driven by:

- Consumers addicted to connectivity, speed and wireless connections
- More affordable mobile voice services due to intense price competition in the mobile sector
- Ongoing expansion of the mobile ecosystem, together with demand for high bandwidth applications and services, which is putting pressure on the industry to increase the availability and quality of broadband connectivity (offloading some mobile bandwidth demand to Wi-Fi is proving an effective complement to mobile networks)

The role of the regulatory environment

Wireless and Internet connectivity is likely to play an even more prominent role in the global economy in the future, however, the nature of the new opportunities this connectivity presents may mean that policies that worked in the past may not work in the future.

Regulatory uncertainty, in particular concerning long-term competitive and net neutrality policies, and uncertainty about future telecom products and the role of telecom operators, makes it difficult for telecoms companies to plan long term and form sound long-term strategies. Another challenge for telecoms companies is that while innovation by global Internet leaders appears to have been substantially rewarded, the regulatory environment has suppressed the scope for telecoms to innovate.

Because both telecoms and the Internet are playing an increasingly important role in the global economy, it is crucial that the policy decisions made regarding these industries will facilitate equitable sustainable growth. It is also crucial that they are speedily resolved.

What the future holds

Indications from industry research are that meaningful net growth in traditional telecoms companies will resume once the decline in legacy voice services slows down significantly and companies take advantage of revenue opportunities in the emerging digital world.

These revenue opportunities include the material value telecoms networks can add to the economy through the provision of:

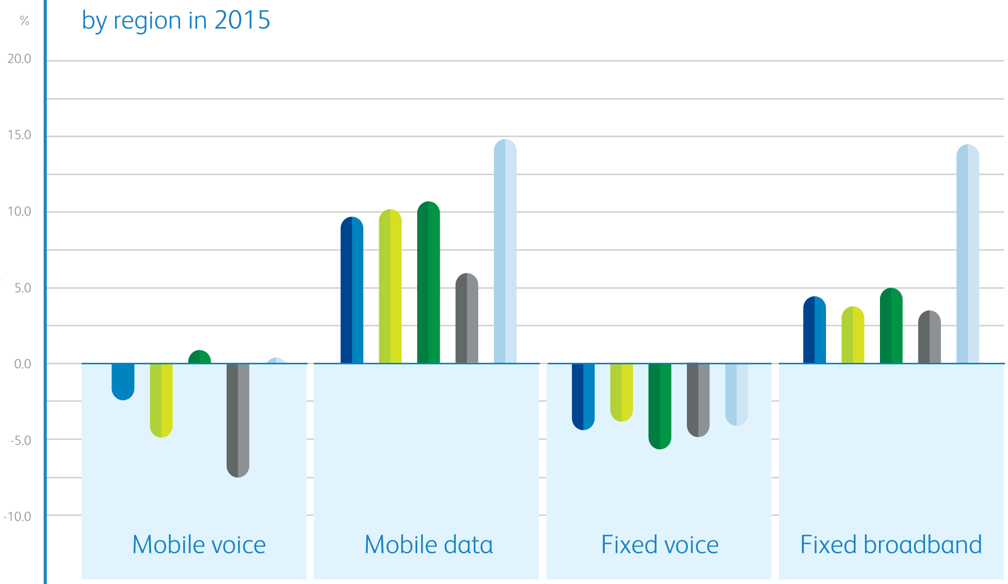
- Cloud services
- Machine-to-machine (M2M) services
- Artificial intelligence that can be applied across a number of industries including finance, health and education

The challenge is that the more advanced these services become the more customers will require and demand:

- Guaranteed and secure services
- Increased bandwidth capacity and improved quality

The graph (below) forecasts the use of various telecoms products worldwide and by region in 2015. Not only does it forecast a decline in fixed voice usage throughout the world, but it also shows a decline in mobile voice usage both globally and in the Americas and Europe, while growth in mobile voice in the Middle East and Africa and Asia and Oceania is expected to be very limited. The Middle East and Africa are clearly expected to be the biggest growth areas for mobile and fixed broadband data.

Forecast mobile voice, data, fixed voice and fixed broadband revenue growth by region in 2015



Source: Ovum, 2015 Trends to watch: Telecoms, January 2015

The South African environment

Our operating environment (continued)

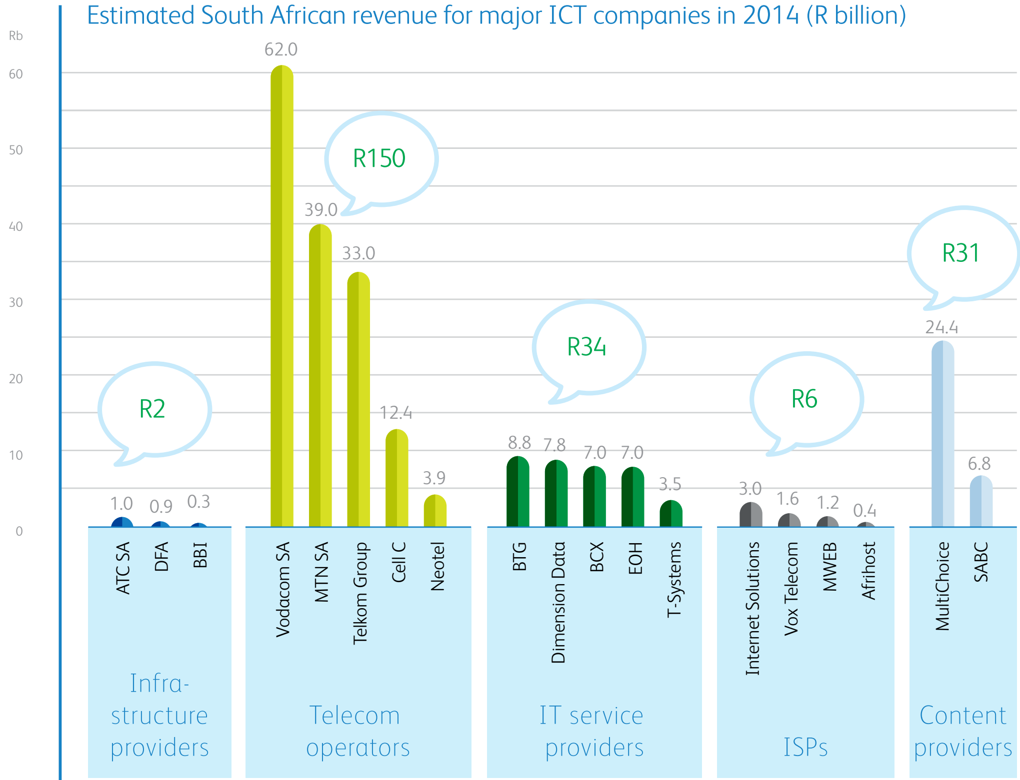
Overall, the South African telecoms environment presents challenges and opportunities similar to those present globally. In line with global trends a diversified value-adding telecoms industry, highly concentrated in both fixed and mobile services, has developed in South Africa over the past twenty years. We do, however, face some unique challenges and opportunities.

These include:

- Addressing the challenge of the low penetration of broadband in South Africa
- The need to democratise data and invest in connectivity to drive meaningful change in South Africa by enabling economic growth while a vast gap in incomes persists
- The ability to monetise increasing data traffic
- Increasing cost of importing technology and maintaining international connectivity as a result of the US$:R exchange rate
- South Africa is lagging in terms of ICT policy reform. Inadequate policies resulted in South Africa struggling to agree on call termination rates
- Meeting South Africa's vision of connecting all South Africans by providing products that cater for all South Africans
- Increasing labour costs
- Lack of capacity in power generator, Eskom

The South African ICT sector generates revenues of approximately R240 billion a year, with telecoms by far the largest contributor at 61 percent.

Estimated South African revenue for major ICT companies in 2014 (R billion)



Source: Regulatory Affairs, ICASA inquiry into State of Competition, October 2014. Based on annual corporate reports.

Product categories and market players in South African telecommunications

	Mobile voice	Mobile broadband	Fixed voice	Fixed broadband	ICT services
Converged player	Telkom	Telkom	Telkom	Telkom	Telkom
	Vodacom	Vodacom		Vodacom	Vodacom
	Neosmart		Neotel	Neotel	Neotel
Wireless player	MTN	MTN	Converged offers for SME*		MTN
	Cell C	Cell C			
Fixed player			VoIP	MWEB	MWEB
			VoIP	Vox Telecom	Vox Telecom
			VoIP	iBurst (WBS)	iBurst (WBS)
	Mobile voice: Narrowband 2G/2.5G	**Mobile broadband:** 3G, 3.5G, LTE	**Fixed voice:** incl voice over copper, internet dial-up, VoIP	**Fixed broadband:** non-dial-up broadband via copper (xDSL), WiMAX, CDMA or fibre access	**ICT services:** cloud, hosting, managed services, data centre management

Source: Telegeography 2014, Operator Websites 2014, BMI 2014
*Reliant on Telkom infrastructure

The South African regulatory environment

The key public stakeholders of the South African telecommunications industry are the Independent Communications Authority of South Africa (ICASA), the Department: Telecommunications and Postal Services (DTPS) and the Department: Communications (DC). Other public stakeholders that may involve themselves in the industry are the Competition Commission and the Competition Tribunal.

ICASA, which falls under the DC, is the regulator for the South African communications, broadcasting and postal services sector. Its mandate in terms of the ICT sector is spelled out in the Electronic Communications Act for the licensing and regulation of electronic communications and broadcasting services. ICASA is empowered to monitor compliance with licence terms and conditions, develop regulations, plan and manage the radio frequency spectrum and protect the consumers of these services.

The DTPS is tasked with creating a vibrant ICT sector that ensures that all South Africans have access to robust, reliable affordable and secure ICT services in order to advance socio-economic development goals and contribute to building a better world. It is responsible for developing ICT policies and legislation and contributing to e-skilling our nation to achieve equitable prosperity and global competitiveness.

While Telkom dominates the fixed-line voice market, competition from Neotel and value added network services (VANS) is growing and changing the market dynamic. In line with the trend in many emerging markets mobile substitution for fixed-line voice services has affected growth in this market.

While we still receive our largest revenue contribution from fixed-line voice Telkom has seen a significant decrease in this market since 2010. In addition, the rapid expansion of wireless broadband has impacted on the demand for our traditional copper-based fixed Internet lines.

For more information on our products, services and infrastructure see the Productive and Intellectual capital sections of this report on pages 62 to 77. 62

Our operating environment (continued)

Telkom's position

While Telkom dominates the fixed-line voice market, competition from Neotel and value added network services (VANS) is growing and changing the market dynamic.

In line with the trend in many emerging markets mobile substitution for fixed-line voice services has affected growth in this market. While we still receive our largest revenue contribution from fixed-line voice Telkom has seen a significant decline in this market since 2010. In addition, the rapid expansion of wireless broadband has impacted on the demand for our traditional copper-based fixed Internet lines. To compensate for the loss of fixed-line voice revenue and become the leading provider of converged ICT solutions we are using the convergence of telecoms, multimedia and ICT (TMT) to find new ways of maintaining profitability.

We are:

- Deploying the next generation broadband services to more and more South Africans, from entry level 4 Mbps per second ADSL through to premium 20 Mbps and 40 Mbps VDSL services, 100 Mbps per second fibre to the home, an LTE service primarily as a fixed line, accelerating the extension of our next generation network, having already invested in the largest terrestrial fibre network in the country
- Becoming data centric so that our revenue is driven by the provision of data services and we achieve high economies of scale, which will allow for high speed data intensive services at affordable prices
- Revamping our access network using multi service access nodes (MSAN) which give us the ability to enable different types of services from the same access node MSANs and address current and future demand as they are scalable and flexible
- Delivering simple and compelling bundles and converged products to consumers that place our offerings at the centre of the digital home
- Through our Customer First approach winning customers, which will allow us to achieve economies of scale
- Reducing costs to our wholesale customers with the aim of increasing access to broadband (Telkom announced a unit price reduction of up to 63 percent across its wholesale product range in April 2015)
- Offering access to our new generation broadband access technologies and MSANs to other Internet services providers (ISPs) on an open-access basis with the aim of delivering even higher speeds to the industry

and we plan to:

- Exponentially increase our ability to offer IT services that are responsive to current and future connected strategies and include compelling cloud-based and data centre services. Our proposed acquisition of BCX, which the South African Competition Commission has recommended for approval by the Competition Tribunal (subject to certain conditions), would allow us to rapidly achieve this goal
- Retain and recruit the talent we need to deliver against our strategy and provide an environment that supports innovation and continuous improvement

Telkom and the regulatory environment

Our main regulatory challenges are related to regulations in place, and those proposed, which create a playing field that is unevenly balanced towards our competitors. There are also significant historical legacy regulatory matters that we are addressing one by one to create a level playing field. We have made significant progress in this connection, which has had a positive impact on our profitability.

We have strengthened our regulatory team, which is working to resolve key regulatory matters by positively engaging with the regulator on call termination rates, spectrum, universal service obligations, local loop unbundling and open access, quality of service charters and Competition Commission compliance.

What the future holds for Telkom

- We will continue to put our customers first by improving our customer experience through process improvements, delivering a sustainable winning mobile proposition to consumers and business, accelerating and extending the delivery of our next generation network 68
- We will find innovative ways to compensate for our loss of revenue from voice services
- We will meet the challenge of ensuring our product range and product prices cater for all South Africans
- As lead agency on the national broadband plan Telkom will have the opportunity to work with South African telecoms companies to democratise data by addressing the current low penetration of broadband in South Africa
- We need to find ways to meet the challenge of democratising connectivity while at the same time ensuring that our business remains profitable and sustainable
- Telkom is looking at ways to optimize its operating model, this includes creating three standalone businesses: a consumer business focusing on leading in home connectivity and services, enterprise focusing on connectivity solutions for business customers and an infrastructure wholesale business, which would run the network and associated IT, field services and operations to service other licensed operators

This separation into a more clearly defined business will lead to greater accountability and cost efficiencies. It will also encourage the right behaviours in the marketplace.

Building stability, unlocking potential

77 Refer to Rep Trak results

National network operations centre

Our enterprise risk management (ERM) achievements in FY2015 and our future ERM plans*

2015

Ensured that

91%

of the Telkom workforce completed our business continuity management training course

During the year under review we addressed the embedding of an ERM culture in Telkom by:

- Enhancing our risk governance structure through the establishment of business unit assurance forums and documented the terms of reference of these units
- Developing an ERM risk training module and rolled it out to senior management in the group
- Integrating our stakeholder management into our ERM framework.

Addressed our ERM process by:

- Approving the group's risk appetite amount and cascading it into the business units and integrating it into our business unit reports
- Performing a control validation on all business units' risks with a rating of priority 1 and 2
- Undertaking a gap analysis in terms of the alignment of business unit plans with the group strategy and any potential gaps (risks) were identified, documented, assessed and they are being monitored by the ERM division in cooperation with management

Further embedded our business continuity management (BCM) by:

- Ensuring that 91% of the Telkom workforce completed our BCM training course
- Reviewing all business continuity plans not impacted by the group restructuring and establishing interim one-page business continuity plans for all employees impacted by restructuring and relocation programmes
- Ensuring the business continuity preparedness of Telkom's third party service providers

Maintained our level of corporate compliance by:

- Contracting KPMG to complete a gap analysis of our readiness in terms of the Protection of Personal Information Bill (POPI)
- Monitoring the top 80 Acts and four Codes that have an impact on Telkom's operations through a control self-assessment
- Completing compliance risk management plans, action plans and control self-assessment templates for 48 regulations relating to the key risks

2016

Maintain our levels of compliance

Our focus for the new financial year

During the new financial year our ERM focus will be:

- Ensuring that the ERM process is applied to our strategic and business objectives
- Ongoing project risk assessment
- Ensuring that the ERM process in terms of operational risk is applied to critical processes
- Developing a common understanding of risk across multiple functions
- Benchmarking our ERM reporting and monitoring against industry best practice
- Embedding the identification of opportunities
- Training 95 percent of the Telkom workforce in BCM during the new financial year
- Revising BCM governance structure in line with company restructuring
- Our organisational BCM testing programme will be aligned to complement the Telkom audit services audit schedule. Integrated testing will be conducted focusing on the services Telkom provides to key customers
- Maintaining our levels of corporate compliance

112 *Please refer to pages 112 to 116 for the details of our approach to risk management.

Tower with wireless technology, including microwave, satellite and mobile antennas

Our material issues

The board of Telkom is responsible for ensuring the integrity of Telkom's materiality determination process.

Materiality determination process

- The Telkom board sets and approves strategic plans for the group, which it adjusts as and when necessary. It is also responsible for the development of Telkom's risk appetite and the setting and monitoring of risk tolerance
- The board, through the audit and risk committees and board strategic workshops, considers the risks and opportunities the group may face.
  It assesses each issue in terms of the:
  - possible economic impact on our business
  - degree to which it affects our stakeholders and ourselves
  - extent to which it is likely to grow in significance and impact our business in the future
  - business opportunities it presents
  - extent to which mitigating actions have been implemented by management and the effectiveness of these actions in addressing the risk
- Enterprise risk management (ERM) plays an important part in Telkom's materiality determination process as it provides both our management and board with an enterprise-wide integrated view of the risks and opportunities facing the business through its quarterly reporting against Telkom's risk management plan. The board also reviews the risk management plan annually
- Key to our materiality determination process is consultation with our stakeholders. Our ability to determine what issues are material to our business was further enhanced when, in October 2014, stakeholder management was incorporated into our ERM process.

The table on page 31 sets out our most material issues and the action we have taken to either mitigate each issue or make use of the business opportunity it presents. The table also identifies the stakeholders affected by these issues and their particular concerns that we have identified and are addressing.

> 20 years ago
>
> telecom infrastructure was used to provide mostly basic voice and data communication services;
>
> today
>
> it is playing an essential part in the greatest innovation story of the current age while forming the backbone of the future economy
>
> Dalibor Vavruska
> Head of CEEMEA Telecom Research
> Citigroup

Material issue	Overview	How we have responded to the risks or opportunities this issue raises	Our stakeholders and the material issues they raised
Strategic objective: Reposition the business to achieve long-term commercial sustainability			
Customer experience improvement	> Lagging customer experience will result in financial loss and reputational damage > Our focus on improving customer experience through effective and efficient service delivery remains pivotal to our service business Key focus areas: > Contact centre experience > Billing > Instore experience > Installation experience	Telkom's turnaround strategy positions the customer at the epicentre of Telkom's existence through our Customer First programme. This has resulted in the following changes in Orange Index® satisfaction levels: > Fixed line 5.2 % above industry average due to 7.2 % year-on-year improvement > Satisfaction with Internet service increasing steadily, 8.21 % improvement year-on-year. Customer satisfaction with our mobile service decreased 6.73 % year-on-year, employee lack of responsiveness, reliability and empathy being the greatest contributors to this decrease	**Customers:** 68 > Improve the management of accounts > Availability and improvement of our products and services > Focus on innovation > Improving communication and service delivery > Affordability
Human capital	> To achieve new forms of growth we need to be able to attract and retain new types of talent > We need a high performance culture and different skills to provide the levels of customer service we require > High employee costs are impacting our profitability > Possible industrial action	> We constantly review our workforce strategy and manage the related risks > We have implemented a training plan to address the skills gaps in our workforce and ensure we maintain a high-performing workforce > We have opened a dialogue with the labour unions regarding reducing our employee numbers > We offer voluntary early retirement packages/voluntary severance packages to both members of management and bargaining unit members and non-members > We have a robust change management programme in place and are employing various internal programmes together with the turnaround strategy driven by the group chief executive officer's office	**Employees:** 83 > Skills development > Job security > Employment equity > Career development and succession planning **Organised labour:** > Matters relating to transformation, diversity, employment equity and skills development > Employee health and safety > More trusted relationships and improved communication > No job losses
Legal and regulatory landscape	> Telkom constantly faces legal challenges, particularly in terms of regulatory uncertainty and unforeseen regulatory changes that could have a negative impact on the group	> Telkom appoints legal counsel to advise the group on legal and regulatory matters > We trained and created awareness among all our managers regarding our compliance requirements to ensure we comply with regulatory and legal requirements > Telkom maintains an ongoing engagement with the Independent Communications Authority of South Africa (ICASA)	**Regulators:** 62 > Competition Commission compliance > Call termination rates and interconnection > Local loop unbundling > Quality of service > Rollout to underserviced areas > Increased spectrum licence fees

Our material issues (continued)

Material issue	Overview	How we have responded to the risks or opportunities this issue raises	Our stakeholders and the material issues they raised
Strategic objective: Reposition the business to achieve long-term commercial sustainability			
Insufficient revenue growth and profitability	We have lost market share as a result of: > the reduction in fixed-line customers > An increasingly competitive landscape in voice, data and ICT services > Competitors' investment in fibre networks for the provision of voice and data services	Telkom is organically growing its revenue through: > Competitive pricing > Improved customer service > Competitive products > Rationalising products and services and streamlining our processes Telkom is inorganically growing its revenue through: > Its turnaround strategy through which it is seeking to partner with other organisations in the ICT sector, in line with global trends	**Investors:** > Clarity on Telkom's strategic objectives and deliverables > Lack of clarity/alignment with government > Operational concerns including historic track record of poor investment, high execution risk and a high cost base 08
Stakeholder relationship management	> Key to the achievement of Telkom's objectives	> A revised two-phase stakeholder engagement plan has been mapped and will be rolled out in FY2016	> Those responsible for Telkom's stakeholder engagement > Monitor and ensure the issues raised by our stakeholders are addressed 89
Information technology	> Our ability to deliver efficient and cost effective information technology services to support Telkom as a strategic enabler > Inadequate information security may result in a loss of information and intellectual property if confidentiality, integrity and availability is compromised leading to fines/penalties and reputational damage > Vulnerability assessments and active intrusion detection and protection cannot currently be performed internally due to inadequate systems that are not able to draw the required reports. > Risk of non-compliance with payment card industry data security standard (PCI DSS)	> Telkom Group Information Technology's (TGIT) strategic plan, which is in line with Telkom's strategic direction, is monitored on an ongoing basis. TGIT has also established an OSS/BSS steering committee in which all internal stakeholders participate > Information security governance forum (ISGF) established and fully mandated > Developing and implementing an appropriate information security management system (ISMS) in accordance with our information security strategy > Information security policy and strategy in place > IT outsourcing as a strategic option and a business benefit to the achievement of our objectives	**Customers:** > Improvement of our products and services > Streamlined billing **Payment card industry:** > Non-compliance with PCI DSS **Investors:** > Legal and regulatory issues 62
Non-compliance with Competition Commission settlement agreement	> Non-compliance with the transfer pricing programme in terms of the Competition Commission settlement agreement > Non-compliance with principles regarding non-discrimination between Telkom Retail and other operators	> Telkom established a transformation office to ensure full compliance with the Competition Commission settlement agreement. Its responsibilities include overseeing the functional separation of the wholesale/retail businesses > Compliance with transfer pricing principles in terms of the Competition Commission settlement agreement > Compliance with the code of conduct policy > Implementation of Competition Act training programme	**Regulators:** > Competition Commission compliance

Material issue	Overview	How we have responded to the risks or opportunities this issue raises	Our stakeholders and the material issues they raised
Strategic objective: Stabilising our operations to achieve growth in the long term			
Network risk	> The compatibility and synergy of Telkom's network and IT platforms becomes key to success due to the ever-changing landscape of the telecommunications sector	> Telkom entered into an agreement with MTN SA that will allow for bilateral roaming if approved by the Competition Commission > Transform the Telkom network and IT through the next generation network (NGN) initiative > The NGN programme remains a priority for the development of an invincible network. The decommissioning of legacy assets is progressing and the recovery of components and parts provides spare capacity where systems have reached end of life	**Competitors:** > Telkom and MTN South Africa remain in discussions regarding the potential agreement for bilateral roaming and a managed network service arrangement for MTN to take over the operational and financial responsibility for Telkom's radio access network **Employees:** > Skills development
Business continuity	> Company-wide lack of business continuity management (BCM) knowledge and ineffective Telkom BCM preparedness in the event of a disaster or business interruption could result in Telkom's inability to manage a crisis or disaster. Delayed or no response to a crisis or a disaster and no continuity and/or recovery of the identified mission critical activities (MCA) could result in a reputational, financial or service delivery impact	> The testing of business continuity plans to ensure Telkom is prepared in the event of a disaster or business interruption is ongoing group-wide, as are our training and awareness programmes	**Employees:** > Skills development **Customers:** > Availability of products and services **Media:** > Negative perceptions of Telkom in the media **Investors:** > Operational concerns
Financial performance	> Failure to achieve market expectations and achieve our financial targets as indicated to the market could impact Telkom's credit rating > Not meeting shareholder expectations in terms of creating total shareholder value	> Our capital budgets are tightly controlled > We are focusing on developing profitable areas of our business and either addressing or exiting non-profitable areas > Initiatives to increase our return on assets (ROA) are in place > We continue to monitor our performance against our business plan and implement corrective measures where required > Appropriate acquisition opportunities	**Investors:** > Failure to achieve market expectations **Credit rating agencies:** > Failure to achieve financial targets which could impact credit rating

Our material issues (continued)

Material issue	Overview	How we have responded to the risks or opportunities this issue raises	Our stakeholders and the material issues they raised
Strategic objective: Fulfil key role in transforming South African telecommunications industry			
Retention of broad-based black economic empowerment (B-BBEE) rating	> Failure to retain our B-BBEE rating in terms of the amended B-BBEE Code of Good Practice (the Codes) could result in a potential loss of market share and/ or reputation as clients require service providers to meet the required B-BBEE rating	> Telkom has conducted an impact analysis to assess its rating in terms of the amended Codes and has put in place a transformation action plan that will ensure we retain our rating	**Customers:** > Requirement that suppliers have required B-BBEE rating **Government:** > Complying with government legislation in the form of the amended B-BBEE Codes
Voice revenue decline	> Our business plan for FY2016 accounts for a decline in fixed voice revenue, however, should this decline accelerate faster than anticipated Telkom may not meet its long-term business plan > If voice revenue, which is currently a significant source of revenue for Telkom, declines more rapidly than anticipated and before Telkom has been able to build alternative sources of revenue through its diversification strategy, our revenue would be negatively impacted. A decline in revenue could affect our profitability	> Telkom is focusing on continually developing profitable, innovative product offerings to drive revenue growth through diversification > Appropriate inorganic growth opportunities through acquisitions	**Regulators:** > Increased spectrum licence fees. Telkom is cooperating with ICASA to reduce the financial impact of sector regulatory obligations and to establish a level playing field across the sector
Procurement	> To ensure we retain our full enterprise and supplier development scores, which are an important part of our B-BBEE Codes rating > The implementation of the Preferential Procurement Policy Framework Act (PPPFA) procurement process precludes Telkom from setting aside business for black suppliers including exempted micro enterprises (EMEs), qualifying small enterprises (QSEs) and black female-owned enterprises	> Telkom is outsourcing its non-core business activities > We are engaging with the relevant stakeholders to limit the impact of compliance with the PPPFA > Telkom's procurement process is being improved to ensure it is aligned with our strategy > Our enterprise supplier development (ESD) strategy and framework has been developed and implemented	**Suppliers:** > Opportunities to supply to Telkom and provide Telkom with outsourced services **Government:** > Complying with government legislation in the form of the amended B-BBEE Codes
Environmental	> Telkom needs to reduce its energy usage in order to reduce both its costs and its carbon emissions	> Having assessed its energy data and analysed the potential impact of a carbon tax, Telkom has implemented energy efficiency targets	**Investors:** > Cost efficiencies and social responsibility to reduce carbon emissions

Jabu Mabuza

Susan (Santie) Botha

Graham Dempster

Board of directors
Non-executive directors

Thembisa Dingaan

Navin Kapila

Itumeleng Kgaboesele

The skills of the Telkom board

- Extensive experience as **directors of listed companies**
- A range of **financial skills** that include investment experience, banking, financial management and actuarial skills
- Extensive **leadership** experience
- Directors with experience in **telecommunications** including ICT transformation experience
- Directors with **legal skills**
- Directors with **economic skills**
- Directors with **human resource skills** and experience

Jabu Mabuza (57)

Chairman (Independent)
Chairman of the nominations committee

Effective Leadership Programme (Wharton Business School), Executive Development Programme (John E Anderson Graduate School of Management)

Jabu joined our board as chairman and independent non-executive director in November 2012. He chairs our nominations committee and is a member of the remuneration committee. Jabu is currently also the executive chairman of Sphere Holdings, deputy chairman of Tsogo Sun Holdings and president of Business Unity South Africa (BUSA). He is a director of ACE Insurance Limited, Eglin Investments No 44 (Pty) Ltd and Lexshell 553 Investments (Pty) Ltd. He has also been a member of the board of UNISA's Graduate School of Business since 1994.

Jabu was previously the managing director of Southern Sun Gaming, group chief executive officer of Tsogo Sun and chairman of the board of South African Tourism.

Susan (Santie) Botha (50)

(Independent)
BEcon (Hons) (University of Stellenbosch)
Chairman of the remuneration committee

Santie, who was appointed to the Telkom board in December 2012, is chairman of our remuneration committee and a member of the nominations committee. The chancellor of the Nelson Mandela University, she is also non-executive chairperson of Curro Holdings Limited, independent non-executive chairman of Famous Brands and a director of Tiger Brands Limited, Liberty Holdings and Imperial Holdings Limited. She started her career at Unilever and served as an executive director of Absa Bank from 1996 to 2003 and the MTN Group from 2003 to 2010.

Graham Dempster (59)

(Independent)
CA(SA), CTA, AMP (Insead and Harvard Business School)

Graham, who joined the Telkom board in December 2014, is a member of our risk committee. He is currently the chief operating officer of the Nedbank Group, having originally joined the group in 1980 in the Corporate Finance Division of UAL Merchant Bank, where he held the position of joint head of its Special Finance Division before being appointed head of Nedbank's International Division in 1998. He then assumed responsibility for Nedbank's Corporate Banking Division in 1999, became managing director of Nedbank Corporate in 2003 and has held his current position since August 2009.

Thembisa Dingaan (42)

(Independent)
BProc, LLB (University of KwaZulu-Natal), LLM (Harvard), HDip Tax (Wits)

Thembisa was appointed to the Telkom board in December 2014 and is a member of our audit and remuneration committees. She is currently a non-executive director of the Development Bank of Southern Africa, a member of its audit, risk and finance committee and chairman of the bank's credit and investment committee.
She is also a non-executive director of Mustek Limited, Imperial Holdings Limited, Sumitomo Rubber South Africa (Pty) Ltd and Absa Bank Limited. She is a trustee of Absa's pension fund. Thembisa's considerable legal experience includes being admitted to the New York State Bar.

Navin Kapila (60)

(Independent)
BA (Eng) (Economics) (Law)

Navin has been a member of the Telkom board since February 2011. He is currently managing director of India for Inmarsat Plc, an industry leader and pioneer of mobile satellite communications.

He is also a special adviser for emergency communications to the International Telecommunications Union (ITU).
His extensive telecommunications experience includes his role as a senior official in the Indian government's Ministry of Communications and Information Technology and senior executive positions with ICO Global, a telecommunications company.

Itumeleng Kgaboesele (43)

(Independent)
CA(SA), Postgraduate Diploma in Accounting (UCT)
Chairman of the audit committee

Itumeleng was appointed to the Telkom board in July 2011. In addition to chairing our audit committee he is a member of both the risk and investment and transactions committees. Co-founder and chief executive officer of Sphere Holdings, he is responsible for Sphere's strategic, operating and investment activities.
Before forming Sphere in 2003 he gained investment banking experience in London and Johannesburg at Merrill Lynch, Deutsche Bank and Citigroup, where he was vice president of the Investment Banking Division. Itumeleng is the chairman of the Student Sponsorship Programme and and a trustee of the African Leadership Academy.

Non-executive directors
(continued)


Khanyisile Kweyama


Kholeka Mzondeki


Nunu Ntshingila


Fagmeedah Petersen-Lurie


Rex Tomlinson


Louis von Zeuner

Executive directors


Sipho Maseko


Deon Fredericks

Khanyisile Kweyama (51)

(Independent)
MSc (Management)
Chairman of the social and ethics committee

Khanyisile, who joined the Telkom board in December 2012, is also a member of our nominations committee. She is currently the chief executive officer of Business Unity South Africa (BUSA). Khanyisile was previously an executive director of Anglo American South Africa and a member of the executive committee of Anglo American Platinum Limited. She held executive positions at Barloworld, Altech and BMW South Africa and is currently serving on the boards of Business Leadership South Africa (BLSA), Business Forum and the International Geology Forum.

Kholeka Mzondeki (47)

(Independent)
BCom, ACCA (UK), Dip Investment Management

Kholeka, a chartered accountant, has been a member of the Telkom board since November 2012 and is also a member of the audit and remuneration committees. She currently sits on the boards of a number of JSE-listed companies, is a member of the ACCA Council and a member of the UN World Food Programme. Previously she held the roles of financial director and chief financial officer in various organisations including 3M South Africa. In addition to her extensive financial management and strategy experience she has experience in ICT transformational strategy formulation and implementation, using technology as a customer value proposition. In 2008 she was a finalist on Nedbank Business Woman of the Year.

Nunu Ntshingila (51)

(Independent)
BA, MBA

Nunu was appointed to the Telkom board in December 2014 and is a member of both its nominations and social and ethics committees. She is currently the chairman of Ogilvy & Mather. She started her career as a trainee account executive with the company and, after a spending three years at Nike, returned to Ogilvy in 1999. She became group chief executive officer in 2005 and was appointed chairman in 2012. She has gained extensive experience in marketing, strategy and advertising during her career with Ogilvy. She is also a member of the Old Mutual, V&A Waterfront and Transnet boards.

Fagmeedah Petersen-Lurie (39)

(Independent)
BBusSc (Actuarial Science), PGDip (Management Practice), FASSA, FIA
Chairman of the investment and transactions committee

Fagmeedah, who joined the Telkom board in December 2012, is also a member of our risk committee. She is currently trustee of the Liberty Life Umbrella Fund, and an expert trustee on the Government Employees Pension Fund. She was previously acting chief investment officer of the Eskom Pension and Provident Fund and director: institutional business at Prudential Portfolio Managers.

Rex Tomlinson (52)

(Independent)
BCom (Economics), HDip Personnel Management, SEP (Stanford Business School)

Rex was appointed to the Telkom board in December 2014 and is a member of both our audit and investment and transactions committees. He is currently lead independent director at Tsogo Sun and also serves as chairman of three unlisted companies. He joined Liberty Holdings in 2004, was appointed deputy chief executive in 2005, joined the Liberty board in 2006 and served on the board until his resignation in 2010. Before joining Liberty Rex held executive line management roles at Nampak and was a member of the Nampak board, having joined Nampak from Illovo Sugar, where he was human resources director.

Louis von Zeuner (54)

(Independent)
BCom (Economics)
Chairman of the risk committee

Louis has been a member of the Telkom board since December 2012. In addition to being chairman of the risk committee he is also a member of the audit and social and ethics committees. He currently serves as a non-executive director on a number of boards. He is also a member of the Eminent Persons Group on Transformation in Sport and the South African Rugby Players Association (SARPA) Development Trust and advises the LIV Foundation, which focuses on the upliftment of children. He had a long and distinguished career in banking, during which he gained extensive experience in risk management and mergers and acquisitions, and was deputy group chief executive of Absa from 2009 to 2012.

Sipho Maseko (46)

Group chief executive officer
BA, LLB

Sipho was appointed group chief executive officer of Telkom in April 2013. Before joining Telkom he was group chief operating officer and managing director of Vodacom, which he joined from BP Southern Africa, where he held various roles from 1997, including chief operating officer and chief executive officer. He is currently a non-executive director of the Centre for Development and Enterprises and the Afrox board.

Deon Fredericks (54)

Chief financial officer
CA(SA), BCompt (Hons), Honours in Business Management, ACMA (UK)

Deon, who joined Telkom in 1993 as a senior manager in internal audit, was appointed chief financial officer in September 2014 having previously held the position of deputy to the chief financial officer and group executive of corporate finance accounting services. He is currently an advisory board member of Business Against Crime (Mpumalanga) and chairman of Trudon (Pty) Ltd. He was previously a non-executive director of Vodacom and chairman of the audit committee.

Management team

Miriam Altman

Brian Armstrong

Izaak Coetzee

Len de Villiers

Thami Msubo

Ouma Rasethaba

Ian Russell

Alphonzo Samuels

Enzo Scarcella

Miriam Altman (53)
Head of strategy
BA Economics (McGill), MPhil in Development Economics (Cambridge), PhD in Economics (Manchester)

Miriam joined Telkom as head of strategy in June 2014. She was previously an executive director at the Human Sciences Research Council and was a commissioner on the National Planning Commission in the Office of the President.

She is a founding trustee and currently chairperson of the Tiger Brands Foundation.

Brian Armstrong (54)
Chief operating officer
BSc (Engineering), MSc (Engineering), PhD

Brian joined Telkom as managing director of Telkom Business in May 2011 and served as senior managing executive for enterprise markets before being appointed to his current role in April 2013. Before joining Telkom Brian was vice president of British Telecoms (BT) for the Middle East and Africa where he was responsible for overseeing and growing BT's activities across the region. His previous experience includes ICT research and development, telecommunications technology management, networking services and outsourcing.

Izaak Coetzee (44)
Group executive: transformation office
BCom (Hons) MBA

Izaak joined Telkom in 1999. He served as executive in the regulatory affairs department before being appointed group executive: transformation office in September 2013, where he is responsible for managing the settlement agreement with the Competition Commission, Telkom's envisaged wholesale/retail separation programme and steering Telkom's national and public broadband endeavours. He leads the Competition Commission compliance programme. Previously, he held positions at the Independent Communications Authority of South Africa and the Department: Communications.

Len de Villiers (58)
Chief information officer
DIS, Information Technology (Harvard) GITI, Information Technology and Telecommunications (Insead Business School)

Len joined Telkom as chief information officer (CIO) on 1 November 2013 from Transaction Capital, where as group CIO he was responsible for technology functions across the Bayport Group. Previously he had spent over 20 years in banking, first as general manager technology at First National Bank, then as CIO of Nedbank and finally as CIO of Absa until 2012.
He is currently chairman of the CIO Council of South Africa, which voted him the most admired CIO in South Africa in 2009.

Thami Msubo (49)
Chief of human resources
BAdmin (Economics and Administration), BAdmin (Hons) (Administration)

Thami joined Telkom as chief of human resources in January 2011, having previously been chief of human resources, corporate affairs and empowerment at Tata. His previous experience includes senior human resource roles in the mining, pharmaceuticals and electronics industries during which he gained experience in transformation, business cultural change, leadership development and organisational development. Thami was a board member for the World Association for Co-operative Education.

Ouma Rasethaba (54)
Chief risk officer
BProc, LLB (Hons), Higher Diploma in Company Law, LLM

Ouma joined Telkom as group executive of regulatory and public policy in 2006. She was appointed chief of corporate governance in 2007 and chief risk officer in April 2014. She is a former special director of public prosecutions at the National Prosecuting Authority and has practised as an attorney and advocate.

Ian Russell (43)
Chief procurement officer
BSc (Econ), MBA, FCIPS

Ian was appointed chief procurement officer at Telkom in February 2014, having previously headed up procurement at South African Breweries and been chief procurement officer for the Absa group. Before moving to South Africa in 2005 Ian worked for Barclays in London where he held a number of senior roles in operations, technology and procurement.

Alphonzo Samuels (49)
Chief technology officer
BTech, Diploma (Human Resource Management), Diploma (Telecommunications)

Alphonzo, who was appointed chief technology officer in February 2014, joined Telkom in 1984. During his career with Telkom he has held senior positions in a number of different divisions including broadband technology, planning, engineering, operations, capital project management and human resources.
Alphonzo also completed a nine month assignment with SBC (AT&T) in 1998.
He was group executive: wholesale and marketing operations from November 2007 to June 2010 and managing executive: network infrastructure provisioning from July 2010 until his current appointment.

Enzo Scarcella (45)
Chief marketing officer
BA (Hons) (Harvard), Advanced Management Programme (Kellogg School of Business)

Enzo joined Telkom as chief marketing officer in February 2014 from Vodacom, where he was managing executive of marketing from May 2008 to September 2013. Over the past 19 years he has managed some of South Africa's most prestigious brands. As brand group manager at South African Breweries he gained experience marketing new products, after which he moved to MNet as marketing director and then to the Edcon Group, before joining the telecommunications industry. He was voted Marketing Personality of the Year by his peers in the Sunday Times Top Brand Survey in 2011.

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Strategic review

Chairman's letter to stakeholders

I am pleased to introduce you to our integrated report for the financial year ended 31 March 2015.

Last year I was able to tell you that the board had approved Telkom's new strategic direction, which included our new growth strategy. The board believed that the implementation of this strategy was key to the sustainability of Telkom in the future.

Our strategy recognises the need to transform our business model, while at the same time addressing the issues that contributed to our recent difficulties. This means that our management team is faced with the considerable challenge of addressing legacy issues that could threaten Telkom's sustainability if not addressed, identifying the potential of certain legacy assets to add value in the medium and long term, while at the same time implementing the new, which is also essential if we are to ensure Telkom's future in an intensely competitive market.

We need a strong, committed management team, with the necessary skills, foresight and determination to meet and address our challenges. I am pleased to advise you that all our executive positions are now filled with permanent appointments, some of which are new to the Telkom team. I believe our management team, which has been very carefully selected, has what it takes to address our legacy issues and position Telkom as a leader in home and connectivity services and solutions and South Africa's leading ICT infrastructure group with right sized, fit-for-purpose support functions.

As you will see from the group chief executive's Strategic review the Telkom team has made very pleasing progress with its implementation of the stability phase of our turnaround strategy.

Some of the key outcomes of this first phase of Telkom's turnaround are:

- The benefits of the discipline in operational and capital expenditure
- The improvements in addressing customer experience and implementing the net promoter score (NPS)
- Telkom has improved its relationship and engagement with the regulator and we have seen the correction of some market distortions
- The continued strengthening of our balance sheet which is discussed by the group chief executive officer and the chief financial officer on pages 50 and 51, respectively
- A high calibre management team is in place and leadership has been stable

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At Telkom we understand that a sound and robust approach to group corporate governance standards throughout our organisation requires a focus on performance as well as conformance.

We also recognise that

strategy,
performance,
sustainability
and risk

are inseparable.

The Competition Commission's approval of our acquisition of Business Connexion (BCX), which provides information communication technology (ICT) products, services and solutions and which still requires the go-ahead of the Competition Tribunal, is an important step in the implementation of our growth strategy. We have, however, a great deal more to do in this regard.

We were also proud to be recognised as South Africa's best mobile broadband operator for the third year running and best fixed broadband services provider for the fourth year running, at the annual My Broadband Conference.

At Telkom we understand that a sound and robust approach to group corporate governance standards throughout our organisation requires a focus on 98 performance as well as conformance. We also recognise that strategy, performance, sustainability and risk are inseparable. We have established clear lines of accountability for the implementation of our strategy from board level down. I would refer you to my corporate governance review for details of our application of the King III Codes of Good Practice and our compliance with the JSE Listings Requirements.

Telkom recognises and embraces its responsibility to contribute to the socio-84 economic development of South Africa. In this regard I am particularly proud of our recently announced FutureMakers programme, which resonates with my 87 entrepreneurial spirit. Not only does the programme support the national drive to increase access to technology for SMMEs and create sustainable business in the ICT sector, it also makes good business sense for Telkom as it supports our aim of taking the lead through an end-to-end strategy that will open up the digital world and economy to entrepreneurs and support them in this. You can find out more about this programme in the Social and Relationship capital section of this report. We are, of course, also in a unique position, through the Telkom Foundation, to use our resources and ICT capabilities to provide sustainable socio-economic solutions in the areas of education, health and social welfare.

I look forward to being able to report to you on substantial progress against our strategic objectives in our integrated report for 2016.

Appreciation

Those of us who serve on the Telkom board do so at a critical time in the history of the business as we seek ways to ensure Telkom thrives in a very competitive market, which is rapidly evolving, and delivers significant value to all its stakeholders. My thanks to all my fellow board members for their valuable and insightful contributions to our debates and decision-making. My thanks also go to the Telkom management team for your achievements during this financial year and I look forward to being able to report on the progress you make in the year ahead.

To all our employees my thanks for the efforts you have made to enable Telkom to deliver against its turnaround strategy and I would ask that you remain committed to helping Telkom achieve its strategic objectives and build a brand of which we can all be justly proud.

Jabu Mabuza
Chairman

Group chief executive officer's strategic review

Reduced our debt by
92.8%

Increased convergence solutions by
650%

IT revenue increased
±82%

I am pleased to be able to report to you that after two very difficult years our multi-year turnaround strategy is on track and we are beginning to make good progress towards achieving our objective of building a sustainable, prosperous business.

When we disaggregate the performance of the different businesses the improvement really starts to come through. We have taken out quite a lot of inefficiency, which is reflected in the 5.2 percent reduction in real terms in our operating costs.

A key highlight for us this year has been reinstating the dividend. You'll find the details of the dividend in the chief financial officer's review, which follows. In addition to the base dividend we have rewarded our shareholders for their patience with a little extra in the form of a once-off special dividend. We've been able to do this because our cash generating capacity is very strong and we have reduced our debt by 92.8 percent. The flexibility that this gives us places us in a very strong position going forward.

Obviously, there is still a lot more we can and will be doing with regard to efficiencies in the years ahead, but we always knew that our transformation and expansion plans for Telkom were never going to happen over a two to three-year period. We've given ourselves a quite tough, but we believe a realistic timeline to ensure that year-on-year we can show progress with taking costs out of the business and stabilise revenues. We're exiting parts of the business that are not core to what we do and we have also exited all of our investments outside South Africa. This has enabled us to build a business that is focused on its core activities and building the right capabilities for the future.

As we forecast, fixed-line voice usage, which is still our largest source of revenue, continues to decline. It is this continuing decline, which is in line with global trends, that makes the turnaround of our business so urgent. We also saw a decline in leased line revenue, which was affected by self-provisioning and the fact that the economy is not doing as well as expected.

We are now well-positioned for changing customer trends

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At the same time we have been able to derisk our mobile business, which is now much closer to breaking even going forward. You'll find detail on this in the Financial and Productive capital sections of this report on pages 54 and 62. In our Consumer business, where the team has made a big effort to ensure we begin to do things differently, we have enhanced our fixed-line value proposition and tried to become more relevant and top of mind to our customers. Our smarthome converged offers are driving data usage and we've been able to grow our net revenue from our Consumer business by 12 percent with Internet subscriber growth of about nine percent and a 7.4 percent increase in DSL subscriptions. Some of the new products we have brought to the market have had significant success. The majority of our new subscribers are purchasing smartphone solutions, which is most encouraging. It is also an indication that convergence and content services are going to be part of the future that Telkom needs to give serious consideration. We still have an issue around churn and network experience, which we are busy fixing.

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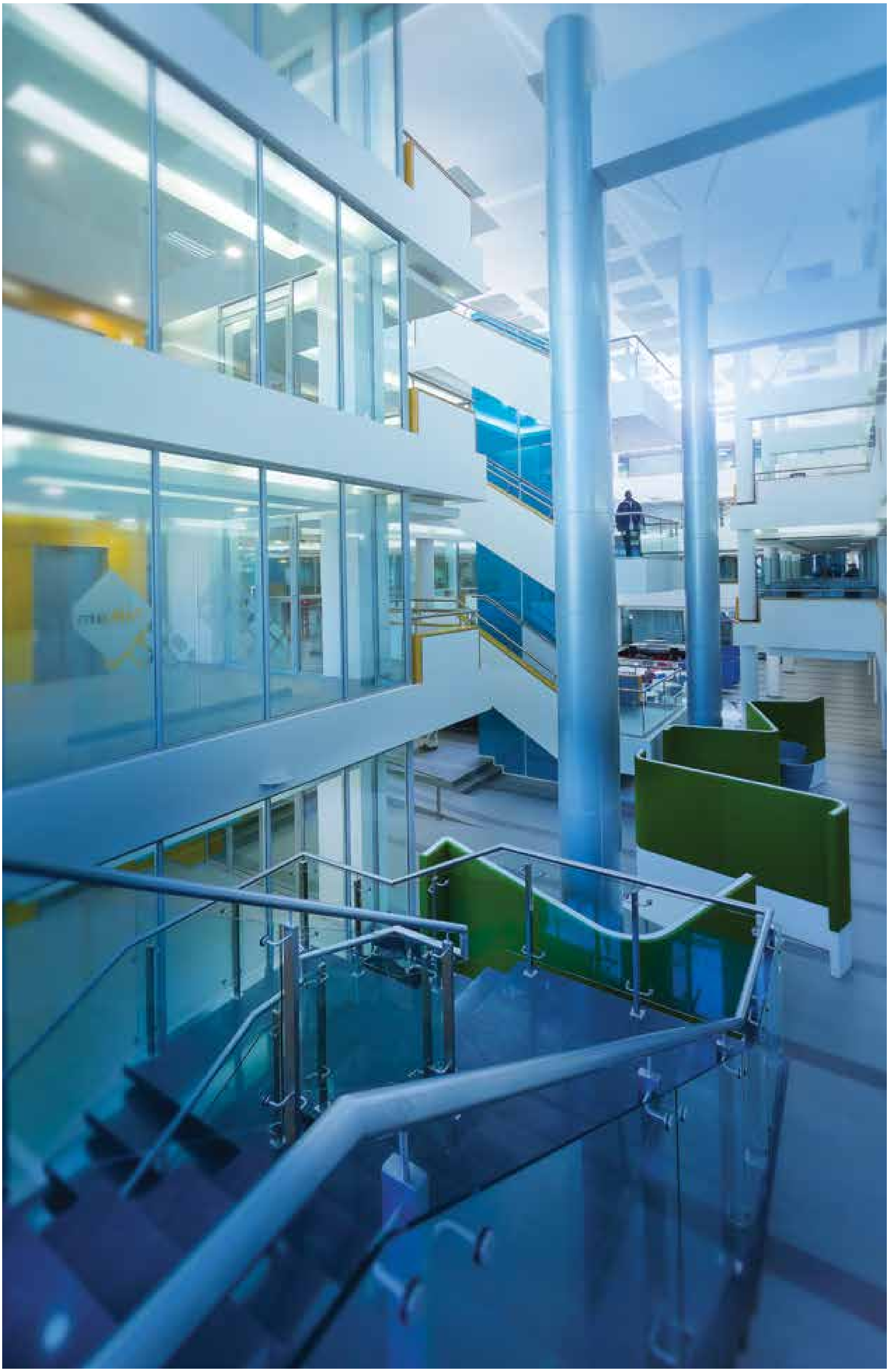
We are now well-positioned for changing customer trends, one of which is the demand for increased data bundles. For example, over 21 percent of our prepaid mobile subscribers want an integrated product with both voice and data. Also, the number of customers wanting to combine a mobile and a fixed solution has increased by close on 100 percent year-on-year. This provides us with an opportunity to cross-sell and leverage both the fixed and mobile network.

The year under review has been a difficult year for Telkom Business, with its biggest challenge, of course, being the decline in voice usage and data connectivity revenues. The take-up by businesses of Metro-ethernet, which is a migration from legacy technology to new technology, was 14 percent higher year-on-year off a low base. This technology is more reliable than the legacy technology it replaces and we are able to use it to offer converged solutions, which bodes well for business going forward.

Telkom Business was able to increase its IT revenue by about 82 percent and its convergence solutions by 650 percent, albeit off a low base. This result is an indication of future trends and we need to ensure we position ourselves as a group to take advantage of these trends. While this market has shown significant declines in usage during the year under review, we are beginning to see the convergence offers we have put in place on the enterprise side of our business resulting in a good uptake of total solutions and a pipeline of deals, particularly in the public sector.

The Competition Commission has now recommended our proposed acquisition of Business Connexion for approval by the Competition Tribunal. This acquisition will strengthen Telkom Business' core business of connectivity with ICT services. If and when the Competition Tribunal's approval comes through we expect the integration of these businesses to be swift to ensure we begin to maximise the benefits of the transaction as soon as possible.



New Telkom Centurion campus

Wholesale and Networks endured a very tough time over the past 12 months. This includes the relentless pressure from smaller providers of fibre, who are far nimbler than we have been, cherry-picking the suburbs they want to service. As the leading manager of a wide infrastructure network Telkom's response to this type of competition needs to be carefully thought through. Our approach is to evaluate each market and each exchange to make sure we have the right technological solution for a particular market. Licensed operators continue to self provide resulting in lower data leased line revenue. Another competitive challenge telecoms companies face is from some of the over the top players (OTTs) that deliver content to an end user's device using an ISP to transport Internet protocol packets. We introduced 20, 40 and 100 Mbps wholesale fibre broadband in selected areas during the year under review and passed 1 030 519 homes with next generation access (fibre to the curb technology). This year we were also the first to market with an LTE-A rollout.

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Wholesale has also introduced very substantial price reductions across its product range (see page 72 of Productive capital for more information) as part of its competitive strategy.

Our investment into optimizing our network is intended to increase its speed and capability and to ensure we can obtain the maximum potential performance from a network that is reliable and available all the time. We need to make sure our network is future-proof. We can expect usage to follow global trends where 60 to 70 percent of the usage of networks like ours is for Internet or streaming purpose. Wholesale's very substantial price reductions across its product range are intended to stimulate demand and increase utilisation.
Our wholesale team is offering innovative value propositions on top of their network offering.

We are working very hard to regain customer trust and improve our customer experience. To achieve this we are focusing on listening and responding to our customers. We have also made a substantial investment in a customer experience unit. The process of outsourcing our contact centre this year resulted in a drop-off in service levels, but the new solution is expected to greatly improve the customer experience. The research we did this year to review what progress we had made with our customer experience showed that we are not yet where we want to be, but there has been a big improvement. Customers are beginning to have a warmer feeling towards the group. The awards we won for our broadband and mobile offerings are very encouraging.
Our relationship with the regulator is improving, which is pleasing. This does not mean that we do not represent our interests robustly, rather we have been able to demonstrate a logical and rational argument.

With regards to Telkom's compliance with the settlement agreement entered into with the Competition Commission, I can confirm that Telkom has complied with the terms of the settlement agreement during FY2015. We are extremely fortunate to be experiencing in our lifetime a change that is akin to the industrial revolution.
This time the revolution is happening around the Internet and digitalisation and we at Telkom have the opportunity to use the investment we have made and continue to make in our infrastructure to broaden access and democratise broadband.
This year for the first time there are over one million broadband users in South Africa. And it's not only the number of broadband users, but the rate at which they are beginning to use broadband that is quite phenomenal. To further stimulate access to broadband we will be making around 200 of our exchanges available to Internet service providers on an open access basis during 2015. We also have a number of exciting new ventures planned, which will make Telkom a very different business by the time I report to you this time next year. I am encouraged and enthused about the prospects for Telkom. What we have achieved in these past two years is phenomenal even though at times it has felt as though we're having to run while we are still learning how to walk. We have a long list of things that need to be done and we recognise that time is not on our side. It's frequently a challenge to prioritise and make sure that the organisation is able to digest what we ask of it. Sometimes we need to take one step back in order to take two steps forward. Slowly but surely our people are getting back their self-belief and self-confidence and this is generating a new energy and determination to make a difference. We are also introducing the right level of talent into the organisation where we need it.

I would like to recognise and thank both our executive team and our board for the very significant role they have played in Telkom's turnaround. I can look forward to the challenges ahead knowing I have your support and wisdom to guide us in our decision-making.

Sipho Maseko
Group chief executive officer

Chief financial officer's review

Grown our EBITDA by

15.1%

60%

Increase in HEPS

Increase in our free cash flow to

R3.9bn

In this review I will be providing you with a brief overview of our financial performance, which will be discussed in the Financial capital section that follows.

I am pleased to be able to report to you that the year under review was a good financial year for Telkom. It was a year during which we had two very specific focuses: the one was on stabilising our revenues, which we achieved as we said we would do, and the other was managing the cost drivers within the business. While we have not as yet brought our cost drivers totally under control, we have made substantial progress there.

This will be further supported by the new supply management initiatives that we concluded post year end to make a valuable contribution to operating cost efficiencies in the next financial year.

One of the key elements of the stability phase of our turnaround was the strengthening of our balance sheet by the settlement of our post-retirement medical aid liability for certain pensioners, addressing our fixed asset base and improving our working capital management.

We achieved our objective of stabilising our revenues and establishing a solid base to build on for the future, having grown our EBITDA by 15.1 percent and achieved a 60 percent increase in HEPS in a significantly difficult operating environment. It is expected that the South African operating environment will remain tough for the next twelve months, in terms of the overall economic environment, the very competitive telecoms environment in which we operate and regulatory interventions.

Our successful management of the balance sheet is reflected in the significant increase in our free cash flow to R3.9 billion, which is 240 percent up year-on-year. Our shareholders will be pleased to hear that as a result we have reintroduced a dividend, which is made up of an ordinary final dividend of 215 cents per share, together with a once-off special dividend of 30 cents per share, making a total dividend of 245 cents. The board decided that our strong financial position and healthy cash balance warranted a special dividend as we reintroduce dividend payments for the first time since 2011.

In the year ahead we will continue with the next phase of our turnaround strategy. To achieve our aim of repositioning the business for commercial sustainability we need to become more efficient.

This will require

a highly efficient and cost effective workforce and an efficient and high-performing network.

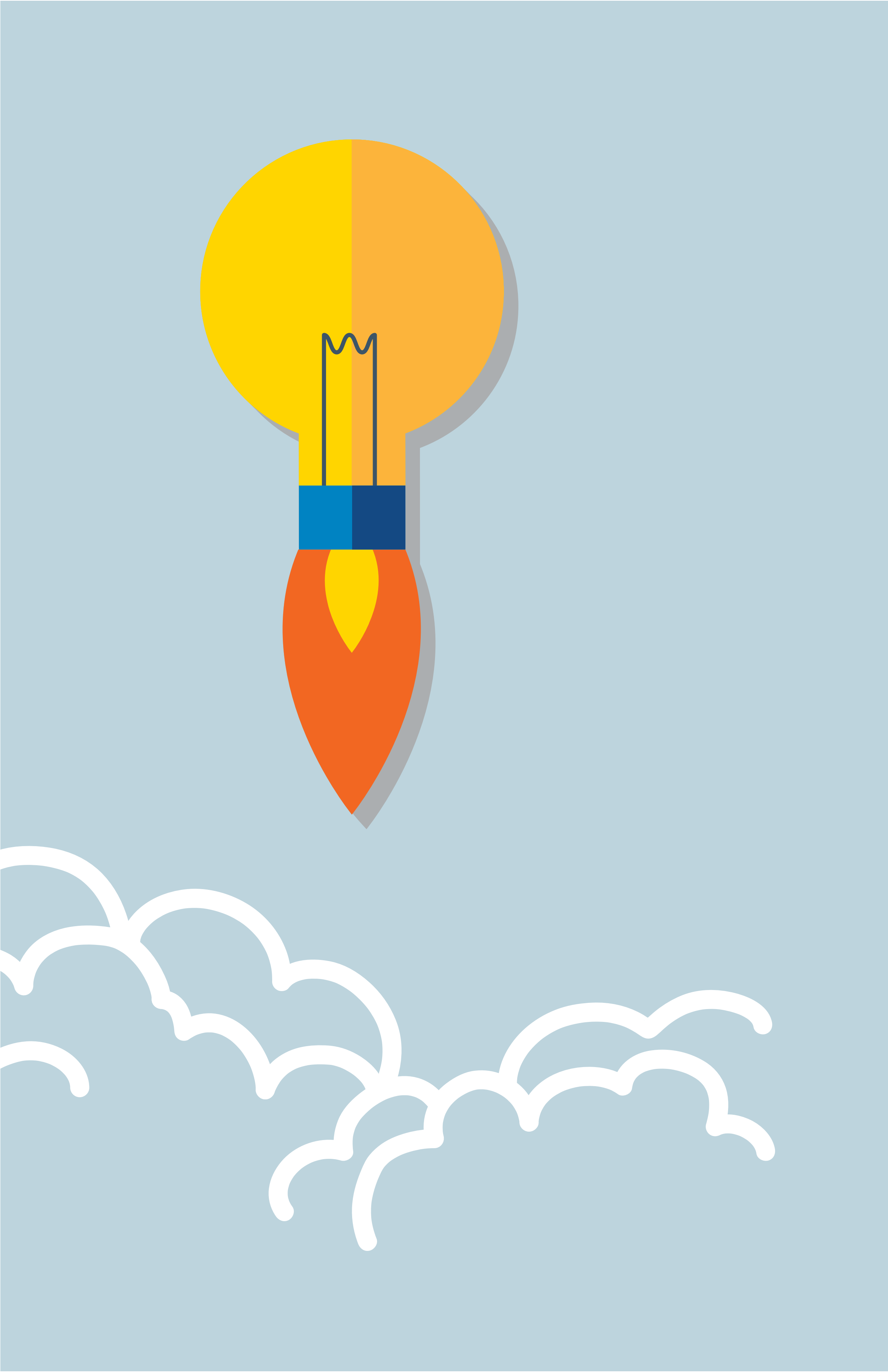
Our aim is to achieve

a staff cost to revenue of at least 25 % within the next four years.

I am hopeful that when we report to you again in November 2015 we will have made progress with our employee cost reduction programme, part of which we were unable to achieve in the year under review.

The Financial capital section follows.

Deon Fredericks
Chief financial officer



3

Performance

Financial capital

Our financial capital makes it possible for us to produce products, provide services and invest in organic and inorganic growth. We obtain our financial capital through financing such as debt, equity or through revenue generated by our operations or investments. Our financial capital increases when we make a profit. Traditionally it was the primary measure of business performance and success ('the single bottom line') in terms of reporting performance to shareholders, investors, regulators and government.

	Our approach	FY2015 results	Outlook
Solid financial structure			
	Grow EBITDA margin to between 26 to 27% in FY2015	We achieved an EBITDA margin of 26.5% including retrenchment costs	EBITDA guidance between 26 and 27%
	Strong free cash flow	R3.9 billion in free cash flow on 31 March 2015	Expect to be able to maintain strong cash flows, but in the current economic environment it will be challenging to maintain this level of cash flow
	Reduce debt	Net debt to EBITDA ratio of 0.02	Together with strong cash flow provides excellent flexibility to carry out our strategic objectives
	Improve capex efficiency through a disciplined approach to where and how we deploy capital	Capex to revenue of 16.3%	Capex to revenue of 15 to 18%
	Make acquisitions that provide scale and capability in IT infrastructure services through strategic technology investments	If BCX acquisition is approved by the Competition Tribunal it will provide IT scale and capability	Hopeful that Competition Tribunal will approve our acquisition of BCX. We are ready to rapidly integrate our IT capabilities with those of BCX if and when the acquisition is approved
	Capitalise on the investment we have made in our infrastructure	Improved data volumes and traffic volumes increased 32%	Targeting increased data volumes
Operating efficiency			
	Competitive cost base and efficiencies	1.2% decrease in our costs year-on-year	Our multi-year cost efficiency programme will see us address all our costs Challenge is to contain operating costs with ongoing above inflation increases in fixed costs, such as utility costs
Supply and value management			
	Replace onerous historic contracts with modern, agile and more flexible commercial arrangements	Introduced a new way of doing business which will give us the flexibility to manage our cost base and improve the customer experience Supply chain management outsourced to Barloworld who are logistics experts We also outsourced our call centre and our billing systems Employees were transferred to these businesses in terms of section 197 of the Labour Relations Act	Monitor and measure cost effectiveness and ability to improve customer service of outsourced contact centre Continue rolling out our strategic sourcing model to achieve increased efficiencies and improved customer experience The introduction of an electronic tender portal will decrease turnaround times and provide a single electronic platform for management of tender process

Creating value for our stakeholders through sustainable growth

Financial highlights

Revenues have continued to stabilise in a tough operating environment

EBITDA increased

15.1%

– margin of 28.3 %

Operating costs decreased

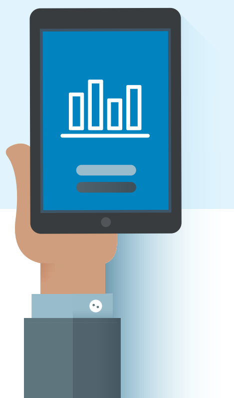
1.2%

in nominal terms

- Staff efficiency programme
- Benefits of PRML settlement
- Effective marketing spend
- Lower business transformation cost

Resolved tax matters, resulting in lower effective tax rate

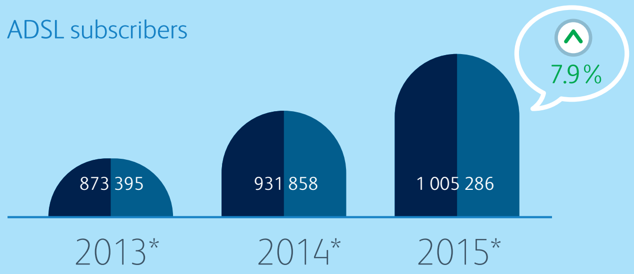
Strong cash flows



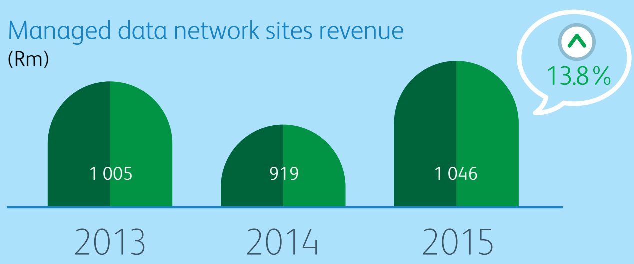
FY2015 results

	March Rm 2015	2014	%	
Operating revenue	**31 675**	31 288	1.2	↑
Net revenue	**25 958**	25 167	3.1	↑
Operating expenses	**17 679**	17 900	1.2	↓
EBITDA	**8 978**	7 798	15.1	↑
Depreciation and impairments	**5 478**	5 891	7.0	↓
Capital investments	**5 164**	6 566	21.4	↓
Free cash flow	**3 898**	1 145	240.4	↑
Normalised headline earnings per share (cps)	**532.5**	332.9	60.0	↑

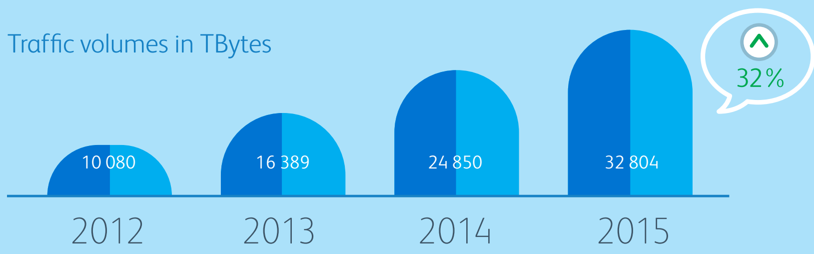
ADSL subscribers



Managed data network sites revenue
(Rm)



Traffic volumes in TBytes

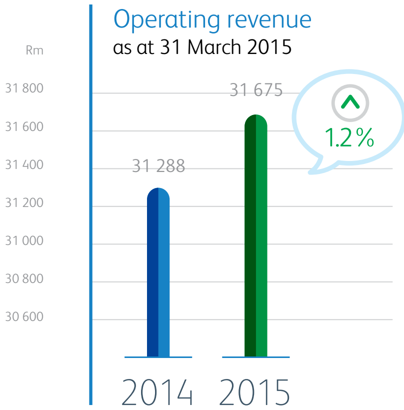


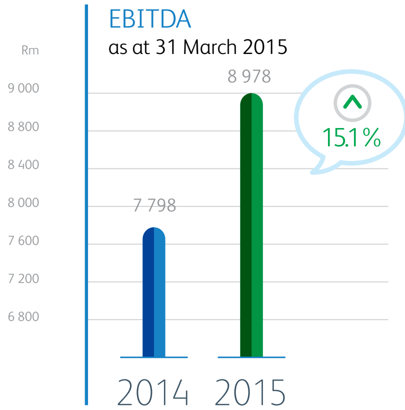
*Restated to include internal lines

Financial capital (continued)

It is very encouraging that our efforts at stabilising our business, despite the tough economic environment, are bearing fruit and providing us with a solid base to build on for the future.

On a like-for-like basis, that is excluding items that do not form part of the results from normal business operations, we increased our net revenue by 3.1 percent to R26.0 billion, while our operating revenue increased 1.2 percent to R31.7 billion. Our operating costs, excluding depreciation, were down 1.2 percent to R17.7 billion. Normalised EBITDA rose by 15.1 percent to R9.0 billion.

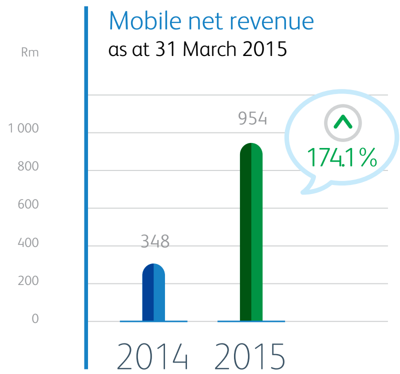


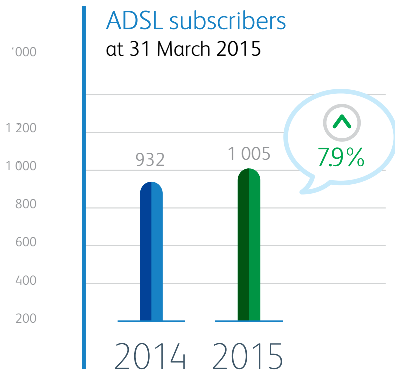


Our Retail Consumer segment performed well with excellent results from our mobile business, which increased its net revenues by 174.1 percent to R954 million. Subscriber revenue growth increased by 46 percent to R717 million, mainly as a result of an approximately 21 percent increase in the number of active mobile subscribers and around 20 percent in the blended average revenue per user (ARPU). We are hopeful that we can continue to maintain this sort of growth in our mobile business and it is encouraging that we are being more successful at monetising our investment in the network.

Fixed-line data revenue increased 1.5 percent to R10.4 billion and mobile data revenue increased 50.6 percent to R988 million. The pressure remains on voice usage, particularly in our Enterprise business. This resulted in an 11.9 percent decrease in fixed-line voice and interconnection revenue to R8.3 billion. A disappointment was the fall-off of 22 percent in leased lines, which accounts for about R400 million.

We also saw a 7.9 percent growth in ADSL subscriptions to just over a million, however, while we are achieving good growth, at the same time we are experiencing significant pressures on pricing.





Derisking the business: growth in mobile data, stabilisation of voice rentals

Contributions to group revenue

Contributions to group revenue (%)

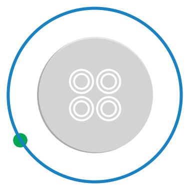
33% Fixed-line data

26% Fixed-line voice usage and interconnection

25% Fixed-line subscriptions

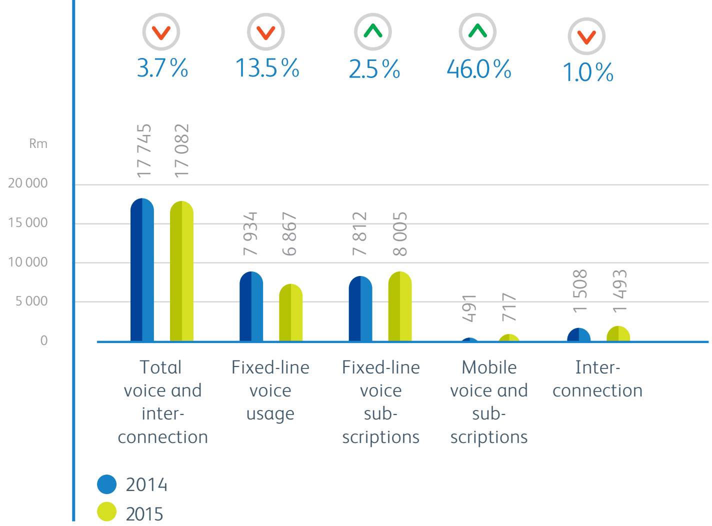
11% Mobile

3% Fixed-line Customer premises equipment



2% Other

Fixed-line voice usage continued to decline



Revenue at risk declined (fixed-line voice usage and interconnection revenue)

Contributes 26% (2014: 30%) of group revenue

Financial capital (continued)

Our key focus in terms of capital investment will be on LTE, LTE-A and fibre.

Our costs decreased 1.2 percent, largely because of savings on employee expenses and more effective marketing, which saved us around 11 percent, equating to around R85 million less than we spent last year. There was also a decline in transformation costs and vehicle use. On the other hand, we incurred R319 million in bad debts in the current economic climate and we also had some inventory write-offs.

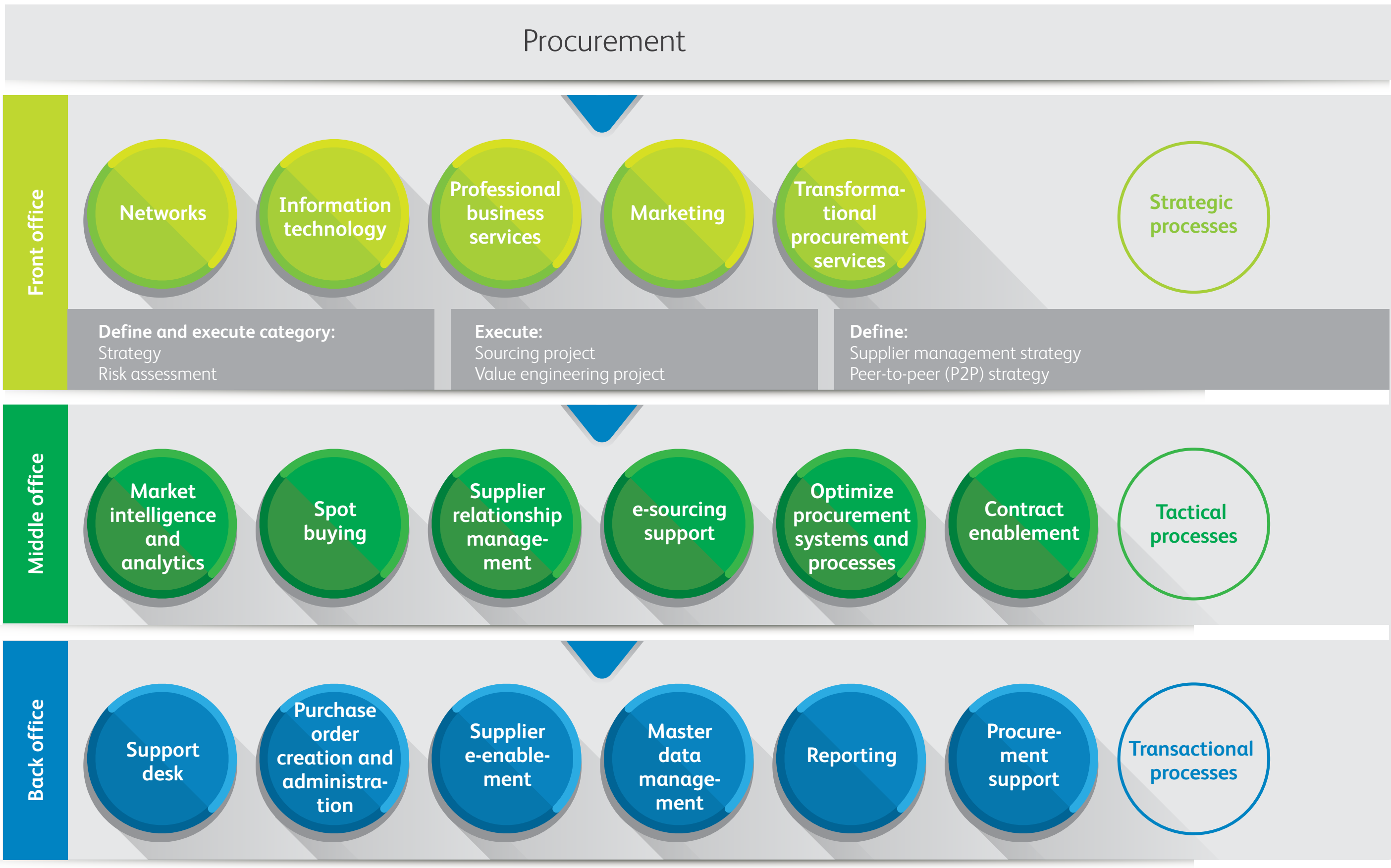
The 3.7 percent reduction in employee expenses was mainly as a result of a 4.5 percent reduction in our headcount and an almost 47 percent reduction in our contractor headcount. We also saw savings from the settlement of the post-retirement medical aid obligation. These decreases were offset by a 6.2 percent average salary increase for bargaining unit members and an average salary increase of around six percent for management.

Our capital expenditure is 21 percent down year-on-year. We will continue with our measured approach going forward to ensure that we focus on revenue generation, efficiency, and at the same time that we build in the right areas. Our rollout of the next generation network was interrupted in the early part of the year because of a lack of availability of certain equipment; however, in the second half of the year we accelerated our capital investment and in the year ahead we expect to increase it further. Our key focus in terms of capital expenditure will be on LTE, LTE-A and fibre. This is a capital intensive industry and we need to balance the need for new technologies with the required return on our investment.

Our good cash flow and our low net debt to EBITDA ratio provides us with excellent financial flexibility when it comes to any opportunities there may be in the market.

Overall, we have achieved what we promised in terms of stabilising the business so we can grow, although we experienced greater pressure on voice usage than we expected and the fall-off in leased lines was also more severe than expected.

Procurement operating model



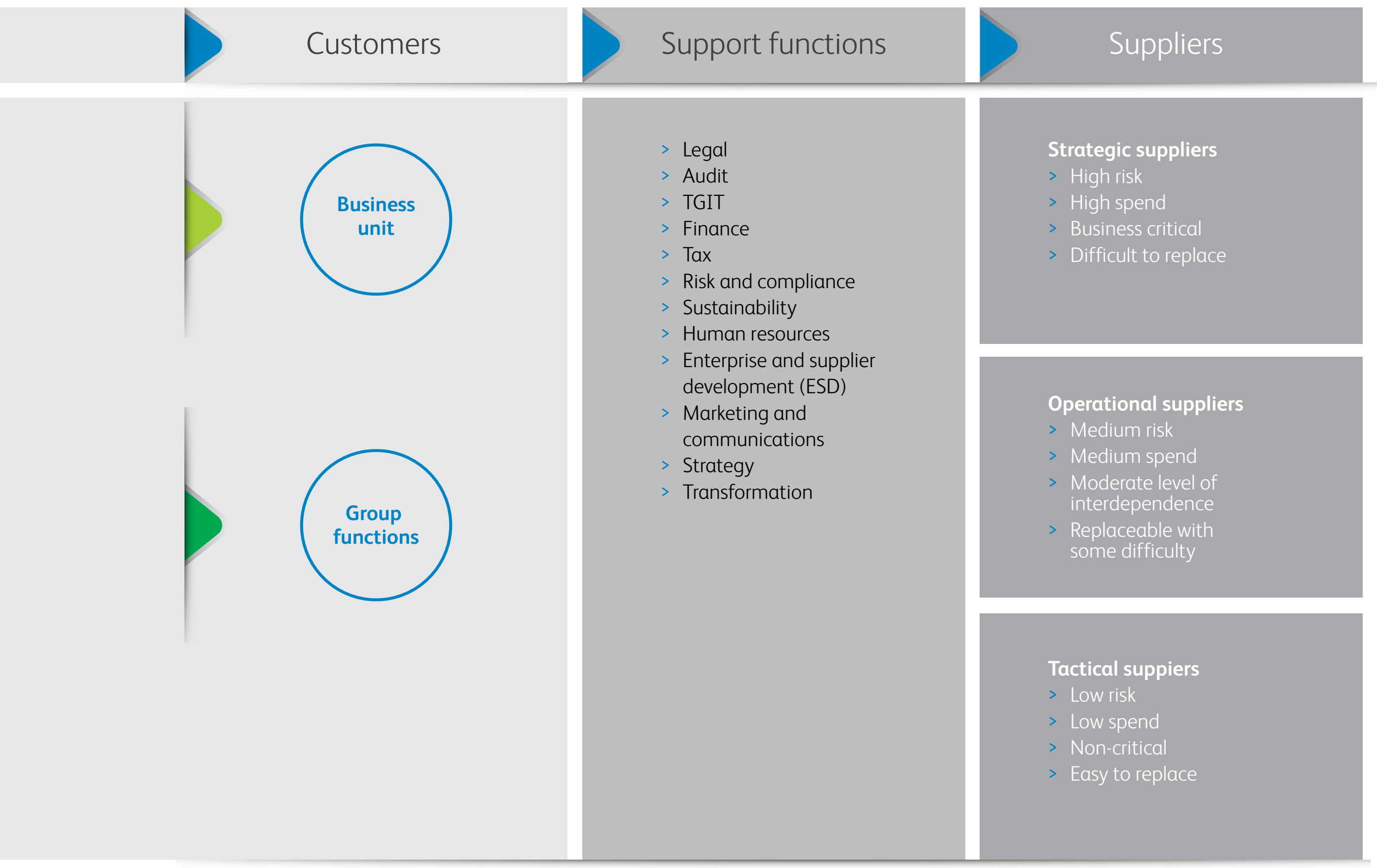
Supply and value management

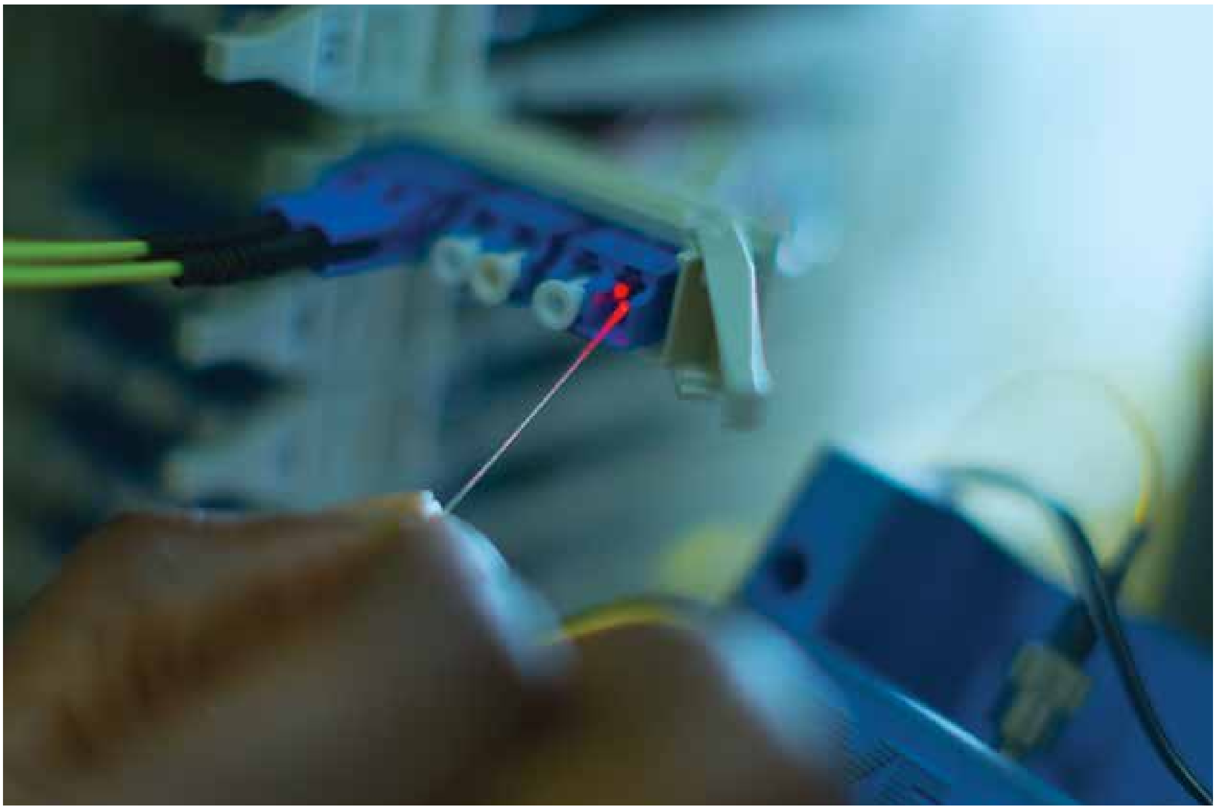
During FY2015 we developed and started implementing a strategic sourcing model as part of our new way of doing business, which allows us to be more agile and flexible with our procurement. This model replaces the tactical approach previously adopted by Telkom.

One of the first applications of this approach was the outsourcing of our contact centre to industry experts who have both the economies of scale and the expertise necessary to reduce our costs and improve our customer experience.

Post year end a further implementation of our strategic sourcing model saw our entire supply chain business being outsourced to logistics experts, Barloworld, on 1 May 2015. Because of its expertise in this area and the economies of scale it can achieve Barloworld will run our supply chain at a lower per unit cost than Telkom is able to do. This will not only reduce our costs, but will also reduce our environmental impact, and in particular our carbon footprint.

An important element of both these arrangements is the access to expertise they provide that will not only reduce costs but will also help us provide better customer service.





Fibre technology in action

Enterprise development

Enterprise development (ED) is an important part of our social commitment to broad-based black economic empowerment and preferential procurement. Through our FutureMakers programme, launched post year end in May 2015, we are investing R100 million over five years in enterprise and supplier development. Not only will this programme support the national drive to increase access to technology, it will also help us grow the ICT sector and Telkom's revenue. Details of the FutureMakers programme can be found on page 87 of the Social and Relationship capital section of this report, as can information on Telkom's achievements in terms of ED and preferential procurement from black-owned businesses. The potential the FutureMakers programme has to grow Telkom's revenue is also discussed on page 69 of the Productive capital section of this report.

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Outlook

We have stabilised the business, but the operating environment is very difficult at present and we recognise we have a challenging year ahead of us. We will be addressing non-profitable areas going forward and we will continue to focus on cost reduction and revenue generation. We had initiatives planned for the year under review that did not materialise, specifically in terms of our headcount reduction programme which we will have to address in the FY2016 financial year. Because of that we are keeping our EBITDA guidance at between 26 and 27 percent for FY2016.

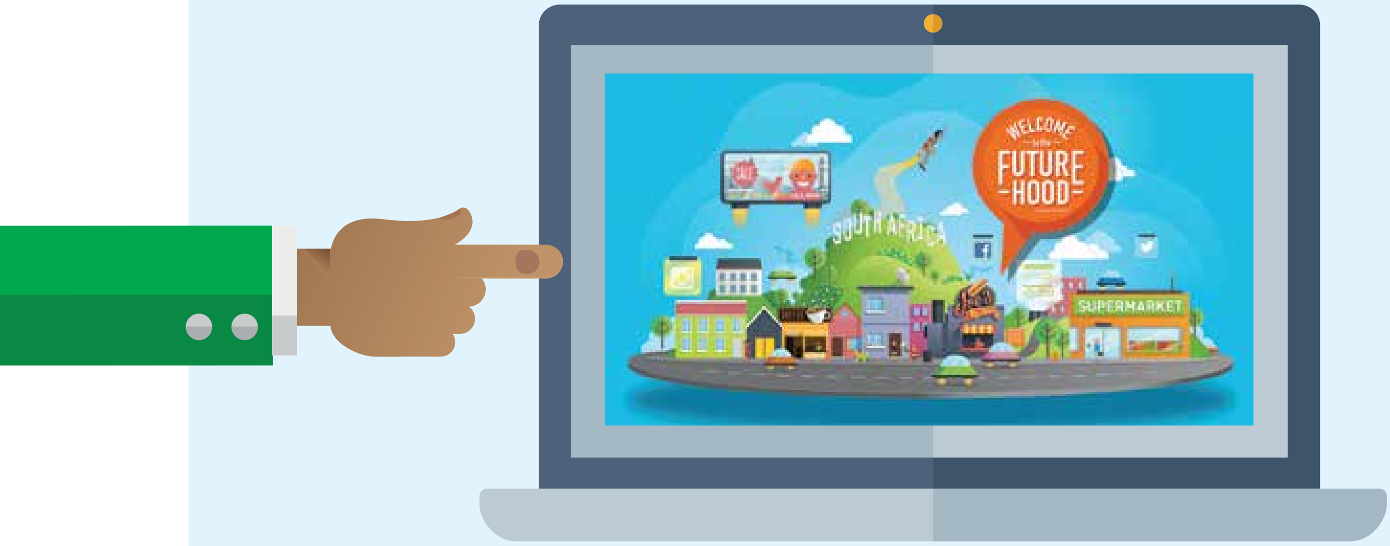
We expect to increase our capital expenditure, with a focus on LTE and fibre rollout and also on the IT side. We have also made additional capex available so we can close any gaps in the network as well as the product areas. This supports one of the important changes in Telkom: we are listening to our customers and doing our best to give them what they want.

We're operating in a challenging, fast changing environment, but we believe we are ideally placed to execute from the stable base we have built over the past few years.

A main distribution frame where copper cables connect between the outside world and the exchange

Productive capital

Our Productive capital includes our buildings, our infrastructure and the goods we own or lease that make it possible for us to deliver products and services to our customers. It also includes these products and services. It is key to our sustainability, and if we use it efficiently it allows us to be flexible, innovative and increase the speed to market of our products and services.



- Integrated our fixed and mobile businesses into one consumer business to drive cost synergies and promote convergence

Operating costs reduced by 1.2 %

- Continuous growth in voice and data

Broadband subscribers increased 7.9 % to 1 005 286

- Managed data network sites increased 1.0 percent to 47 599

Mobile subscribers increased 21.2 % to 2 186 774

- Mobile sites integrated increased 3.4 percent to 2 510

1 317 mobile LTE sites integrated

- Coherence in pricing of products in retail portfolio
- Ongoing decrease in fixed-line voice (11.9 percent) and leased line revenue (22 percent)

Services	Our approach	FY2015 principal activities	The future
Fixed-line voice			
Challenges: Fixed-to-mobile substitution and pressure on fixed-line voice revenues Reduction in data prices Highly competitive and aggressive pricing environment Improving customer experience	**Focus on:** Providing a good customer experience Understanding where our value chain is broken and designing interventions to fix it Promoting convergence to address declining fixed-line usage	Integrated fixed and mobile businesses to drive cost synergies and promoted convergence through the design of our product offerings We have made extensive changes in our ISP to improve customer service from architecture changes to technology. We have also made big changes to how we manage faults	We will continue to work on improving our levels of customer service, which includes outsourcing the management of our call centres to call centre specialists Provide small and micro enterprises (SMEs) with cost effective products, simple bundled solutions and better targeted channels to market Use multi service access nodes (MSAN) to revamp our access network, enable different service types from the same access node and a future-proof access network
Fixed-line data services			
Challenge: Rollout of fibre to the home (FTTH) and fibre to the business (FTTB) threatens ADSL product offering	Our approach is to ensure we can deliver what our customers want	Ensured cheaper services to our customers at faster speeds Recognised for the fourth year running as the best fixed broadband service provider in South Africa at the annual My Broadband Conference	We will future-proof our capabilities using fibre technologies and mobile technologies Provide high speed data intensive services at affordable prices
Mobile communication services, mobile voice and mobile data			
Challenges: Fourth entrant into a highly competitive market Outcome of Competition Commission's decision on extension of our bilateral roaming agreement with MTN and managed network service arrangement for MTN to take over the operational and financial responsibility for Telkom's radio access network	Ensure sustainable, winning position for our mobile communication services Wherever possible reduce the cost of services to our customers Use mobility to exploit convergence opportunities Leapfrog technology by deploying LTE and creating ubiquitous access through Wi-Fi Extend our roaming agreement with MTN to include bilateral roaming and outsourcing of the operation of our radio access network	Negotiated with regulator to achieve steep decline in the cost of interconnection services Provided our customers with a next generation 3G network which includes fixed-line voice services, data services and nomadic voice services Recognised as best mobile broadband operator for the third consecutive year at the annual My Broadband Conference Pursued Competition Commission approval	IT services that deliver compelling solutions to our customers We will continue to focus on providing award-winning mobile communication services that ensure we put our customer first

Productive capital (continued)

Services	Our approach	FY2015 principal activities	The future
IT services			
Challenges: Managing the ability to deliver on potentially rapid growth from a small base Increasing energy costs Load shedding	Transform the way IT is delivered through the cloud Realising organic growth in IT and cloud services Expanding through inorganic acquisitions	Our focus has been on converging and bundling our products to provide seamless end-to-end solutions that meet the needs of our entire range of business customers Our proposed purchase of Business Connexion, which has received Competition Commission approval and awaits Competition Tribunal approval, is intended to deliver on this approach	We will continue to develop converged business offerings to meet the needs of SMMEs, corporates, international business and government through the provision of virtual private networks, voice, IT and cloud services, data networks and mobile technologies
Carrier-to-carrier			
Challenges: Self-provisioning by other licensed operators A high cost base largely as a result of headcount and maintenance costs of legacy network Copper theft Load shedding negatively affecting operations and customer services	Investing R12 billion over a five-year period in connectivity through our next generation high speed broadband network to support South Africa's entire broadband ecosystem Creating an invincible network Providing high-speed fixed-line broadband Delivering superior customer service Managing our high cost base	Investment in our next generation network rollout and access network revamp made it possible for us to halve the cost of Telkom's IP Connect products over the past 18 months 3G coverage reaches approximately 55% of population 6 100 Wi-Fi hotspots 1 317 LTE sites integrated	Enabling our resellers, through our network and resell products, to operate and compete successfully in their customer markets Meet next generation customer expectations by making strategic investments in technology and building innovative products and services Grow and defend our fixed infrastructure business
Distribution channels			
Direct sales **Sales force** **Shops** **Contact centre** **Third party channels** **Online**	Improve online channels Transform contact centres Rationalise shops Make good progress with the convergence of our products through the design of our product offerings Revamp our online channels	Invested in improving our online channels to make them more user friendly New leadership in contact centre; outsourced contact centres, installed new state-of-the-art technology platform Multi-skilled operators to support customers on all our products Closing 20 unprofitable shops and rolling out enhanced store branding. Remaining shops have improved performance Improved online purchase and service platform to make it easier for customers and potential customers to access our online services	Continue improving online service and sales channels Continue to monitor effectiveness of contact centres to deliver Customer First service Continue to enhance shop experience and roll out enhanced store branding, changing layout and workflows

Distribution channels	Our approach	FY2015 principal activities	The future
The Telkom brand			
	Our brand tagline 'Tomorrow Starts Today' is about rebirth and new beginnings. It's a statement of our renewed focus and a declaration of our revitalised drive to bring seamless and embedded communications solutions to South African homes and businesses	In 2014 the Orange Index Satisfaction ratings for Telkom fixed-line increased 26%, for Telkom Internet it increased 28% and for Telkom mobile it increased 33% We still have a long way to go but our commitment to Customer First is clearly achieving results	The Telkom brand is our promise to deliver in the present while leading the way to the future. This will only be done by understanding and anticipating the needs and desires of our customers We will achieve this by talking and listening to our customers so that we understand their needs
Property portfolio			
	Complete top down strategic review of property portfolio and segment portfolio into different types of asset classes Reduce our costs by ensuring our property portfolio is fit for purpose Use property design to bring the organisation closer together and reduce costs Efficiency – sold off non-core properties	Property portfolio strategy in place and rationalisation and consolidation has begun to unlock financial value Migrating head office functions to new campus in Centurion	This will be a year of execution during which we will continue to transform our property portfolio and unlock financial value Head office functions now located in open plan environment on the Centurion campus

Productive capital
(continued)

Telkom Business

Supports South Africa's corporates and businesses by offering them converged communication solutions that combine fixed-line, mobile and data centre services

- 39.8 percent growth in Metro-ethernet revenues
- 82.4 percent increase in business IT services revenue
- 650 percent increase in business converged solutions revenue off a low base

Cybernest

Our seven data centres provide three main services: basic hosting with cooling, power and backup-power services; managed and fully managed hosting; and disaster recovery services.

- Total data centre space 9 700m^2

Telkom Consumer

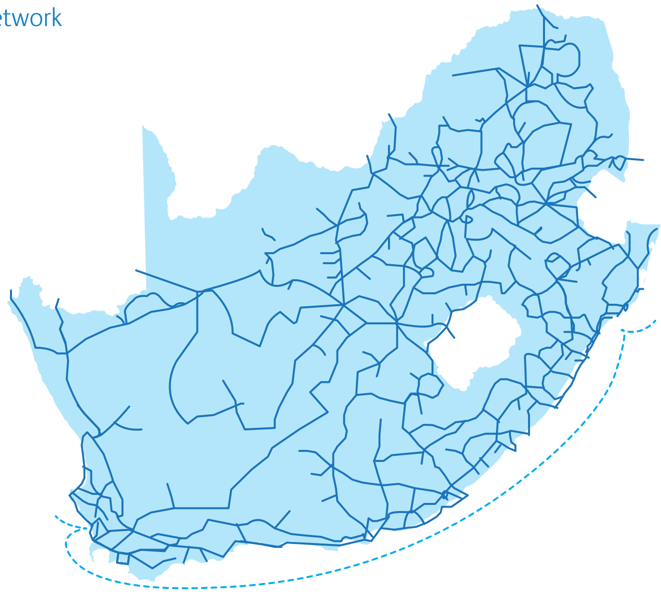
Our aim is to become the centre of the digital home and lifestyle by offering a range of converged solutions that combine fixed-line and mobile solutions for the home

- 22.6 percent increase in data revenue
- 5.1 percent decrease in total voice and interconnection
- 7.4 percent increase in residential ADSL subscribers
- 9 percent increase in Telkom Internet subscribers
- 47.8 percent increase in mobile data revenue
- 21.2 percent growth in mobile subscriber base to over two million

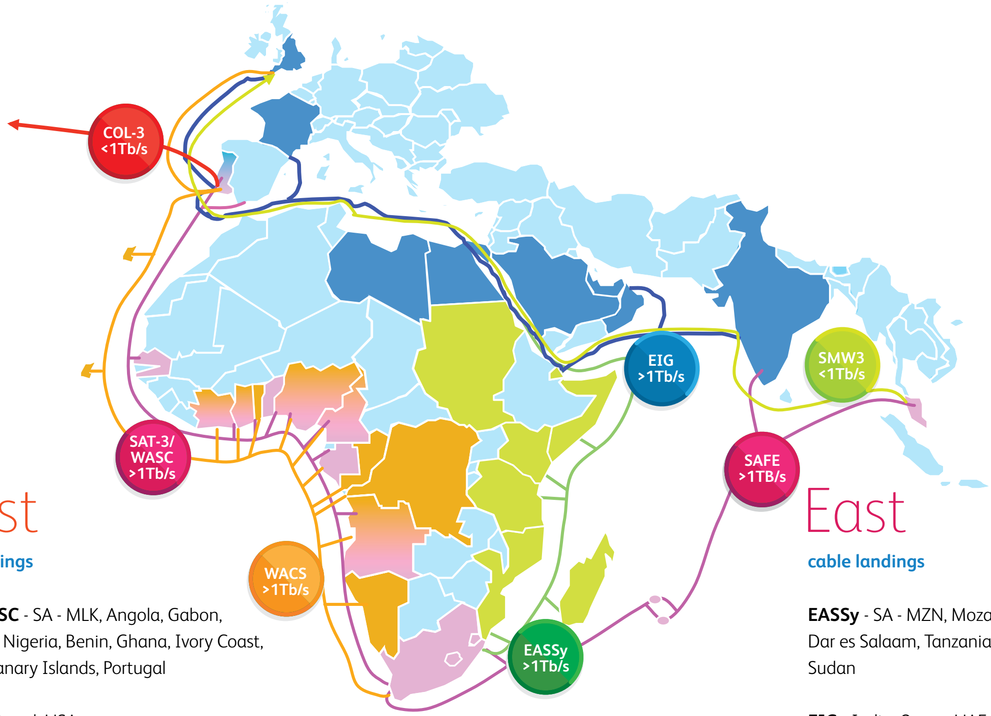
Telkom Wholesale and Networks

- Has the largest footprint in South Africa with more than 147 000 cable km of fibre
- 16 588 distribution points enabling more than 100 000 services
- 19.4 percent increase in ADSL subscribers
- Telkom Mobile 3G coverage reaches approximately 55 percent of the population
- 1 317 LTE sites integrated
- 6 100 Wi-Fi hotspots
- Two diverse submarine cables off the west coast of Africa connecting to Europe and two diverse submarine cables off the east coast, one connecting to Europe and the other to Asia
- Terrestrial fibre connects SADC countries
- International IPNet (POPs London, Amsterdam, New York, Hong Kong, Frankfurt)
- Our global VPN spans 111 countries and over 700 cities
- Satellite services include three major earth stations covering Africa

Map of national fibre network



Telkom core global submarine cable network



West

cable landings

SAT-3/WASC - SA - MLK, Angola, Gabon, Cameroon, Nigeria, Benin, Ghana, Ivory Coast, Senegal, Canary Islands, Portugal

COL3 - Portugal, USA

WACS - SA - YZF, Namibia, Angola, DRC, Congo, Cameroon, Nigeria, Togo, Ghana, Ivory Coast, Cape Verde, Canary Islands, Portugal, UK, London POP

East

cable landings

EASSy - SA - MZN, Mozambique, Madagascar, Dar es Salaam, Tanzania, Kenya, Somalia, Djibouti, Sudan

EIG - India, Oman, UAE, Djibouti, Saudi, Egypt, Libya, Monaco, France, Gibraltar, Portugal, UK, London POP

SAFE - SA - MLK, SA – MZN, Reunion, Mauritius, India, Malaysia

SMW3 - Malaysia, India, Middle East, Europe

Our consumer business

Productive capital (continued)

Our greatest challenge in both Telkom Consumer and Telkom Business remains the derisking of our business by countering the decline in our fixed-line voice revenues with growth in our revenues from mobile and data services in a highly competitive and aggressive pricing environment.

Our consumer business had three priorities for the year under review. These were to:

- Grow our revenue base
- Improve our customer experience
- Manage our cost base

Growing our revenue base

Ensuring a sustainable and winning position for our mobile services

We integrated our fixed and mobile businesses into one consumer business with the aim of taking out cost duplication and promoting convergence.

We needed to ensure a sustainable and winning position for Telkom Mobile. We delivered well against our mobile plan, exceeding our targets by achieving a 21.2 percent increase in mobile subscribers, increasing the minutes used by 79 percent and growing data usage by 70 percent.

During the year we also managed to influence a steep decline in the cost of interconnection services with the regulator.

Improving the performance of our fixed-line business

Our focus on growing our fixed-line revenue through enhanced value propositions achieved growth of 7.4 percent in residential DSL subscribers and a nine percent growth in our Internet subscribers. We also achieved a net increase of 12 percent in revenue from our fixed business. The convergence of our product offerings would appear to have assisted with the improvement in the performance of our fixed business with customers using mobile and fixed services having increased 101 percent over the year.

Delivering the next generation of broadband services

During the year our delivery of the next generation of broadband services to an ever-increasing number of South Africans resulted in a 7.4 percent increase in our ADSL subscribers. These services range from entry level 2 Mgbs per second ADSL through to premium 20 Mgbs and 40 Mgbs very-high-bit-rate digital subscriber lines (VDSL), LTE services (primarily as a fixed line with a Wi-Fi router) and most recently 100 Mgbs per second fibre to the home (FTTH). It was critical that we priced these products competitively and ensured that there is coherence in our pricing portfolio between the various product offerings.

The rollout of our next generation broadband services was well supported by a marketing effort that included local advertising, pop up shops and a focus on selling to gated communities.

Content and value-added services capability

Our marketing campaign aimed at getting customers and potential customers to associate Telkom with the provision of content, which was linked to a Multichoice Explora set-top box, did well, exceeding its target by 160 percent. It was particularly successful in creating brand and product awareness. Our research before the campaign showed that only 30 percent of the research sample saw Telkom as a provider of entertainment and content; after the campaign recognition of Telkom as a provider of entertainment and content had improved to 70 percent. Our progress with regard to establishing a content and value-added services capability for Telkom has been slower than we would have liked, but we are taking care to rather be right to market than first to market.

Convergence and bundling

Convergence of our product offerings is necessary if we are to provide a competitive service offering. It has the advantage of offering our customers one seamless retail offering and it mitigates against the deterioration in voice usage. Our research shows that over 21 percent of prepaid mobile customers prefer integrated data products.

We made good progress with convergence and the design of our product offerings. Our summer 2014 campaign offered five different smartphone bundles, ranging from entry level to advanced through to premium and super premium. At the heart of these bundles was a fixed broadband service offering Internet connectivity, together with a voice service, a mobile data service and a range of applications and value-added services. Some offerings included customer premises equipment and the value-added services included educational content and Microsoft Office. We found that on average, customers who have moved from 3G to LTE use 36 percent more data.

Creating new ICT-focused businesses

By working to identify and grow entrepreneurial opportunities across the ICT industry and within Telkom's supplier value chains, FutureMakers, which was launched post year end, will facilitate the growth of the ICT sector, develop technology entrepreneurs, provide access to technology by increasing bandwidth penetration and grow Telkom's revenue. For more information on the FutureMakers programme see the enterprise development section of Social and Relationship capital on page 87 of this report.

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Productive capital (continued)

Managing our costs

We are phasing out a number of unprofitable products. A number of pay phones were also proving unprofitable, however, as the provision of pay phones is part of our licence obligation we had to negotiate reducing this service. We previously reduced pay phones from 90 000 to 45 000. This year we were able to remove additional unprofitable units and reduce the number of pay phones to 22 000. In terms of our licence agreement we are obliged to provide a pay phone service in hospitals and prisons.

We identified that we had 20 shops that were unprofitable, which we are closing down. In addition to closing down unprofitable shops we needed to improve the performance of our existing shops. During the year under review we have reduced our running costs and doubled the performance of our remaining shops.

A newly-designed Telkom shop in the Cresta shopping centre

Driving our Customer First programme

In order to build a team with Customer First competence we needed to understand how our customers experienced our service and identify the drivers of good or bad customer experiences. We undertook extensive research that helped us understand where our value chain is broken and what interventions we needed to put in place to fix it.

To improve our customer service we made extensive changes to our provision of Internet services. These included organisational, architectural and technology changes, as well as changes to our value proposition. We needed to make changes to how we manage faults. The results of a research survey carried out in the first quarter of 2015 indicate that the work we have done has exceeded our expectations as we have achieved an improvement in our customer service ratings in a year that we expected would take us two years.

We recognise, however, that we still have a long road to travel before we will be satisfied with the level of service we offer our customers, but we are making progress.

Our online channel was providing poor service to our customers. We have put considerable effort into rectifying this. Our offering is still not where we want it to be but it is a great deal better. In order to achieve the type of online experience we want to offer our customers we need to overcome certain system integration challenges.

Our contact centre plays a key role in the delivery of customer service.
We were operating from nine different contact centre sites around the country, productivity was poor and so were our systems. We outsourced our contact centre to experts who specialise in the day-to-day management of contact centres and introduced new contact centre leadership. We shut down the old technology platform we were using in our fixed-line contact centre and transferred to a state-of-the-art system, which we were already using in our mobile contact centre. We also, as part of our integration of our fixed and mobile businesses, integrated our contact centres into one contact centre and have multiskilled our operators so they can support our customers on all our products. As was to be expected our service levels dropped during the changeover period, but they have picked up rapidly now that our new contact centre is bedding down.

Our shops are also an important part of our interface with our customers. A great deal of work has been done to improve the customer experience in our shops and we are rebranding our stores, changing the layout and workflows to enhance the customer experience in our shops. The first of our shops to receive a rebranding was our shop in the Cresta shopping centre in Johannesburg.

Telkom Business

Telkom Business saw a slowdown in data connectivity revenue and a marked decline in voice usage during the year under review. The move away from legacy technology saw our revenue from Metro-ethernet increase 39.8 percent and revenue from business IT services increased 82.4 percent.

Our provision of managed data network services through Cybernest achieved a 13.8 percent increase in revenue. Cybernest's data services include basic hosting with cooling, power and backup-power services, managed and fully managed hosting and disaster recovery services. The business has seven fully-fledged data centres, with those at Hartebeeshoek in Gauteng and Bellville 2 in Cape Town custom built to provide ultra-quick service to our enterprise customers. Bellville 2 is also among the most energy efficient facilities of its kind.

Through organic growth Cybernest has become a significant competitor in this market. During the year under review it gained a number of significant business clients and also had an exceptional year in the public sector.

Telkom Business introduced an industry-specific vertical approach to servicing our customers during the previous financial year. Our objective was to provide best practice tailor-made solutions for customers in specific industries, including the financial services sector, retail, the public sector, commerce and industry. We are a strong contender in all these sectors and in particular in the financial services sector where three of the four biggest banks use Telkom almost exclusively as the communications service provider. We have also made good progress in the provision of e-services to government with a strong focus on education and health care.

Our plans to expand our ICT capability through inorganic growth will strengthen the core of our business offering with the right ICT services and increase our competitiveness through an integrated cohesive approach to the market.

Business mobile

Our mobile business offering has done well, doubling revenue, beating its targets and gaining some major corporate customers. It has, however, had service challenges during the year, which we are addressing.

Convergence and bundling in business

Our efforts to converge and bundle our product offerings and provide seamless end-to-end solutions for business have also proved most successful with our revenues from these solutions increasing 650 percent, albeit from a low base. Our converged business offerings, which are designed to meet the needs of SMMEs, corporates, international businesses and government, range from basic to complex solutions and include virtual private networks (VPN), voice, IT and cloud services, data networks and mobile technologies.

Fibre migration

We did so well with our sale of fibre to customers that we had a huge backlog, which marred our service delivery. We did, however, succeed in connecting 1 000 business customer sites to fibre during the year under review.

Addressing fixed-line voice decline

The decline in business voice revenue remains a challenge, with the pressures on pricing presenting the biggest hurdle. This is in line with our global peers.

Business customer service

Most of our business customers say we are too slow and too conservative, but we have also had very positive feedback in terms of our willingness to help, our focus on customer care and delivering what we promise, and being competitive. We have also had large financial service companies telling us that Telkom is ahead of the game, agile and dynamic, which is what we are working hard to achieve. We recognise that we still have a considerable amount of work to do to ensure that our sales force is equipped to sell converged services.

Telkom Wholesale and Networks

Telkom Networks has been operating in a very challenging environment over the past 12 months competing with smaller providers that have much lower fixed costs than we have and are much more agile than we are. The competition is particularly fierce in the provision of fibre services. Competition is also coming from some of the over the top players (OTTS) such as Google, WhatsApp etc. We have had to ensure that our response to these challenges aligns with our strategy and where we want to position ourselves competitively.

Telkom Wholesale and Networks’ leased line revenues continued to decline as a result of self-provisioning by their customers.

A key feature of our competitive strategy has been our wholesale unit price reductions of up to 63 percent across our product range including wholesale fibre broadband access, IP Connect, Resell DSL, Metro-ethernet and SAIX dedicated access offerings.

Our R12 billion investment in our next generation high speed broadband network and OSS/BSS applications is aimed at driving the penetration of broadband, which will make it possible for our customers to grow the market. It is also an investment in the kind of connectivity that will drive meaningful change in South Africa.

Access to our new generation broadband access technologies, including fibre to the home and business and multi service access nodes (MSAN), is offered on an open-access basis to other Internet service providers. These are all aimed at delivering even higher speeds to the industry and driving demand among consumers for rich media content.

To address the need for access to the next generation network, by 31 March 2015 we had already laid passed 1 030 519 homes with next generation access (fibre to the curb); provided our wholesale customers with access to 20 Mbps, 40 Mbps and 100 Mbps in selected areas; increased the number of ports activated via MSAN by 103 percent to 964 196 active ports; and contributed to the upgrade of the Sat-3/WASC/SAFE submarine cable system. We were first with our LTE-A rollout and by 31 March 2015 had integrated 1 317 LTE sites.

Left:
Computer equipment in the Telkom data centre in Centurion

Above:
The new Telkom campus under construction in Centurion

Property portfolio

Having completed a top down strategic review of our property portfolio, which segmented our property portfolio into six diverse asset classes:

- Head office
- Exchange buildings
- Mast and towers
- Warehousing and logistics
- Retail outlets
- Vacant land

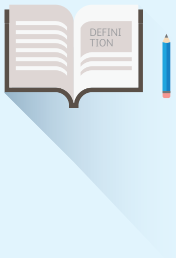
We identified opportunities to unlock financial value through the rationalisation and consolidation of our portfolio. We then developed a strategic plan designed to make more efficient use of space and reduce costs, while ensuring that our property portfolio is fit for purpose.

We started implementing our plan during FY2015 which included:

- Implementing workplace of the future office standards
- Consolidating our head office
- Selling excess land and building assets
- Reviewing our mast and tower portfolio
- Aggressively reducing our energy intensity
- Optimising our facilities management value chain

The move to our Centurion campus has allowed us not only to apply the international benchmark of providing nine square metres per head in an open plan configuration, but also to use this as an opportunity to bring the organisation closer together and reconnect the different parts of our business to achieve the collaboration and integration essential for the achievement of our strategic objectives. Creating a new campus has given us the opportunity to use the latest energy efficient technology and biometric systems. By getting rid of waste paper baskets beneath our desks, encouraging a minimum paper environment and providing recycling banks we aim to reduce, re-use and, most importantly, recycle our waste. We have also included a flagship mobile store on our new campus.

Intellectual capital



There are many definitions of intellectual capital. We like a very simple definition that explains that the intellectual capital in a business has three sources: products and intellectual property; human capital; and the knowledge and expertise that resides in the way things are done in a business, which includes systems, procedures and protocols. There is no doubt that intellectual capital is a real business asset, although measuring it can be difficult. Certainly the investment we make in training our employees and community members will contribute toward our business value for many years and we would refer you to the Human capital section on page 83 and Social and Relationship capital section on page 87 of this report in that regard.

Element	Our approach
Technology and innovation and developing robust and fit for purpose IT systems	Telkom is a complex technology organisation, which currently faces the challenge of overhauling its technology systems, which are integrated with South Africa's biggest and most complex network Telkom's future technology direction. Our aim is to: > Standardise > Rationalise > Optimize > Consolidate > Simplify > Virtualise A detailed discussion of our IT plans, our development of systems, solutions and products, the complexity of our IT architecture and the steps we are taking to ensure our IT systems enable us to become a more efficient and customer-friendly organisation follows in this section
The skills and experience of the team responsible for achieving Telkom's stability and unlocking its potential	See pages 40 to 41 of this report for information on our management team, pages 46 to 49 of the Strategic review and the Financial capital section on pages 54 to 61 and the Productive capital section on pages 62 to 73 for information on their progress in terms of building stability and unlocking potential in Telkom and the plans for the future 40 73
Our ability to adapt to a changing business environment, achieve cost efficiencies and the courage to make tough decisions	See the Our performance section on pages 10 to 15, the Strategic review and the Financial capital and Productive capital sections mentioned above for information on our achievements in this regard 10
The Telkom brand	Telkom aspires to becoming a brand to which customers are loyal because it provides them with more than a service or a product. We want our customers to feel we have a deep understanding of the lives they live and that we provide them with relevant purpose-driven life solutions. More information on the brand Telkom is building can be found on page 77 of this section 77
Stakeholder relationships	Information on our management of our stakeholder relationships can be found in the Social and Relationship capital section of this report on pages 84 to 89 and its inclusion in our enterprise risk framework is discussed on page 113 84 113
The strategies, policies, procedures and codes that govern how we do business	The strategies and business model that are driving our ability to build sustainability and unlock potential in Telkom are discussed on pages 8 to 9 of this report. The policies and procedures that govern how we do business are set out in the Transparency and accountability section on pages 97 to 133 and the Human, Social and Relationship and Natural capital sections on pages 53 to 96 8 97
Our investment in our people and communities	Please refer to both the Human capital and Social relationship capital sections on pages 78 to 83 and 84 to 89, respectively 78 84

Despite retrenchments Telkom's reputation with its employees overall improved

21%

year-on-year and levels of trust increased

7.2%

year-on-year

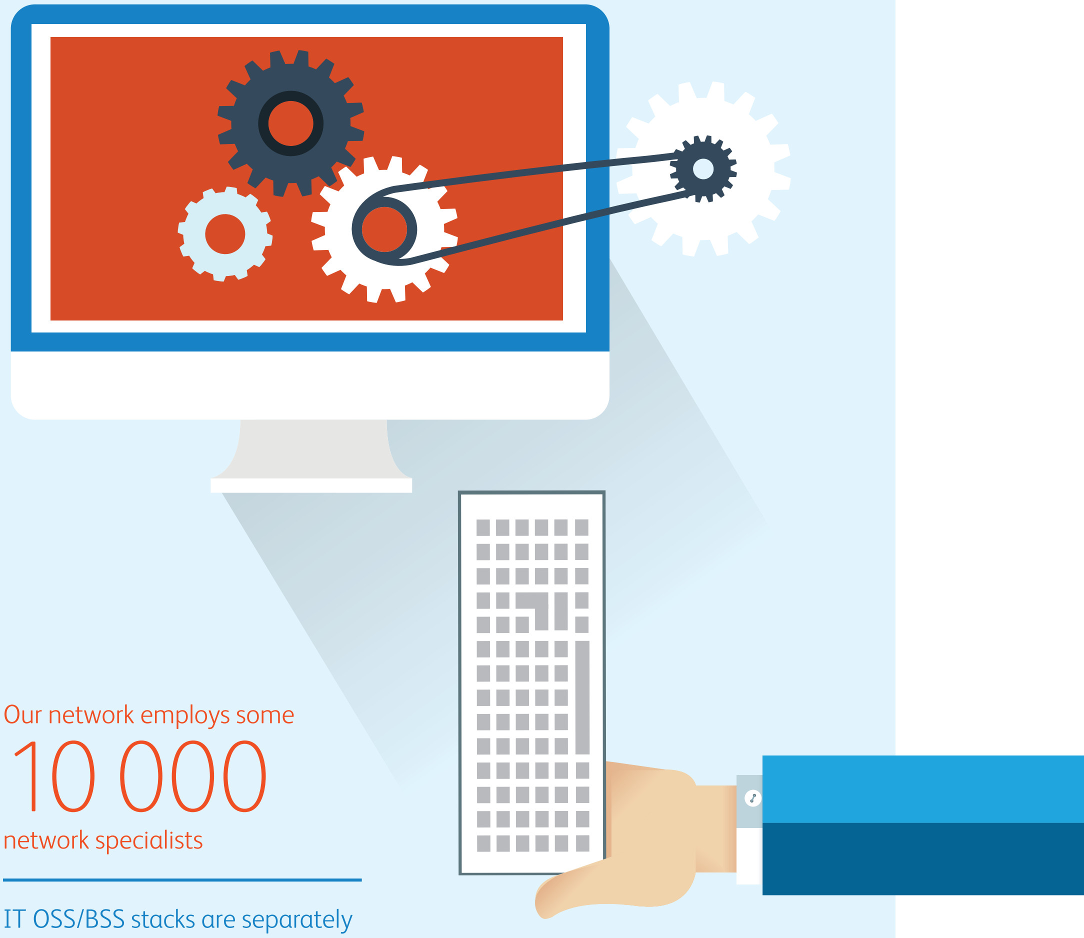
Telkom's reputation with its management increased

8.7%

year-on-year with trust levels increasing

16.1%

year-on-year



Our network employs some

10 000

network specialists

IT OSS/BSS stacks are separately supported for Wholesale and Retail in IT

New systems are being developed to replace all legacy IT systems over the next four years

Intellectual capital (continued)

Some IT facts

- Telkom has a team of about

  800

  IT people who develop systems, solutions and products and support and maintain them

- Telkom currently has

  314

  legacy systems that are being replaced
- At any one time our IT team is working on over a thousand IT initiatives
- Our data centre operation, Cybernest, has seven data centres
- Radical application design/joint application design development processes are used to deploy new systems

- 20

  IT strategic partners assist IT to develop and support systems
- Telkom uses SAP IT systems for finance, human resources and procurement

The role of IT in Telkom

Telkom's approach to IT is to invest in the key systems and processes that will enable the business to meet its growth objectives. This includes overhauling our IT capabilities and building cost-effective systems that will ensure Telkom becomes a more efficient and customer-friendly organisation.

Our IT challenge is about transforming our technology so that it fits and supports our new business model at the speed at which our business needs to mobilise. This is a very significant challenge because of the complexity of the organisation where we currently have 314 legacy and duplicate systems built over decades that need to be either replaced, upgraded, rewritten or decommissioned. Many of these systems were written 30 to 40 years ago when packaged solutions were not available and they were coded in computer languages now mostly forgotten; and subsequently customised. There are few people remaining in the organisation who have knowledge of these systems. This is a significant risk and another reason we need to move off these systems as quickly as possible. There is the added complexity of managing the overhaul of technology systems that are integrated with South Africa's biggest and most complex network.

Telkom is running behind its global counterparts when it comes to updating, upgrading and changing its IT systems. The one advantage this has given us is that we are able to learn from others and avoid the mistakes they made. We will also be using strategic partners to provide solutions more than we have done in the past. This will speed up the process by using available off-the-shelf solutions and reduce our IT risk levels.

The strategic IT projects we are currently busy with are in our top priority business areas: customer experience, the new generation network we are building, and new products. The priorities for these projects are based on process efficiencies, data migration, revenue generation and systems security.

One top priority project at the moment is to have a single integrated view of our customers, which will provide our customers with a seamless experience across fixed-line, mobile, voice and data services. Underpinning this change is a new operations support system (OSS) and a new business support system (BSS) stack that will incorporate our fixed-line and mobile products.

This project will be followed by the interfaces for Telkom Business, which is more complex and will provide a flexible open capability which will allow business to provide customers with fast purpose built solutions. This system requires the convergence of a number of systems such as PABXs, routers, billing systems and other services an enterprise business would want from Telkom. We plan to release this system capability in the next calendar year.

The next big challenge is the splitting of our retail and wholesale systems. This includes financial and human capital systems, billing and assurance, warehousing and order management. Our IT team is working with our retail and wholesale divisions to finalise product strategies, which will affect the system architectures of Telkom. This is a very big IT project with a four-year timeline. This systems separation will facilitate two separate business models, one for retail and one for wholesale.

Building the Telkom brand

At Telkom our biggest challenge is ensuring that we become and remain a more customer-centric business. As a technology company we need to deliver in the present while leading the way to the future. To achieve this we must understand and anticipate the needs and desires of our customers. We are in the enviable position of being able to shape our customers' relationships with technology and play an integral part in their lives. But in order to do that we have to be invited in, we need to be a welcome addition to their lives, providing a seamless, effortless connection between them, the world around them and the future.

Our brand essence is about giving our customers tools to create a better future for themselves so they can live better. We recognise that Telkom won't be a favourite brand in the near future, but that is ultimately where we want to be.

We recognise that a brand is not a product or service, but a promise. The fulfilment of this promise builds trust. A product has no emotional connection, while a brand does.

Underpinning our brand are our values that drive how we behave, guide how we move into the future, and underpin our strategic intent of putting our customers first.

It's that emotional connection that makes people come back time and time again, even when there are new competitors offering lower prices. That's what we want from our customers, but our customers aren't going to give their loyalty easily. They form opinions about us based on everything they experience – our service, products, logo, call centre, history, other people's opinions of us, an SMS. So we need to make sure that what they experience is always aligned to what we want them to believe about us and what we want them to tell their friends and family about us.

We believe that everyone at Telkom can create a better world for our customers through connecting with them and putting them first.

During the year under review we invested 34 percent of our marketing budget in brand building and sponsorships that positioned our brand and this investment has paid off, particularly in our consumer business unit. This communication seems to have resonated with SMME owners, but we have yet to see the commercial benefit. Our Enterprise marketing has drawn strength from increased and closer engagement with the top 1 100 chief information officers (CIOs) in South Africa. We introduced CIO round tables with the top 1 100 CIOs.

The results of our 2015 Rep Trak Pulse survey, which provides insights into a company's reputation, whether it fulfils its governance requirements, if its current reputation will allow it to achieve its strategic goals, reputational risks and information that can help a company protect its reputation appear below.

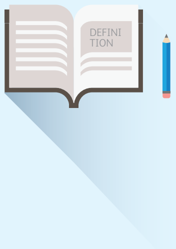
About our brand

RepTrak© research results

How stakeholders rated our reputation in FY2015 in comparison with FY2014:

- 9.8 percent increase – overall external stakeholders
- 6.1 percent increase – overall customers
- 4.6 percent increase – business customers
- 15 percent increase – government customers
- 16.1 percent increase – corporate customers
- 5.1 percent decrease – residential customers (this result was affected by the poor service we provided at the time of the changeover of our contact centre to an outsourced specialist facility)
- 21.7 percent increase – wholesale customers
- 23.2 percent increase – investors
- 18.8 percent increase – media
- 18.1 percent increase – regulatory authorities
- 21.2 percent increase – opinion leaders

Human capital



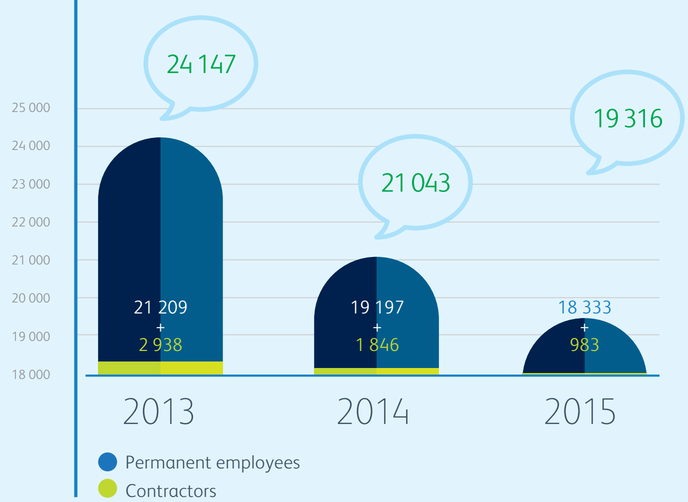
Our human capital includes the competencies, capabilities, experience and motivation to innovate of our people. The alignment of our people with and their support for our approach to governance, risk management and ethical values is all part of our human capital, as is their ability to understand, develop and implement our strategy and to lead, manage and collaborate; as well as their loyalty and motivation to improve our processes, products and services.

Our approach to human resources management is based on international best practice, upholding the United Nation's (UN) Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, which form part of our commitments as a signatory to the UN Global Compact (UNGC). The development of our human resources strategy and its alignment with our group strategy and our employment policies and procedures are the responsibility of the chief of human resources who reports to our group chief executive officer.

Committed to:

- engaging with and listening to our workforce and providing our team with a safe, comfortable and inclusive workplace
- building a friendly, reliable and competent team focused on providing our customers with the best possible service

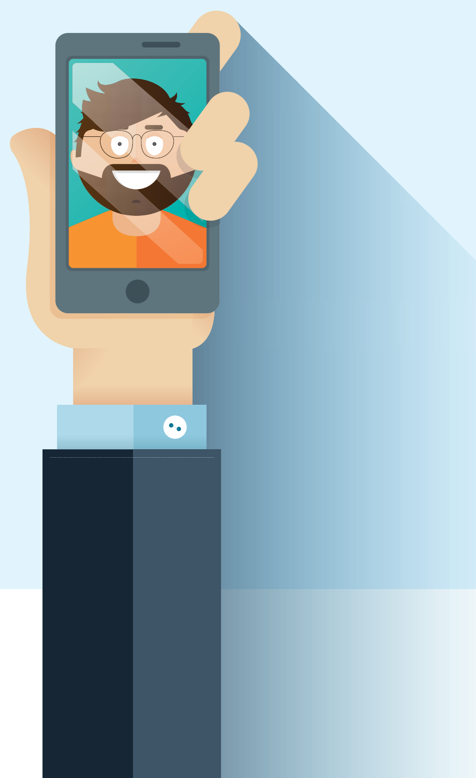
Company employee numbers as at 31 March



Headcount movement

	2015	2014	2013
Opening balance	**19 197**	21 209	20 939
Employee gains	**93**	255	915
Severance	**(189)**	(732)	(49)
Early retirement	**(191)**	(1 103)	(6)
Natural attrition	**(577)**	(432)	(590)
Total	**18 333**	**19 197**	**21 209**

Overall employee turnover of 5.1 % in FY2015 (11.2 % in FY2014)



	Our approach	FY2015 principal activities	Our future
Human resources management			
	Reduce our significant employee costs and optimize the efficiency of our workforce	Telkom further reduced its employee numbers (permanent employees and contractors reduced by 8.2% year-on-year following a 12.9% reduction in the previous year)	We will complete our current employee reduction project and focus on optimizing the efficiency levels of our workforce
	Fit for purpose organisational design	We continued with the redesign of our organisation to achieve more effective use of our human resources 01	Having achieved the organisational redesign we set out to achieve three years ago Telkom will be in a position to unlock the potential of its employees
	Build a strong internal brand, and improve employee satisfaction and performance levels, following the negative impact of our restructuring on both satisfaction and performance	We engaged with our employees on the objectives of Telkom's restructuring plans. There was some improvement in employee satisfaction levels, however, our ability to rebuild our internal brand has been hampered by not being able to complete our employee cost reduction project. Telkom launched Project Re:Connect, which is designed to integrate our workforce and provide our employees with a workplace that encourages collaboration	We will be working hard on engaging with our employees and seeking their commitment to the vision and values we have developed for the new Telkom. Our focus on putting our internal and external customers first will be the key driver. Project Re:Connect, which will be rolled out during the year, will see Telkom come together as one team on one campus into which the latest thinking on productive working environment has been incorporated
Labour relations (three recognised unions: Communication Workers Union (CWU) (majority union), South African Communication Union (SACU) and Solidarity)	Engage union leadership Address employee concerns through improved engagement	1 011 workdays were lost to industrial action in connection with protests against restructuring and job losses during FY2015 Management engaged with union leadership in a two-day workshop to share our vision, strategy and project plans See pages 81 for details of employees belonging to bargaining units	We need to complete the employee reduction exercise, which we were unable to complete in FY2015. This will be achieved through ongoing consultation with the union leadership and employees regarding the reduction in employee numbers
Employee benefits for full-time employees	Providing attractive employee benefits that form part of our retention strategy	In addition to providing medical, leave and retirement benefits in excess of legal requirements, from FY2014 our employees participate in short- and long-term (share) incentive schemes	Ensure we provide employee benefits that attract and retain the skills we require
Talent management, attraction, retention and development	Retain talent, attract new talent, especially scarce and business critical skills, develop talent pipeline and foster talent through Telkom Centre of Excellence	A stable new top leadership team is in place. Our efforts to address employee satisfaction resulted in an overall low attrition rate of 3.1%, however, retaining critical skills remains a challenge We provided 77 bursaries for full-time undergraduate studies in scarce skills and 680 employees were awarded part-time undergraduate and postgraduate bursaries in fields relevant to Telkom's operations Telkom promoted research in communication technology to encourage young scientists to pursue their interests in South Africa	Ensure our remuneration model is designed to reward and retain top talent We will address our succession plan, particularly in terms of highly specialised roles that are key to our business Continue to improve our marketing of Telkom as a top employer of choice among professionals Continue to invest in our talent pipeline Continue to invest in the Telkom Centre of Excellence

01 See Productive capital section on pages 62 to 73 of this report for information on re-engineering of our property portfolio and Intellectual capital for information on our efforts to ensure our IT systems are fit for purpose.

Human capital (continued)

	Our approach	FY2015 principal activities	Our future
Attraction, retention and development of talent			
Skills development	Ensure we have the necessary skills to: > Compete in the highly competitive and rapidly changing telecoms environment > Achieve our objective of placing the customer first	Invested R300 million in building an appropriate pipeline of technical and leadership skills, as well as customer facing skills	The development and retention of the technical, leadership and customer facing skills we need to be competitive and achieve our strategic objective of placing the customer at the heart of all we do will remain a key focus in the new year
Cultural diversity and transformation	Cultural transformation to support business strategy Compliance with B-BBEE codes and achieving employment equity	Our new organisational design is flattening our structures, reducing bureaucracy and bringing us closer to our customers. To support this redesign we need to transform the culture of our business; and to support the culture change we are creating a new working environment that will foster collaboration and the sharing of ideas and capabilities Telkom maintained its Level 3 B-BBEE contributor status and its efforts in this regard are also in line with the B-BBEE ICT codes. We established a business unit assurance council which is responsible for overseeing B-BBEE performance and other assurance issues	Project Re:Connect will play an important part in our efforts to transform our culture into one that is sufficiently flexible, agile and innovative to compete successfully in the very competitive ICT environment. In addition to the new converged environment for our employees we will have a customer centre where we can share our business innovations and solutions with our customers We performed an impact analysis of the amended B-BBEE codes of good practice, which came into effect on 1 May 2015, to determine which areas may require significant investment. We have developed an implementation plan to address the requirements of the amended codes, which have introduced higher targets and stringent key measurement principles
Safety, health and wellbeing	Meeting our obligation to provide a safe and healthy work environment	We updated our safety, health and wellbeing (SHW) policy and managers' duties in relation to SHW Actions taken resulted in a decline in reported injuries. These included: safety training, root cause investigations, risk assessments aimed at eliminating or minimising hazards We recognise that a healthy workforce is a more productive workforce. We provide health and disease screening for our employees, their families and contractors; offer a medical assessment programme for all employees working in high risk environments; monitor our work environments; and the Thuso wellness programme provides wellness education, counselling, screening, support and care for those at risk of chronic disease An independent, confidential health helpline is available to our employees 24 hours a day	We will continue with our efforts to keep our employees safe and healthy During the year we plan to make some improvements to our employee assistance programme by including a range of preventative interventions

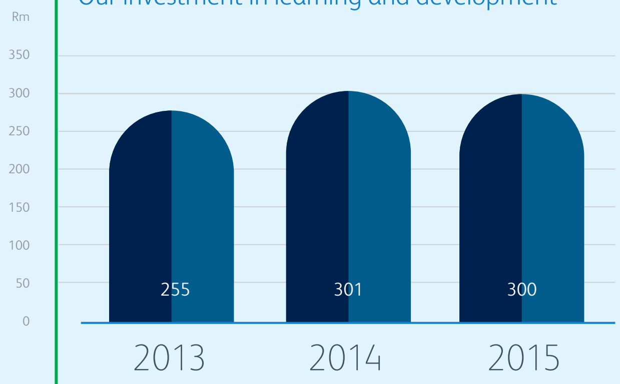
In FY 2015 76.9 percent of our employees belonged to bargaining units, a 1.8 percent increase year-on-year.

Union	FY2015 %	FY2014 %	FY2013 %
CWU	40.3	39.7	38.6
SACU	20.2	20.5	20.6
Solidarity	16.4	15.3	15.5
Total	**76.9**	**75.5**	**74.8**

In FY 2015 32.2 percent of our management belonged to bargaining units. This shows an increase of 10.7 percent year-on-year and an increase of 27.7 percent over the past three years during which the Telkom group's strategy has included a drive to reduce employee costs.

Union	FY2015 %	FY2014 %	FY2013 %
CWU	7.9	8.2	7.6
SACU	10.4	10.1	10.4
Solidarity	13.9	10.8	7.3
Total	**32.2**	**29.1**	**25.3**

Our investment in learning and development



- On a permanent employee base of 18 333, a total of 76 641 facilitator-led training days were delivered during FY2015 (on a permanent employee base of 19 197 in FY2014 a total of 92 914 facilitator-led training days were delivered)
- An average of 4.2 training days per employee were provided during FY2015 (average of 4.8 in FY2014)

A view of Pretoria from the Lucas Rand Telkom Tower

16%

decrease in our safety incidents year-on-year

35%

of our safety incidents are slips, trips and falls

35%

decrease in our motor vehicle accident rate year-on-year

^These numbers have been assured by Ernst & Young Inc.

Safety, health and wellbeing

Working at heights remains the greatest safety risk at Telkom. During FY2015 absolute rules were developed and implemented to address practices that can result in injuries on the job. We have a medical assessment programme, which continually monitors the health of employees working in high risk environments. Pre-employment medicals are conducted to determine a baseline for all employees and medical evaluations or medicals are conducted periodically in accordance with specific risk profiles. 3 955 medical examinations were conducted in Telkom during FY2015.

- There has been a 43 percent improvement in our lost time injury frequency rate year-on-year
- During FY2015 Telkom employees had 418 work-related injuries^
- 3 945^ days were lost to injuries
- 129 468^ days were lost to absenteeism in FY2015
- Certified hygienists annually conduct hygiene surveys across the Telkom group
- The Thuso wellness programme, which includes a helpline, is available to all our employees and their families. It is used to promote the wellbeing of our employees. During FY2015 4 509^ people were tested for HIV. Telkom's HIV prevalence rate for FY 2015 is 2.43^ and cumulative prevalence rate is 3.00^

Safety

- Telkom has had no fatalities for the past two years. We regrettably had two fatalities in FY2013.
- Our lost time injury frequency rate (LTIFR) continues to improve

Our LTIFR performance

2011	2012	2013	2014	2015
1.37	1.44	1.42	2.10	1.18

Developing skills and creating job opportunities

- An average of 4.2 training days per employee were provided during FY2015
- 34 unemployed graduates were given the opportunity to participate in a skills programme
- 32 unemployed graduates were given internships in Telkom
- 38 Telkom employees participated in network operations learnerships

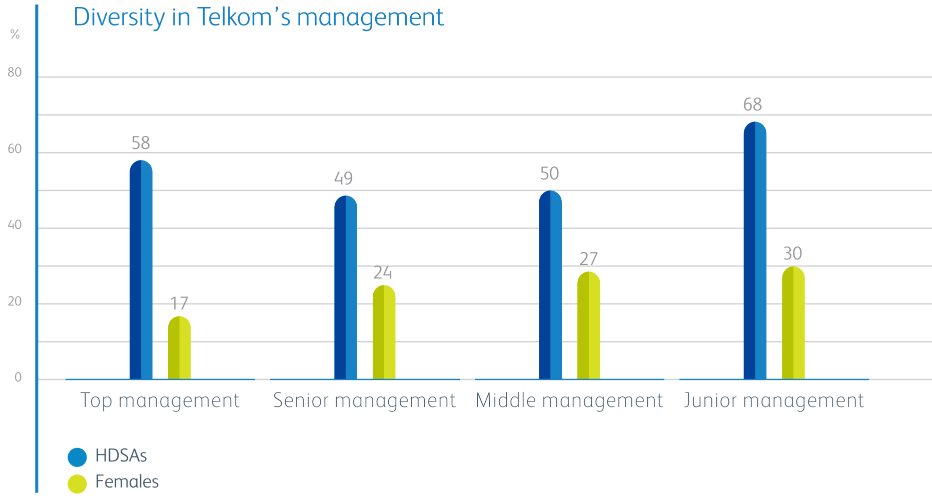
Talent development

- 77 bursaries awarded to external bursars for full-time undergraduate studies in scarce skills
- 41 students successfully completed their studies in 2014, of which 10 now have permanent positions in Telkom and 22 are on fixed term contract with Telkom
- 680 Telkom employees were awarded bursaries for part-time undergraduate and postgraduate studies in fields relevant to Telkom's operations
- 240 full-time postgraduate students have the opportunity to pursue their research studies at the Telkom Centre of Excellence

Employment equity

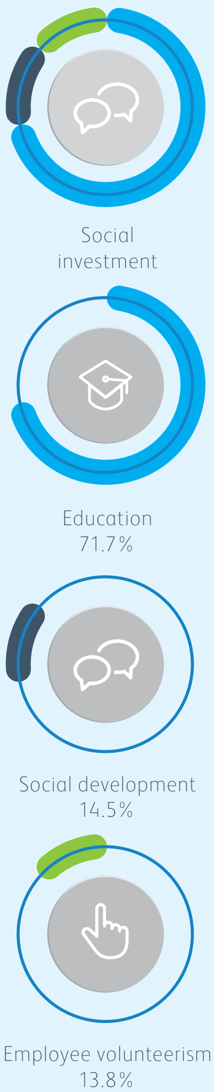
- 66 percent of our employees are historically disadvantaged South Africans (HDSAs)
- 31 percent of our employees are female
- 22 percent of our employees are HDSA females
- 44 percent of our employees are HDSA males

Diversity in Telkom's management



Social and Relationship capital

Our Social and Relationship capital is about any value that is added to the activities and economic outputs of our organisation by our human relationships, partnerships and cooperation. We rely on these relationships and interactions to achieve our objectives. We also rely on wider socio-political structures to create a stable society in which we can operate, for example government and public services, effective legal systems, trade unions and other organisations. An important element of our Social and Relationship capital is sharing common values and behaviours with important stakeholders, being willing to engage with stakeholders and build and protect the relationships we establish with our stakeholders. Social and Relationship capital includes the intangibles associated with our brand and reputation and our social licence to operate.



The Telkom Foundation is responsible for Telkom's corporate social investment programme. It's primary objective is to contribute to the transformation of disadvantaged communities through sustainable social investment programmes. Its primary focus is on education using Telkom's expertise and ICT capabilities.

The Telkom Foundation won the Sunday Times Corporate Social Investment Award for the impact and sustainability of two major enterprise development projects we support: the Bandwidth Barn ICT incubation programme and Absa Enterprise Development Centres.

Social investment

In total, R40 million was invested in social investment projects, which is 11.1 percent less than we spent in the previous financial year. This is because Telkom achieved a lower net profit after tax in the previous financial year. The Foundation focuses on **three pillars.**

Education

The Foundation supported five education projects:

- The Connected School Programme
- Teacher and leadership development through ICT training
- Support of the Grade R component of the Rally to Read literacy development programme
- Learner support through the Future of the African Daughter (FOTAD), a project aimed at empowering girls between the ages of 12 and 18
- 28 high school scholarships for high achievers from disadvantaged communities

Supported 20 organisations across all nine provinces using ICT to improve access to quality healthcare to disadvantaged communities through eHealth

Social development

- Our employee volunteers participated in Mandela Month, Youth Month, Rally to Read, AIDS Day, 16 days of activism against gender-based violence and Volunteer Week
- Twenty-eight members of Telkom's senior leadership team adopted and supported 27 community development projects

Employee volunteerism

Encourage employees to volunteer time to charitable causes

To enhance social capital we:

- Contribute to open, transparent and fair governance
- Source materials ethically and treat suppliers, customers and citizens fairly
- Respect and comply with local, national and international law
- Pay our taxes
- Invest in the social infrastructure
- Provide communication
- Minimise any negative social impacts of our operations and maximise the positive impacts they can have
- Support the development of the communities in which we operate.

	Our approach	FY2015 principal activities	Our future
Social capital			
Social investment	Telkom's corporate social investment is the responsibility of the Telkom Foundation, which is registered as a trust. The trustees of the Foundation include four Telkom executives and three external trustees	The Foundation's vision is to achieve sustainable improvements in education, health and social welfare using Telkom's expertise and ICT capabilities	The Foundation plans to maintain its focus on delivering against its vision
Education	71.7% of the Foundation's budget was spent on education during FY2015	The projects this year included: > The Connected School Programme > Teacher and leadership development through ICT training > Exclusive support of the Grade R component of the Rally to Read literacy development programme > Learner support through the Future of the African Daughter (FOTAD) > A high school scholarship programme in partnership with the Student Sponsorship Programme and Make a Difference	The Foundation will continue to support these five projects which are addressing education from early childhood through to matric
Socio-economic development	14.5% of the Foundation's budget was spent on social development that facilitated improved access to health and social welfare during FY2015	By using Telkom's resources and ICT capabilities the Foundation supported 20 organisations working in all nine provinces of South Africa to improve access to quality healthcare for disadvantaged communities through eHealth initiatives	There is still a great deal of work to be done in this area and the Foundation is committed to continuing to work with organisations focused on providing disadvantaged communities with access to quality healthcare through eHealth initiatives
Employee volunteerism	13.8% of the Foundation's budget was committed to our employee volunteerism programme, which focuses on community development	1 580 Telkom employees volunteered to participate in this initiative. This year each volunteer was given three days of leave to use for volunteering on a community development project	The Foundation will also continue to encourage more Telkom employees and leaders to volunteer to work with partners on community development projects

Social and Relationship capital (continued)

	Our approach	FY2015 principal activities	Our future
Social capital			
Meeting our transformation commitments in terms of broad-based black economic empowerment (B-BBEE)	We are committed to supporting the government's B-BBEE goals and complying with the B-BBEE codes of good practice. The increase in the purchase of Telkom's shares on the JSE by HDSAs, together with our employee share ownership scheme, has increased the points we achieved for ownership in terms of the B-BBEE scorecard. We achieved the highest possible score for management control	Our efforts towards meeting our transformation commitment achieved a Level 3 B-BBEE contribution status on the current ICT sector codes, falling short of a level 2 status by just 4.46 points. We carried out an impact analysis to determine if there were areas where compliance with the Amended B-BBEE codes of good practice will require significant investment Our commitment to transforming our workforce is covered in the Human capital section of this report on page 80	The Amended B-BBEE codes, which became effective on 1 May 2015, introduced higher targets and stringent key measurement principles. Currently the dti has granted sector companies an extension to 31 October 2015. This period of grace is intended to give sector councils time to align their sector codes with the Amended generic codes
Skills development	Our overall approach to skills development is discussed in the Human capital section of this report on page 83	In terms of B-BBEE skills development we provided 310 HDSA learners with learnership programmes that are in line with the sector required skills and are approved by the sectoral education training authority (SETA)	Telkom aims to maintain its investment in HDSA skills development and learnerships
Preferential procurement	We aim to grow sustainable black-owned companies in the ICT sector through our preferential procurement and our enterprise development initiatives are improving HDSA participation in our supply chain	In FY2015 we procured 77.7% of our measurable preferential procurement spend from B-BBEE compliant companies, 30% of which was from black businesses (R4 386 million), R1 451 million from EME/QSEs, R988 million from black female-owned businesses. We also procured 81.25%^ of our preferential procurement from businesses local to Telkom's operations, which was a 7% increase year-on-year	In FY2016 we have allocated a budget for supplier development initiatives to support our efforts to procure from HDSA businesses
Enterprise development (ED)	The aim of our ED programme is to help businesses become sustainable, create jobs, empower previously disadvantaged communities and increase the competitiveness of small, medium and micro enterprises (SMMEs)	Telkom developed a new ED strategy this year. It is intended to be transformational while at the same time achieving our commercial objectives. It is discussed in detail in the Financial capital section of this report on page 60. We continue to invest in and support black-owned and EME/SME suppliers	In terms of our compliance with the Amended B-BBEE codes we have challenging steeper ED targets to meet, including investing 5% of net profit after tax (NPAT) if we want to achieve the full score The five-year strategy of our exciting new ED programme, FutureMakers (see the Financial capital section on page 60 for more information), will play a key role in enabling SMMEs that supply Telkom or that work within the broader ICT sector

^These numbers have been assured by Ernst & Young Inc.

In support of an inclusive economy

Preferential procurement

77.7 percent of Telkom's measurable preferential procurement was from B-BBEE compliant companies (R11 366 million)

30.0 percent of our measurable preferential procurement was from black-owned companies (R4 386 million)

R988 million worth of supplies and services were purchased from black female-owned companies

Skills development

- R78 million invested in skills development and training of HDSA employees
- R67 million was invested in black female employees
- 310 HDSA learners were enrolled on four learnership programmes: telecommunications systems, network operations, IP networks and next generation networks

Enterprise development

- R248 million invested in the development and support of black-owned SMMEs in 2015

The FutureMakers programme, launched in May 2015, is based on four pillars:

FUTUREFUND	FUTUREHUBS	FUTUREPROOF	FUTURESOURCE
Financial empowerment	Support with space and connectivity	Empowerment through technology	Link to opportunities across the value chain

FutureFund, will invest R100 million in working capital, loans and equity for SMMEs that supply Telkom or that work within the broader ICT sector. Due diligence is already at an advanced stage for several businesses.

FutureHubs will offer virtual and physical business incubation services together with business development support to the ICT industry through hubs, which reduce start-up costs for new businesses and provide a collaborative environment, which also stimulates innovation and technology uptake in small businesses.

FutureProof will seek out like-minded partners focusing on ICT innovation partners to drive broadband uptake and improve usage in the SMME sector. Partners already identified include: Cisco, IBM Microsoft, Barclays and Accenture.

FutureSource will help local suppliers and partners as well as potential suppliers, third party distributors, Internet cafes and innovative ICT start-ups to become more competitive by providing business development support and training from some of South Africa's top SMME developers.

FutureMakers will provide end-to-end support for SMMEs and will have a national impact.

Relationship capital

Social and Relationship capital (continued)

At Telkom we believe that relationship capital is about engaging with the people connected with us in every way possible, receiving their input, listening to them, informing them and taking action to put things right if we need to.

All our stakeholder relationships impact directly and indirectly on our business and its reputation. Because of the importance of stakeholder engagement and responsiveness to Telkom it is integrated into our ERM framework. Every aspect of our business interacts with stakeholders who are relevant to that particular part of our business, on issues that apply specifically to it.

31

We have identified our stakeholders and the material issues they raised on pages 31 to 34 of the Material issues section of this report

We have a wide range of communication channels including: face-to-face meetings, telephonic and electronic communication, websites, electronic and paper-based employee and customer newsletters, brochures, advertising, employee and customer forums and customer and investor roadshows.
We have a dedicated unit that monitors stakeholder engagement in the group and reports to the social and ethics committee on the status of our stakeholder engagement.

Integrating our stakeholder management into our ERM framework

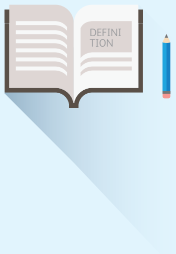
To integrate our stakeholder management into our ERM framework we first:

- Confirmed the completeness of the existing stakeholder universe
- Assigned ownership of stakeholders at Exco level
- Confirmed existing stakeholder issues and opportunities and identified any new stakeholder issues and opportunities
- Identified management controls and assessed their adequacy
- Assessed Telkom's residual exposure from a stakeholder perspective

The second phase of the integration process began in April 2015.
It will:

- Document the desired outcomes for each stakeholder group
- Assess the controls and action plans implemented by management to achieve the desired outcomes

Natural capital



Natural capital includes the natural resources and processes needed by an organisation to produce its products. This includes renewable (timber and water) and non-renewable (fossil fuels, minerals and metals) resources and processes such as energy consumption, waste creation, emissions etc. We maintain and enhance natural capital by:

- Reducing our dependence on fossil fuels
- Eliminating waste by reusing or recycling it whenever possible
- Protecting biodiversity and eco-systems
- Wherever possible using renewable resources from well-managed and restorative eco-systems
- Managing resources efficiently

Telkom is categorised as a medium to low risk organisation in terms of the impact of its activities on the environment, however, advancing communications technology is likely to increase our energy demands. Our energy management forum and our energy manager are tasked with identifying opportunities to make our operations as energy efficient as possible and to reduce our carbon intensity (i.e. the amount of carbon we produce per employee). Not only are we committed to reducing Telkom's impact on climate change by reducing our carbon intensity, but we also need to make every effort to reduce our energy costs and the impact of the proposed carbon tax on Telkom's operating costs. Our annual electricity costs at around R700 million a year are already a significant contributor to our operating costs.

Our approach to environmental management is based on international best practice, legal compliance and maintaining our environmental and social licence to operate. Key aspects of our environmental management include: governance, compliance and control, strategy and management systems.

Our approach	FY2015 activities	Our future
Environmental management		
Telkom's environmental management division, which is ISO 14001:2004 EMS certified, is responsible for ensuring our operations implement our revised sustainability strategy and our environmental policy and management system (EMS). A management review of the effectiveness of our EMS takes place annually Our environmental policy drives our management of the key natural capital aspects Telkom has identified. These are discussed below	Telkom's environmental policy was reviewed this year to ensure it conforms with Telkom's new sustainability strategy, which identifies the material environmental issues in terms of our internal processes, legislative obligations, supply chain management and stakeholder engagement During FY2015 Telkom did not incur any environmental management contraventions, fines or penalties	We will continue with our annual management review of our environmental management system during which compliance requirements and opportunities to support continual improvement are reviewed and action plans are established We will also continue to manage our key natural capital aspects in accordance with our environmental policy
Water management		
Telkom is not a water intensive business. Our main use of water is for cooling and office catering and hygiene. We do, however, operate in a water scarce region and therefore need to do everything we can to reduce our water intensity (i.e. the amount of water we consume per employee)	Our water consumption calculations are cost-based. Therefore, the most accurate way to measure whether we have improved our water consumption is to compare the total water costs year-on-year. This shows a reduction of 5%. We introduced an energy and water management working group during the year under review, which is looking at further opportunities to reduce our water consumption including rainwater harvesting, waterless urinals and borehole sites to reduce dependency on municipal water supply	The energy management forum will identify additional opportunities to reduce water consumption and finalise the feasibility studies identified in FY2015

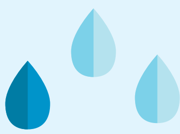
Greenhouse gas (GHG) emissions in FY2015

Scope	FY2015 tCO_2e	FY2014 tCO_2e	% change
Scope 1 direct emissions from sources owned or controlled by Telkom using fossil fuels (diesel 11 693^ tCO_2e) and refrigerant gases 31 795^ tCO_2e)	43 488^	49 353*	11.8
Scope 2 emissions from the generation of electricity using fossil fuels	684 306^	643 536*	6.3
Scope 3 emissions from sources not owned or controlled by Telkom	44 213^	47 087*	(6.1)
Total–	**772 007^**	**739 976***	**4.32**

^These numbers have been assured by Ernst & Young Inc.
*Assured by CA Governance

Water consumption

5% improvement in water consumption due to a reduction in Telkom's property portfolio and water saving initiatives



The increase in our GHGs is as a result of an increase in the use of both fossil fuel (Scope 1) and electricity (Scope 2). In order for an organisation like Telkom to grow it inevitably consumes more fossil fuel and electricity generated from the burning of fossil fuels, which will, of course, generate more GHGs. However, it needs to do so efficiently. In terms of the rand revenue generated by Telkom in 2015 our production of GHGs was not as efficient as it should be as it exceeded our revenue growth of 1.5 percent by 2.8 percent. However, a further interrogation of the increase in our Scope 1 (fossil fuel) consumption reveals of the two largest Scope contributors to this, – diesel consumed by generators and refrigerant gases, we managed to reduce our GHG emissions from refrigerant gases by 23.1 percent year-on-year while our consumption of diesel consumed by our diesel generators increased by 26.35 percent, a large proportion of which can be attributed to load shedding by Eskom. If this increase in our diesel usage is extracted from the calculation our efforts to improve our efficient use of fossil fuels improves substantially.

Natural capital (continued)

Our approach	FY2015 activities	Our future
Emissions management and energy use		
Telkom's approach to emission management and energy efficiency is to focus on improving our energy efficiency, which will help us manage rising costs and reduce our carbon intensity We have appointed an energy manager to focus on our energy efficiency and have also established an energy management forum to oversee our initiatives in this regard Deficiencies in our electricity data methodology are being addressed, which includes the installation of smart electricity meters to provide accurate real-time data at building and site level	Electricity consumption accounts for 89% of Telkom's carbon emissions (Scope 2 emissions) We had a 3.1% increase in electricity consumption year-on-year as a result of: > Continuing to occupy and run our existing real estate portfolio while constructing our new Centurion campus and migrating our employees to these new premises > Decommissioning ageing infrastructure while rolling out new network technology A number of energy efficiency initiatives were undertaken during the year (see the Telkom sustainability report for details of these initiatives). Our phased energy efficient lighting initiative targeted 550 buildings in FY2015, reducing their energy consumption and the associated cost Telkom's outsourced technical fleet, employee air travel, business travel by road and diesel fuel for standby generators are the primary contributors to our Scope 2 (fuel) carbon footprint Ongoing load shedding by the national electricity provider results in an increase in our use of diesel fuel for our generators Improved technical fleet despatching systems installed during FY2015 reduced the distance our vehicles travelled by 4.6 million kilometres, which is a 4.2% reduction in mileage year-on-year Telkom's subsistence and travel policy also encourages avoiding travel by using video or teleconferencing	Lighting control strategies proposed for implementation in FY2016 include timer controlled scheduling of lighting, occupancy sensors and photo sensors that control lighting by sensing ambient light conditions. They also include the ongoing energy efficient lighting initiative, which is a multi-year project targeting 600 buildings in FY2016 Adjust set point temperature in selected equipment buildings of heating, ventilation and air conditioning (HVAC) to reduce energy use Improve efficiency of the HVAC component of our data centres to conserve energy and reduce cooling costs Continue with the feasibility study into establishing an energy centre at our Centurion campus to provide 7 MW off-grid electricity generation through gas tri-generation technology and photovoltaic systems Our new technical fleet solution will include the latest fleet management technology

Our carbon footprint (GHG emissions) data has been validated according to the GHG Protocol calculations and independent auditors EY have assured our Scope 1, 2 and 3 emissions, using the ISAE 3000 and ISAE 3410 auditing standards. The emissions of our subsidiaries, Trudon and Swiftnet, are included in these calculations.

Telkom participated in the Carbon Disclosure Project (CDP) for the fourth year running in FY2015. This participation provides our stakeholders with information on how well Telkom is managing its energy and carbon footprint. We are also a member of the National Business Initiative (NBI) and the Energy Efficient Leadership Network (EELN) and are signatories to its pledge. To fulfil our pledge our energy management forum: develops energy efficiency strategies aimed at reducing our carbon footprint; identifies opportunities to be less dependent on the national grid; creates employee awareness regarding the need to reduce energy consumption; and develops and implements attainable energy reduction targets that are aligned with Telkom's business strategy.

- 11.8 percent decline in Telkom's Scope 1 greenhouse gas (GHG) emissions year-on-year (direct GHG emissions from sources owned or controlled by Telkom using fossil fuels) despite need to use diesel generators during load shedding. The decrease in the kilometres covered by our technical fleet contributed to this significant decline in GHG emissions
- 6.3 percent increase in Telkom's Scope 2 GHG emissions year-on-year (indirect GHG emissions from the generation of electricity using fossil fuels) from using 677 547 MWh (657 047 MWh in FY2014) of electricity in FY2015. As explained on page 92 the increase in our use of electricity is as a result of duplication occurring during real estate and systems changeovers
- 6.1 percent decrease in Telkom's Scope 3 GHG emissions year-on-year (GHG emissions from sources not owned or controlled by Telkom, such as aircraft, using fossil fuels)
- 4.3 percent overall increase in Telkom's GHG emissions year-on-year

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By introducing improved fleet despatching systems we reduced the kilometres our technical fleet covered by 4.6 million kilometres year-on-year which is a 4.2 percent reduction in mileage year-on-year. We expect to achieve further reductions in FY2016.

Natural capital (continued)

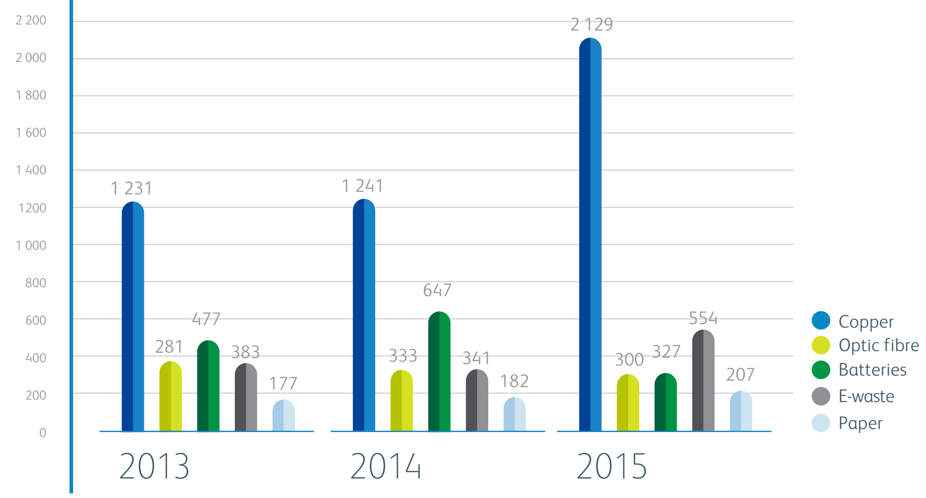
Our approach	FY2015 activities	Our future
Waste management, resource consumption and recycling management		
The Total Facilities Management Company is responsible for the management of Telkom's general waste streams. It is also responsible for any hazardous waste Telkom produces. Certified contractors are used to ensure the safe disposal of hazardous waste and their certificates of compliance are regularly audited to ensure they comply with hazardous waste management regulations We generate revenue from certain types of waste that result when telecommunications equipment and infrastructure is made redundant and legacy systems are replaced. This waste, which includes copper, optic fibre, batteries and e-waste, is sold to certified waste management companies who manage the different waste streams in accordance with the relevant regulations	To comply with the recently revised Waste Management Act Telkom is certifying its regional reverse logistics sites as registered waste management sites As we enhance our telecommunications infrastructure with new technology we are producing a considerable amount of waste that needs to be responsibly recycled	The ongoing implementation of new systems and our next generation network will continue to generate waste, some of which is recyclable. We will ensure that our waste disposal complies with the Revised Waste Management Act and at the same time ensure we recover the revenue due to us from the recycling of copper, etc During FY2016 Telkom will implement enhanced recycling initiatives, which will include plastics, glass and tin
Biodiversity impact management		
Telkom is sensitive to the impact of our network on biodiversity. Our environmental management specialist is responsible for ensuring any potential impact on the biodiversity of an area is mitigated and that we comply with all the relevant regulations and legislation If it is necessary to encroach on an area of biodiversity Telkom consults with local government environmental conservancies, NGOs and specialist conservation groups working in the area	Environmental impact assessments (EIA) have been conducted by independent environmental assessment practitioners for all our new highsite infrastructure rollouts. This ensures we do not cause undue disruption or environmental damage to an area Telkom often takes part in the legally required public participation meetings held by other businesses as part of their EIA process to ensure they do not impact our infrastructure	We will continue to monitor and keep to an absolute minimum our impact on the biodiversity of any area where we are rolling out our network.
Environmental incident management		
Every year Telkom conducts safety, health and environment (SHE) compliance audits on a predetermined stratified sample. The results from these audits are used to determine each area's performance in terms of the environmental targets set	This year 49 SHE audits were conducted. They achieved a 91 % compliance rating. Telkom did not contravene any environmental laws or regulations, nor did it incur any environmental management fines or penalties during FY2015	Annual SHE compliance audits on a predetermined stratified sample will continue
Awareness and training		
Our annual environmental targets include undertaking environmental training and awareness	Environmental training and awareness continued during the year, as is required by our annual environmental targets. 1 902 knowledge reviews and awareness topics were completed during FY2015	The electronic learning module aligned with the ISO 14001:2004 standard, which was not completed during FY2015 due to more critical training requirements, will be completed in FY2016, as will ongoing environmental training and awareness programmes

Waste generation and recycling

The process of replacing legacy technology with new technology generates a considerable quantity of waste which we need to ensure is recycled responsibly. We also need to ensure we are fairly reimbursed for the revenue generating waste that is extracted through the recycling process. In FY2015 our total waste increased 28 percent to 3 517 tonnes, 61 percent of which was copper recovered from legacy networks.

- We sold 2 129 tonnes of copper this year (1 241 tonnes in FY2014), a 71.6 percent increase year-on-year, as a result of a backlog of copper recoveries
- 300 tonnes of damaged fibre optic cable and offcuts was recovered (333 tonnes in FY2014) (9.9 percent less than the previous year) and recycled responsibly through our social upliftment project with Sindawonye granulators and processors
- 327 tonnes of batteries (49.5 percent less than last year), which we use as back-up power, was disposed of in accordance with the specified hazardous waste regulations
- 554 tonnes of e-waste was disposed of in accordance with legislated protocols (1 341 tonnes in FY2014). This is an increase of 62.5 percent
- 207 tonnes of paper was recycled by Telkom in FY2015, an increase of 13.7 percent
- Our move to our new campus includes a move to the paperless office, which hopefully will reduce this quantity of paper recycling

Waste stream




Integrated Report
For the year ended 31 March 2015
Telkom

4

Transparency & accountability

Chairman's corporate governance review

'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.'

Jabu Mabuza, chairman

As chairman of the Telkom board I am responsible for the leadership of the board and for fostering a culture of openness and constructive debate that allows for all views to be heard. I am pleased to report that both our board and committee meetings are held in an atmosphere of honesty of purpose, integrity and mutual respect; and direct, robust and constructive challenge takes place among board and committee members.

Good governance is at the heart of our board and committee structure. It is also the forum that sets the company's values and empowers our management team to execute our strategy and be accountable for delivering against it.

We are committed to being responsible, accountable and fair in all that we do, to continue to build on the governance foundations we have established and uphold the highest standards of ethics, transparency and good governance. Our enterprise risk management framework is also designed to ensure thorough and transparent risk governance.

By appointing strong independent directors we benefit from their expertise and perspective and the introduction of different thinking to our deliberations. We have established a clear balance of power and authority at board level that ensures that no one director has unfettered power. As a result the board is equipped not only to make decisions in the correct way, but also to make the right decisions.

Corporate governance means much more than a set of rules and processes governing the running of a company. As chairman of Telkom I aim to ensure not only that Telkom complies with all the relevant codes and regulations, but that we instil in our entire management team a commitment to achieving the best results in the most responsible way.

Telkom wishes to enhance shareholder value in such a way that we make a real and permanent contribution to the wellbeing of its people and the development of South Africa. In my role as chairman I shall do my best to ensure that Telkom adheres to the highest possible standards of corporate governance.

Jabu Mabuza
Chairman

Corporate governance

Our approach to governance

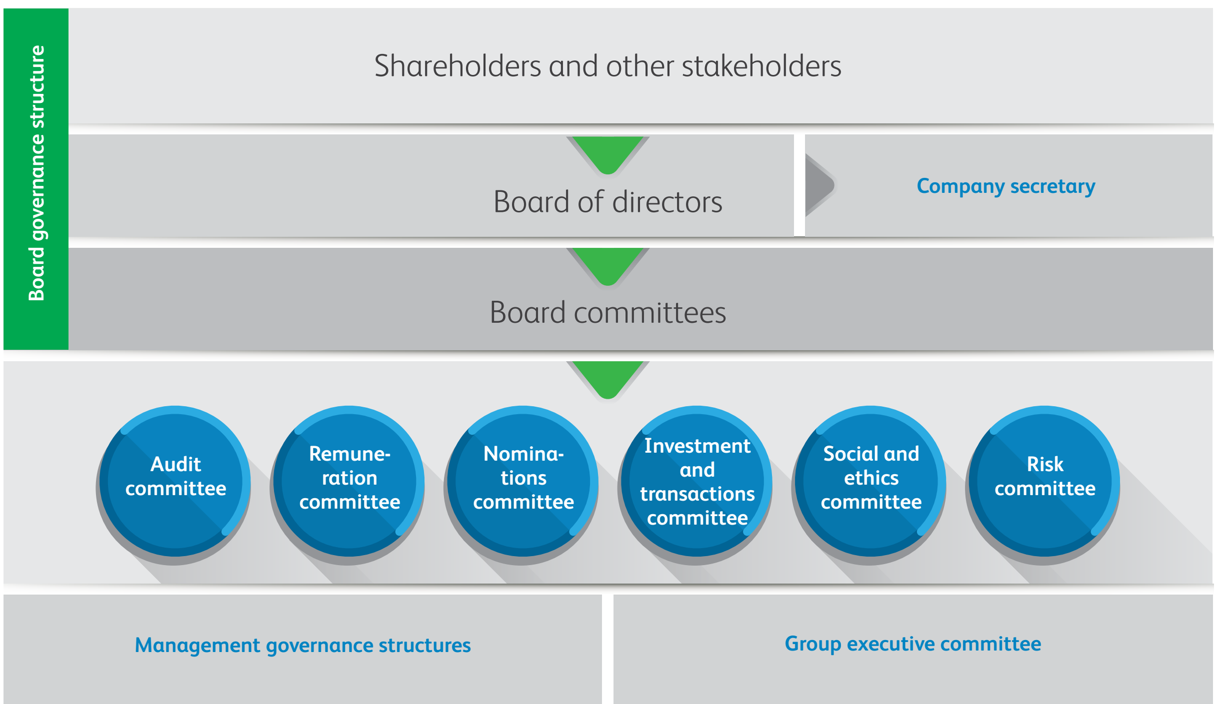
Telkom understands that a sound and robust approach to group corporate governance standards throughout our organisation requires a focus on performance as well as conformance. We also recognise that strategy, performance, sustainability and risk are inseparable. Through our strategic objectives we pursue the long-term sustainability of Telkom's business. We establish clear lines of accountability for these objectives from board level down.

Our primary objective is the creation of value for all our stakeholders through the provision of innovative customer and market-focused solutions. At the same time we are 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.

To ensure we consistently practise effective corporate governance throughout the group, our board applies the principles of King III. In terms of the King III principles the board must consider the concerns and priorities of its wider stakeholder environment in its strategic guidance and decision-making processes. A table setting out our application of the principles of King III is available on our website at www.telkom.co.za

Telkom's commitment to good corporate citizenship and sustainable development was recognised when it was included in the JSE Socially Responsible Investment (SRI) Index in 2014. The review conducted by the JSE of companies in the FTSE/JSE All Share index is carried out against a holistic set of environmental, social, governance (ESG) and related sustainability concerns and a fourth area of climate change.

Our governance framework



Corporate governance (continued)

Leadership and effectiveness

The Telkom group has a unitary board structure. The majority of its members are independent non-executive directors. There are 14 directors in total, 12 of whom are considered independent and two executive directors. Brief biographies of the directors are set out on pages 37 and 39 of this report. The size of the board is appropriate given the complexity of the Telkom business and the time demands placed on non-executive directors.

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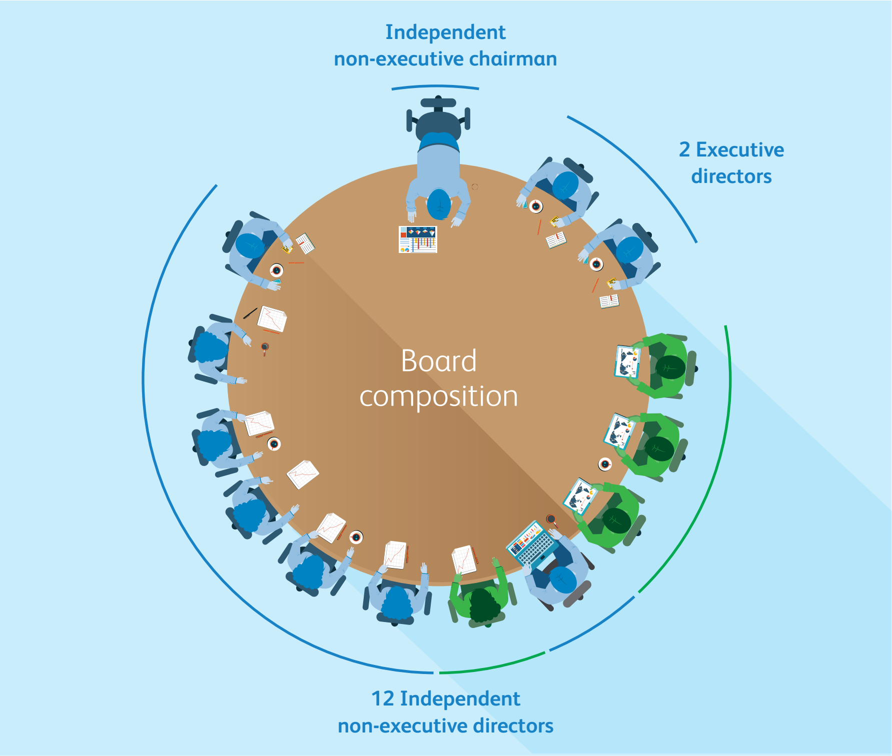
By appointing strong, independent directors to our board and separating and clearly defining the roles and responsibilities of the chairman and the group chief executive officer, Telkom believes it has equipped its board to make the right decisions in the right way.



HDSA White

Our board performs its duties within a framework of policies and controls, which provide for effective risk assessment and management of our economic, environmental and social performance. The Telkom board charter, which is closely aligned with the recommendations of King III, details the responsibilities of the board. Our memorandum of incorporation (MOI) also addresses certain of the directors' responsibilities and powers.

The board governs through clearly mandated board committees, accompanied by appropriate monitoring and reporting systems. All the board committees operate under board-approved terms of reference, which are reviewed annually to keep them aligned with current best practice. Our board committees are all chaired by independent non-executive directors who attend our annual general meeting to respond to any shareholder queries. The mandates, charter and terms of reference governing the board and its committees are available from our company secretariat.

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 and all committee chairmen report orally on the deliberations and activities of their respective committees at the next meeting of the board.

The audit and social and ethics committees are statutory committees in terms of the Companies Act and operate as recommended by King III. Shareholders are required to elect the members of the audit committee at the company's annual general meeting. While the social and ethics committee is a statutory committee its members are appointed every year by the board at its first meeting following the annual general meeting.

The board's size and the required mix of skills and experience needed to provide strategic direction and leadership are regularly reviewed by the nominations committee. The board's composition is also reviewed annually to ensure it is representative of the demographics of South Africa.

An independent review of the board's performance was conducted by a consulting firm, specialising in the assessment of senior leadership, during FY2015. The review was conducted by means of a questionnaire sent to all directors, which was followed up by face-to-face interviews. In addition, the lead external audit partner who interacts frequently with the board and its audit committee provided input. The consultants found that it was remarkable, given the relatively short period the board had been working together, that the board had achieved a level of effectiveness that one would typically only expect from a board that had been working together over many more years. They attributed this to the leadership of the chairman, who is viewed as a strong and inclusive leader who guides debate with a fair hand. He is also seen as being accessible, engaged and committed. They found that the board's effectiveness can also be attributed to the complementary skillsets of the board members, their collegiality, commitment to the business and a shared sense of purpose and urgency. The consultants reported that the group chief executive officer's firm leadership of a skilled executive, together with his open and proactive demeanour, has also had a significant positive impact on the board.

Delegated authorities

The board has a formal schedule of matters reserved for its consideration and decision, which include, among others, approving:

- Strategy
- Business plans and budgets
- Financial statements
- Significant acqusition and disposal of assets
- Executive directors' appointment and remuneration
- Dividend policy
- The integrated report
- Capital expenditure for investment
- Granting of varying authority levels

The board also reviews and approves significant group-wide policies and frameworks including social, ethics and sustainability policies.

Its delegation of certain matters to its committees is described in the terms of reference of these committees. The roles and responsibilities of the board's committees, which include the audit, risk, remuneration, nominations, investment and transactions, and social and ethics committees are set out on our website (www.telkom.co.za). The board has also appointed a chief risk officer to whom it has delegated responsibility for risk management, sustainability and stakeholder management, which has been integrated into our existing ERM framework. In addition, the board has delegated some of its responsibilities in terms of stakeholder engagement to the executive: investor relations and the managing executive: corporate affairs.

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Delegation of authority in Telkom

Board

Memorandum of incorporation sets out shareholders' delegation of authority to board

Group executive committee

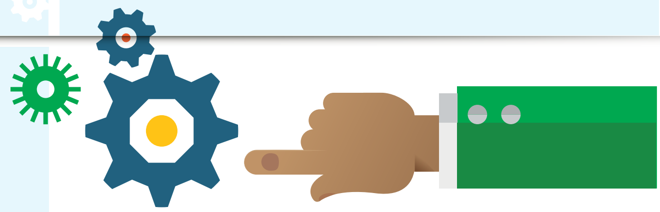
Through the delegation of authority policy the board delegates authority to the executive committee

Board sub-committees

Board delegates authority to its sub-committees and subsidiary companies

Group business unit heads

Executive committee delegates authority to business unit heads who in turn delegate authority to members of their leadership team



114 See page 114 of our Approach to risk management.

Corporate governance (continued)

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 he is assisted by the executive committee.

The board sets the strategic direction for the group, determines policies, 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. It also plays an important role in setting ethical standards of conduct. The board also 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 business and functional units, 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 and that the interests of stakeholders, and in particular shareholders and employees, are considered. This stewardship includes the fostering of business relationships based on trust with customers, suppliers and others and considering the impact of our operations on the environment and on the communities in which we operate.

Our non-executive directors meet regularly without the executive directors being present. These meetings give them an opportunity to discuss management performance and other business or concerns that they might have, without the presence of the executive directors.

During the financial year under review the board received reports from the:

- Group chief executive officer on strategic progress, matters considered by the executive committee and stakeholder engagement
- Chief financial officer on the group's financial position
- Chief risk officer on enterprise risk management
- Chief of human resources on union engagements, employee remuneration and employee wellness
- Business units or functional areas on progress against strategy

The board also received and debated reports on issues relating to governance and peer group comparisons, and considered certain transactions proposed to it by the group chief executive officer.

The board held additional special board meetings during the year under review to consider the rationale regarding several new strategic initiatives and projects and to agree our turnaround strategy. Decisions were made following rigorous debate during which the long-term interests of our shareholders and other stakeholders were taken into account and the seeking of external advice on certain issues where this was deemed appropriate.

Appointment of new directors

When we appoint new directors they receive formal and informal induction related to the group and their duties as directors of Telkom. We also provide our directors with ongoing support and resources that allow them to develop and refresh their skills and knowledge regarding their roles as directors of Telkom, which include any changes to legislation or regulations and briefings on market developments. The directors have unrestricted access to executive and general management in order to acquire any knowledge or information relevant to the discharge of their duties.

Directors' conflict of interest

In terms of the Companies Act, JSE Listings Requirements, King III and the board charter, a director of a company must avoid a situation in which he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the interests of the company. The board has established procedures to enable the directors and prescribed officers of Telkom to notify the group of any actual or potential conflict situations and to declare any significant interest in the group or its contractors.

Rotation of directors

In terms of the group's memorandum of incorporation, one third of our directors are required to retire from office at every annual general meeting. We select the retiring directors based on their tenure since they were previously elected or re-elected to the board.

Company secretary

The Telkom group company secretary is responsible for administering the proceedings and affairs of the directorate, the group and, where appropriate, owners of securities in the group in accordance with the relevant laws. The group company secretary, who is the secretary for all the board's committees, is available to assist all our directors with advice on their responsibilities, their professional development and any other relevant assistance they may require.

Xoliswa Mpongoshe, the duly appointed group company secretary until her resignation in June 2015, was not a director of Telkom and on that basis the board is comfortable that she maintained an arm's length relationship with the executive team, the board and the individual directors in terms of Section 3.84(i) of the JSE Listings Requirements. There was no interference by the board with regard to her performance pertaining to corporate governance. The board, having assessed her abilities based on her qualifications, experience and the level of competence she demonstrated as Telkom's group company secretary, as required in terms of Section 3.84(I) of the JSE Listings Requirements, agreed that she was sufficiently qualified, competent and experienced to act at Telkom's group company secretary.

Nwabisa Piki is the duly appointed acting group company secretary. She is not a director of Telkom and on that basis the board is comfortable that she maintains an arm's length relationship with the executive team, the board and the individual directors in terms of Section 3.84(i) of the JSE Listings Requirements. There is no interference by the board with regard to her performance pertaining to corporate governance. Nwabisa has taken on the role of acting company secretary as an interim measure following the resignation of the group company secretary with effect from 30 June 2015 until the appointment of a new group company secretary. The board is comfortable that Nwabisa Piki is sufficiently qualified, competent and experienced to act as Telkom's group company secretary during this interim period, which includes the annual general meeting of the group in August 2015.

The board and its committees

			Committee attendance					
Name of director and status	**Date appointed**	**Board attendance**	**Audit**	**Remu-neration**	**Nomina-tions**	**Invest-ment and transactions**	**Social and ethics**	**Risk**
Independent non-executive directors								
JA Mabuza (Board and nominations committee chairman)	Nov 2012	8/8		4/4	3/3	2/9		
I Kgaboesele (Chairman audit committee)	July 2011	7/8	6/6		2/3	9/9		4/4
KW Mzondeki	Nov 2012	8/8	6/6	4/4				
LW Maasdorp	Nov 2012	2/4				3/3	2/2	1/1
SL Botha (Chairman remuneration committee)	Dec 2012	8/8		4/4	3/3			
LL von Zeuner (Chairman risk committee)	Dec 2012	7/8	5/6				5/5	4/4
K Kweyama (Chairman social and ethics committee)	Dec 2012	7/8		3/4	3/3		5/5	
F Petersen-Lurie (Chairman investment and transactions committee)	Dec 2012	7/8	4/5			5/5	3/4	4/4
CA Fynn	Dec 2012	6/6				6/6	4/4	
RG Tomlinson	Dec 2014	2/2 #	1/1#			1/1#		
GW Dempster	Dec 2014	2/2 #				1/1#		0/1
T Dingaan	Dec 2014	2/2 #	1/1#	1/1#				
N Ntshingila	Dec 2014	2/2					1/1#	
N Kapila	Feb 2011	8/8				9/9	1/1#	3/4
Executive directors								
SN Maseko	Apr 2013	8/8				8/9		
DJ Fredericks	Sep 2014	8/8						
JH Schindehütte	Aug 2011-Aug 2014	*+						

* On suspension with effect from 24 October 2013
\+ No longer a director
\# Attended all meetings following their appointment

Corporate governance (continued)

Board committees

For information on the committees' terms of reference please refer to the board committees section on our website (www.telkom.co.za).

Audit committee

The group chief executive officer and the chief financial officer attend the audit committee 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
- 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 to understand and monitor the reporting relationships and tiers of accountability between them.

"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

During the year, in carrying out its oversight role the committee:

- 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 management statements
- Reviewed the group's accounting policies
- Considered group level control issues of significance to 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 re-appointment, remuneration and engagement letter 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
- Conducted training under the continuous development programme for directors

Nominations committee

The committee held three meetings during the year. The group chief executive officer attends committee meetings by invitation.

During the year ended 31 March 2015, 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
- Upon the resignation of the chief financial officer, recommended the appointment of the acting chief financial officer to chief financial officer
- Considered the adequacy of the balance of skills, experience, gender and qualifications of the board
- Assisted the board with its performance evaluation process
- Assisted the board in dealing with instances of conflicts of interest in relation to individual directors

Remuneration committee

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 with the group's strategy and drive performance in the long and short term. During the year under review the committee:

- Ensured that the remuneration strategy is market related and competitive
- Determined specific remuneration packages for senior executives of the group
- Considered the relationship between senior executive remuneration and the remuneration of Telkom's other employees
- Considered and recommended to the board the fees to be paid to non-executive directors for their services on the board and its committees
- Ensured that disclosure of director remuneration is accurate, complete and transparent
- Reviewed and monitored progress in people management
- Reviewed the terms of reference and activities of subsidiary companies and joint venture remuneration committees

Social and ethics committee

During the year ended 31 March 2015 the social and ethics committee dealt with the following matters in addition to its normal annual work plan:

- The approval of the ethics management framework and the ethics management plan to assist with the embedding of ethics in the group culture
- Implementation and monitoring of compulsory ethics online training for all employees
- Reviewed the report on matters reported in terms of section 34 of the Prevention of Corrupt Activities Act
- Monitored the fit for the future programme that deals with the restructuring of the group, and the section 189 and section 197 processes in terms of the Labour Relations Act
- Reviewed reports relating to stakeholder management
- Reviewed sustainability matters relating to: energy management and energy target setting, the carbon disclosure emissions report and B-BBEE verification
- Reported, through one of its members, to the shareholders at the group's annual general meeting on the matters within its mandate

Investment and transactions committee

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 purposes of clarity, all investment decisions are discussed and recommended to by the executive committee (Exco) prior to approval by the investment committee.

Risk committee

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 group in an integrated and timely manner. For more detailed information on risk management in Telkom please refer to our approach to risk management on pages 112 to 116 of this report and our enterprise risk management (ERM) achievements in FY2015 and our future ERM plans on page 28.

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Corporate governance (continued)

Risk management

The risk management system

The risk management system is an integral part of management's approach to delivering business objectives and is a systematic process designed to identify, assess, treat, manage and communicate risks.

Risks are recorded in regularly updated risk registers operating at all levels of the organisation and are continuously reviewed and monitored. The risk management process places significant emphasis on learning from and sharing prior experience. The system provides methods for escalation and delegation to the appropriate levels within the organisation and ensures that actions are owned, defined, resourced and effective.

Risks may arise from a variety of internal and external sources. They may be associated with regulations, customer requirements and competitor actions, or could result from the capability of the processes used to execute the business, or from external and largely unpredictable events.

Risks, irrespective of source, are managed through processes operated by business and functional area teams. The corporate risk register is updated and reviewed by the risk committee twice a year so that the board may then consider and review these risks in terms of their potential impact.

Management continues to perform comprehensive risk reviews for all key projects, programmes, change management processes and business plans.

All the processes operated by the group are subject to continuous improvement, including the risk management process itself. Development and deployment of the process is the responsibility of a dedicated enterprise risk management team. The team has created a comprehensive framework for the assessment of risk management maturity at all levels throughout the organisation, enabling focused improvement actions and driving consistent application of the risk management process throughout the group.

An integrated range of tools and training and education programmes underpins the risk process. Deployment of an enterprise-wide risk management software application enables the analysis, management and communication of risks across the business. A network of risk champions helps to develop, embed and share best practice throughout the organisation.
We refer you to our approach to risk management on pages 112 to 116 for more detailed information on our enterprise risk management.

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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 into account the results of the work carried out to audit and review the activities of the group.

Telkom has an ongoing process in place 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 apply the recommendations of the King Code of 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 that 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 reviewed.

The activities of the group are subject to review by internal audit, including business assurance, product introduction, life cycle management and the assurance functions.

Telkom audit services has a risk-based approach to its financial and operational audits and reviews which are agreed by the audit committee. 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 quarterly.

Organisational structure

The group has a clearly defined organisational 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 improvement 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 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 financial officer. 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 which include operational, financial, accounting and information technology experience and knowledge.

External audit

Ernst & Young Inc., the external auditors, provide stakeholders with an independent opinion on whether the annual financial statements fairly present, in all material respects, the financial position of the group and company, the group and company financial performance and the group and company cash flows.

External audit regularly liaises with internal audit to understand the scope of its work and the results of its audits. External audit predominantly follows a more control-based audit approach, thus reducing substantive testing. Any control work performed by external audit is limited to the work necessary to support its audit opinion.

Corporate governance policies

To drive and embed effective corporate governance practices, the group has a number of policies which complement the delegation of authority. These include:

- Board charter and committees' terms of reference
- Conflicts of interest policy
- Insider trading policy
- Disclosure policy
- 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 to ensure that individuals do not benefit from inside information. To manage this, the group 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 Financial Markets Act and JSE Listings Requirements and 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, the share scheme rules and determined by the board. In addition, no director of the group may trade in the group's shares without prior approval having been obtained. 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 group's activities meet relevant statutory and listings requirements.

Ethics

We believe in ethical business conduct and have a zero tolerance approach to corrupt behaviour. We require all our representatives to act in good faith and in a manner that promotes our aspiration to be a good corporate citizen. The issue of corporate ethics receives attention from the highest level of management within Telkom, with our group chief executive officer being ultimately responsible for implementing our code of ethics. We also require all our suppliers to acknowledge and confirm in all supply contracts that they have read and understood our code of ethics and agree to be guided by it in terms of their actions and behaviour.

Telkom applies the principles of King III, which is essentially about effective leadership based on an ethical foundation. We are committed to the highest ethical standards in conducting our business. Our ethical values and principles reflect our belief that our conduct in doing business should rest on an ethical foundation.

Solid governance structures and ethical leadership build the group as a responsible corporate citizen, promoting shareholder and stakeholder confidence in the sustainability of the group.

The group has a set of values that guides the manner in which it conducts business with its stakeholders. Our 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.

Social and ethics committee report

My responsibility as chairman of Telkom's social and ethics committee is to report on the matters within this committee's mandate for the period ended 31 March 2015, in accordance with the requirements of the Companies Act (71 of 2008, as amended).

In summary the committee's duties include:

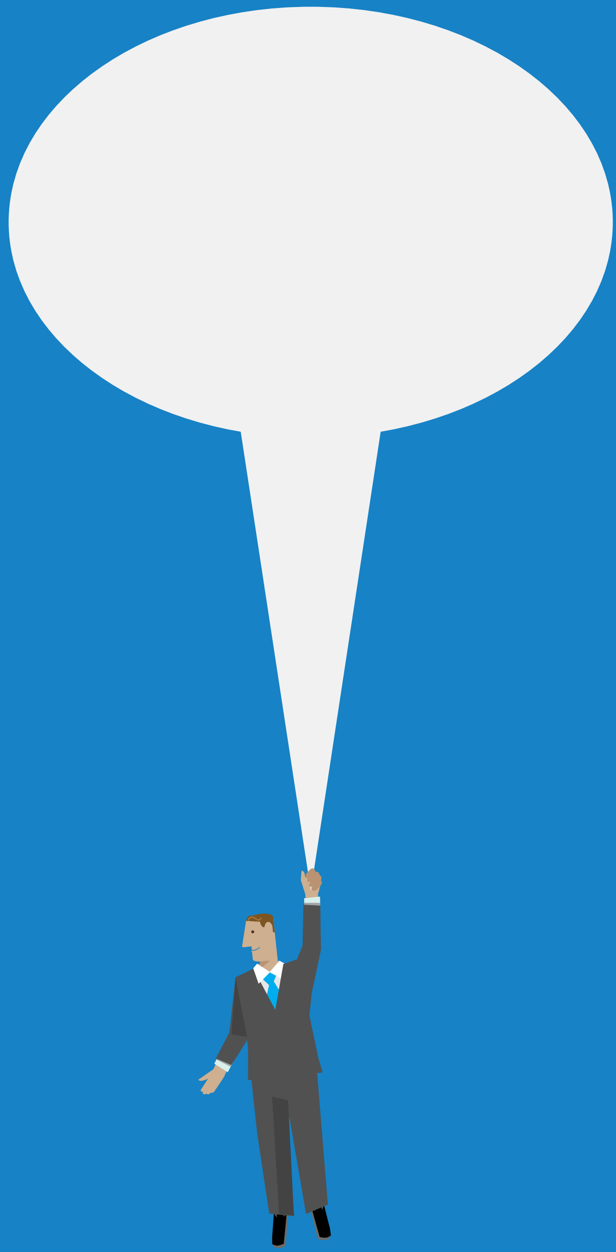
- Monitoring the social, economic, employment and environmental activities of the group
- Assisting the board in assessing certain aspects of governance, applicable to the committee's function and terms of reference
- Bringing matters relating to these activities to the attention of the board when appropriate
- Ensuring Telkom is and remains a socially committed corporate citizen
- Reporting annually to stakeholders

The committee met four times during the year. At each meeting we reviewed the quarterly reporting presented to us on:

- Legislative compliance
- Ethics
- Enterprise risk management
- Human resource development, employment equity and transformation
- Safety, health and wellness
- Environmental stewardship and climate change
- Social development
- Stakeholder engagement
- Asset protection and security

Together with the board audit and risk committees we monitor compliance with our code of ethics through quarterly reports we receive from the chief risk officer. This includes taking note of any relevant legislation, regulations and prescribed legal requirements or prevailing codes of best practice, with regard to matters relating to:

- Socio-economic development, including the group's standing in terms of the goals and purpose of the 10 principles set out in the United Nations Global Compact Principles; the Organisation for Economic Cooperation and Development (OECD) recommendations regarding corruption; the Employment Equity Act and the Broad-Based Economic Empowerment Act
- Good corporate citizenship including the group's promotion of equality, prevention of unfair discrimination and reduction of corruption
- Our contribution to the development of the communities in which we operate and our products and services are marketed
- The environment
- Health and safety
- The impact of our activities and products and services
- Consumer relationships
- Labour and employment including the group's standing in terms of the International Labour Organisation's Protocol on decent work and working conditions and our relationships with our employees
- Our contribution toward the educational development of our employees



Conclusion

Telkom continues to meet its environmental, social and governance responsibilities, which is recognised by it qualifying as a constituent of the JSE Socially Responsible Investment (SRI) Index. The group also has suitable policies and frameworks in place to sustain its commitment to social and economic development, fair labour practices, environmental responsibility and good corporate citizenship.

There has been no material non-compliance with legislation or regulations or non-adherence to codes of best practice in terms of the areas within the committee's mandate during the financial year 2015.

This committee is accountable to the board and reports, through its chairman, to shareholders at the group's annual general meeting on matters within its mandate.

Khanyisile Kweyama
Chairman
Social and ethics committee

Our approach to risk management

Risk is an essential part of Telkom, however, we understand that if it is properly managed it can drive growth. That is why we have placed risk management at the core of the operating structure of our group.

We view risk not only as a threat or uncertainty, but also as an opportunity to grow and develop the business within the context of our strategy and risk appetite.

The underlying premise of the Telkom risk management philosophy is a thorough understanding of our risk exposures to ensure that both management and the board are appropriately informed to grow and develop the business within the context of our strategy and risk appetite.

By identifying and proactively addressing risks and opportunities through its ERM framework, Telkom both protects the interests of all its stakeholders, including its shareholders, employees, customers, regulators and the communities in which we operate, and creates value for them.

Telkom's converged risk management process allows us to provide a converged view of our:

Risk management, which is the development and implementation of the risk frameworks that assist our management in understanding, evaluating and taking action regarding their risks. The aim of our risk management is to reduce the likelihood of failure and increase the likelihood of success.

Compliance, which ensures we are acting in accordance with the Telkom regulatory universe. It drives adherence to this universe throughout Telkom.

Business continuity management, which is the implementation and coordination of a process that identifies potential impacts that could threaten Telkom's ability to provide continuous service and build the necessary resilience to safeguard the interests of our key stakeholders, our reputation and our brand.

Our converged risk management process continues to prove effective and is maturing, despite the tough and challenging economic times.

Our ERM framework

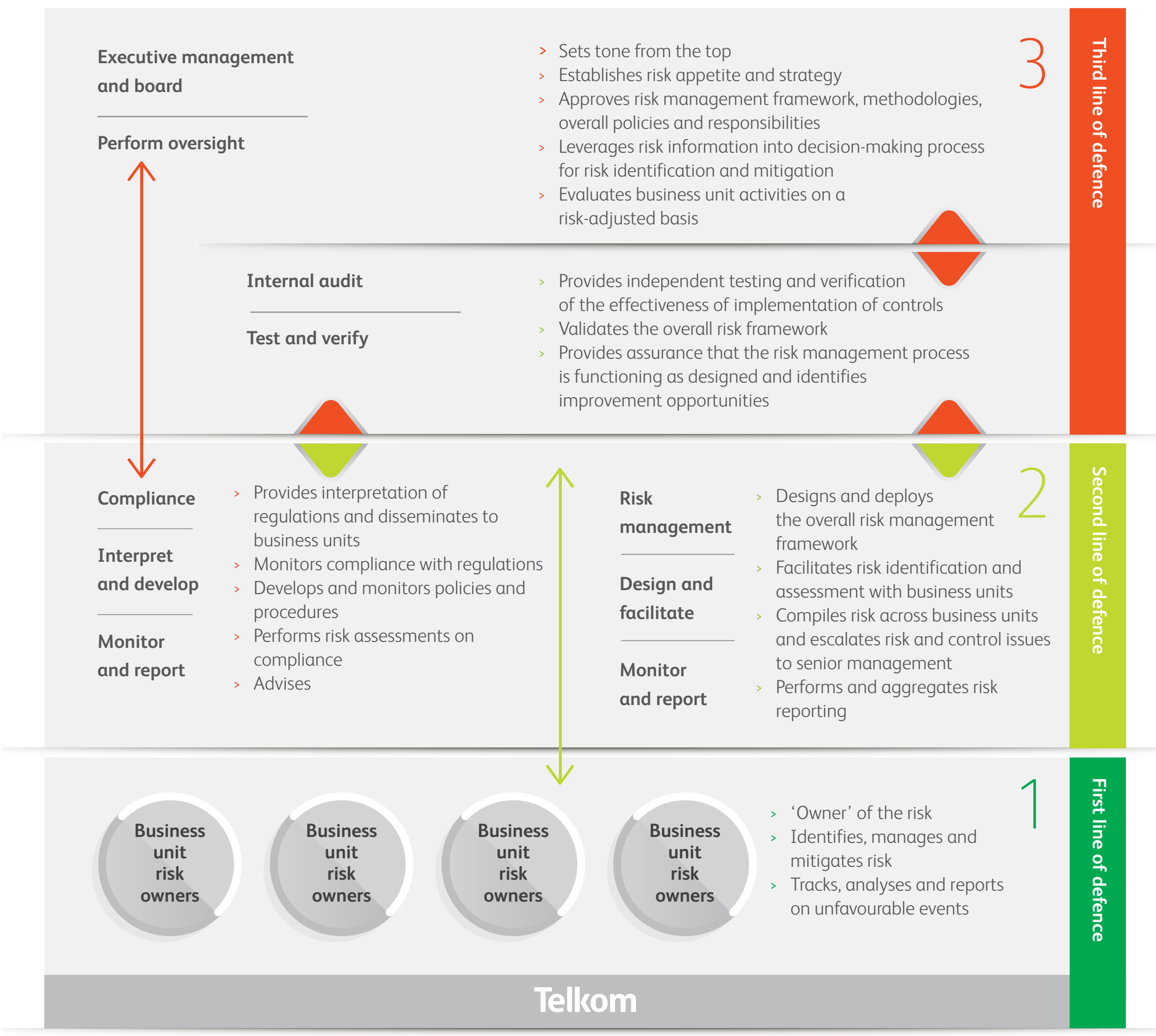
Through our ERM framework our risk management policies and processes, which are aligned with Telkom's long-term strategy, are being embedded within our organisational culture. The objective of our ERM division is to ensure the ERM process in Telkom adds maximum sustainable value to all Telkom's activities by assisting the group in achieving its key strategic objectives and reducing the cost of risks.

To optimize our management of risk Telkom uses the three lines of defence model.

Our ERM strategy, framework and policy are closely aligned with Telkom's business strategy and business plan. The aim of the framework is to:

- Embed accountability and responsibility
- Provide a structure within which management can operate to enforce the proactive ERM process
- Instil a risk management culture throughout Telkom that will ensure a stronger focus on risk response and monitoring rather than simplistic risk identification and assessment in order to address and evolve the maturity of risk management across the group
- Align to best practice.

Optimizing our management of risk through the three lines of defence model



Risk organisation

Risk is an essential part of Telkom, however, we understand that if it is properly managed it can drive growth. That is why we have placed risk management at the core of the operating structure of our group.

ERM governance structure and accountability

Wishing to escalate Telkom's ERM maturity, further embed risk management in the group and strengthen the first line of defence from a combined assurance perspective, our newly-appointed chief risk officer proposed to the executive committee that the existing Telkom executive risk management council (TERMC) be dissolved and replaced with individual business unit assurance forums.

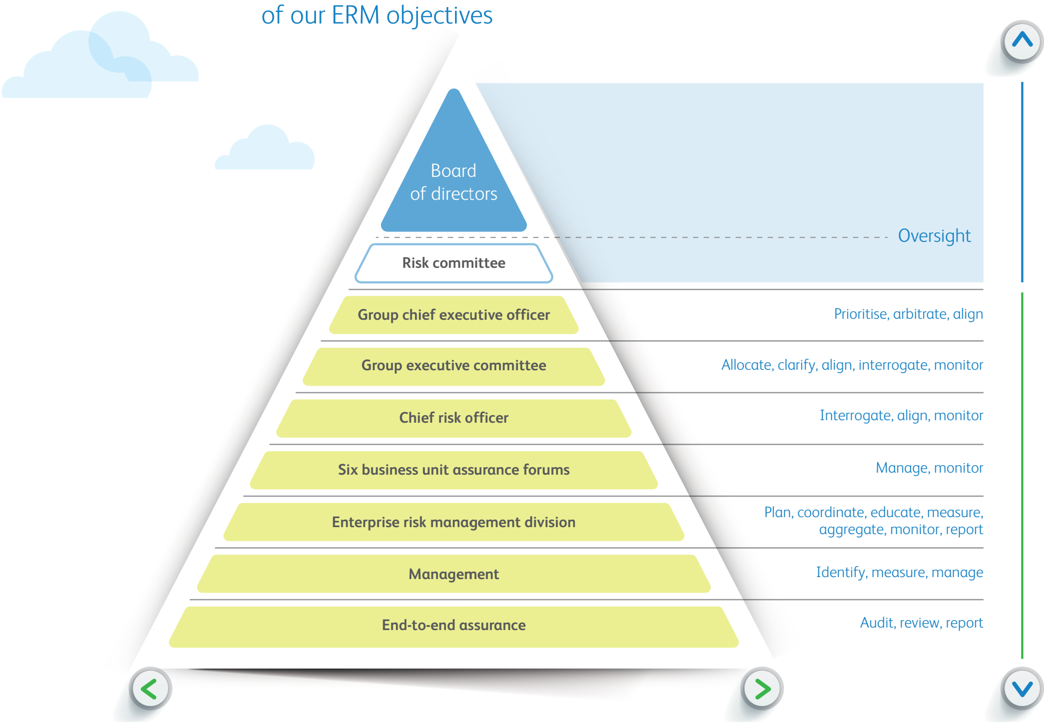
The aim of these forums is to ensure that the individual business units have access to the risk information they need to be successful in their endeavours, and that this information is transparent, timely and actionable. To be effective ERM, in the broadest possible meaning of the term, needs to be deeply embedded in the culture of each and every business unit across the group.

The executive committee approved this proposal and the first meetings of the business unit assurance forums, which are chaired by the chief risk officer, were held in October 2014 and will take place quarterly. These forums, which are dedicated risk management forums appointed by the executive committee, form part of the ERM framework defined by the risk committee and approved by the board, which provides Telkom with an effective process that will optimize risk taking within Telkom.

In addition to the business unit assurance forums risk workshops will be held with the group chief executive officer twice a year to ensure effective prioritisation, alignment and management of risks across the group. These will be attended by Exco members and key members of management.

The governance structure that supports ERM in Telkom can be found below.

Governance decision-making structure that supports the achievement of our ERM objectives



Telkom's ERM maturity journey

Telkom's mature ERM function promotes stability in the group through risk-based responses to the challenges we face. The increasing complexity of our business environment and the related risk exposures have highlighted the key role risk management plays in ensuring that we achieve our strategic objectives.

The establishment of ERM in Telkom allows us to evaluate the internal and external environment, set objectives, identify events, assess and respond to risks.

Our annual ERM survey provides us with a baseline assessment of the state of risk management in the Telkom group. The results indicate what improvements we have achieved and help us to focus on the areas that still require attention if we are to further increase the maturity level of ERM in Telkom. The results of the survey conducted during the year under review were very pleasing as they showed that we had made the greatest progress in terms of the level of effectiveness and maturity of our ERM and our ERM function.

Culture

An organisational culture that realises the importance of ERM and gives support to it is a key element and starting point for risk management, managing compliance and business continuity management. Telkom has been able to embed the following positive elements of an ERM culture:

- A conducive culture has been established in the organisation including risk, compliance and business continuity management (BCM)
- A board-approved ERM policy is in place
- Leadership commitment to leading by example
- Senior management uses the information provided by ERM in decision-making
- Top management is supported through regular reporting

ERM process

Our ERM process activities include event identification, risk assessment, control assessment, communication and monitoring. We have been able to embed the following ERM elements:

- The frameworks guiding ERM processes are in place
- Routine key risk indicator metrics are analysed on an ongoing basis
- Compliance programme addressing the regulatory universe is implemented
- Generic processes are applied to significant projects

Monitoring

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The information gathered through our ERM processes assists Telkom's management in its decision-making. To ensure this information is up to date our ERM division continually monitors the internal and external environment and regularly generates reports to update management. We use dashboards to monitor risks and indicators are used to check compliance with internal and external regulations and policies and to keep up to date with any new laws, regulations, rules, standards, policies and guidelines governing Telkom's operations.

Telkom's ERM maturity journey (continued)

Analysis

Our ERM provides centralised analysis of the risks facing Telkom and the potential impacts that threaten Telkom's ability to provide a continuous service to its customers and compliance with relevant laws, regulations, rules, standards, policies and guidelines governing Telkom's operations.

Business continuity management

Business continuity management (BCM) is an integral part of good management practice and corporate governance at Telkom. It identifies potential business continuity threats and puts plans in place to mitigate these threats and their consequences to the business, should they occur. Telkom's BCM framework protects the interests of Telkom's key stakeholders, its reputation and business activities through:

- Providing BCM training and awareness
- Enabling, implementing and reviewing business continuity plans and conducting continuous business continuity and network disaster recovery exercises to test, refine and strengthen Telkom's business continuity and disaster response to ensure the rapid restoration of services to customers
- Establishing strategic proactive preparedness
- Multilevel BCM governance

Corporate compliance

Telkom applies Principle 6 of King III to its compliance with laws, regulations, rules and standards. We are subject to a wide variety of legal, regulatory and professional requirements, with which all our employees must comply. It is essential that we take steps to ensure that there is no basis for Telkom to be charged with non-compliance with these legal, regulatory and professional requirements. Non-compliance can be costly as it can result in civil liability, the imposition of fines and penalties, adverse publicity or the suspension or revocation of Telkom's licences.

Stakeholder management

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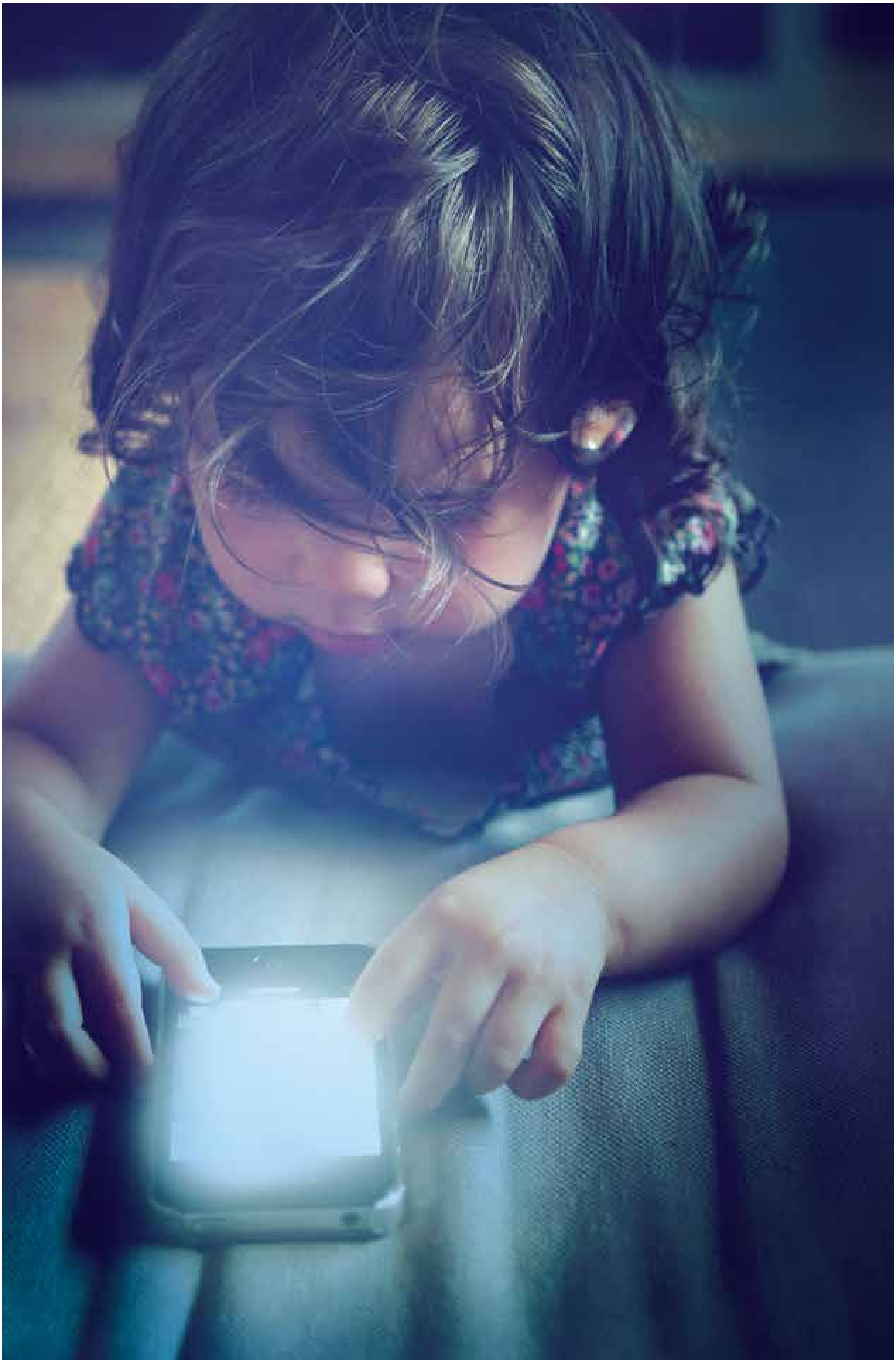
Telkom's stakeholder management function became the responsibility of our chief risk officer in October 2014. Our approach was to integrate stakeholder management with the existing ERM framework. Details of the implementation of this process can be found on page 89 of the Social and Relationship capital section of this report.

The integration of stakeholder management with ERM has improved our process in terms of establishing what issues are most material to Telkom and its internal and external stakeholders.



Telkom audit services (TAS)

The past few years have marked an unprecedented shift in both Telkom's strategy and its operations in response to domestic economic trends, global economic prospects, the disruptive nature of new industry innovations, a fundamentally different and highly competitive landscape, as well as a highly regulated and changing regulatory landscape.

In the wake of Telkom's turnaround 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 governance, risk management and control mechanisms.

TAS is governed by an internal audit charter which is approved by the audit committee and is reviewed annually. The charter defines the purpose, authority and responsibilities of the function.

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

Effective positioning

The Telkom organisational structure promotes the independence of TAS as a whole and allows it to form its judgements objectively. In order to ensure this independence; permit sufficient objectivity and ensure the accomplishment of audit responsibilities, the group executive: TAS reports functionally to the chairman of the Telkom audit committee and administratively to the chief financial officer. The group executive: TAS has unlimited access to all employees of the group, the chairman of the Telkom board, the chairman and members of the audit committee, as well as the group chief executive officer.

Professional recognition and continued improvement

TAS has been subjected to two independent external quality assessment reviews and was assessed as "generally conforms" to the globally recognised Institute of Internal Auditing (IIA) standards in external assurance reviews conducted in 2005 and 2010, which is the highest level of conformance as defined by the IIA standards. Our next external quality assessment is planned for 2015.

Enhancing value delivery in a transformative business and risk landscape

TAS continuously seeks to ensure that it is a forward looking function, focusing on strategic, business and operational risks with the largest stakeholder impact. This has involved aligning the audit strategy with group strategy and identifying and responding to risk, promoting stakeholder value to growing stakeholder expectations and an expanding risk universe and that is a matter of deliberate design and collaboration. This is a journey and not an end state. TAS aspires to continuously advance along the eight foundational attributes of internal audit functions:

Focusing on the right risks at the right time

In developing the annual audit plan TAS continues to apply a risk-based audit methodology which requires internal audit to consider the most significant risks facing the group as well as industry and emerging risks, from which a comprehensive risk-based audit plan is derived. The audit plan is validated by executive management and the robustness thereof tested by other lines of group defence represented at the Telkom Combined Assurance Forum (TCAF). The plan is furthermore 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 audit committee approves the plan and any changes thereto.

Resources and skills

The internal audit activities are performed by teams of appropriate, qualified and experienced employees, supplemented by co-sourced servicer 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 TAS team conducts audit work, or any other task, in accordance with the internal auditing standards set by the 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.

Internal controls

Through the use of the group-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 audit committee and the executive committee (Exco) on the status of agreed remedial actions implemented by management.

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 audit committee and monthly to Exco.

Integrated assurance approach

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 group executive: TAS continues to chair the 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
- Developing a portfolio view of assurance efforts for management and the audit committee

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.

Remuneration report

Dear shareholder,

This remuneration report is intended to provide you with an overview of the group's remuneration principles and policies with a specific emphasis on those applied to non-executive directors, executive directors, the executive committee and prescribed officers in the group. The group adopted the governance and disclosure requirements recommended in the King Code of Governance Principles for South Africa 2009 (King III) and we have incorporated the required information in this report.

The remuneration committee remains mindful of global remuneration trends and carefully considers all practices in terms of the business and sets remuneration levels within the context of overall group performance. The remuneration committee is aware of its responsibility to protect and promote shareholders' interests in setting executive remuneration and that it is accountable for the structure and quantum of remuneration.

Susan Botha
Chairman of the remuneration committee

5 June 2015

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 2015.

Role of the remuneration committee and terms of reference

The remuneration committee (remco) acts on behalf of the board in setting the remuneration policy of the total organisation. It oversees total remuneration, executive remuneration for directors and senior executives, monitors the execution of the remuneration policy, for the total organisation including non-executives and makes recommendations to the board.

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 avoiding paying more than is necessary. The objectives of the policy are to:
  - Promote sustainable value creation through transparent alignment with agreed corporate strategy
  - Ensure that proper risk management processes are in place and that remuneration is appropriately aligned with both short and long-term performance
  - 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
  - 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 the guaranteed package, benefits in kind, short-term incentive payments and share options. This includes undertaking an annual review, through performance appraisals conducted by the group chief executive officer, 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 performance-related incentive schemes implemented in the group
- Seeking board and shareholder approval for any long-term incentive scheme and determine 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 regarding termination and any payments made to executives are fair to both the individual and the group
- Reviewing succession plans for executive directors and senior executives and ensure a total group succession process is in place

Remuneration report (continued)

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. The following non-executive directors were members of the remco during FY2015:

Attendance at scheduled meetings during FY2015

Members	Committee member since	Quorate meetings
SL Botha	18 February 2013	4/4
JA Mabuza	18 February 2013	4/4
K Kweyama	18 February 2013 to 20 February 2015	3/4
KW Mzondeki	15 November 2013	4/4
T Dingaan	20 February 2015	1/1

By invitation:

- SN Maseko (group chief executive officer)
- TE Msubo (chief of human resources)
- DJ Fredericks (chief financial officer)
- JC Smit (group executive: total remuneration and performance management)

Remco held four scheduled meetings during the financial year under review.
A quorum for a meeting is 50 percent of the members.

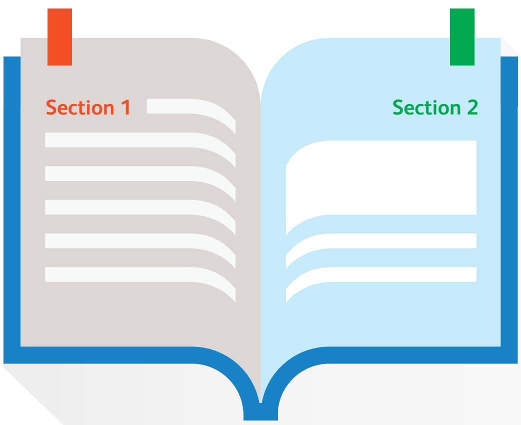
This report is divided into two sections:

Section 1,

which provides an overview of the group's remuneration principles and policies for executive directors, prescribed officers, the executive committee members and non-executive directors

Section 2,

which discloses payments, accruals and awards for the year ended 31 March 2015



Section 1

Remuneration policy

The Telkom remuneration policy is designed to attract, retain and motivate high calibre talent in a challenging business environment. 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. Meeting this challenge requires having a competitive and attractive remuneration offering. We embarked on a turnaround strategy where the current focus is on creating a platform for growth.

The remuneration structure is designed to ensure that individual contributions are 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 critical in terms of shareholder interests 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 the market median
Short-term incentives (STI)	Variable	Deliver rewards on the achievement of annual performance targets. The level of achievement determines the level of payment against each weighted group 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 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:

Remuneration objectives
Be an integral part of an overall human resources strategy geared to support business strategies
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
Maintain a balance between guaranteed remuneration, short-term incentives and long-term incentives

Remuneration principles

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

Remuneration principles
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 achieve the appropriate remuneration mix to ensure Telkom's business plan objectives are met
Be fair and non-discriminatory

Remuneration report (continued)

Section one (continued)

Guaranteed packages

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

Employees are not entitled 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. Packages are reviewed against individual performance, set against the 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 and include 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
Group chief executive officer	Executive committee/ Executive management
Chief officers	
MDs/group/managing executive	
Executives	Executive leadership
Senior manager/manager	Frontline leadership
Operations manager/supervisor	Frontline leadership
Support staff/technician/specialist	Operational

Our overall financial performance reflects the current realities facing our business in a highly competitive landscape, which is fundamentally different to the past. We continue to contend with challenges in our fixed voice and mobile businesses, including fixed-to-mobile substitution. Managing costs has been complex, given inflationary pressures and the inability to 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. As a result the completion of our employee reduction project is critical.

Group chief executive officer

The group chief executive officer is rewarded on the delivery of strategic and operational objectives that are in line with shareholder expectations and business strategy. The remuneration strategy for the GCEO is designed to align his 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

Guaranteed packages are in line with similar roles in comparable market positions, according to organisational size, profitability and complexity. They are also influenced by the scope of the role and the knowledge, skills and experience required of the position holder. Guaranteed packages are reviewed against individual performance and set against the market median. For full details of the remuneration of the executive committee and the executive management team, refer to pages 131 and 132.

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The average guaranteed package increase was six percent for FY2015 and three percent for the previous year.

Executive employees

The average guaranteed package increase for FY2015 was six percent and in the previous year three percent.

Management employees

Guaranteed packages for management levels are reviewed annually as part of the group's overall remuneration review process and are assessed against the individual's performance. The average salary increase for FY2015 was six percent and three percent for the previous year.

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 group entered into a long-term agreement with organised labour on 25 July 2013; this agreement will expire on 31 March 2016. As part of this agreement, the group has agreed to engage trade unions in the event the CPI moves above 7.5 percent and stays at that level for a minimum period of six consecutive months during the period of the agreement.
The negotiated annual salary increases for the current and previous year were 6.8 percent.

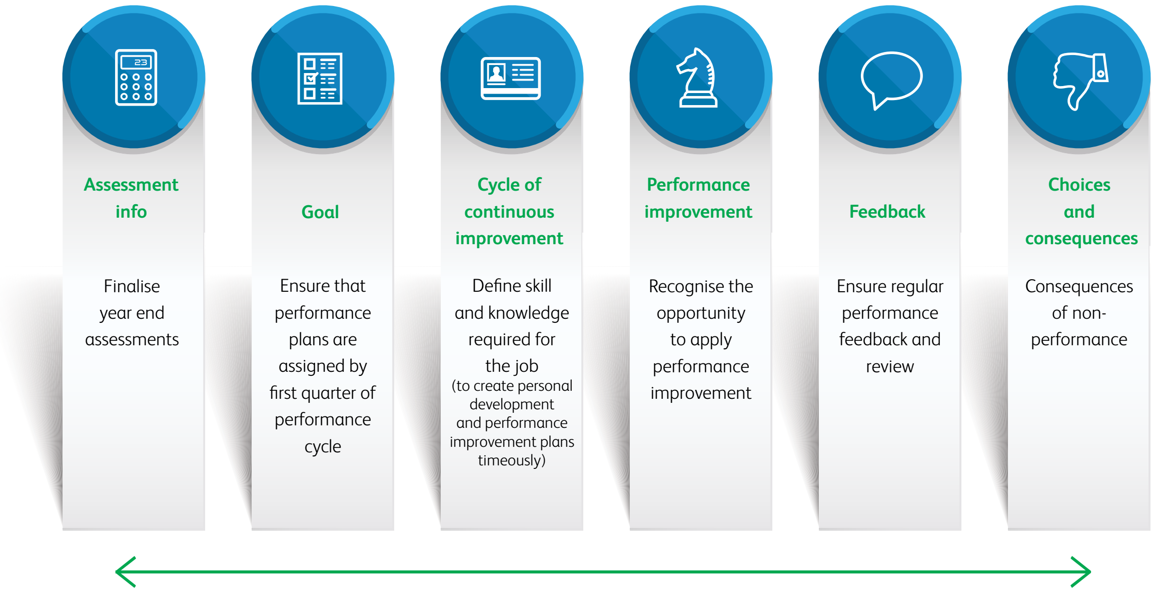
Performance management

The group has put considerable effort into reviewing Telkom's performance management system by:

- Providing training to line management in properly managing performance, especially where difficult conversations need to be held
- Ensuring that accurate performance assessments are captured to properly identify our best and worst performers
- Aligning individual performance with overall group performance
- Introducing a performance calibration process.

We shall continue to enforce a culture of compliance with performance plans and development and performance improvement plans.

The performance management process is highlighted below:



Remuneration report (continued)

Section one (continued)

Short-term incentives (STI)

The STI component is an incentive that rewards 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 shareholders' expectations, which place emphasis on a remuneration policy that is performance driven, support a strong alignment between senior management and shareholders and link STI to group performance.

The 2015 financial year plan was approved by both remco and the board with the following clearly defined principles:

- Both earnings before interest, taxes, depreciation and amortisation (EBITDA) and profit after tax (PAT) must be achieved at group level to trigger any STI payment
- No STI will be payable if the achievement is less than the hurdle rate

The size of the STI pool will depend on the actual achievement of both these measures. It will be variable and will determine the final STI payment. In line with the remuneration policy, the overall group performance will be measured at group, business unit and divisional level, as indicated below.

<table>
<tr><th></th><th>Business unit</th><th>Corporate centre</th><th>Total</th></tr>
<tr><td>Group financials</td><td>20%</td><td>20%</td><td>20%</td></tr>
<tr><td>Business unit/corporate centre</td><td>60%</td><td>60%</td><td rowspan="2">80%</td></tr>
<tr><td>Divisional</td><td>20%</td><td>20%</td></tr>
<tr><td>**Total**</td><td>**100%**</td><td>**100%**</td><td>**100%**</td></tr>
</table>

Divisional-specific measures are measured at 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 group performance reflected in the plan under review.

Short-term incentive plan awarded for the 2015 financial year

In accordance with the approved STI plan STI has been allocated to business units at the discretion of the GCEO and chief officers in terms of actual business unit and divisional performance. Individual performance is recognised within the respective business units, based on the achievement of individual performance contracts.

Long-term incentives

Telkom's share incentive plans are structured to optimize 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.

In accordance with the forfeitable share plan (FSP) shares are awarded to employees under the condition that these shares will be forfeited should the employee terminate his/her services before the vesting/release date and the achievement of the group's pre-determined performance levels.

From the grant date, the employee has shareholder rights in respect of the forfeitable shares to receive dividend rights and voting rights.

FY2015 share awards
Forfeitable shares were awarded in the 2015 financial year, in accordance with the rules of the Telkom forfeitable share plan. Clause 6.1 of the FSP rules forbids any grants in a prohibited period.

Telkom's shares are currently trading under the following restriction: 'Telkom and MTN South Africa (MTN) are still in discussions regarding the potential extension of their existing roaming agreement to include bilateral roaming and outsourcing of Telkom's radio access network'.
The restriction was introduced on 6 March 2014.

Recognition
In addition to the core remuneration elements set out above, the group also prides itself on the recognition of extraordinary achievements by employees. Telkom values its employees and their contributions and ensures that extraordinary achievements and innovations do not go unnoticed, but are duly recognised and rewarded.

Telkom's recognition scheme is aimed at aligning recognition across business units, increasing participation among support and lower level staff and ensuring that recognition is in line with the group's strategic objectives.

Emphasis is placed on the following guiding principles:

- Cross functional collaboration to create value
- Above and beyond the call of duty behaviours
- Sustained performance (new heroes that contribute to the smooth running of the business/ no interruption of customer services)
- Increased shareholder value

Telkom's recognition programme has four levels:

Level →	1	2	3	4
Award →	Appreciation	Spotlight	Business unit	Group chief executive officer

The commitment demonstrated by Telkom's top management has contributed to the success of Telkom's recognition programme.

Remuneration report (continued)
Section one (continued)

Full-time employment contracts

Executive directors

The following executives are part of the Telkom board:

Executive directors	Calendar year first appointed to the board
SN Maseko	2013
DJ Fredericks	2014

External directorships

Executive directors are allowed to hold one external directorship in any company subject to prior board approval. 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
SN Maseko	Group chief executive officer	1 April 2013	Full-time employment contract
DJ Fredericks	Chief financial officer	12 September 2014	Full-time employment contract
IM Russell	Chief of procurement	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
MA Altman	Head of strategy and regulatory	1 January 2015	Full-time employment contract
BC Armstrong	Group chief operating officer	1 March 2010	Full-time employment contract
IC Coetzee	Group executive: transformation office	1 April 2014	Full-time employment contract
TE Msubo	Chief human resources officer	1 January 2011	Full-time employment contract

Non-executive directors' remuneration key principles and policies

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The board of directors, on the recommendation of remco, determines the fees of the non-executive directors. These fees are set out on page 129 and in note 40 in the consolidated annual financial statements.

The board determines these fees based on market practice, within the restrictions contained in Telkom's memorandum of incorporation (MOI). Telkom's non-executive directors receive no other pay or benefits other than directors' fees, with the exception of reimbursement of expenses incurred in connection with their directorships.

Non-executive directors do not participate in the long-term incentive share plan nor in the short-term incentive plan outlined in this report and they are not eligible for pension scheme membership.

The remuneration structure is considered to be fair and reasonable and in the best interests of the group.

Non-executive directors' remuneration

Non-executive directors' fees effective 1 April 2014

Non-executive directors' fees	R per annum FY2015	R per annum FY2014
Chairman of the board	1 176 600	1 110 000
Non-executive director of the board	344 500	325 000
International board member	476 800	449 811
Audit committee chairman	208 080	200 000
Audit committee member	127 200	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	125 520	120 000
Nominations committee member	90 000	90 000
Investment and transactions committee chairman	130 320	120 000
Investment and transactions committee member	90 000	90 000
Social and ethics committee chairman	200 000	200 000
Social and ethics committee member	120 000	120 000

Committee meetings and fee structure:

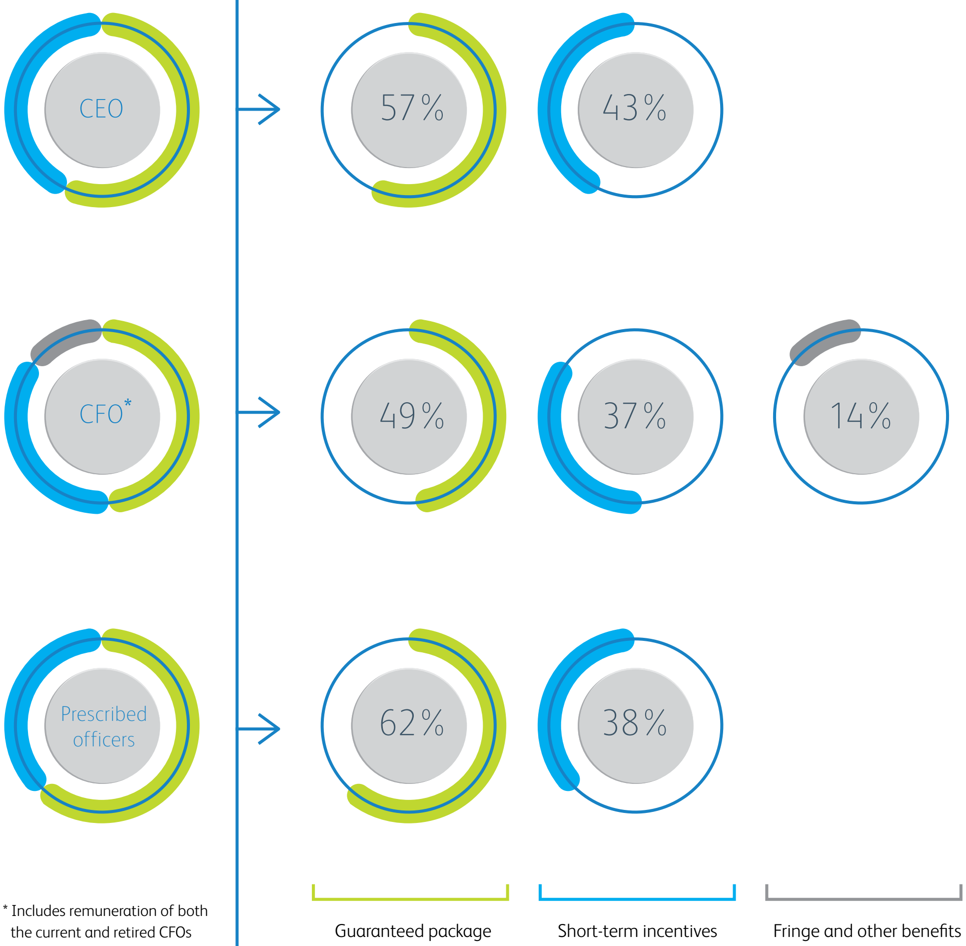
Committee	Scheduled meetings	Fee per meeting	Fee per meeting
Board	5	Annual retainer	Chairman: R22 000 Board members: R16 500
Audit	4	Chairman: R52 050 Member: R31 800	
Risk	4	Chairman: R50 000 Member: R30 000	
Remuneration	4	Chairman: R50 000 Member: R30 000	
Nominations	3	Chairman: R41 840 Member: R30 000	
Investment and transactions	3	Chairman: R43 440 Member: R30 000	
Social and ethics	4	Chairman: R50 000 Member: R30 000	

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.

Section 2

Remuneration report (continued)

Pay mix for executive directors and prescribed officers



* Includes remuneration of both the current and retired CFOs

Executive directors' remuneration

Remuneration and benefits paid and short-term incentives approved in respect of the 2015 financial year are set out in the adjacent table.

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Remuneration and benefits awarded to executive directors and prescribed officers during FY2015

Executive director	Guaranteed package R	Short-term incentive* R	Fringe and other benefits R	Total 2015 R	Total 2014 R
SN Maseko	7 020 000	5 273 213	11 994	12 305 207	11 711 972
JH Schindehütte	6 546 682	–	12 223 848	18 770 530	6 011 972
DJ Fredericks	4 286 048	3 207 960	1 180 261	8 674 269	–
Total	**17 852 730**	**8 481 173**	**13 416 103**	**39 750 006**	**17 723 944**

Notes: JH Schindehütte

- Retired in August 2014
- Total amount paid in terms of this employment contract included:
  - STI payment for FY2014 (R1 251 833)
  - LTI payments for FY2014 and FY2015 (R10 315 834)
  - Leave payment for 25 accrued leave days (R656 181)

For a full list of the prescribed officer remuneration see Note 40 of the Notes to the consolidated annual financial statements on page 225.

Section two (continued)

Shares awarded

Details of the accrued long-term incentive plan granted under the rules of the FSP are provided in the adjacent table for 2013:

1 No shares were allocated to employee in 2013. Retired in August 2014
2 Appointed 1 January 2015
3 Employees who have signed a retention agreement or received a sign-on bonus since 2010, which has 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 offset or when the retention/sign-on agreement lapses, whichever occurs first. Therefore, both sign-on and retention payments were offset with the 2013 share allocations, provided that these agreements are still active and the employees are still indebted to Telkom

	Year of the award	Shares allocated	Closing number	Share price on grant date R	Face value of grant R
SN Maseko					
FSP	2013	163 866	163 866	23.80	3 900 011
ASA	2013	54 622	54 622	23.80	1 300 004
Total		218 488			5 200 014
JH Schindehutte[1]					
FSP	2013	–	–	–	–
ASA	2013	–	–	–	–
Total		–			–
DJ Fredericks					
FSP	2013	74 898	74 898	23.80	1 782 572
ASA	2013	27 236	27 236	23.80	648 217
Total		102 134			2 430 789
BC Armstrong					
FSP	2013	15 126	15 126	23.80	359 999
ASA	2013	9 832	9 832	23.80	234 002
Total		24 958			594 000
LM de Villiers					
FSP	2013	70 603	70 603	23.80	1 680 351
ASA	2013	25 674	25 674	23.80	611 041
Total		96 277			2 291 393
TE Msubo					
FSP	2013	69 250	69 250	23.80	1 648 150
ASA	2013	25 182	25 182	23.80	599 332
Total		94 432			2 247 482
MA Altman[2]					
FSP		–	–		–
ASA		–	–		–
Total		–			–
GJ Rasethaba[3]					
FSP	2013	–	–	–	–
ASA	2013	–	–	–	–
Total		–			–
IM Russell					
FSP	2013	24 005	24 005	30.35	728 552
ASA	2013	8 729	8 729	30.35	264 925
Total		32 734			993 477
AN Samuels[3]					
FSP	2013		–	–	–
ASA	2013		–	–	–
Total		–			–
V Scarcella					
FSP	2013	19 931	19 931	30.35	604 906
ASA	2013	7 248	7 248	30.35	219 977
Total		27 179			824 883

Executive management team

The aggregate remuneration, benefits paid and short-term incentives approved for the 2015 financial year are set out in the adjacent table:

1 Includes acting allowance, leave gratuity and voluntary separation/early retirement packages, ex-gratia payment

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2015	Total 2014
Executive management team	79 942 290	36 537 404	8 604 038[1]	125 083 732	123 585 232
Number of employees				45	37

Non-executive directors

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

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

Non-executive directors	Remune-ration R	Fees R	Total 2015 R	Months served as NED	Total 2014 R	Months served as NED
JA Mabuza (Chairman)	1 148 850	365 320	1 514 170	12	1 420 000	12 2012/11/09[3]
SL Botha	336 375	381 500	717 875	12	685 000	12 2012/12/10[3]
B du Plessis	–	–	–	–	402 500	6 (2013/09/30)[2]
CA Fynn	250 250	323 000	573 250	9 2014/12/31[2]	680 000	12 2012/12/10[3]
N Kapila[1]	465 555	352 500	818 055	12	719 811	12 2011/02/16[3]
I Kgaboesele	336 375	680 190	1 016 565	12	870 000	12 2011/07/01[3]
KT Kweyama	336 375	411 500	747 875	12	670 000	12 2012/12/10[3]
LW Maasdorp	135 417	105 000	240 417	5 2014/08/27[2]	795 000	12 2012/11/09[3]
J Molobela	–	–	–	–	347 500	6 (2013/09/30)[2]
KW Mzondeki	336 375	366 900	703 275	12	600 000	12 2012/11/09[3]
F Petersen-Lurie	336 375	502 740	839 115	12	700 000	12 2012/12/10[3]
LL von Zeuner	336 375	566 900	903 275	12	765 000	12 2012/12/10[3]
GW Dempster	112 331	16 500	128 831	4 2014/12/03[3]		
T Dingaan	112 331	78 300	190 631	4 2014/12/03[3]		
RG Tomlinson	112 331	78 300	190 631	4 2014/12/03[3]		
RN Ntshingila	112 331	46 500	158 831	4 2014/12/03[3]		
Total	**4 467 646**	**4 275 150**	**8 742 796**		**8 654 811**	

Beneficial shareholding

Directors' shareholding as at 31 March 2015

Number of shares	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
Executive				
SN Maseko	52 520			
DJ Fredericks	4 967	267		
Non-executive				
JA Mabuza	26 000			
I Kgaboesele	12 000			
KW Mzondeki	267			
F Petersen-Lurie	–			400
Total	**95 754**	**267**	**–**	**400**

Directors' interest in contracts

The directors of the group annually, and as required, declare their interests in any transaction with the group in terms of the Companies Act. In accordance with the Companies Act, 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.

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Annual financial statements

Consolidated annual financial statements - 31 March 2015

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 background, the directors of the group accept responsibility for the annual financial statements, which were approved by the board of directors on 5 June 2015 and are signed on their behalf by:

Jabu Mabuza
Chairman of the Telkom board
Pretoria
5 June 2015

Sipho Maseko
Group chief executive officer

Certificate from group company secretary

I hereby certify in accordance with section 88(2)(e) of the Companies Act, No 71 of 2008 as amended, the group has lodged with the Commissioner 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 2015, complied with all JSE Listings Requirements and every disclosure requirement for continued listing on the JSE imposed by the JSE Limited during that period.

Xoliswa Mpongoshe
Group company secretary
5 June 2015

Directors' report

To the members of Telkom SA SOC Limited

The directors have pleasure in submitting the annual financial statements of the group for the year ended 31 March 2015.

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 2015 was R2 889 million (2014: R3 590 million) representing basic earnings per share from continuing operations of 565.8 cents per share (2014: 703.1 cents per share) and headline earnings per share from continuing operations of 556.0 cents per share (2014: 805.9 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

Ordinary dividend number 17 of 215 cents per share (March 2014: 0 cents) and a special dividend of 30 cents per share on 5 June 2015 payable on Monday, 20 July 2015 to shareholders recorded in the register of the group at close of business on Friday, 17 July 2015.

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 2015 were:

	2015 R million	Restated 2014 R million
Aggregate amount of profit after taxation	32	24

Share capital

Details of the authorised, issued and unissued share capital of the company as at 31 March 2015, are contained in note 23 of the accompanying annual financial statements.

Share repurchase

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

Borrowing powers

In terms of the group's memorandum of incorporation, Telkom has unlimited borrowing powers subject to the restrictive financial covenants of the TL20 bond and term 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 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 2014 to the date of this report:

Appointments

DJ Fredericks	12 September 2014
T Dingaan	3 December 2014
GW Dempster	3 December 2014
RG Tomlinson	3 December 2014
RN Ntshingila	3 December 2014

Resignations

JH Schindehütte	8 August 2014
LW Maasdorp	27 August 2014
Dr CA Fynn	3 December 2014

The board of directors at the date of this report is as follows:

JA Mabuza (Chairman)
SN Maseko (Group chief executive officer)
DJ Fredericks (Chief financial officer)
SL Botha
GW Dempster
T Dingaan
N Kapila
I Kgaboesele
K Kweyama
KW Mzondeki
N Ntshingila
F Petersen-Lurie
RG Tomlinson
LL von Zeuner

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Details of each director may be found on pages 36 to 39 of this integrated report.

Directors' interests

At 31 March 2015, the following directors held a beneficial interest in the shares of Telkom:

Executive

SN Maseko	52 520
DJ Fredericks	5 234

Non-executive

JA Mabuza	26 000
F Petersen-Lurie	400
I Kgaboesele	12 000
KW Mzondeki	267

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.

Audit committee report

Introduction

The audit committee presents its report for the financial year ended 31 March 2015. The report is presented in accordance with the group's memorandum of incorporation, the requirements of the Companies Act, No 71 of 2008 as amended (the Act), as well as the recommendations contained in the third King Report on Governance for South Africa (King III). Among 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)
KW Mzondeki
LL von Zeuner
RG Tomlinson
T Dingaan

Resignation

F Petersen-Lurie

In addition, the group chief executive officer; the chief financial officer, head of internal audit, chief risk officer and the external auditors are also permanent invitees to meetings.

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Qualification details of the current members of the audit committee are set out on pages 36 to 39. Details of meeting attendance can be found on page 103.

Duties performed

During the financial year ended 31 March 2015, the committee convened six times to discharge both its statutory and board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee carried out the following duties:

- Reviewed the appropriateness of the 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 Telkom audit services' 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
  - 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 and the finance function and satisfied itself that the resources and expertise within the finance function
- 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 the related reserves
- Reviewed the adequacy and effectiveness of the control framework and governance structures implemented within the IT environment
- 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.

Going concern

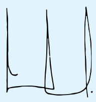
Based on the results and the committee's assessment and that the going concern basis of accounting was appropriately applied, the committee is comfortable in recommending to the board that no material uncertainties existed to negatively impact the going concern of the group and all entities in the group.

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 2015 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. Having regard to the aforementioned, 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 as amended and nominated the re-appointment of Ernst & Young Inc. as registered auditors for the 2016 financial year.

The audit committee recommended the consolidated annual financial statements and the integrated report for the year ended 31 March 2015 for approval by the board of directors on 5 June 2015.



Itumeleng Kgaboesele
Chairman of the audit committee
5 June 2015

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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 143 to 235, which comprise the Group and Company statements of financial position as at 31 March 2015, 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 2015, 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 2015, 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)
05 June 2015

Statements of profit or loss and other comprehensive income

For the year ended 31 March 2015

		Group		Company	
	Notes	2015 Rm	Restated* 2014 Rm	2015 Rm	Restated* 2014 Rm
Continuing operations					
Total revenue	4.1	32 400	31 905	32 604	32 115
Operating revenue	4.2	31 675	31 288	31 611	31 224
Payments to other operators	6.1	2 930	3 944	2 956	3 950
Cost of sales	6.2	2 787	2 177	2 787	2 177
Net operating revenue		25 958	25 167	25 868	25 097
Other income	5	699	531	743	581
Operating expenses		23 748	21 622	23 633	21 583
Employee expenses	6.3	9 354	6 922	9 288	6 867
Selling, general and administrative expenses	6.4	4 712	4 699	4 693	4 733
Service fees	6.5	3 212	3 103	3 208	3 108
Operating leases	6.6	992	1 007	987	1 004
Depreciation, amortisation, impairment, write-offs and losses	6.7	5 478	5 891	5 457	5 871
Operating profit		2 909	4 076	2 978	4 095
Investment income	7	283	163	506	387
Finance charges and fair value movements	8	471	292	471	292
Finance charges		560	636	560	636
Foreign exchange and fair value movements		(89)	(344)	(89)	(344)
Profit before taxation		2 721	3 947	3 013	4 190
Taxation (income)/expense	9	(168)	357	(190)	320
Profit from continuing operations		2 889	3 590	3 203	3 870
Profit from discontinued operations	10	367	353	–	–
Profit for the year		3 256	3 943	3 203	3 870
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange gains on translating foreign operations	11	–	4	–	–
Recycling of foreign currency translation reserve	11	–	122	–	–
Items that will not be reclassified to profit or loss					
Defined benefit plan actuarial (losses)/gains	11	(944)	2 277	(944)	2 277
Defined benefit plan asset ceiling limitation	11	448	(1 106)	448	(1 106)
Income tax relating to components of other comprehensive income	11	139	(157)	139	(157)
Other comprehensive (loss)/income for the year, net of taxation		(357)	1 140	(357)	1 014
Total comprehensive income for the year		2 899	5 083	2 846	4 884
Profit attributable to:					
Owners of Telkom		3 151	3 822	3 203	3 870
Non-controlling interest		105	121	–	–
Profit for the year		3 256	3 943	3 203	3 870
Total comprehensive income attributable to:					
Owners of Telkom		2 794	4 962	2 846	4 884
Non-controlling interest		105	121	–	–
Total comprehensive income for the year		2 899	5 083	2 846	4 884
Total operations					
Basic earnings per share (cents)	12	617.1	748.5		
Diluted earnings per share (cents)	12	604.5	744.8		
Continuing operations					
Basic earnings per share (cents)	12	565.8	703.1		
Diluted earnings per share (cents)	12	554.2	699.6		

*Refer to note 2.4 and note 12.

Statements of financial position

At 31 March 2015

	Notes	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Assets					
Non-current assets		30 554	31 039	30 521	30 906
Property, plant and equipment	13	24 387	25 123	24 323	24 961
Intangible assets	14	2 793	2 833	2 793	2 677
Investments in subsidiaries	16.1	–	–	35	202
Other investments	16.2	2 231	2 759	2 227	2 755
Employee benefits	31	452	35	452	35
Other financial assets	21	28	74	28	74
Finance lease receivables	17	413	202	413	202
Deferred taxation	18	250	13	250	–
Current assets		10 511	8 366	10 409	7 520
Inventories	19	552	646	531	539
Income tax receivable	36	1	8	–	–
Current portion of finance lease receivables	17	200	118	200	118
Trade and other receivables	20	4 895	5 565	4 887	4 929
Current portion of other financial assets	21	1 247	187	1 247	187
Cash and cash equivalents	22	3 616	1 842	3 544	1 747
Assets of disposal group classified as held for sale	10/16.1	917	–	167	–
Total assets		41 982	39 405	41 097	38 426
Equity and liabilities					
Equity attributable to owners of the parent		25 676	22 771	24 493	21 532
Share capital	23	5 208	5 208	5 208	5 208
Treasury shares	24	–	(771)	–	(775)
Share-based compensation reserve	25	126	11	126	11
Non-distributable reserves	26	1 507	2 580	786	1 859
Retained earnings		18 835	15 743	18 373	15 229
Non-controlling interest	27	363	377	–	–
Total equity		26 039	23 148	24 493	21 532
Non-current liabilities		4 421	6 156	4 407	6 112
Interest-bearing debt	28	3 244	3 775	3 244	3 775
Employee-related provisions	29	437	1 388	437	1 373
Non-employee-related provisions	29	39	108	39	95
Deferred revenue	30	687	869	687	869
Deferred taxation	18	14	16	–	–
Current liabilities		11 403	10 101	12 197	10 782
Trade and other payables	32	5 571	5 119	6 380	5 828
Shareholders for dividend	37	19	21	19	21
Current portion of interest-bearing debt	28	1 612	321	1 612	319
Current portion of employee-related provisions	29	1 867	1 597	1 855	1 574
Current portion of non-employee-related provisions	29	302	731	302	731
Current portion of deferred revenue	30	1 502	1 431	1 499	1 428
Income tax payable	36	344	782	344	782
Current portion of other financial liabilities	21	185	98	185	98
Credit facilities utilised	22	1	1	1	1
Liabilities of disposal group classified as held for sale	10	119	–	–	–
Total liabilities		15 943	16 257	16 604	16 894
Total equity and liabilities		41 982	39 405	41 097	38 426

Consolidated statement of changes in equity

For the year ended 31 March 2015

Attributable to equity holders of Telkom								
Group	Share capital Rm	Treasury shares Rm	Non-distributable reserves Rm	Share-based compensation reserve Rm	Retained earnings Rm	Total Rm	Non-controlling interest Rm	Total equity Rm
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 26)			122			122		122
Exchange gains on translating foreign operations (refer to note 26)			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 26)			343		(343)	–		–
Realised gain of the cell captive (refer to note 26)			(53)		53	–		–
Increase in share-based compensation reserve (refer to note 25)				11		11		11
Contributions by and distributions to non-controlling interest								
Dividends paid (refer to note 27)*						–	(123)	(123)
Balance at 31 March 2014	5 208	(771)	2 580	11	15 743	22 771	377	23 148
Balance at 1 April 2014	**5 208**	**(771)**	**2 580**	**11**	**15 743**	**22 771**	**377**	**23 148**
Total comprehensive income			**–**	**–**	**2 794**	**2 794**	**105**	**2 899**
Profit for the year					**3 151**	**3 151**	**105**	**3 256**
Other comprehensive income			**–**	**–**	**(357)**	**(357)**	**–**	**(357)**
Net defined benefit plan remeasurements					**(357)**	**(357)**		**(357)**
Transactions with owners recorded directly in equity								
Revaluation of the cell captive transferred to non-distributable reserves (refer to note 26)			**221**		**(221)**	**–**		**–**
Realised gain of the cell captive (refer to note 26)			**(519)**		**519**			**–**
Adjustments to shares held in escrow (refer to note 26)		**(4)**				**(4)**		**(4)**
Transfer of treasury shares to non-distributable reserves (refer to note 26)		**775**	**(775)**			**–**		**–**
Increase in share-based compensation reserve (refer to note 25)				**115**		**115**		**115**
Contributions by and distributions to non-controlling interest								
Dividends declared (refer to note 27)*						**–**	**(119)**	**(119)**
Balance at 31 March 2015	**5 208**	**–**	**1 507**	**126**	**18 835**	**25 676**	**363**	**26 039**

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

Consolidated statement of changes in equity

For the year ended 31 March 2015

Attributable to equity holders of Telkom

Company	Share capital Rm	Treasury shares Rm	Non-distributable reserves Rm	Share-based compensation reserve Rm	Retained earnings Rm	Total Rm
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 26)			343		(343)	–
Realised gain of the cell captive (refer to note 26)			(53)		53	–
Increase in share-based compensation reserve (refer to note 25)				11		11
Balance at 31 March 2014	5 208	(775)	1 859	11	15 229	21 532
Balance at 1 April 2014	**5 208**	**(775)**	**1 859**	**11**	**15 229**	**21 532**
Total comprehensive income					**2 846**	**2 846**
Profit for the year					**3 203**	**3 203**
Other comprehensive income					**(357)**	**(357)**
Net defined benefit plan remeasurements					**(357)**	**(357)**
Transactions with owners recorded directly in equity						
Revaluation of the cell captive transferred to non-distributable reserves (refer to note 26)			**221**		**(221)**	**–**
Realised gain of the cell captive (refer to note 26)			**(519)**		**519**	**–**
Transfer of treasury shares to non-distributable reserves (refer to note 26)		**775**	**(775)**			
Increase in share-based compensation reserve (refer to note 25)				**115**		**115**
Balance at 31 March 2015	**5 208**	**–**	**786**	**126**	**18 373**	**24 493**

Statements of cash flows

For the year ended 31 March 2015

		Group		Company	
	Notes	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Cash flows from operating activities		6 226	6 366	6 220	6 303
Cash receipts from customers		31 852	32 455	31 249	31 231
Cash paid to suppliers and employees		(25 210)	(26 143)	(24 978)	(25 420)
Cash generated from operations	33	6 642	6 312	6 271	5 811
Interest received		470	358	467	295
Dividend received	34	–	–	226	230
Finance charges paid	35	(491)	(585)	(491)	(584)
Taxation refund	32	–	854	–	854
Taxation paid	36	(274)	(449)	(251)	(302)
Cash generated from operations before dividend paid		6 347	6 490	6 222	6 304
Dividend paid	37	(121)	(124)	(2)	(1)
Cash flows from investing activities		(5 113)	(4 333)	(5 111)	(4 234)
Proceeds on disposal of property, plant and equipment and intangible assets		253	67	253	66
Proceeds on disposal of investment	16.2	750	–	750	–
Additions to assets for capital expansion*		(5 015)	(6 370)	(4 996)	(6 297)
(Increase)/decrease in repurchase agreements		(1 101)	1 970	(1 101)	1 970
Loans (advanced to)/repaid from subsidiaries		–	–	(17)	27
Cash flows from financing activities		685	(2 583)	685	(2 579)
Loans raised		1 000	300	1 000	300
Loans repaid		(310)	(3 036)	(310)	(3 033)
Finance lease repaid		(170)	(156)	(170)	(155)
Settlement of derivatives		165	309	165	309
Net increase/(decrease) in cash and cash equivalents		1 798	(550)	1 794	(510)
Net cash and cash equivalents at beginning of year**		1 841	2 381	1 746	2 255
Trudon cash and cash equivalents classified as held for sale		(27)	–	–	–
Effect of foreign exchange rate gains on cash and cash equivalents		3	10	3	1
Net cash and cash equivalents at end of year	22	3 615	1 841	3 543	1 746

*Includes R137 million inventory purchases in the current financial year.
**Refer to note 10 for cash flow activities on discontinued operations of the iWayAfrica group over which control was relinquished on disposal in the prior financial year and of the Trudon group which has been reclassified as a discontinued operation in the current financial year.

Notes to the consolidated annual financial statements

For the year ended 31 March 2015

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, mobile communication services and other related information technology services to Telkom's customers 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, e-mail 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 and
- Other services including directory services, through Trudon Proprietary Limited, wireless data services, through Swiftnet Proprietary 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

2.1 Basis of preparation

The consolidated annual financial statements comply with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), the Companies Act of South Africa, 2008, the JSE Listing requirements and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

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 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 3 Business Combinations	Amendment to scope exception of joint ventures in paragraph 2(a)	1 July 2014
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 11 Joint Arrangements	Amendment to IFRS 11 requirements for accounting for an acquired interest in a joint operation that constitutes a business and additional disclosure requirements in terms of IFRS 3 Business Combinations and other IFRSs for business combinations	1 January 2016
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
IAS 16 Property, Plant and Equipment	Amendment to the revaluation method: proportionate restatement of accumulated depreciation of an item of property, plant and equipment	1 July 2014
IAS 16 Property, Plant and Equipment and IAS 41 Agriculture	Amendment to IAS 16 and IAS 41 to define bearer plants and include within the scope of IAS 16 Property, Plant and Equipment those bearer plants that are expected to bear produce for more than one period and have a remote likelihood of being sold as agricultural produce. These were previously in the scope of IAS 41	1 January 2016
IAS 16 Property, Plant and Equipment	Amendments providing clarification on acceptable methods of depreciation and amortisation	1 January 2016
IAS 19 Employee Benefits	Amendment providing the clarification of 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 27 Separate Financial Statements	Amendment to IAS 27 to enable an entity to account for investments in subsidiaries, joint ventures and associates using the equity method when preparing separate financial statements	1 January 2016
Investment Entities (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements)	Amendment exempting 'investment entities' (as defined) from the consolidation of particular subsidiaries. Such investment entity should measure the investment in each eligible subsidiary at fair value through profit or loss	1 January 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	Amendment providing guide on the revaluation method: proportionate restatement of accumulated amortisation of an intangible asset	1 July 2014
IAS 38 Intangible Assets	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	1 January 2016
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	Amendment providing the 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

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

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. The impact of these new standards, amendments to standards and interpretations is being assessed.

Pronouncement	Title	Effective date
IFRS 1 First-time Adoption of International Financial Reporting Standards	Consequential amendment to IFRS 7 Financial Instruments Disclosures: Servicing contracts disclosures and offsetting of financial assets and liabilities disclosures in condensed interim financial statements	1 January 2016
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Amendment to the accounting treatment of changes to a plan of sale or to a plan of distribution to owners where an entity reclassifies an asset or disposal group from held for sale to held for distribution or vice versa	1 January 2016
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 7 Financial Instruments: Disclosures	Servicing contracts disclosures: Application guidance to clarify whether a servicing contract gives rise to continuing involvement in a transferred asset for the purposes of determining the transfer disclosure requirements	1 January 2016
IFRS 9 Financial Instruments	Classification and measurement of financial assets and financial liabilities and derecognition requirements	1 January 2018*
IFRS 10 Consolidated Financial Statements	Amendment of the accounting for a split of gains or losses on the loss of control between: (i) the recognition of gains or losses in profit or loss of a parent company and (ii) the elimination against the carrying amounts of investments in the existing associate/joint venture and former subsidiary when control over the subsidiary is lost	1 January 2016
IFRS 14 Regulatory Deferral Accounts	This 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. This standard is applicable to first time adopters of IFRS	1 January 2016
IFRS 15 Revenue from Contracts with Customers	This new standard provides principles that an entity will apply to determine the measurement of revenue and timing of when it is recognised. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services	1 January 2017
IAS 1 Presentation of Financial Statements	Amendment aiming to ensure that an entity does not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions	1 January 2016
IAS 19 Employee Benefits	Discount rate: requirement to use the market yields on government bonds denominated in the currency of high quality corporate bonds in cases where there is no deep market for such bonds for the purpose of discounting post-employment benefit obligations	1 January 2016
IAS 28 Investment in Associates or Joint Ventures	See IFRS 10 Consolidated Financial Statements	1 January 2016
IAS 34 Interim Financial Reporting	Certain disclosures are to be given either in the interim financial statements or incorporated by a cross-reference from the interim financial statements to some other statement. These disclosures must also be available to users on the same terms and at the same time as the interim financial statements for the interim financial report to be complete	1 January 2016
IAS 39 Financial Instruments: Recognition and Measurement	Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception	1 January 2018*
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	Amendment granting exemption from preparation of consolidated financial statements for an intermediate parent entity that is subsidiary of an investment entity even if that parent entity measures all of its subsidiaries at fair value. Consequential amendments have also been made to IAS 28 exemption from applying the equity method for entities that are subsidiaries and hold interest in associate and joint venture	1 January 2016

*The standards apply when IFRS 9 is applied.

2.2 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:

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 rollout 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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

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 cost of disposal and value in use. Value in use is calculated using the discounted cash flow valuation method. Key assumptions on which management has based its determination of fair value less costs of disposal include the existence of binding sale agreements, and for the determination of value in use include the weighted average cost of capital, projected revenues, gross margins, average revenue per customer, capital expenditure, expected customer bases and market share. The judgements, assumptions and methodologies used can have a material impact on the recoverable amount and ultimately the amount of any impairment.

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 calculation of value in use).

Impairment of receivables

An impairment loss is recognised on trade receivables that are assessed to be impaired (refer to notes 15 and 20). 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 relationship periods are accounted for as a change in accounting estimates. Refer to note 4 for the impact of the change in the customer relationship periods in the current financial year.

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 to which 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. The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to reflect changes in the probability that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The period of assessment of probable future taxable income for the purpose of assessing whether a deferred tax asset should be raised has been restricted to three years. The group 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 IAS12, 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 the 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 result 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 taxation 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 three and five 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 this 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.

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 29. 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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Contingent assets

Contingent 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.

2.3 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 do 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 interest 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.

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 a 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 ventures. 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.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are carried at cost to company and adjusted for any impairment losses.

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.

Contingent consideration to be transferred by the acquirer is recognised at fair value at the date of acquisition. The contingent consideration that is classified as asset or liability is remeasured to fair value at each reporting date. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Subsequent period adjustments on fair values are adjusted against consideration transferred. 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.

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.

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.

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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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. Revenue related to the unused data carried over is deferred until usage or expiration.

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.

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.
- 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 and data (award credits) granted to Telkom 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.

Taxation
Current taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit and loss, 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 group and its subsidiaries operate and generate taxable income.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Taxation (continued)

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.

Dividend withholding tax

Dividend withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012.

Telkom withholds dividend tax on behalf of its shareholders at a rate of 15% on dividends declared. The amounts withheld are not recognised as part of 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 withholding 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 asset 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.

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 6.7.

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 include all direct expenditure as well as related borrowing costs capitalised, but exclude 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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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.

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 qualifying assets (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'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 or loans and receivables. 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 minimise 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.

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, including borrowings and derivative liabilities, are initially measured at fair value net of transaction costs, with gains and losses arising on the change in fair value recognised in net finance charges and fair value movements for the year.

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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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 short-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.

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 debtor 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 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.

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.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position. This occurs when there is a legally enforceable right in the normal course of business, in the event of default by either party to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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 is 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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Leases (continued)

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, service cost, settlement gains or loss and curtailment gains or losses related to the defined benefit plan are recognised in the statement of profit or loss.

Asset ceiling

IAS 19 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 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 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 reporting date of the number of equity instruments that are expected to vest.

During the vesting period, participants have all the shareholder 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 scheme award
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. A provision is reversed if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation. 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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

2.4 Adjustments to the consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2014

	Group				Company		
	As previously reported Rm	Undersea cable revenue* Rm	Discontinued operation** Rm	Restated Rm	As previously reported Rm	Undersea cable revenue* Rm	Restated Rm
Continuing operations							
Total revenue	33 061		(1 156)	31 905	32 115		32 115
Operating revenue	32 483	(83)	(1 112)	31 288	31 307	(83)	31 224
Payments to other operators	3 944		–	3 944	3 950		3 950
Cost of sales	2 498		(321)	2 177	2 177		2 177
Net operating revenue	26 041	(83)	(791)	25 167	25 180	(83)	25 097
Other income	479	83	(31)	531	498	83	581
Operating expenses	21 918		(296)	21 622	21 583		21 583
Employee expenses	7 137		(215)	6 922	6 867		6 867
Selling, general and administrative expenses	4 682		17	4 699	4 733		4 733
Service fees	3 110		(7)	3 103	3 108		3 108
Operating leases	1 052		(45)	1 007	1 004		1 004
Depreciation, amortisation, impairment, write-offs and losses	5 937		(46)	5 891	5 871		5 871
Operating profit	4 602	–	(526)	4 076	4 095	–	4 095
Investment income	176		(13)	163	387		387
Finance charges and fair value movements	292		–	292	292		292
Interest	636		–	636	636		636
Foreign exchange gains and fair value movements	(344)		–	(344)	(344)		(344)
Profit before taxation	4 486	–	(539)	3 947	4 190	–	4 190
Taxation	494		(137)	357	320		320
Profit from continuing operations	3 992	–	(402)	3 590	3 870	–	3 870
Loss from discontinuing operations	(49)	–	402	353	–	–	–
Profit for the year	3 943	–	–	3 943	3 870	–	3 870

*This is income relating to undersea cable activities that are not in the ordinary course of business, therefore it was reclassified from operating revenue to other income.
**The restatement is due to the classification of the Trudon group as a discontinued operation.

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 communication services, mobile voice and data services and customer premises equipment sales.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

4. Revenue

Revenue recognition

The group provides fixed-line, mobile, data communication services and communication-related products. The group provides such services to business, residential, wholesale, payphone and mobile customers. Revenue represents the fair value of fixed or determinable consideration that has been received or is receivable.

	Group		Company	
	2015 Rm	Restated 2014 Rm	2015 Rm	Restated 2014 Rm
4.1 Total revenue	32 400	31 905	32 604	32 115
Operating revenue	31 675	31 288	31 611	31 224
Other income (excluding profit on disposal of property, plant and equipment, intangible assets and investments)*	442	454	487	504
Investment income	283	163	506	387
4.2 Operating revenue	31 675	31 288	31 611	31 224
Voice	15 590	16 237	15 594	16 242
Interconnection	1 493	1 508	1 493	1 508
Data	11 473	10 990	11 405	10 920
Customer premises equipment	2 704	2 186	2 704	2 186
Sundry revenue	415	367	415	368

*Refer to note 5.

Operating revenue increased due to higher mobile voice and data revenue, higher IT business services revenue and higher equipment sales. This was partly offset by the continuous decline in fixed-line voice revenue and lower data leased line revenue resulting from self-provisioning by other licensed operators.

Change in estimate

In the current financial year the group reassessed its voice customer relationship period (CRP) that is used for the deferral of installation fee revenue. The CRP was changed from nine years to six and a half years. This is more reflective of the modern day customer behaviour within the industry. The change in estimate resulted in revenue increasing by R111 million in the current year.

5. Other income

	Group		Company	
	2015 Rm	Restated 2014 Rm	2015 Rm	Restated 2014 Rm
	699	531	743	581
Other income (included in total revenue, refer to note 4)	442	454	487	504
Interest received from trade receivables	187	138	187	191
Sundry income	255	316	300	313
Profit on disposal of property, plant and equipment and intangible assets	257	77	256	77

Change in comparative

The comparative in other income has increased by R83 million due to a reclassification from operating revenue relating to income from undersea cables to more appropriately reflect its nature. Refer to note 2.4.

6. Operating expenses

	Group 2015 Rm	Group Restated 2014 Rm	Company 2015 Rm	Company 2014 Rm
6.1 Payments to other operators	2 930	3 944	2 956	3 950
Payments to other network operators (interconnection fees) have decreased due to the reduction in the mobile termination rates.				
6.2 Cost of sales	2 787	2 177	2 787	2 177
The increase in the cost of sales is largely attributable to increase in the mobile device sales.				
6.3 Employee expenses	9 354	6 922	9 288	6 867
Salaries and wages	7 217	7 143	7 166	7 103
Medical aid contributions	–	1	–	–
Retirement contributions: Defined contribution plan	621	604	617	601
Post-retirement pension and retirement fund (refer to notes 29 and 31)	23	104	23	104
Current service cost	25	6	25	6
Interest cost	990	875	990	875
Interest on plan assets	(992)	(879)	(992)	(879)
Curtailment loss – Telkom Retirement Fund*	–	103	–	103
Curtailment gain – Telkom Pension Fund	–	(1)	–	(1)
Post-retirement medical aid (refer to notes 29 and 31)	(177)	(1 836)	(177)	(1 836)
Current service cost	4	62	4	62
Interest cost	276	468	276	468
Settlement (gain)/loss	(221)	234	(221)	234
Interest on plan asset	(236)	(197)	(236)	(197)
Curtailment gain	–	(2 403)	–	(2 403)
Post-retirement telephone rebates(refer to notes 29 and 31)	36	34	36	34
Current service cost	3	4	3	4
Interest cost	33	31	33	31
Curtailment loss	–	(1)	–	(1)
Share-based compensation expense (refer to note 25)	115	11	115	11
Other benefits**	2 005	1 317	1 994	1 306
Employee expenses capitalised	(486)	(456)	(486)	(456)

The increase in employee expenses is mainly due to a net curtailment gain of R2.2 billion that related to the curtailment and settlement of the post-retirement medical aid benefit which occurred in the prior financial year. The average salary increase as well as the retrenchment packages, voluntary early retirement packages and voluntary severance packages gave rise to the increase in employee expenses offset by a settlement gain that related to the post-retirement medical aid benefit.

*Impact of the VSP/VERP process related to 31 March 2013

**Other benefits include, amongst others, skills development, annual leave, performance incentive, service bonuses, voluntary employee severance/voluntary early retirement packages costs and termination benefits.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

6. Operating expenses (continued)	Group 2015 Rm	Group Restated 2014 Rm	Company 2015 Rm	Company 2014 Rm
6.4 Selling, general and administrative expenses	4 712	4 699	4 693	4 733
Selling and administrative expenses	749	856	765	861
Maintenance	2 938	2 903	2 937	2 903
Marketing	705	789	714	799
Impairment of receivables	320	151	277	170

Selling, general and administrative expenses increased marginally. More focused marketing activities resulted in a decrease in selling, general and administrative expenses in the current financial year. The decrease was partially offset by an increase in bad debt provision. The adverse economic conditions gave rise to higher impairments.

Change in comparative

Copper theft losses of R134 million was reclassified from maintenance to selling and administrative expenses for more relevant disclosure.

	Group 2015 Rm	Group Restated 2014 Rm	Company 2015 Rm	Company 2014 Rm
6.5 Service fees	3 212	3 103	3 208	3 108
Facilities and property management*	1 934	1 741	1 934	1 741
Consultancy, security and other services	1 221	1 302	1 218	1 308
Auditors' remuneration	57	60	56	59

The increase in service fees is driven by costs relating to higher utilities and maintenance costs on Telkom properties.

*Includes R52 million provision for site rehabilitation in the current financial year.

	Group 2015 Rm	Group Restated 2014 Rm	Company 2015 Rm	Company 2014 Rm
6.6 Operating leases*	992	1 007	987	1 004
Land and buildings	460	458	455	455
Equipment	48	35	48	35
Vehicles	484	514	484	514

Operating leases decreased as a result of the lower number of vehicles utilised by the group.

*Operating lease commitments are disclosed in note 38.

6. Operating expenses (continued)

	Group 2015 Rm	Group Restated 2014 Rm	Company 2015 Rm	Company 2014 Rm
6.7 Depreciation, amortisation, impairment, write-offs and losses	5 478	5 891	5 457	5 871
Depreciation of property, plant and equipment	4 500	4 605	4 480	4 587
Amortisation of intangible assets	758	654	757	652
Impairment of property, plant and equipment and intangible assets	–	392	–	392
Write-offs of property, plant and equipment and intangible assets	220	240	220	240

The decrease in depreciation is due to accelerated depreciation on new connections installed to customer premises in the prior financial year that was not incurred to the same extent in the current financial year together with the impairment of certain legacy and technologically aged items that did not occur in the current financial year.

The estimated useful lives assigned to groups of property, plant and equipment are:	Group Years 2015	Group Years 2014	Company Years 2015	Company Years 2014
Freehold buildings	15 to 40	15 to 40	15 to 40	15 to 40
Leasehold buildings	1 to 5	1 to 5	1 to 4	1 to 5
Network equipment				
Cables	4 to 30	4 to 30	4 to 30	4 to 30
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
Telkom support services equipment	1 to 20	1 to 20	2 to 20	2 to 20

The expected useful lives assigned to intangible assets are:	Group Years 2015	Group Years 2014	Company Years 2015	Company Years 2014
Software and licences	2 to 11	2 to 11	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 the transformation programme together with the group policies and procedures, the group reassessed the useful lives of certain legacy equipment. The reassessment of useful lives had the effect of increasing the depreciation and amortisation expense for the year ended 31 March 2015 by R353 million (2014: R1 193 million). Depreciation and amortisation for each year of the remaining useful lives of the individually reassessed equipment will be significantly lower.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

7. Investment income

	Group 2015 Rm	Group Restated 2014 Rm	Company 2015 Rm	Company 2014 Rm
	283	163	506	387
Interest income	283	160	280	157
Dividend income from subsidiaries	–	–	226	230
Equity income from associate	–	3	–	–

Investment income increased as a result of higher cash balances held by the group.

Interest income relates to interest earned from financial assets not measured at fair value through profit or loss. Interest is recognised on a time proportionate basis taking into account the principal amount outstanding and the effective interest rate.

Dividends from investments are recognised on the date that the group is entitled to the dividend.

8. Finance charges and fair value movements

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
	471	292	471	292
Finance charges on interest-bearing debt*	560	636	560	636
Local debt	653	729	653	729
Less: Finance charges capitalised**	(93)	(93)	(93)	(93)
Foreign exchange and fair value movements	(89)	(344)	(89)	(344)
Foreign exchange losses	247	336	247	336
Fair value adjustments	(336)	(680)	(336)	(680)
Capitalisation rate for borrowing costs (%)	11.7	11.4	11.7	11.4

*For interest-bearing debt movement, refer to note 28.
**Finance charges are capitalised to property, plant and equipment and intangible assets.

Finance charges relate to interest expense on financial liabilities not measured at fair value through profit or loss.

Fair value adjustments are mainly due to the growth in the assets held by the cell captive.

9. Taxation (income)/expense

	Group 2015 Rm	Group Restated 2014 Rm	Company 2015 Rm	Company 2014 Rm
	(168)	357	**(190)**	320
South African normal company taxation	**(56)**	484	**(79)**	477
Current taxation	**281**	260	**258**	253
(Over)/under provision for prior year	**(337)**	224	**(337)**	224
Deferred taxation (refer to note 18)	**(112)**	(127)	**(111)**	(157)
Capital allowances	**(23)**	(16)	**(22)**	(17)
Provision other allowances	**(96)**	(139)	**(96)**	(137)
Underprovision prior year	**7**	23	**7**	(3)
Tax loss	**–**	5	**–**	–

The reduction in the tax expense in the current financial year was mainly as a result of the reversal of tax provisions raised and refunds in respect of prior years related to matters that were resolved with SARS during the current financial year.

In the current financial year the group raised a deferred tax asset of R250 million of which a net amount of R112 million was processed through profit or loss.

Reconciliation of taxation rate	Group %		Company %	
Effective rate	**(6.2)**	9.0	**(6.3)**	7.6
South African normal rate of taxation	**28.0**	28.0	**28.0**	28.0
Adjusted for:	**(34.2)**	(19.0)	**(34.3)**	(20.4)
Exempt income	**(5.1)**	(4.1)	**(6.6)**	(4.5)
Disallowable expenditure	**2.9**	4.7	**1.2**	3.2
Deferred tax asset limitation	**(20.2)**	(26.0)	**(18.0)**	(24.5)
CGT on disposal of Acajou shares	**0.3**	–	**–**	–
(Over)/under provision for prior year	**(12.1)**	6.4	**(10.9)**	5.4

The significant decrease between the standard and effective taxation rate at 31 March 2015 is mainly due to deferred tax limitation and the overprovision from the prior year. Refer to note 18 with regard to the deferred tax asset limitation.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

10. Discontinued operations

10.1 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 operated 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.

	Group 2015 Rm	Group 2014 Rm
Analysis of the results of the discontinued operations:		
Revenue*	–	240
Expenses*	–	(289)
Loss before taxation of the discontinued operations	–	(49)
Taxation	–	–
Loss after taxation of the discontinued operations	–	(49)

*Revenue is comprised of operating revenue, other income and investment income. Expenses is comprised of operating expenses and finance charges.

	Group 2015 Rm	Group 2014 Rm
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:		
Operating cash flows	–	(38)
Total cash outflows*	–	(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.

10.2 The Trudon group

On 27 November 2014, the Telkom board approved the disposal of Telkom's 64.9% shareholding in Trudon to Trumancon. This is part of Telkom's strategic imperative to focus on its fixed-line and internet based business.

Trudon provides advertising and marketing options to the small, medium and micro enterprises and corporate market. It also delivers local commercial search options.

The conclusion of the transaction is subject to the fulfilment of certain material conditions precedent.

	Group 2015 Rm	Group 2014 Rm
Analysis of the results of the discontinued operations:		
Revenue*	1 127	1 156
Expenses*	(638)	(617)
Profit before taxation of the discontinued operations	489	539
Taxation	(122)	(137)
Profit after taxation of the discontinued operations**	367	402

*Revenue is comprised of operating revenue, other income and investment income. Expenses is comprised of operating expenses.
**As the carrying amount of Trudon is less than the fair value less costs to sell, remeasurment is not required.

	Group 2015 Rm	Group 2014 Rm
The major classes of assets and liabilities of the business classified as a disposal group:		
Assets	917	
Property, plant and equipment and intangible assets	281	
Inventories	86	
Trade and other receivables	493	
Cash and cash equivalents	27	
Other current and non-current assets	30	

10. Discontinued operations (continued)

10.2 The Trudon group (continued)

	Group 2015 Rm	Group 2014 Rm
Liabilities	119	
Trade and other payables	64	
Current portion of deferred revenue	–	
Other current and non-current liabilities	55	
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:		
Operating cash flows	(9)	
Investing cash flows	(54)	
Financing cash flows	–	
Total cash inflows	(63)	

The capital gains tax consequences on the sale of Trudon, if any, will be offset against cumulative capital losses in Telkom.

11. Income taxation effects of other comprehensive income

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Exchange gains on translating foreign operations	–	4	–	–
Recycling of foreign currency translation reserve	–	122	–	–
Net foreign currency translation differences for foreign operations	–	126	–	–
Defined benefit plan actuarial (losses)/gains	(944)	2 277	(944)	2 277
Tax effect of defined benefit plan actuarial (losses)/gains	264	(306)	264	(306)
Net defined benefit plan actuarial (losses)/gains	(680)	1 971	(680)	1 971
Defined benefit plan asset ceiling limitation	448	(1 106)	448	(1 106)
Tax effect of defined benefit plan asset ceiling limitation	(125)	149	(126)	149
Net defined benefit plan asset ceiling limitation	323	(957)	323	(957)
Other comprehensive (loss)/income for the year before taxation	(496)	1 297	(496)	1 171
Income tax effect of other comprehensive (loss)/income for the year	139	(157)	139	(157)
Other comprehensive (loss)/income for the year, net of taxation	(357)	1 140	(357)	1 014

12. Earnings per share

	Group 2015 Cents	Group Restated 2014 Cents
Total operations		
Basic earnings per share	617.1	748.5
The calculation of earnings per share is based on a profit attributable to equity holders of Telkom for the year of R3 151 million (2014: R3 822 million) and 510 593 816 (2014: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted earnings per share	604.5	744.8
The calculation of earnings per share is based on a profit attributable to equity holders of Telkom for the year of R3 151 million (2014: R3 822 million) and 521 248 531 (2014: 513 181 445) 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*	607.3	851.4
The calculation of headline earnings per share is based on headline earnings of R3 101 million (2014: R4 347 million) and 510 593 816 (2014: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted headline earnings per share (cents)*	594.9	847.1
The calculation of headline earnings per share is based on headline earnings of R3 101 million (2014: R4 347 million) and 521 248 531 (2014: 513 181 445) 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.		

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

12. Earnings per share (continued)	Group 2015 Cents	Restated 2014 Cents
Continuing operations		
Basic earnings per share	565.8	703.1
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R2 889 million (2014: R3 590 million) and 510 593 816 (2014: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted earnings per share	554.2	699.6
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R2 889 million (2014: R3 590 million) and 521 248 531 (2014: 513 181 445) 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*	556.0	806.0
The calculation of headline earnings per share is based on headline earnings of R2 839 million (2014: R4 115 million) and 510 593 816 (2014: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted headline earnings per share*	544.6	801.9
The calculation of headline earnings per share is based on headline earnings of R2 839 million (2014: R4 115 million) and 521 248 531 (2014: 513 181 445) 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 earnings per share (cents)	51.3	45.4
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R262 million (2014: R232 million) and 510 593 816 (2014: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted earnings per share	50.3	45.2
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R262 million (2014: R232 million) and 521 248 531 (2014: 513 181 445) 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*	51.3	45.4
The calculation of headline earnings per share is based on headline earnings of R262 million (2014: R232 million) and 510 593 816 (2014: 510 593 816) weighted average number of ordinary shares in issue.		
Diluted headline earnings per share*	50.3	45.2
The calculation of headline earnings per share is based on headline earnings of R262 million (2014: R232 million) and 521 248 531 (2014: 513 181 445) 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.		
Reconciliation of weighted average number of ordinary shares:	Number of 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	10 654 715	2 587 629
Diluted weighted average number of shares outstanding	521 248 531	513 181 445

*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.

12. Earnings per share (continued)

	Group Rm Gross	Group Rm Net*
Total operations		
2015		
Reconciliation between earnings and headline earnings:		
Profit for the year		3 256
Non-controlling interest		(105)
Profit attributable to Owners of Telkom		3 151
Profit on disposal of property, plant and equipment and intangible assets	(257)	(209)
Write-offs of property, plant and equipment and intangible assets	220	159
Headline earnings		3 101
2014		
Reconciliation between earnings and headline earnings:		
Profit for the year		3 943
Non-controlling interest		(121)
Profit attributable to equity holders 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
Continuing operations		
2015		
Reconciliation between earnings and headline earnings:		
Profit from continuing operations		2 889
Profit from continuing operations attributable to equity holders of Telkom		2 889
Profit on disposal of property, plant and equipment and intangible assets	(257)	(209)
Write-offs of property, plant and equipment and intangible assets	220	159
Headline earnings		2 839
2014		
Reconciliation between earnings and headline earnings:* **		
Profit from continuing operations		3 590
Profit from continuing operations attributable to equity holders of Telkom		3 590
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		4 115
Discontinued operations		
2015		
Reconciliation between earnings and headline earnings:		
Profit from discontinued operations		367
Non-controlling interest		(105)
Profit from discontinued operations attributable to equity holders of Telkom		262
Headline earnings		262
2014		
Reconciliation between earnings and headline earnings:* **		
Profit from discontinued operations		353
Non-controlling interest		(121)
Profit from discontinued operations attributable to equity holders of Telkom		232
Headline earnings		232

*Net of taxation.
**The impairment resulted in deferred taxation consequences that were not recognised in the statement of financial position in the prior financial year. Refer to note 18.
***The amounts have been restated due to reclassification of the Trudon group as a discontinued operation.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

13. Property, plant and equipment

Group	2015 Cost Rm	2015 Accumulated depreciation and write-offs Rm	2015 Carrying value Rm	2014 Cost Rm	2014 Accumulated depreciation and write-offs Rm	2014 Carrying value before impairment Rm	2014 Impairment Rm	2014 Carrying value Rm
Freehold land and buildings	6 406	(4 320)	2 086	6 515	(4 205)	2 310	–	2 310
Leasehold buildings	432	(360)	72	551	(460)	91	–	91
Network equipment	68 298	(50 205)	18 093	65 798	(47 725)	18 073	–	18 073
Support equipment	4 552	(3 460)	1 092	4 303	(2 957)	1 346	(392)	954
Furniture and office equipment	239	(200)	39	301	(243)	58	–	58
Data processing equipment and software	4 579	(3 657)	922	4 634	(3 675)	959	–	959
Under construction	1 929	–	1 929	2 530	–	2 530	–	2 530
Other	537	(383)	154	552	(404)	148	–	148
	86 972	(62 585)	24 387	85 184	(59 669)	25 515	(392)	25 123

Company	2015 Cost Rm	2015 Accumulated depreciation and write-offs Rm	2015 Carrying value Rm	2014 Cost Rm	2014 Accumulated depreciation and write-offs Rm	2014 Carrying value before impairment Rm	2014 Impairment Rm	2014 Carrying value Rm
Freehold land and buildings	6 406	(4 320)	2 086	6 515	(4 205)	2 310	–	2 310
Leasehold buildings	432	(360)	72	432	(341)	91	–	91
Network equipment	68 181	(50 148)	18 033	65 514	(47 626)	17 888	–	17 888
Support equipment	4 550	(3 459)	1 091	4 302	(2 956)	1 346	(392)	954
Furniture and office equipment	236	(198)	38	281	(230)	51	–	51
Data processing equipment and software	4 573	(3 653)	920	4 452	(3 586)	866	–	866
Under construction	1 929	–	1 929	2 652	–	2 652	–	2 652
Other	536	(382)	154	550	(401)	149	–	149
	86 843	(62 520)	24 323	84 698	(59 345)	25 353	(392)	24 961

Fully depreciated assets with a cost of R989 million (2014: R3 679 million) were derecognised in the current 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 R1 354 million and maintenance of R2 663 million (2014 expansions: R2 109 million and maintenance: R3 559 million).

A total of 62 properties (2014: 55 properties) were held for sale as at the end of the current financial year. These assets have a total net book value of R4.9 million (2014: R4.4 million) with a total market value of R159.6 million (2014: R251.9 million) as at the end of the current financial year. The accumulated depreciation on these assets is R9.8 million (2014: R11.4 million). These properties are being sold because they do not form part of the group's core business.

Property, plant and equipment with a carrying value of R58 million (2014: R73 million) has been pledged as security. Details of the loans are disclosed in note 28.

The carrying amounts of property, plant and equipment can be reconciled as follows:

Group	Carrying value at beginning of year Rm	Additions Rm	Transfer to disposal group Rm	Transfers* Rm	Disposals Rm	Deprecia-tion Rm	Write-offs Rm	Carrying value before im-pairment Rm	Impair-ment** Rm	Carrying value at end of year Rm
2015										
Freehold land and buildings	2 310	138	–	(118)	(7)	(205)	(32)	2 086	–	2 086
Leasehold buildings	91	–	(1)	1	–	(19)	–	72	–	72
Network equipment	18 073	2 243	–	1 633	(9)	(3 747)	(100)	18 093	–	18 093
Support equipment	954	214	–	147	–	(219)	(4)	1 092	–	1 092
Furniture and office equipment	58	1	(6)	7	–	(18)	(3)	39	–	39
Data processing equipment and software	959	230	(90)	82	–	(256)	(3)	922	–	922
Under construction	2 530	1 201	–	(1 799)	–	–	(3)	1 929	–	1 929
Other	148	11	–	33	–	(36)	(2)	154	–	154
	25 123	4 038	(97)	(14)	(16)	(4 500)	(147)	24 387	–	24 387
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

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

13. Property, plant and equipment (continued)

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
2015									
Freehold land and buildings	2 310	138	(118)	(7)	(205)	(32)	2 086	–	2 086
Leasehold buildings	91	–	–	–	(19)	–	72	–	72
Network equipment	17 888	2 225	1 757	(8)	(3 729)	(100)	18 033	–	18 033
Support equipment	954	213	146	–	(218)	(4)	1 091	–	1 091
Furniture and office equipment	51	1	7	–	(18)	(3)	38	–	38
Data processing equipment and software	866	229	83	–	(255)	(3)	920	–	920
Under construction	2 652	1 201	(1 921)	–	–	(3)	1 929	–	1 929
Other	149	11	32	–	(36)	(2)	154	–	154
	24 961	4 018	(14)	(15)	(4 480)	(147)	24 323	–	24 323
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

The group does not have temporarily idle property, plant and equipment.

47 % of capital expenditure relates to the expansion of existing networks and services. 29 % of capital expenditure contributed to the new next generation network programme. The balance of 24 % 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 R7.9 million (2014: R15.9 million) under property, plant and equipment disposals relates to the sale of customer premises equipment in terms of a finance lease.

Changes to the estimated useful lives on property, plant and equipment were necessary due to the transformation programme and the group policies and procedures, resulting in an increase in the depreciation by a further R257 million (2014: R1 193 million).

*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 R14 million (2014: R268 million) for company and group were reclassified from property, plant and equipment to intangible assets in the current year.
**The amount impaired for support equipment relates to assets transferred from inventory to property, plant and equipment. The assets relate to an asset class previously impaired and thus had to be assessed for impairment in the prior financial year. As there are no future cash flows related to these assets, the recoverable amount based on value in use was assessed as Rnil and the assets were impaired.

14. Intangible assets

Group	2015 Cost Rm	2015 Accumulated amortisation Rm	2015 Carrying value Rm	2014 Cost Rm	2014 Accumulated amortisation Rm	2014 Carrying value Rm
Goodwill	–	–	–	63	–	63
Trademarks, copyrights and other	251	(205)	46	463	(319)	144
Software	9 989	(7 788)	2 201	9 197	(7 065)	2 132
Under construction	546	–	546	494	–	494
	10 786	(7 993)	2 793	10 217	(7 384)	2 833

Company	2015 Cost Rm	2015 Accumulated amortisation Rm	2015 Carrying value Rm	2014 Cost Rm	2014 Accumulated amortisation Rm	2014 Carrying value Rm
Trademarks, copyrights and other	245	(199)	46	235	(183)	52
Software	9 989	(7 788)	2 201	9 183	(7 051)	2 132
Under construction	546	–	546	493	–	493
	10 780	(7 987)	2 793	9 911	(7 234)	2 677

The carrying amounts of intangible assets can be reconciled as follows:

Group	Carrying value at beginning of year Rm	Transfers to disposal group Rm	Additions Rm	Transfers Rm	Amortisation Rm	Write-offs Rm	Carrying value at end of year Rm
2015							
Goodwill	63	(63)	–	–	–	–	–
Trademarks, copyrights and other	144	(93)	10	2	(17)	–	46
Software	2 132	–	530	348	(741)	(68)	2 201
Under construction	494	–	393	(336)	–	(5)	546
	2 833	(156)	933	14	(758)	(73)	2 793
2014							
Goodwill	71	–	–	–	–	(8)	63
Trademarks, copyrights and other	146	–	68	(23)	(47)	–	144
Software	1 929	–	278	616	(642)	(49)	2 132
Under construction	435	–	417	(325)	–	(33)	494
	2 581	–	763	268	(689)	(90)	2 833

Notes to the consolidated annual financial statements (continued)

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14. Intangible assets (continued)

The carrying amounts of intangible assets can be reconciled as follows:

Company	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Write-offs Rm	Amortisation Rm	Carrying value at end of year Rm
2015						
Trademarks, copyrights and other	52	10	–	–	(16)	46
Software	2 132	529	349	(68)	(741)	2 201
Under construction	493	393	(335)	(5)	–	546
	2 677	932	14	(73)	(757)	2 793
2014						
Trademarks, copyrights and other	63	24	(23)	–	(12)	52
Software	1 927	278	616	(48)	(641)	2 132
Under construction	435	416	(325)	(33)	–	493
	2 425	718	268	(81)	(653)	2 677

There are no intangible assets whose titles are restricted, or that have been pledged as security for liabilities at 31 March 2015. Intangible assets that are material to the group consist of software, copyrights and trademarks whose average remaining amortisation period is 4.1 years (2014: 3.75 years).

No intangible asset apart from goodwill has been assessed as having an indefinite useful life.

Approximately R245 million (2014: R190 million) and R244 million (2014: R145 million) of additions relate to externally acquired intangible assets for group and company respectively while R688 million (2014: R573 million) relates to internal developments for group and company. Changes to the estimated useful lives on intangible assets were necessary due to the transformation programme and the group policies and procedures, resulting in an increase in the amortisation by a further R96 million (2014: Rnil).

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 an emphasis on internet protocol compliant assets.

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 group assessed internal and external indicators of impairment of the CGU and concluded that the carrying value approximates the recoverable amount. No impairment losses or reversals were recognised in profit and loss during the year.

15. Financial instruments and risk management

Financial risk management objectives and policies

The group's principal financial liabilities, other than derivatives, comprise interest-bearing debt and trade and other payables. The main purpose of these financial liabilities is to raise finance for the group's operations. The group has finance lease receivables, trade and other receivables, cash and cash equivalents and short-term deposits that arise directly from its operations. The group uses derivatives 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 committee 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. The group applied fair value hedge accounting in the current and prior financial year.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

15. Financial instruments and risk management (continued)

The table below sets out the group's classification of financial assets and liabilities.

2015 **Classes of financial instruments per statement of financial position**	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
Assets		2 401	–	1 101	8 894	12 396	12 396
Other investments*	16.2	2 227	–	–	–	2 227	2 227
Trade and other receivables**	20	–	–	–	4 665	4 665	4 665
Other financial assets	21	174	–	1 101	–	1 275	1 275
Forward exchange contracts		70	–	–	–	70	70
Firm commitments		5	–	–	–	5	5
Cross currency swaps		99	–	–	–	99	99
Repurchase agreements		–	–	1 101	–	1 101	1 101
Finance lease receivables	17	–	–	–	613	613	613
Cash and cash equivalents	22	–	–	–	3 616	3 616	3 616
Liabilities		(185)	(10 447)	–	–	(10 632)	(11 088)
Interest-bearing debt	28	–	(4 856)	–	–	(4 856)	(5 312)
Trade and other payables	32	–	(5 571)	–	–	(5 571)	(5 571)
Shareholders for dividend	37	–	(19)	–	–	(19)	(19)
Other financial liabilities	21	(185)	–	–	–	(185)	(185)
Forward exchange contracts		(14)	–	–	–	(14)	(14)
Interest rate swaps		(1)	–	–	–	(1)	(1)
Firm commitments		(170)	–	–	–	(170)	(170)
Credit facilities utilised	22	–	(1)	–	–	(1)	(1)

2014 **Classes of financial instruments per statement of financial position**	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
Assets		3 016	–	–	7 169	10 185	10 185
Other investments*	16.2	2 755	–	–	–	2 755	2 755
Trade and other receivables**	20	–	–	–	5 007	5 007	5 007
Other financial assets	21	261	–	–	–	261	261
Forward exchange contracts		139	–	–	–	139	139
Firm commitments		4	–	–	–	4	4
Cross currency swaps		118	–	–	–	118	118
Finance lease receivables	17	–	–	–	320	320	320
Cash and cash equivalents	22	–	–	–	1 842	1 842	1 842
Liabilities		(98)	(9 237)	–	–	(9 335)	(9 991)
Interest-bearing debt	28	–	(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	21	(98)	–	–	–	(98)	(98)
Forward exchange contracts		(61)	–	–	–	(61)	(61)
Firm commitment		(37)	–	–	–	(37)	(37)
Credit facilities utilised	22	–	(1)	–	–	(1)	(1)

The table below sets out the Company's classification of financial assets and liabilities.

2015 Classes of financial instruments per statement of financial position	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
Assets		2 401	–	1 101	8 813	12 315	12 315
Other investments*	16.2	2 227	–	–	–	2 227	2 227
Trade and other receivables**	20	–	–	–	4 656	4 656	4 656
Other financial assets	21	174	–	1 101	–	1 275	1 275
Forward exchange contracts		70	–	–	–	70	70
Firm commitments		5	–	–	–	5	5
Cross currency swaps		99	–	–	–	99	99
Repurchase agreements		–	–	1 101	–	1 101	1 101
Finance lease receivables	17	–	–	–	613	613	613
Cash and cash equivalents	22	–	–	–	3 544	3 544	3 544
Liabilities		(185)	(11 256)	–	–	(11 441)	(11 246)
Interest-bearing debt	28	–	(4 856)	–	–	(4 856)	(4 661)
Trade and other payables	32	–	(6 380)	–	–	(6 380)	(6 380)
Shareholders for dividend	37	–	(19)	–	–	(19)	(19)
Other financial liabilities	21	(185)	–	–	–	(185)	(185)
Firm commitment		(170)	–	–	–	(170)	(170)
Interest rate swaps		(1)	–	–	–	(1)	(1)
Forward exchange contracts		(14)	–	–	–	(14)	(14)
Credit facilities utilised	22	–	(1)	–	–	(1)	(1)

2014 Classes of financial instruments per statement of financial position	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
Assets		3 016	–	–	6 458	9 474	9 474
Other investments*	16.2	2 755	–	–	–	2 755	2 755
Trade and other receivables**	20	–	–	–	4 391	4 391	4 391
Other financial assets	21	261	–	–	–	261	261
Forward exchange contracts		139	–	–	–	139	139
Firm commitment		4	–	–	–	4	4
Cross currency swaps		118	–	–	–	118	118
Finance lease receivables	17	–	–	–	320	320	320
Cash and cash equivalents	22	–	–	–	1 747	1 747	1 747
Liabilities		(98)	(9 944)	–	–	(10 042)	(10 698)
Interest-bearing debt	28	–	(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	21	(98)	–	–	–	(98)	(98)
Forward exchange contracts		(61)	–	–	–	(61)	(61)
Firm commitment		(37)	–	–	–	(37)	(37)
Credit facilities utilised	22	–	(1)	–	–	(1)	(1)

*Other investments are disclosed net of investments in associates of R4 million (2014: R4 million).
**Trade and other receivables are disclosed net of prepayments of R230 million (2014: R538 million) for the company and R230 million (2014: R558 million) for the group.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

15. Financial instruments and risk management (continued)

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 amounts 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.

15.1 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 debt (at amortised cost) which has a fair value of R5 312 million (2014: R4 752 million) and a carrying amount of R4 856 million (2014: R4 096 million).

The fair value of financial assets and financial liabilities that are traded in active markets is 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 2015	Valuation technique	Significant inputs
Receivables, bank balances, repurchase agreements, other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	R6 631 million	Undiscounted future estimated cash flows due to short-term maturities of these instruments	Probability of default
Derivatives	R(11) million	Discounted cash flows	Yield curves Market interest rate Market foreign exchange rate
Borrowings	R5 312 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 based on observable market data.
Level 3: Significant inputs required to value an instrument are not based on observable market data.

Group	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2015				
Assets measured at fair value				
Cross currency swaps	**99**	**–**	**99**	**–**
Forward exchange contracts	**70**	**–**	**70**	**–**
Firm commitments	**5**	**–**	**5**	**–**
Investment in cell captive preference shares	**2 227**	**2 227**	**–**	**–**
Liabilities measured at fair value				
Forward exchange contracts	**(14)**	**–**	**(14)**	**–**
Firm commitments	**(170)**	**–**	**(170)**	**–**
Interest rate swaps	**(1)**	**–**	**(1)**	**–**
Liabilities measured at amortised cost				
Interest-bearing debt	**(5 312)**	**(3 355)**	**(1 957)**	**–**
2014				
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				
Firm commitments	(37)	–	(37)	–
Forward exchange contracts	(61)	–	(61)	–
Liabilities measured at amortised cost				
Interest-bearing debt	(4 752)	(3 445)	(1 307)	–
Company				
2015				
Assets measured at fair value				
Cross currency swaps	**99**	**–**	**99**	**–**
Forward exchange contracts	**70**	**–**	**70**	**–**
Firm commitments	**5**	**–**	**5**	**–**
Investment in cell captive preference shares	**2 227**	**2 227**	**–**	**–**
Liabilities measured at fair value				
Forward exchange contracts	**(14)**	**–**	**(14)**	**–**
Firm commitments	**(170)**	**–**	**(170)**	**–**
Interest rate swaps	**(1)**	**–**	**(1)**	**–**
Liabilities measured at amortised cost				
Interest-bearing debt	**(5 312)**	**(3 355)**	**(1 957)**	**–**
2014				
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				
Firm commitments	(37)	–	(37)	–
Forward exchange contracts	(61)	–	(61)	–
Liabilities measured at amortised cost				
Interest bearing debt	(4 750)	(3 445)	(1 305)	–

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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

15. Financial instruments and risk management (continued)

15.2 Credit risk management (continued)

The maximum exposure to the group from counterparties in respect of derivative contracts is a net favourable position of R174 million (2014: R261 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 counterparties, 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 counterparty 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 pre-paid 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 20.

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.

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	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Trade receivables (refer to note 20)				
Telkom SA	4 272	3 951	4 272	4 046
Business and residential	1 309	1 291	1 309	1 321
Global, corporate and wholesale	1 860	1 789	1 860	1 832
Government	440	423	440	434
Other customers	663	448	663	459
South Africa	15	742	–	–
Impairment of trade receivables (refer to note 20)	(415)	(412)	(414)	(373)
Subtotal for trade receivables	3 872	4 281	3 858	3 673
Other receivables*	793	726	798	718
Derivatives	174	261	174	261
Repurchase agreements	1 101	–	1 101	–
Investments and loans receivable**	2 227	2 755	2 227	2 755
Finance lease receivables	613	320	613	320
Net cash and cash equivalents	3 615	1 841	3 543	1 746
	12 395	10 184	12 314	9 473

*Other receivables for group are disclosed net of prepayments of R230 million (2014: R558 million) and company of R230 million (2014: R538 million).

**Investments are disclosed net of equity investments of R4 million (2014: R4 million).

	Group – Carrying amount		Company – Carrying amount	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
The ageing of trade receivables at the reporting date was:				
Not past due/current	3 076	3 305	3 061	2 733
Past due but not impaired				
21 to 60 days	497	479	497	476
61 to 90 days	108	99	108	94
91 to 120 days	45	55	45	48
120+ days	561	755	561	696
	4 287	4 693	4 272	4 047
The ageing in the allowance for the impairment of trade receivables at reporting date was:				
Current defaulted trade	15	10	14	10
21 to 60 days	32	27	32	31
61 to 90 days	33	13	33	15
91 to 120 days	23	12	23	13
120+ days	312	350	312	304
	415	412	414	373

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 20.

Included in the allowance for doubtful debts for Telkom company are individually impaired receivables with a balance of R217 million (2014: R201 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 2015 financial year.

The table below summarises the maturity profile of the group's financial liabilities based on undiscounted contractual cash flow at the reporting date.

Group	Note	Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	> 5 years Rm
2015							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	28	4 205	4 965	1 499	117	3 250	99
Credit facilities utilised	22	1	1	1	–	–	–
Trade and other payables	32	5 571	5 740	5 740	–	–	–
Finance lease liabilities	28	651	848	193	213	442	
Shareholders for dividend	37	19	19	19	–	–	–
Derivative financial liabilities							
Interest rate swaps	21	1	1	1	–	–	–
Firm commitment	21	170	170	170	–	–	–
Forward exchange contracts	21	14	14	14	–	–	–
		10 632	11 758	7 637	330	3 692	99

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

15. Financial instruments and risk management (continued)

15.3 Liquidity risk management (continued)

Group	Note	Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	> 5 years Rm
2014							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	28	3 358	4 228	236	1 367	15	2 610
Credit facilities utilised	22	1	1	1	–	–	–
Trade and other payables	32	5 119	5 437	5 437	–	–	–
Finance lease liabilities	28	738	1 029	180	193	656	–
Shareholders for dividend	37	21	21	21	–	–	–
Derivative financial liabilities							
Firm commitment	21	37	37	37	–	–	–
Forward exchange contracts	21	61	61	61	–	–	–
		9 335	10 814	5 973	1 560	671	2 610

The table below summarises the maturity profile of the company's financial liabilities based on undiscounted contractual cash flow at the reporting date.

Company	Note	Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	> 5 years Rm
2015							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	28	**4 205**	**4 965**	**1 499**	**117**	**3 250**	**99**
Credit facilities utilised	22	**1**	**1**	**1**	**–**	**–**	**–**
Trade and other payables	32	**6 380**	**6 549**	**6 549**	**–**	**–**	**–**
Finance lease liabilities	28	**651**	**848**	**193**	**213**	**442**	**–**
Shareholders for dividend	37	**19**	**19**	**19**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	21	**1**	**1**	**1**	**–**	**–**	**–**
Firm commitment	21	**170**	**170**	**170**	**–**	**–**	**–**
Forward exchange contracts	21	**14**	**14**	**14**	**–**	**–**	**–**
		11 441	**12 567**	**8 446**	**330**	**3 692**	**99**
2014							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	28	3 358	4 228	236	1 367	15	2 610
Credit facilities utilised	22	1	1	1	–	–	–
Trade and other payables	32	5 828	6 146	6 146	–	–	–
Finance lease liabilities	28	736	1 027	178	193	656	–
Shareholders for dividend	37	21	21	21	–	–	–
Derivative financial liabilities							
Firm commitment	21	37	37	37	–	–	–
Forward exchange contracts	21	61	61	61	–	–	–
		10 042	11 521	6 680	1 560	671	2 610

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 of the following 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 84% (2014: 98%) 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
2015				
Interest rate swaps outstanding				
Pay fixed and receive floating	**1.5 years**	**500**	**1.5 years**	**500**
2014				
Interest rate swaps outstanding				
Pay fixed and receive floating	2.5 years	500	2.5 years	500

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 foreign 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 implements fair value hedge accounting.

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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

15. Financial instruments and risk management (continued)

15.4 Market risk (continued)

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
2015				
Currency				
USD	**145**	**1 693**	**142**	**1 690**
Euro	**22**	**297**	**22**	**297**
Other	**–**	**15**	**–**	**15**
		2 005		**2 002**
Cross currency swaps				
USD	**19**	**130**	**19**	**130**
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
Sell				
2015				
Currency				
USD	**8**	**94**	**8**	**94**
Other	**–**	**4**	**–**	**4**
		98		**98**
2014				
Currency				
USD	115	1 208	115	1 208
Euro	1	13	1	13
Other	–	3	–	3
		1 224		1 224

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			Company		
	Euro Rm	United States Dollar Rm	Other Rm	Euro Rm	United States Dollar Rm	Other Rm
2015						
Net foreign currency monetary assets/(liabilities)						
Functional currency of company operation						
South African rand	(68)	(345)	(2)	(68)	(345)	(2)
2014						
Net foreign currency monetary assets/(liabilities)						
Functional currency of company operation						
South African rand	(55)	(152)	(3)	(55)	(152)	(3)

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 the South African 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 2015 would decrease/increase by R12 million (2014: decrease/increase by R15 million).

The following table illustrates the sensitivity to a 100 basis points change in the interest rates on profit before taxes, with all other variables held constant:

	Group – Movement		Company – Movement	
Classes of financial instruments per statement of financial position	+1% Profit Rm	– 1% Profit Rm	+1% Profit Rm	– 1% Profit Rm
2015				
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	6	(6)	6	(6)
Interest rate swaps	6	(6)	6	(6)
	12	(12)	12	(12)
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)

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

15. Financial instruments and risk management (continued)

15.4 Market risk (continued)

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 and company's profit for the year ended 31 March 2015 would increase/decrease by R38 million (2014: increase/decrease by R47 million).

The following table illustrates the sensitivity to a 10% change in the exchange rates before taxes, with all other variables held constant:

	Group – Movement		**Company** – Movement	
Classes of financial instruments per statement of financial position	**+ 10% movement (Depreciation) Rm**	**– 10% movement (Appreciation) Rm**	**+ 10% movement (Depreciation) Rm**	**– 10% movement (Appreciation) Rm**
2015				
Assets				
Other financial assets	**216**	**(216)**	**216**	**(216)**
Forward exchange contract	**193**	**(193)**	**193**	**(193)**
Cross currency swaps	**23**	**(23)**	**23**	**(23)**
Liabilities				
Other financial liabilities	**(142)**	**142**	**(142)**	**142**
Firm commitment	**(142)**	**142**	**(142)**	**142**
Interest-bearing debt	**(36)**	**36**	**(36)**	**36**
	38	**(38)**	**38**	**(38)**
2014				
Assets				
Other financial assets	207	(207)	207	(207)
Forward exchange contract	172	(172)	172	(172)
Cross currency swaps	35	(35)	35	(35)
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)

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 R2 986 million (2014: R3 648 million). A 5% increase in the local and foreign equity portfolios at the reporting date would have increased profit or loss by R80 million (2014: R118 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.

15.6 Capital management

The group's policy is to manage the capital structure to ensure that it maximises shareholders' return, growth and ability to meet its 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	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Non-current portion of interest-bearing debt	3 244	3 775	3 244	3 775
Current portion of interest-bearing debt	1 612	321	1 612	319
Credit facilities utilised	1	1	1	1
Current portion of other financial liabilities	185	98	185	98
Less: Cash and cash equivalents	(3 616)	(1 842)	(3 544)	(1 747)
Less: Other financial assets	(1 275)	(261)	(1 275)	(261)
Net debt	151	2 092	223	2 185
EBITDA	8 387	9 967	8 435	9 966
Net debt to EBITDA ratio	0.02	0.21	0.03	0.22

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

16. Investments

	Company 2015 Rm	Company 2014 Rm
16.1 Investments in subsidiaries	**35**	202
Trudon (formerly known as TDS Directory Operations) Proprietary Limited		
64.90 % shareholding at cost	–	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)
Held-for-sale		
Trudon (formerly known as TDS Directory Operations) Proprietary Limited**		
64.90 % shareholding at cost	167	–
Cost	167	–

*In the process of deregistration.
**Refer to note 10.

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 2015 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.

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 cash-generating unit to exceed its recoverable amount in the short term.

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
16.2 Other investments	2 231	2 759	2 227	2 755
At fair value through profit and loss	2 227	2 755	2 227	2 755
Cell captive preference shares	2 227	2 755	2 227	2 755
Available-for-sale				
Unlisted investment				
Rascom				
0.69% interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast, at cost.	–	–	–	–
Cost	–	–	–	1
Impairment	–	–	–	(1)
Investment in associate	4	4	–	–
Equity investment in Number Portability Company	4	4	–	–

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. The group withdrew R750 million from the cell captive in the current financial year. The withdrawal was used to partially subsidise the settlement of the post-retirement medical aid obligation of the post 1994 pensioners. Refer to note 31.

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, 31 December, is different to that of the group and the impact is not material.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

17. 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 - 5 years Rm	> 5 years Rm
2015				
Minimum lease payments receivable				
Lease payments receivable	660	223	437	–
Unearned finance income	(47)	(23)	(24)	–
Present value of minimum lease income	613	200	413	–
Lease receivables	613	200	413	–
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	–
Company				
2015				
Minimum lease payments receivable				
Lease payments receivable	660	223	437	–
Unearned finance income	(47)	(23)	(24)	–
Present value of minimum lease income	613	200	413	–
Lease receivables	613	200	413	–
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	–

18. Deferred taxation

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
	236	(3)	250	–
Opening balance	(3)	23	–	–
Profit and loss movements*	112	131	111	157
Capital allowances	23	16	22	17
Provisions and other allowances	96	143	96	137
Underprovision prior year	(7)	(23)	(7)	3
Tax losses	–	(5)	–	–
Reclassification of Trudon as held for sale	(12)	–	–	–
Other comprehensive income tax impact (refer note 11)	139	(157)	139	(157)
The balance comprises:	236	(3)	250	–
Capital allowances	17	2	35	20
Provisions and other allowances	237	152	233	137
OCI	(18)	(157)	(18)	(157)
Deferred taxation balance is made up as follows:	236	(3)	250	–
Deferred taxation assets	250	13	250	–
Deferred taxation liabilities	(14)	(16)	–	–

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 341 million (2014: R1 880 million) in respect of temporary differences amounting to R4 792 million (2014: R6 714 million) that can be carried forward against future taxable income.

*Profit and loss movements for 2014 in note 9 were restated for the impact on the reclassification of the Trudon group as a discontinued operation.

19. Inventories

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
	552	646	531	539
Gross inventories	644	757	623	650
Write-down of inventories to net realisable value	(92)	(111)	(92)	(111)
Inventories consist of the following categories:	552	646	531	539
Installation material, maintenance material and network equipment	291	274	291	274
Merchandise	261	372	240	265
Write-down of inventories to net realisable value	92	111	92	111
Opening balance	111	307	111	304
Charged to selling, general and administrative expenses	119	63	119	63
Reversal of write-down due to the disposal of iWayAfrica Group	–	(3)	–	–
Inventories written off	(138)	(256)	(138)	(256)

The reduction in inventories for company is largely attributable to the lower mobile device stock.

An estimated amount of R193 million (2014: R153 million) included in inventories will be used for Telkom's network expansion in the 2016 financial year of which R137 million was purchased in the current financial year.

The decrease in write-down of inventories is mainly due to utilisation of the write-off.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

20. Trade and other receivables

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
	4 895	5 565	**4 887**	4 929
Trade receivables	**3 872**	4 281	**3 858**	3 673
Gross trade receivables	**4 287**	4 693	**4 272**	4 046
Impairment of receivables	**(415)**	(412)	**(414)**	(373)
Prepayments and other receivables	**1 023**	1 284	**1 029**	1 256
Allowance account for credit losses	**415**	412	**414**	373
Opening balance	**412**	548	**373**	408
Charged to selling, general and administrative expenses	**443**	350	**400**	319
Reversal of allowance due to the reclassification of the Trudon group as held for sale	**(81)**	–	**–**	–
Reversal of allowance due to the disposal of the iWayAfrica group	**–**	(91)	**–**	–
Receivables written off	**(359)**	(395)	**(359)**	(354)

The payment 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.

21. Other financial assets and liabilities

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Non-current other financial assets consist of:	**28**	74	**28**	74
Total other financial assets	**1 275**	261	**1 275**	261
> Repurchase agreements	**1 101**	–	**1 101**	–
> Derivative instruments	**174**	261	**174**	261
Forward exchange contracts	**70**	139	**70**	139
Firm commitments	**5**	4	**5**	4
Cross currency swaps	**99**	118	**99**	118
Less: Current portion of other financial assets	**1 247**	187	**1 247**	187
> Repurchase agreements	**1 101**	–	**1 101**	–
> Derivative instruments	**146**	187	**146**	187
Forward exchange contracts	**70**	139	**70**	139
Firm commitments	**5**	4	**5**	4
Cross currency swaps	**71**	44	**71**	44

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.

21. Other financial assets and liabilities (continued)

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Non-current other financial liabilities consist of:				
At fair value through profit or loss	–	–	–	–
Total other financial liabilities	(185)	(98)	(185)	(98)
> Derivative instruments	(185)	(98)	(185)	(98)
Forward exchange contracts	(14)	(61)	(14)	(61)
Firm commitments	(170)	(37)	(170)	(37)
Interest rate swaps	(1)	–	(1)	–
Less: Current portion of other financial liabilities	(185)	(98)	(185)	(98)
> Derivative instruments	(185)	(98)	(185)	(98)
Forward exchange contracts	(14)	(61)	(14)	(61)
Firm commitments	(170)	(37)	(170)	(37)
Interest rate swaps	(1)	–	(1)	–

Hedging activities and derivatives

Derivatives not designated as hedging instruments

The group only uses forward exchange contracts to economically and fair value hedge its transaction exposures. Derivative instruments are measured at fair value through profit or loss.

Fair value hedge

The foreign exchange forward contracts designated as fair value hedges 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 R172 million (2014: R90 million) has been recognised in finance charges and fair value movements and offset with a similar loss on the hedged items (property, plant and equipment and inventory). The ineffectiveness recognised in the current financial year was immaterial.

22. Net cash and cash equivalents

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Cash disclosed as current assets	3 616	1 842	3 544	1 747
Cash and bank balances	135	193	120	153
Short-term deposits	3 481	1 649	3 424	1 594
Credit facilities utilised	(1)	(1)	(1)	(1)
Net cash and cash equivalents	3 615	1 841	3 543	1 746
Undrawn borrowing facilities	6 450	5 950	6 450	5 950

The increase in cash and cash equivalents is mainly due to the inflow of a loan of R1 billion (refer to note 28). The balance includes R2 663 million ring-fenced for the acquisition of Business Connexion (BCX) subject to regulatory approval.

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 2015, R4 billion (2014: R4 billion) of these undrawn facilities were committed. There is no restriction on cash.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

22. Net cash and cash equivalents (continued)

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.

23. Share capital

	Group		Company	
	2015 Rm	2014 Rm	**2015 Rm**	2014 Rm
Authorised and issued share capital is made up as follows:				
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 (2014: 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:				
	Number of shares		**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.

24. Treasury shares

	Group		Company	
	2015 Rm	2014 Rm	**2015 Rm**	2014 Rm
	–	(771)	**–**	(775)

In the current financial year treasury shares were reclassified into non-distributable reserves to more appropriately reflect its nature. Refer to note 26 for the shares held by subsidiaries and in escrow.

25. Share-based compensation reserve

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Telkom's shareholders approved the Telkom Employee 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. Refer to note 31.				
The fund has been created but the related compensation expense will be recognised over the vesting period of shares granted.				
The movement within the share-based compensation reserve is:				
Balance at beginning of year	**11**	–	**11**	–
Net increase in equity	**115**	11	**115**	11
Employee cost	**115**	11	**115**	11
Balance at end of year	**126**	11	**126**	11

26. Non-distributable reserves

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
	1 507	2 580	**786**	1 859
Opening balance	**2 580**	2 164	**1 859**	1 569
Movement during the year	**(1 073)**	416	**(1 073)**	290
Foreign currency translation reserve	**–**	4	**–**	–
Recycling of foreign currency translation reserve in profit and loss	**–**	122	**–**	–
Transfer of treasury shares	**(775)**	–	**(775)**	–
Realised gains of the cell captive reserve	**(519)**	(53)	**(519)**	(53)
Revaluation of the cell captive reserve	**221**	343	**221**	343
The balance comprises:	**1 507**	2 580	**786**	1 859
Cell captive reserve	**2 282**	2 580	**1 561**	1 859
Shares held by subsidiaries and in escrow	**(775)**	–	**(775)**	–

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. The fair value gains are transferred to the non-distributable reserves until the date that the investment and the corresponding fair value gains are realised. On this date the fair value gains are transferred back to retained earnings.

The reserve also represents amounts paid by Telkom to subsidiaries, Rossal No 65 Proprietary Limited and Acajou Investments Proprietary Limited, for the acquisition of Telkom's shares to be utilised in terms of the Telkom Employee Share Plan.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

26. Non-distributable reserves (continued)

Fair value of ordinary shares in Telkom are held as follows:

26. Non-distributable reserves	2015 Number of shares	2015 Rm	2014 Number of shares	2014 Rm
Escrow	6 558 915	519	–	–
Rossal No 65 Proprietary Limited	2 046 528	162	2 046 528	69
Acajou Investments Proprietary Limited	1 584 641	126	8 143 556	274
Total	10 190 084	807	10 190 084	343

All shares will be allocated to employees as part of the new employee share plan.

27. Non-controlling interest	Group 2015 Rm	Group 2014 Rm
	363	377
Balance at beginning of year	377	379
Share of earnings	105	121
Dividend declared	(119)	(123)

The non-controlling interest relates to the minority shareholders of Trudon.

28. Interest-bearing debt	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Non-current interest-bearing debt	3 244	3 775	3 244	3 775
Total interest-bearing debt (refer to note 15)	4 856	4 096	4 856	4 094
Gross interest-bearing debt	4 966	4 228	4 966	4 228
Discount on debt instruments issued	(761)	(870)	(761)	(870)
Finance leases	651	738	651	736
Less: Current portion of interest-bearing debt	(1 612)	(321)	(1 612)	(319)
Local debt	(1 260)	–	(1 260)	–
Bond	(1 160)	–	(1 160)	–
Other loans	(100)	–	(100)	–
Foreign debt	(239)	(236)	(239)	(236)
Finance leases	(113)	(85)	(113)	(83)

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Total interest-bearing debt is made up as follows:	4 856	4 096	4 856	4 094
(a) Local debt	3 865	2 815	3 865	2 815
Locally registered Telkom debt instruments	3 865	2 815	3 865	2 815
Name, maturity, rate p.a., nominal value				
TL15, 2015, 11.9 %, R1 160 million (2014: R1 160 million)	1 160	1 160	1 160	1 160
TL20, 2020, 15 %, R2 500 million (2014: R2 500 million)	1 755	1 655	1 755	1 655
Term loan, 2019, 8.375 %, R950 million (2014: Rnil)	950	–	950	–
Total group interest-bearing debt is made up of R4 856 million debt at amortised cost (2014: R4 096 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.				
Other loans consist of a five year loan, repayable biannually and with a balloon payment of R550 million.				
(b) Foreign debt	340	543	340	543
Maturity, rate p.a., nominal value				
Euro: 2022 – 2025 0.14 % (2014: 0.14 %), €7.6 million (2014: €7.6 million)	100	111	100	111
USD: 2011 – 2016 2.2031 % (2014: 2.1318 %), USD21 million (2014: USD43 million)	240	432	240	432
(c) Finance leases	651	738	651	736
The finance leases are secured by buildings with a carrying value of R58 million (2014: R73 million) (refer to note 13). These amounts are repayable within a period of 4 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	100	111	100	111

The company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act 85 of 1991. The borrowing powers of the company are set out as per note 22.

Repayments/refinancing of current portion of interest-bearing debt
The repayment of the current portion of interest-bearing debt of R1 612 million (2014: R321 million) (nominal) for group and R1 612 million (2014: R319 million) (nominal) for company as at 31 March 2015 is expected to be repaid from available cash balances, available operational cash flow and/or the issue of new debt instruments.

Management believes that sufficient funding facilities will be available at the dates of repayment.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

29. Provisions

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Non-current employee-related	437	1 388	437	1 373
Annual leave	527	533	524	527
Balance at beginning of year	533	510	527	501
Charged to employee expenses	28	78	28	78
Transfer of provision due to the disposal of the iWayAfrica group	–	(3)	–	–
Transfer of provision due to the Trudon group classified as held for sale	(3)	–	–	–
Leave paid/utilised	(31)	(52)	(31)	(52)
Post-retirement medical aid (refer to note 31)	–	1 374	–	1 353
Balance at beginning of year	1 374	5 328	1 353	5 305
Transfer of provision due to the Trudon group classified as held for sale	(21)	–	–	–
Interest cost	276	468	276	468
Current service cost	4	62	4	62
Interest on plan asset	(236)	(197)	(236)	(197)
Actuarial loss/(gain)	423	(1 026)	423	(1 026)
Curtailment gain	–	(2 403)	–	(2 403)
Transfer from sinking fund to annuity policy	–	(85)	–	(85)
Settlement (gain)/loss	(221)	234	(221)	234
Contributions paid*	(2 023)	(1 007)	(2 023)	(1 005)
Transfer to employee benefits assets (refer to note 31)	424	–	424	–
Telephone rebates (refer to note 31)	471	375	471	375
Balance at beginning of year	375	422	375	422
Interest cost	33	31	33	31
Current service cost	3	4	3	4
Curtailment loss	–	(1)	–	(1)
Actuarial loss/(gain)	88	(56)	88	(56)
Benefits paid	(28)	(25)	(28)	(25)
Bonus	986	703	977	692
Balance at beginning of year	703	787	692	772
Transfer of provision due to the Trudon group classified as held for sale	(3)	–	–	–
Charged to employee expenses	969	754	961	747
Payments made	(683)	(838)	(676)	(827)
Termination packages and other benefits	320	–	320	–
Less: Current portion of employee-related provisions	(1 867)	(1 597)	(1 855)	(1 574)
Annual leave	(526)	(533)	(524)	(527)
Post-retirement medical aid	–	(329)	–	(323)
Telephone rebates	(34)	(32)	(34)	(32)
Bonus	(987)	(703)	(977)	(692)
Termination packages and other benefits	(320)	–	(320)	–
Non-current non-employee-related	39	108	39	95
Other	341	839	341	826
Less: Current portion of other provisions	(302)	(731)	(302)	(731)
Other	(302)	(731)	(302)	(731)

*Includes an amount of R1 950 million (2014: R878 million) paid in terms of the settlement of the post-retirement medical aid liability.

Annual leave

In terms of Telkom's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 days (2014: 22 days) which must be taken within an 18-month (2014: 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.

Non-employee-related provisions

The decrease in non-employee-related provisions is due to the reclassification at 30 September 2014 of an amount of R304 million to trade and other receivables to more accurately reflect the substance of a transaction with a third party. The partial settlement of the fine imposed by the Competition Commission has also contributed to the decrease in the non-employee-related provision.

Other provisions contain provisions for certain legal matters that have been disclosed in the contingencies note (refer to note 39).

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
30. Deferred revenue	**2 189**	2 300	**2 186**	2 297
Non-current deferred revenue	**687**	869	**687**	869
Current portion of deferred revenue	**1 502**	1 431	**1 499**	1 428

Included in deferred revenue is profit on the sale and leaseback of certain Telkom buildings of R42 million (2014: R53 million) and short term portion of R11 million (2014: 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.

Refer to note 4 for the change in estimate in respect of the voice customer relationship period.

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
31. Employee benefits	**452**	35	**452**	35
Telkom Pension Fund asset	**28**	35	**28**	35
Post-retirement medical aid recognition of net plan asset	**424**	–	**424**	–

The group provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership of 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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

31. Employee benefits (continued)

Telkom Pension Fund

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act 85 of 1991. The Telkom Pension Fund consists only of active members.

The latest actuarial valuation performed at 31 March 2015 indicates that the pension fund is in a surplus position of R180 million (2014: R180 million). The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS19 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	
The Telkom Pension Fund	2015 Rm	2014 Rm	2015 Rm	2014 Rm
The net periodic pension costs include the following components:				
Interest cost on projected benefit obligations	18	20	18	20
Curtailment gain	–	(1)	–	(1)
Service cost on projected benefit obligations	4	6	4	6
Interest on plan assets	(20)	(24)	(20)	(24)
Net periodic pension gain recognised in profit and loss	2	1	2	1
The net periodic other comprehensive income includes the following components:				
Actuarial gain from financial assumption changes	–	(82)	–	(82)
Asset ceiling in terms of IAS 19.64	(6)	96	(6)	96
Net periodic pension expense recognised in other comprehensive income	(6)	14	(6)	14
Cumulative actuarial gain	84	84	84	84
Pension fund contributions	(1)	(2)	(1)	(2)
The status of the pension plan obligation is as follows:				
At beginning of year	194	262	194	262
Interest cost	18	20	18	20
Current service cost	4	6	4	6
Employee contributions	1	2	1	2
Benefits paid	(103)	(34)	(103)	(34)
Curtailment gain	–	(18)	–	(18)
Actuarial loss/(gain)	26	(44)	26	(44)
Benefit obligation at end of year	140	194	140	194
Plan assets at fair value:				
At beginning of year	374	362	374	362
Interest on plan assets	20	24	20	24
Benefits paid	(103)	(34)	(103)	(34)
Contributions	1	1	1	1
Curtailment loss	–	(17)	–	(17)
Actuarial gain	28	38	28	38
Plan assets at end of year	320	374	320	374
Present value of funded obligation	140	194	140	194
Fair value of plan assets	(320)	(374)	(320)	(374)
Fund surplus	(180)	(180)	(180)	(180)
Asset ceiling in terms of IAS 19.64	152	145	152	145
Recognised net asset	(28)	(35)	(28)	(35)
Interest on plan assets	20	24	20	24
Actuarial gain on plan assets	28	38	28	38
Actual return on plan assets	48	62	48	62

Plan assets balance comprises:	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Cash and cash equivalents	26	67	26	67
Equity securities	154	238	154	238
Property	5	–	5	–
Bonds	42	35	42	35
Foreign investments	93	34	93	34
Total	320	374	320	374
Sensitivity analysis				
Increasing discount rate by 0.5 %	(5)	(7)	(5)	(7)
Decreasing discount rate by 0.5 %	5	6	5	6

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, i.e. 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:	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
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	16.3	16.3	16.3
Females over 65	20.5	20.4	20.5	20.4
Discount rate (%)	7.3	9.2	7.3	9.2
Interest on plan assets (%)	7.3	9.2	7.3	9.2
Salary inflation rate (%)	6.4	7.7	6.4	7.7
Pension increase allowance (%)	4.9	6.2	4.9	6.2
The overall long-term expected interest on assets is 7.3 %. This is based on the new IAS19R 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	51	71	51	71
The fund portfolio consists of the following percentages:				
Equities (%)	48	64	48	64
Bonds (%)	13	9	13	9
Cash (%)	8	18	8	18
Foreign investments (%)	29	9	29	9
Property (%)	2	–	2	–
Total	100	100	100	100

The total estimated contributions to be paid to the pension fund by the employer for the year ending 31 March 2016 is R2.3 million.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

31. Employee benefits (continued)

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 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.

The funded status of the Telkom Retirement Fund is disclosed below:

	Group		Company	
The Telkom Retirement Fund	**2015 Rm**	2014 Rm	**2015 Rm**	2014 Rm
The net periodic retirement costs include the following components:				
Interest cost on projected benefit obligations	972	855	972	855
Interest on plan assets	(972)	(855)	(972)	(855)
Net periodic pension expense recognised in profit and loss	–	–	–	–
The net periodic other comprehensive income includes the following components:				
Actuarial (loss)/gain due to financial assumptions	(312)	1 128	(312)	1 128
Acturial loss due to demographic assumptions	(122)	(14)	(122)	(14)
Asset ceiling in terms of IAS 19.64	455	(1 011)	455	(1 011)
Net periodic pension expense recognised in other comprehensive income	21	103	21	103
Cumulative actuarial loss	(1 100)	(666)	(1 100)	(666)
Retirement fund contributions	617	601	617	601
Benefit obligation:				
At beginning of year	10 951	10 704	10 951	10 704
Interest cost	972	855	972	855
Benefits paid	(902)	(799)	(902)	(799)
Liability for new pensioners	476	168	476	168
Past service cost	21	–	21	–
Curtailment loss	–	772	–	772
Actuarial loss/(gain)	1 369	(749)	1 369	(749)
Benefit obligation at end of year for defined benefit plan	12 887	10 951	12 887	10 951

	Group		Company	
The Telkom Retirement Fund	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Plan assets at fair value:				
At beginning of year	11 962	10 704	11 962	10 704
Interest on plan assets	972	855	972	855
Benefits paid	(902)	(799)	(902)	(799)
Asset backing new pensioners' liabilities	476	168	476	168
Curtailment gain	–	669	–	669
Actuarial gain	935	365	935	365
Plan assets at end of year	13 443	11 962	13 443	11 962
Present value of funded obligation	12 887	10 951	12 887	10 951
Asset ceiling in terms of IAS 19.64	556	1 011	556	1 011
Fair value of plan assets	13 443	11 962	13 443	11 962
Unrecognised net asset	–	–	–	–
Interest on plan assets	972	855	972	855
Actuarial gain on plan assets	935	365	935	365
Actual return on plan assets	1 907	1 220	1 907	1 220
Plan asset balance comprises:				
Equities	3 092	6 579	3 092	6 579
Property	1 075	–	1 075	–
Bonds	5 377	–	5 377	–
Africa	807	–	807	–
Cash	269	–	269	–
Foreign investments	2 823	5 383	2 823	5 383
Total	13 443	11 962	13 443	11 962

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 70% and 100% of CPI.

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Included in the fair value of plan assets is:				
Office buildings occupied by Telkom	1 024	953	1 024	953
Telkom shares	17	10	17	10
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	16.3	16.3	16.3
Females over 65	20.5	20.4	20.5	20.4
Discount rate (%)	7.3	9.2	7.3	9.2
Interest on plan assets (%)	7.3	9.2	7.3	9.2
Pension increase allowance (%)	4.9	6.2	4.9	6.2
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.				

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

31. Employee benefits (continued)

The Telkom Retirement Fund (continued)

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Funding level per statutory actuarial valuation (%)	100	100	100	100
The number of pensioners registered under the Telkom Retirement Fund	12 366	12 744	12 366	12 744
The number of in-service employees registered under the Telkom Retirement Fund	18 282	19 127	18 282	19 127
The fund portfolio consists of the following percentages:				
Equities (%)	23	55	23	55
Property (%)	8	–	8	–
Bonds (%)	40	45	40	45
Africa (%)	6	–	6	–
Cash (%)	2	–	2	–
Foreign investments (%)	21	–	21	–
Total	100	100	100	100

The total estimated contributions to be paid to the Telkom Retirement Fund by the employer for the year ending 31 March 2016 is R621 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 29. 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 2013; and the in-service members. The pensioners retiring post 2013 and the in-service members' liability are subject to a rand cap, which increases as per board approval. During the current financial year the group settled its obligation with the post-1994 pensioners.

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 2015.

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. The group is entitled to a refund of the full surplus in the annuity policy once all the beneficiaries have been paid. As such the group has recognised the full asset.

	Group		Company	
Medical aid	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Benefit obligation:				
At beginning of year	4 102	7 821	4 081	7 798
Interest cost	276	468	276	468
Service cost	4	62	4	62
Actuarial loss/(gain)	478	(863)	478	(863)
Transfer of Trudon as held for sale	(21)	–	–	–
Curtailment gain	–	(2 403)	–	(2 403)
Settlement (gain)/loss*	(221)	234	(221)	234
Benefits paid from plan assets	(204)	(210)	(204)	(210)
Contributions paid by Telkom*	(2 023)	(1 007)	(2 023)	(1 005)
Benefit obligation at end of year	2 391	4 102	2 391	4 081

*Refer to note 29.

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Plan assets at fair value:				
At beginning of year	2 728	2 493	2 728	2 493
Interest on plan assets	236	197	236	197
Benefits paid from plan assets	(204)	(210)	(204)	(210)
Contributions in respect of plan assets	–	85	–	85
Actuarial gain	55	163	55	163
Plan assets at end of year	2 815	2 728	2 815	2 728
Present value of funded obligation	2 391	4 102	2 391	4 081
Fair value of plan assets	(2 815)	(2 728)	(2 815)	(2 728)
(Asset)/liability as disclosed in the statement of financial position (refer to note 29)	(424)	1 374	(424)	1 353
The net periodic other comprehensive income includes the following components:				
Acturial (loss)/gain due to financial assumptions	(259)	246	(259)	246
Actuarial (loss)/gain due to demographic assumptions	(164)	780	(164)	780
Net periodic pension expense and income recognised in other comprehensive income	(423)	1 026	(423)	1 026
Cumulative actuarial loss	(1 923)	(1 500)	(1 923)	(1 500)
Plan assets at fair value:				
Interest on plan assets	236	197	236	197
Actuarial gain on plan assets	55	163	55	163
Actual return on plan assets	291	360	291	360
Plan asset balance comprises:				
Cash and cash equivalents	310	246	310	246
Equity securities	1 154	1 336	1 154	1 336
Bonds	535	382	535	382
Foreign investments	816	764	816	764
Total	2 815	2 728	2 815	2 728

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 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.

	Group		Company	
Principal actuarial assumptions were as follows:	2015 Rm	2014 Rm	2015 Rm	2014 Rm
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	16.3	16.3	16.3
Females over 65	20.5	20.4	20.5	20.4
Discount rate (%)	7.3	9.2	7.3	9.2
Interest on plan assets (%)	7.3	9.2	7.3	9.2
Salary inflation rate (%)	4.9	7.7	4.9	7.7
Medical inflation rate (%)	6.9	8.2	6.9	8.2
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	1 697	1 830	1 697	1 830
Number of pensioners	4 281	8 640	4 281	8 640

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

31. Employee benefits (continued)

Medical benefits (continued)

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 below:

2015	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	6.9%	(1.0%)	1%
Benefit obligation	2 391	(144)	164
Percentage change		(6.0%)	6.9%
Service cost and interest cost FY2016	280	(10)	12
Percentage change		(3.6%)	4.3%
Discount rate	7.3%	(0.5%)	0.5%
Benefit obligation	2 391	110	(101)
Percentage change		4.6%	(4.2%)
Service cost and interest cost FY2016	280	10	(11)
Percentage change		3.6%	(3.9%)
Post-retirement mortality rate	PA(90)Ultimate-1	(10%)	10%
Benefit obligation	2 391	(106)	109
Percentage change		(4.4%)	4.6%
Service cost and interest cost FY2016	280	(8)	8
Percentage change		(2.9%)	2.9%
2014			
Medical cost inflation rate	8.2%	(1.0%)	+1%
Benefit obligation	4 081	(347)	411
Percentage change		(8.5%)	10.1%
Service cost and interest cost FY2015	530	(32)	38
Percentage change		(6.0%)	7.2%
Discount rate	9.2%	(0.5%)	0.5%
Benefit obligation	4 081	457	(380)
Percentage change		11.2%	(9.3%)
Service cost and interest cost FY2015	530	(1)	1
Percentage change		0%	0%
Post-retirement mortality rate	PA(90) Ultimate-1	(10.0%)	+10%
Benefit obligation	4,081	(157)	154
Percentage change		(3.8%)	3.8%
Service cost and interest cost FY2015	530	(14)	14
Percentage change		(2.6%)	2.6%

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
The fund portfolio consists of the following percentages:				
Equities (%)	41	49	41	49
Bonds (%)	19	14	19	14
Cash and money market investments (%)	11	9	11	9
Foreign investments (%)	29	28	29	28
Total	100	100	100	100

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 2015. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The status of the telephone rebate liability is disclosed below:	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Benefit obligation:				
At beginning of year	375	422	375	422
Current service cost	3	4	3	4
Interest cost	33	31	33	31
Actuarial loss/(gain)	88	(56)	88	(56)
Curtailment loss	–	(1)	–	(1)
Benefits paid	(28)	(25)	(28)	(25)
Liability as disclosed in the statement of financial position (refer to note 29)	471	375	471	375
The net periodic other comprehensive income includes the following components:				
Acturial gain due to demographic assumptions	5	6	5	6
Actuarial (loss)/gain due to financial assumptions	(93)	50	(93)	50
Net periodic pension income recognised in other comprehensive income	(88)	56	(88)	56
Cumulative actuarial gain	43	131	43	131
Sensitivity analysis				
Increase in discount rate by 0.5 %	(24)	(16)	(24)	(16)
Decrease in discount rate by 0.5 %	26	18	26	18
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	16.3	16.3	16.3
Females over 65	20.5	20.4	20.5	20.4
Discount rate (%)	7.3	9.2	7.3	9.2
Contractual retirement age	65	65	65	65
Average retirement age	60	60	60	60
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	11 494	12 498	11 494	12 498
Number of pensioners	10 928	10 746	10 928	10 746

Telkom employee share plan

Telkom's shareholders approved the Telkom Forfeitable Share Plan (FSP) and the Additional Share Award (ASA) at the September 2013 Annual General Meeting. Two grants have occurred under this plan at 31 March 2015.

The FSP is made up of Long Term Incentive Scheme (LTIP) and the Employee Share Ownership Plan (ESOP). In the FSP employees acquire shareholder rights immediately on the forfeitable shares (these include dividends and voting rights).

The ASA scheme is awarded to eligible participating members. This scheme is only applicable for the first grant of shares. If all conditions are met, the shares on this scheme will vest in the 2017 financial year.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

31. Employee benefits (continued)

Telkom employee share plan (continued)

The grant and vesting timelines for the LTIP are as follows:

Vesting financial year	Grant financial year		
	2014	2015	2016
2017 Financial Year	50 %	–	–
2018 Financial Year	30 %	50%	–
2019 Financial Year	20 %	30%	50 %
2020 Financial Year	–	20%	30 %
2021 Financial Year	–	–	20 %

The grant and vesting timelines for the ESOP are as follows:

Vesting financial year	Grant financial year		
	2014	2015	2016
2017 Financial Year	100 %	–	–
2018 Financial Year	–	100%	–
2019 Financial Year	–	–	100 %

In order for the vesting to occur the targets (including performance conditions) must be met. The targets are measured in each financial year after the grant date. In calculating the expense it is assumed that the probability of meeting the conditions is 100 %.

The weighted average remaining vesting period for the shares outstanding as at 31 March 2015 is 2.8 years (2014: 2.8 years).

	Group		Company	
	2015	2014	2015	2014
The following table illustrates the movement of the maximum number of shares that were granted to employees for the 2014 and 2015 grant:				
Beginning of the year	7 101 388	–	7 101 388	–
Forfeited shares during the year	(1 036 691)	–	(1 036 691)	–
Granted during the year	4 872 132	7 101 388	4 872 132	7 101 388
Outstanding at end of the year	10 936 829	7 101 388	10 936 829	7 101 388
The fair value of the shares granted has been calculated by an actuary using the Black-Scholes-Merton model and the following values at grant date:	Grant 2	Grant 1	Grant 2	Grant 1
Market share price (R)	76.11	27.30	76.11	27.30
Dividend yield (%)	–	–	–	–
Share price volatility	35% p.a	35 % p.a	35% p.a	35 % p.a
Future risk free interest rate	6.7% p.a	8.5 % p.a	6.7% 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	3	3.3	3
Meeting specified performance criteria (%)	100	100	100	100

The key performance indicators for the first grant are free cash flow targets and net promoter score targets. The second grant key indicators are headline earnings per share, free cash flow, return on equity, total shareholder return, customer loyalty measure and assurance and fulfillment measures.

32. Trade and other payables

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
	5 571	5 119	6 380	5 828
Trade payables	2 795	2 632	2 928	2 680
Finance cost accrued	108	74	108	74
Accruals and other payables	2 668	2 413	3 344	3 074

The increase is mainly due to orders placed for Telkom campaigns that occurred in the current financial year. Included in the current year balance is the prior financial year refund from SARS 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 receipt of the invoice. This averages to 45 days.

33. Reconciliation of profit for the year to cash generated from operations

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Cash generated from operations	6 642	6 312	6 271	5 811
Profit for the year	3 256	3 943	3 203	3 870
Finance charges and fair value movements	471	292	471	292
Taxation	(168)	494	(190)	320
Investment income	(283)	(176)	(506)	(387)
Interest received from trade receivables and subsidiaries	(187)	(160)	(187)	(191)
Non-cash items	4 261	1 429	4 327	1 360
Depreciation, amortisation, impairment and write-offs	5 478	5 937	5 457	5 872
Debtors impairment	444	340	400	310
Cost of equipment disposed when recognising finance leases	8	16	8	16
Telkom retirement fund curtailment	–	103	–	103
Post-retirement medical aid settlement (gain)/loss	(221)	234	(221)	234
Post-retirement medical aid curtailment gain	–	(2 403)	–	(2 403)
Decrease in provisions	(957)	(2 712)	(960)	(2 696)
Profit on disposal of property, plant and equipment and intangible assets	(246)	(66)	(246)	(66)
Cell captive transfer*	–	350	–	344
Reclassification of Trudon as held for sale	(134)	–	–	–
Loss on disposal of subsidiary	–	23	–	–
Deferred revenue	(111)	(393)	(111)	(354)
(Decrease)/increase in working capital	(708)	490	(847)	547
Inventories	146	114	145	82
Accounts receivable	(500)	111	(778)	(6)
Accounts payable	(354)	265	(214)	471

*Transfer from sinking fund to annuity.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
34. Dividend received	–	–	226	230
Dividend received from subsidiaries	–	–	226	230

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
35. Finance charges paid	(491)	(585)	(491)	(584)
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	(471)	(293)	(471)	(292)
Non-cash items	(20)	(292)	(20)	(292)
Movements in interest accruals	86	135	86	135
Net discount amortised	98	92	98	92
Borrowing costs capitalised (refer to note 8)	(93)	(89)	(93)	(89)
Capitalised finance leases	86	124	86	124
Hedging costs	9	(305)	9	(305)
Fair value adjustment	(261)	(363)	(261)	(363)
Cash effects of foreign exchange rates	(3)	(1)	(3)	(1)
Unrealised foreign exchange loss	58	115	58	115

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
36. Taxation paid	(274)	(449)	(251)	(302)
Net tax payable at beginning of year	(774)	(485)	(782)	(494)
Current taxation	(281)	(625)	(258)	(477)
Transfer of Trudon as held for sale	(7)	–	–	–
Uncertain tax provisions	445	(113)	445	(113)
Net tax payable at end of year	343	774	344	782

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
37. Dividend paid	(121)	(124)	(2)	(1)
Dividend payable at beginning of year	(21)	(22)	(21)	(22)
Dividends paid to non-controlling interests	(119)	(123)	–	–
Dividend payable at end of year	19	21	19	21

38. Commitments

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Capital commitments authorised	5 500	5 055	5 500	5 000
Commitments against authorised capital expenditure	1 057	1 132	1 057	1 132
Authorised capital expenditure not yet contracted	4 443	3 923	4 443	3 868

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				
2015				
Land and buildings	1 844	506	1 237	101
Rental receivable on buildings	(1 179)	(373)	(772)	(34)
Customer premises equipment receivables	(46)	(30)	(16)	–
Vehicles	1 951	423	563	965
Total	2 570	526	1 012	1 032
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
Company				
Operating lease commitments and receivables				
2015				
Land and buildings	1 822	502	1 219	101
Rental receivable on buildings	(1 179)	(373)	(772)	(34)
Customer premises equipment receivables	(46)	(30)	(16)	–
Vehicles	1 951	423	563	965
Total	2 548	522	994	1 032
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

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

38. Commitments (continued)

Operating leases

The group leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises range from three to ten 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, for 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
Group finance lease commitments				
2015				
Building				
Minimum lease payments	**824**	**187**	**637**	**–**
Finance charges	**(192)**	**(79)**	**(113)**	**–**
Finance lease obligation	**632**	**108**	**524**	**–**
Software				
Minimum lease payments	**24**	**6**	**18**	**–**
Finance charges	**(5)**	**(2)**	**(3)**	**–**
Finance lease obligation	**19**	**4**	**15**	**–**
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	–
Company finance lease commitments				
2015				
Building				
Minimum lease payments	**824**	**187**	**637**	**–**
Finance charges	**(192)**	**(79)**	**(113)**	**–**
Finance lease obligation	**632**	**108**	**524**	**–**
Software				
Minimum lease payments	**24**	**6**	**18**	**–**
Finance charges	**(5)**	**(2)**	**(3)**	**–**
Finance lease obligation	**19**	**4**	**15**	**–**
2014				
Building				
Minimum lease payments	995	170	825	–
Finance charges	(284)	(91)	(193)	–
Finance lease obligation	711	79	632	–

	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
Company finance lease commitments				
2014				
Software				
Minimum lease payments	33	8	25	–
Finance charges	(8)	(3)	(5)	–
Finance lease obligation	25	5	20	–

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 four years and nine months ending on December 2019.

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%. 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.

The exit strategy pertaining to the corporate offices within the Pretoria CBD, which is subject to a lease that expires in 2019, is being assessed.

Telkom has the option to renew the lease and the first option to purchase the buildings.

Telkom has a commitment to migrate customers to new cable systems 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

Matters before ICASA

Phutuma Networks (Pty) Ltd (Phutuma)

Phutuma filed a complaint against Telkom at ICASA's Complaints and Compliance Committee (the CCC) in February 2010. On 16 February 2015, after the matter having been heard by the CCC, Telkom received the CCC's final ruling dated 27 November 2014. The CCC ruled that the complaint had been withdrawn and that as a result thereof, it is not able to make any recommendations to the ICASA council. Telkom thus regards the matter as finalised on that basis.

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. The CCC heard the matter and has ruled that Telkom is not in breach of the Regulations and recommended that ICASA review the regulations. Telkom has initiated administrative review proceedings seeking to set aside the applicability of the Regulations since the CCC ruling is not binding on ICASA. The review has not been finalised as yet.

High Court

Telkom/ICASA, Neotel and CCC

Neotel requested Telkom to provide access to Telkom's local loop in November 2010. Telkom declined the request and Neotel submitted a formal complaint to the CCC which made an 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 a review application in the High Court to review and set aside the CCC order. The parties have since agreed to a court order 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.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

39. Contingencies (continued)

Radio Surveillance Security Services (Pty) Ltd (RSSS)

RSSS sued Telkom for R215 million (including VAT). Telkom is defending the claim and has filed a plea and counterclaim for R22 million. An application will be made for special court to be allocated due to duration of the proposed trial. The parties are exploring a possible settlement

Phutuma Networks (Pty) Ltd (Phutuma)

In August 2009, Phutuma issued a summons against Telkom, arising from a tender published by Telkom in November 2007, claiming damages in the amount of R5.5 billion. The High Court granted absolution from the instance, in Telkom's favour. The Supreme Court of Appeal (SCA) had intially dismissed Phutuma's application for leave to appeal in October 2014. In November 2014, the SCA rescinded its previous order and in February 2015, the SCA granted Phutuma leave to appeal.

African Pre-paid Services Nigeria Limited (APSN) v Multi-Links (MLT): Arbitration matter

In December 2014, APSN withdrew its claim, in arbitration proceedings, against MLT (a previous subsidiary of Telkom, in Nigeria), and MLT also withdrew its counterclaim against APSN, as part of a settlement agreement concluded between Telkom and MLT on the one hand and Blue Label and others on the other hand, in respect of an action instituted by both Telkom and MLT against Blue Label, African Pre-paid Services, APSN and three others. The settlement was on a walk away basis.

Other

HIP Oils Topco Ltd (HIP Oils)

With the sale of Telkom's shares in MLT to HIP Oils, Telkom provided a taxation indemnity and a creditors indemnity to HIP Oils and MLT where such liability was incurred prior to 3 October 2011 and to the extent that such liability exceeded the amounts set out in the creditors list to the Sale and Purchase Agreement. Telkom also undertook to indemnify HIP Oils of any contingent liabilities and obligations owed or owing to creditors of MLT where such liability or obligation was incurred and not disclosed to HIP Oils prior to October 2011. In December 2014, Telkom and HIP Oils concluded a settlement agreement in terms of which both parties waived and abandoned all their claims against each other and released and indemnified each other from all past and future liabilities.

Section 197: Labour Relations Act

Telkom has also been engaging with organised labour in relation to the outsourcing of various business operations in an effort to unlock operating and cost efficiencies in line with the company's multi-year turnaround strategy. This necessitated invoking a process in terms of section 197 of the Labour Relations Act, in a bid to outsource certain services as going concerns. Section 197 (7) states that Telkom and the new employers are jointly and severally liable to any employee who becomes entitled to receive a payment as a result of the employee's dismissal for a reason relating to the new employer's operational requirements or liquidation or sequestration. Telkom will be held liable for a period of 12 months after the date of transfer, which may result in an onerous obligation.

Onerous lease obligation

In its bid to create a single corporate office at its owned Centurion campus, Telkom is in the process of terminating the head office lease of buildings in the CBD with the Telkom Retirement Fund. The optimal exit strategy is being considered and may result in an onerous cost if the settlement value is more than the present value of the lease obligation.

Tax matter

Following Telkom's objection, the assessment received from SARS in respect of the 2010 year of assessment has been resolved as at 31 March 2015.

Contingent assets

Tax matter

As noted in the 2014 consolidated annual financial statements, the tax treatment of the loss that arose in 2012 and 2014 financial years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. A tax refund received during the prior financial year, relating to the 2012 sale, is contingent and will only be recognised once the matter has been resolved with SARS. Refer to note 32.

40. Directors' interest and prescribed officers

Group and company Number of shares	Notes	Beneficial Direct	Beneficial Indirect	Non-beneficial Direct	Non-beneficial Indirect
Directors' shareholding					
2015					
Executive					
SN Maseko		52 520	–	–	–
DJ Fredericks	1	4 967	267	–	–
		57 487	267	–	–
Non-executive					
JA Mabuza		26 000	–	–	–
F Petersen-Lurie		–	–	–	400
I Kgaboesele		12 000	–	–	–
K Mzondeki		267	–	–	–
		38 267	–	–	400
2014					
Executive					
SN Maseko		52 520	–	–	–
JH Schindehütte	2	298 700	–	–	–
		351 220	–	–	–
Non-executive					
JA Mabuza		26 000			
F Petersen-Lurie		–		–	400
I Kgaboesele		12 000			
K Mzondeki		267	–	–	–
Dr CA Fynn		160	–	–	42
		38 427	–	–	442

1. Appointed as Telkom group chief financial officer on 12 September 2014.
2. Retired as Telkom group chief financial officer on 8 August 2014.

	2015 Rm	2014 Rm
Directors' emoluments	48	27
Executive		
For services as directors	39	18
Non-executive		
For other services	9	9

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

40. Directors' interest and prescribed officers (continued)

Group and company	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits* R	Total R
2015					
Emoluments per director:					
Non-executive	4 275 150	4 467 646	–	–	8 742 796
N Kapila	352 500	465 555	–	–	818 055
I Kgaboesele*	680 190	336 375	–	–	1 016 565
G Dempster**	16 500	112 331			128 831
T Dingaan**	78 300	112 331	–	–	190 631
R Tomlinson**	78 300	112 331	–	–	190 631
N Ntshingila**	46 500	112 331	–	–	158 831
JA Mabuza	365 320	1 148 850	–	–	1 514 170
KW Mzondeki	366 900	336 375	–	–	703 275
LW Maasdorp***	105 000	135 417	–	–	240 417
SL Botha	381 500	336 375	–	–	717 875
Dr CA Fynn****	323 000	250 250	–	–	573 250
KT Kweyama	411 500	336 375	–	–	747 875
F Petersen-Lurie	502 740	336 375	–	–	839 115
LL von Zeuner	566 900	336 375	–	–	903 275
Executive	–	17 852 730	8 481 173	13 416 103	39 750 006
S Maseko (CEO)	–	7 020 000	5 273 213	11 994	12 305 207
DJ Fredericks (CFO)#	–	4 286 048	3 207 960	1 180 261	8 674 269
JH Schindehütte (CFO)##	–	6 546 682	–	12 223 848	18 770 530
Total emoluments – paid by Telkom	4 275 150	22 320 376	8 481 173	13 416 103	48 492 802
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-Lurie	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
S 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

*Paid to Sphere Holdings (Pty) Limited.
**Appointed 3 December 2014.
***Retired on 27 August 2014.
****Resigned 3 December 2014.
#Appointed 12 September 2014.
##Last day of duty 8 August 2014.

Refer to remuneration report for appointments and resignations. Included in fringe and other benefits is motor car insurance for SN Maseko of R11 994 (2014: R11 972), DJ Fredericks, motor car insurance of R6 497 and JH Schindehütte, motor car insurance of R4 996 (2014: R11 972) and other benefits of R12 218 852. S Maseko received an allocation of nil shares (2014: 218 488 shares) amounting to an IFRS 2 expense of nil (2014: R327 732). DJ Fredericks received an allocation of nil shares amounting to an IFRS 2 expense of nil.
No forfeitable shares were awarded in current financial year, in accordance with the rules of the Telkom Forfeitable Share Plan.
This is due to a prolonged closed period.

Group and company	Notes	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension TRF13%*** R
2015						
Emoluments per prescribed officer:						
MA Altman	1	687 500	413 465	–	1 100 965	71 500
BC Armstrong		4 770 000	2 882 894	11 994	7 664 888	434 070
TE Msubo		3 176 430	1 942 050	11 994	5 130 474	247 762
GJ Rasethaba		2 737 966	1 703 769	11 994	4 453 729	206 443
AN Samuels		3 207 943	2 315 362	11 994	5 535 299	291 923
V Scarcella		3 300 000	1 923 131	6 998	5 230 129	257 400
LM de Villiers		3 146 840	1 917 539	11 994	5 076 373	427 970
IM Russell		3 974 500	2 467 530	11 994	6 454 024	310 011
IC Coetzee		2 343 254	1 068 139	11 994	3 423 387	176 681
Total emoluments – granted by Telkom		27 344 433	16 633 879	90 956	44 069 268	2 423 760
2014						
Emoluments per prescribed officer:						
BC Armstrong		4 500 000	2 500 000	10 974	7 010 974	409 500
DJ Fredericks	2	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	3	3 504 048	2 005 724	11 972	5 521 744	296 092
AN Samuels	4	509 197	291 468	1 995	802 660	46 336
V Scarcella	5	550 000	150 000	3 300 000	4 000 000	42 900
LM de Villiers	6	1 272 993	574 215	4 988	1 852 196	162 943
IM Russell	7	662 417	150 000	6 001 995	6 814 412	51 669
Total emoluments – granted by Telkom		19 819 324	11 290 562	10 826 735	41 936 621	1 785 280

*Paid to Sphere Holdings (Pty) Limited.
**Appointed 3 December 2014.
***Retired on 27 August 2014.
****Resigned 3 December 2014.
#Appointed 12 September 2014.
##Last day of duty 8 August 2014.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

40. Directors' interest and prescribed officers (continued)

2015

No forfeitable shares were awarded in current financial year, in accordance with the rules of the Telkom Forfeitable Share Plan. This is due to a prolonged closed period.

2014 Share allocation per prescribed officer:	Number of shares	IFRS 2 expense
BC Armstrong	24 958	37 437
DJ Fredericks	102 134	153 201
TE Msubo	94 432	141 648
GJ Rasethaba	–	–
AN Samuels	–	–
V Scarcella	27 179	40 769
LM de Villiers	96 277	144 416
IM Russell	32 734	49 101
Total emoluments - paid by Telkom	377 714	566 572

The group has identified Exco 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 Appointed to Executive Committee 1 February 2015.
2 Appointed as Telkom Group Chief Financial Officer on 12 September 2014.
3 Resigned 31 March 2014.
4 Appointed to Executive committee 13 February 2014.
5 Appointed to Executive committee 1 February 2014.
6 Appointed to Executive committee 1 November 2013.
7 Appointed to Executive committee 1 February 2014.

41. Related parties

Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows:

With shareholders:	Group		Company	
Government of South Africa*	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Related party balances				
Finance lease receivable	366	51	366	51
Trade receivables	462	456	462	456
Provision for doubtful debt	(16)	–	(16)	–
Related party transactions				
Revenue	(3 747)	(3 334)	(3 747)	(3 334)
Individually significant revenue**	(1 771)	(1 322)	(1 771)	(1 322)
City of Cape Town	(41)	(45)	(41)	(45)
Department of Correctional Services	(82)	(90)	(82)	(90)
Department of Health: Gauteng	(389)	(51)	(389)	(51)
Department of Justice	(109)	(114)	(109)	(114)
South African National Defence Force	(69)	(72)	(69)	(72)
South African Police Services	(628)	(597)	(628)	(597)
South African Revenue Services	(34)	(38)	(34)	(38)
S.I.T.A. (Pty) Ltd	(205)	(206)	(205)	(206)
South African Post Office	(55)	(52)	(55)	(52)
Ekurhuleni Metropolitan Council***	(52)	–	(52)	–
KZN Ethekwini Municipality***	(46)	–	(46)	–
Department of Internal Affairs	(61)	(57)	(61)	(57)
Collectively significant revenue**	(1 976)	(2 012)	(1 976)	(2 012)

*Comparatives were restated. This was to incorporate finance lease transactions.
**The nature of the individually and collectively significant revenue consists mostly of data revenue.
***Individually significant from the current year.

At 31 March 2015, the Government of South Africa held 39.8 % (2014: 39.8 %) of Telkom's shares, and has the ability to exercise significant influence, and the Public Investment Corporation held 12 % (2014: 13.5 %) of Telkom's shares.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

41. Related parties (continued)

	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
With associate:				
Number Portability Company				
Dividend received			–	2
With subsidiaries:				
Trudon Proprietary Limited				
Related party balances				
Trade receivables			4	2
Trade payables			(319)	(300)
Related party transactions				
Revenue			(70)	(69)
Expenses			11	11
Dividend received			(221)	(227)
Swiftnet Proprietary Limited				
Related party balances				
Trade payables			(3)	(2)
Related party transactions				
Revenue			(4)	(5)
Expenses			58	43
Dividend received			6	–
Rossal No 65 Proprietary Limited				
Related party balances				
Accruals and other payables			(285)	(285)
Acajou Investments Proprietary Limited				
Related party balances				
Accruals and other payables			(154)	(163)
Intekom Proprietary Limited				
Related party balances				
Accruals and other payables			(96)	(82)
Related party transactions				
Expenses			19	17
Q-Trunk Proprietary Limited				
Related party balances				
Loan to subsidiary			1	4
Impairment of loan			(1)	(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
Telkom Foundation				
Related party balances				
Sundry provision			(6)	(1)
Assets			4	4
Related party transactions				
Expenses			42	40

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 2015, 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	
With entities under common control:	**2015 Rm**	2014 Rm	**2015 Rm**	2014 Rm
Major public entities				
Related party balances				
Trade receivables	**74**	35	**74**	35
Trade payables	**(1)**	(1)	**(1)**	(1)
Related party transactions				
Revenue	**(238)**	(253)	**(238)**	(249)
Expenses	**238**	250	**238**	250
Individually significant expenses	**226**	236	**226**	236
South African Post Office	**77**	89	**77**	89
Eskom	**144**	136	**144**	136
South African Broadcasting Corporation	**5**	11	**5**	11
Collectively significant expenses	**12**	14	**12**	14
Rent received	**(53)**	(49)	**(53)**	(49)
Individually significant rent received: South African Post Office	**(46)**	(43)	**(46)**	(43)
Collectively significant rent received	**(7)**	(6)	**(7)**	(6)
Rent paid	**29**	29	**29**	29
Individually significant rent paid: South African Post Office	**19**	19	**19**	19
Collectively significant rent paid	**10**	10	**10**	10
Key management personnel compensation:				
(Including directors and prescribed officers' emoluments)				
Related party transactions				
Short-term employee benefits	**202**	190	**194**	172
Post-employment benefits	**10**	10	**10**	9
Termination benefits	**5**	2	**5**	2
Equity compensation benefits	**–**	6	**–**	2
Transactions with non-executive directors are disclosed in note 40.				
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.				

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

42. Group interest in subsidiaries and associates

Subsidiaries

Set out below is a list of the significant subsidiaries of the group at 31 March 2015. 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 2015 R	Interest in issued ordinary share capital 2015 %	Ownership interest held by non-controlling interest 2015 %	Issued share capital 2014 R	Interest in issued ordinary share capital 2014 %	Ownership interest held by non-controlling interest 2014 %
Trudon (Pty) Ltd*	RSA	100 000	64.9	35.1	100 000	64.9	35.1
Rossal No 65 (Pty) Ltd	RSA	100	100	–	100	100	–
Acajou Investments (Pty) Ltd	RSA	100	100	–	100	100	–
Intekom (Pty) Ltd	RSA	10 001 000	100	–	10 001 000	100	–
Q-Trunk (Pty) Ltd**	RSA	10 001 000	100	–	10 001 000	100	–
Swiftnet (Pty) Ltd	RSA	5 000 000	100	–	5 000 000	100	–
Number Portability Company	RSA	100	20	–	100	20	–

The total non-controlling interest for the period is R363 million (2014: R377 million), which all relates to Trudon and is not considered material to the group.

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 associate	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/(loss) Rm
2015				
Trudon (Pty) Ltd*	–	–	–	367
Rossal No 65 (Pty) Ltd	–	–	–	–
Acajou Investments (Pty) Ltd	–	–	–	(9)
Intekom (Pty) Ltd	–	12	12	14
Q-Trunk (Pty) Ltd**	–	3	3	3
Swiftnet (Pty) Ltd	89	43	22	18
Number Portability Company	–	–	–	–
Telkom Foundation	–	6	6	6

Interest in operating profits from subsidiaries and associate (continued)

	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/(loss) Rm
2014				
Trudon (Pty) Ltd*	1 112	515	469	345
Rossal No 65 (Pty) Ltd	–	–	–	–
Acajou Investments (Pty) Ltd	–	–	–	–
Intekom (Pty) Ltd	–	11	11	12
Q-Trunk (Pty) Ltd**	–	3	3	3
Swiftnet (Pty) Ltd	89	40	20	15
Number Portability Company	–	–	–	3
Telkom Foundation	–	(9)	(9)	(9)

*The Trudon group is classified as held for sale.
**Q-Trunk is in the process of deregistering.

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 associate to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the group.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

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 L Maasdorp who withdrew his nomination to be re-elected as director with effect from 27 August 2014.

Retirement of director

Telkom announced on 8 August 2014 that Mr Jacques Schindehütte retired from the board with full benefits and the disciplinary proceedings have been discontinued. Telkom settled the retirement benefit with Mr Schindehütte during November 2014.

Appointment of executive director and chief financial officer

Telkom announced on 15 September 2014 that Mr Deon Fredericks had been appointed as an executive director and chief financial officer of Telkom SA SOC Ltd effective from 12 September 2014.

Appointment of non-executive directors

Telkom announced on 1 December 2014 that Ms Thembisa Dingaan, Mr Graham Dempster, Mr Rex Tomlinson and Ms Nunu Ntshingila have been appointed as non-executive directors with effect from 3 December 2014.

Resignation of director

Telkom announced on 3 December 2014 that Dr Clive Fynn had resigned as a non-executive director with immediate effect.

Post-retirement medical aid

During November 2014 Telkom provided the post 1994 pensioners the option to transfer their post-retirement medical aid benefit to an insurer. All except three pensioners exercised their option to transfer their benefit to the insurer. A settlement gain was recognised in the current financial year.

MTN and Telkom Radio Access Network (RAN) assets transaction

On 7 March 2014, Telkom signed a heads of agreement in terms of which MTN South Africa would take over the financial and operational responsibility for the rollout and operation of Telkom's RAN. It is proposed that the parties will conclude reciprocal roaming agreements to enable customers of either party to roam on each other's network.

The proposed transaction is subject to conclusion by the parties of various binding commercial agreements to give effect to the transaction, and various other approvals, including approvals by regulatory authorities as may be required for the implementation of the proposed transaction.

Acquisition of Business Connexion (BCX)

On 22 May 2014, Telkom announced its firm intention to make an offer to acquire the entire issued share capital of BCX in a bid to improve performance and restore profitability.

Shareholders of BCX approved the acquisition by Telkom at an Ordinary Scheme Meeting held on 11 August 2014. On 13 May 2015 the Competition Commission of South Africa approved the acquisition subject to certain conditions. Both parties are awaiting approval from the Competition Tribunal and discussions are being held with the Independent Communications Authority of South Africa.

Restructuring of the organisation – management and specialist layers

In April 2014, as part of the larger Telkom turnaround strategy the company initiated discussions with organised labour, with a focus on an organisational restructuring process that would result in headcount reduction.

The staff affected by this organisational restructuring was limited to the management and specialist layers. Telkom consulted with organised labour on an ongoing basis since 4 May 2014, regarding possible dismissals in terms of S189 of the Labour Relations Act, on all elements of the restructuring process. At the end of September 2014, the section 189 process was concluded in relation to the affected staff.

The intention of the Telkom turnaround strategy is to secure the future commercial sustainability of the business. The sustainable success of the company is largely dependent on both the attraction and retention of qualified, competent and experienced professional staff. The organisational restructuring is not driven so much by headcount reduction targets as it is by business imperatives that will shape the long-term commercial sustainability of the company.

Outsourcing of various business elements

Telkom has also been engaging with organised labour in relation to the outsourcing of various business operations in an effort to unlock operating and cost efficiencies in line with the company's multi-year turnaround strategy. This necessitated invoking a process in terms of section 197 of the Labour Relations Act, in a bid to outsource certain services as going concerns. Telkom's call centre operations, internal printing division as well as the network and operations and retail supply chain sections, were transferred and outsourced on 30 April 2015.

Telkom also offered Voluntary Severance Packages (VSPs) and Voluntary Early Retirement Packages (VERPs) to employees affected by the section 197 process and who opted for severance or early retirement packages. These employees exited Telkom's services on 30 April 2015.

Closure of unviable stores

In a continuous bid to unlock cost efficiencies Telkom conducted a detailed analysis of the viability of the 95 Telkom Direct Stores. Certain stores were unprofitable and deemed unviable, making closure inevitable. Section 189 notices were issued to organised labour in relation to the affected staff in this environment. After exploring every option to place affected employees in other areas of business, unsuccessful employees were retrenched.

Telkom driving ICT innovation and growth

On 7 May 2015 Telkom launched the FutureMakers programme in terms of which it will invest R100 million over 5 years for enterprise and supplier development.

FutureMakers focuses on driving innovation in the ICT sector by growing access to technology and by offering long-term business support, mentorship and funding to small, medium and micro-enterprises.

Head Office move to Centurion Business Park

There are currently two Telkom campuses in Tshwane i.e. the corporate offices within the Pretoria CBD area, which Telkom is leasing from the Telkom Retirement Fund (TRF) and secondly, the Centurion campus.

The financial and business objectives are to create a single Telkom corporate office at Telkom's owned Centurion campus by expanding and revamping this facility and providing a modern open plan environment incorporating energy efficiency and economical use of space. The current Telkom offices in the CBD are outdated and do not represent a look and feel that portrays a modern company and a conducive working environment. In addition, the space allocated to staff is considered to be non-economical as space can be better utilised by having a more open plan concept.

Telkom intends to vacate the CBD premises and settle the outstanding lease and other obligations with the TRF. The benefits to Telkom include; savings pertaining to rental, utility and maintenance expenditure at the Pretoria CBD campus, establishment of a modern campus at Centurion with associated facilities, a conducive working environment with a better look and feel, better utilisation of accommodation and future expansion opportunities.

The exit strategy pertaining to the corporate offices within the Pretoria CBD, which is subject to a lease that expires in 2019, is being assessed.

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

44. Subsequent events

Dividends

The Telkom board declared an ordinary dividend of 215 cents per share and a special dividend of 30 cents per share on 5 June 2015 payable on 20 July 2015 for shareholders registered on 17 July 2015.

Transfer of ordinary shares

On 2 June 2015, Telkom transferred 1 584 641 ordinary shares from Acajou Investment Proprietary Limited to escrow. These shares were allocated to employees as part of the Telkom Employee Share Plan.

Issuing of ordinary shares

On 4 June 2015, Telkom issued 2 185 452 ordinary shares for no consideration. The shares will be allotted and issued in terms of the Telkom Employee Share Plan.

Allocation of shares in terms of the Telkom Employee Share Plan

On 5 June 2015, the board approved the third and final allocation of shares to employees in terms of its Employee Share Plan. The number of shares to vest will depend on the extent to which the performance conditions are met at the end of the applicable performance period.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2015 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.

45. Shareholder analysis

	Number of shareholders	Percentage	Holdings	Percentage
Range of shareholders				
1 – 100 shares	55 154	70.08	1 879 791	0.36
101 – 1 000 shares	21 282	27.04	5 678 060	1.09
1 001 – 10 000 shares	1 726	2.19	4 481 344	0.86
10 001 – 50 000 shares	241	0.31	5 898 880	1.13
50 001 – 100 000 shares	74	0.09	5 273 601	1.01
100 001 – 1 000 000 shares	176	0.22	58 401 899	11.21
1 000 001 and more shares	45	0.06	439 170 323	84.34
	78 698	100.00	520 783 898	100.00

45. Shareholder analysis (continued)

	Number of shareholders	Percentage	Holdings	Percentage
Type of shareholder				
Banks	178	0.23	151 115 022	29.02
Close corporations	42	0.05	53 966	0.01
Endowment funds	125	0.16	160 991	0.03
Individuals	76 218	96.85	12 006 849	2.31
Insurance companies	31	0.04	5 410 379	1.04
Investment companies	40	0.05	9 401 546	1.81
Medical aid schemes	16	0.02	251 699	0.05
Mutual funds	192	0.24	42 736 137	8.21
Nominees and trusts	1 592	2.02	1 145 234	0.22
Other corporations (including the Government of the Republic of South Africa)	62	0.08	207 101 834	39.77
Own holdings	2	0.00	10 190 084	1.96
Retirement funds	115	0.15	76 593 635	14.71
Private companies	82	0.10	4 585 174	0.88
Public companies	3	0.00	31 348	0.01
	78 698	100.00	520 783 898	100.00
Geographical holdings by owner				
South Africa	78 415	99.64	349 499 934	67.11
United States	75	0.10	80 796 096	15.51
United Kingdom	88	0.11	63 512 019	12.20
Europe	62	0.08	22 330 282	4.29
Other	58	0.07	4 645 567	0.89
	78 698	100.00	520 783 898	100.00

	Holdings	Percentage
Beneficial shareholders of more than 2%		
The Government of the Republic of South Africa	207 038 058	39.76
Government Employees Pension Fund	62 529 557	12.01
Old Mutual plc	10 472 495	2.01
	280 040 110	53.78

	Holdings	Percentage
Public and non-public shareholders		
Non-public shareholders	217 351 609	41.74
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*	96 623	0.02
Subsidiaries directors*	17 383	0.00
Public shareholders		
Institutional and retail investors	303 432 289	58.26
	520 783 898	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 as at 27 March 2015.

Acronyms

ADSL	Asymmetrical Digital Subscriber Line
AGM	Annual General Meeting
ALM	Asset liability model
ARPU	Average monthly revenue per customer/average rate per user
ASA	Additional forfeitable share awards
B-BBEE	Broad-based black economic empowerment
BCM	Business continuity management
BCP	Business continuity planning
BCX	Business Connexion
BEPS	Basic earnings per share
BLSA	Business Leadership South Africa
BSS	Business support system
CAGR	Compound annual growth rate
CDN	Core data network
CDP	Carbon Disclosure Project
CEEMEA	Central Eastern Europe Middle East and Africa
CFL	Centre for Learning
CIO	Chief information officer
CLM	Customer loyalty management
CPE	Customer Premises Equipment
CPI	Consumer Price Index
CSA	Corporate Self-Assessment
CWU	Communication Workers' Union
DC	Department: Communications
DCO	Data centre operations
DSL	Digital subscriber line
DTPS	Department: Telecommunications and Postal Services
DTT	Digital terrestrial television
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EME	Exempted micro enterprises
EELN	Energy Efficient Leadership Network
EIA	Environmental impact assessment
EMS	Environmental management systems
ERM	Enterprise risk management
ESD	Enterprise supplier development
ESG	Environmental social governance
ESOP	Employee share ownership plan
Exco	Executive committee
FCF	Free cash flow
FMC	Fixed mobile convergence
FOTAD	Future of the African Daughter
FSP	Forfeitable Share Plan
FTR	Fixed termination rates
FTTB	Fibre to the business
FTTH	Fibre to the home
GARP	Growth at a reasonable price
GCEO	Group chief executive officer
GHG	Greenhouse gas emissions
GP	Guaranteed package
GPS	Global positioning satellite
GRI	Global Reporting Initiative
GSP	Global system for mobile communication
HDSA	Historically disadvantaged South African
HEPS	Headline earnings per share
HVAC	Heating, ventilation and air conditioning
ICASA	Independent Communications Authority
ICT	Information and communications technology
IIA	Institute of Internal Auditing
IMS	Internet Protocol Multimedia Subsystem
IP	Internet Protocol
IPC	IP Connect
IRRC	International Integrated Reporting Council
IRU	Indefeasible right to use
ISDN	Integrated services digital network
ISGF	Information security governance forum
ISP	Internet service provider
IT	Information technology
JSE	Johannesburg Securities Exchange
LAN	Local area network
LDI	Liability driven investment
LLU	Local loop unbundling
LTE	Long-term evolution
LTE-A	LTE-advanced
LTI	Long-term incentive
LTIFR	Lost time injury frequency rate
LTIP	Long-Term Incentive Plan
M&A	Mergers and acquisitions
M2M	Machine to machine
Mbps	Megabytes per second
MCA	Mission critical activities
MCO	Mobile cellular operator
MOI	Memorandum of incorporation
MSAN	Multi service access nodes
MTR	Mobile termination rates
NBI	New Business Initiative
NDP	National Development Plan
NGN	Next generation network
NPAT	Net profit after tax
NPS	Network Protection Services
O&O	Owned and operated
OECD	Organisation for Economic Cooperation and Develpment
OLO	Other licensed operator
OSS	Operations support system
OTT	Over the tops
P2P	Peer-to-peer
PAT	Profit after tax
PCI DSS	Payment card industry data security standard
PIC	Public Investment Corporation
POP	Points of presence
PoPI	Protection of Personal Information (Act)
PPPFA	Preferential Procurement Policy Framework Act
PSTN	Public switched telephone network
QSE	Qualifying small enterprises
RAN	Radio Access Network
REMCO	Remuneration committee
ROA	Return on assets
SAA	Strategic asset allocation
SABC	South African Broadcasting Corporation
SACU	South African Communications Union
SADC	Southern African Development Community
SETA	Sectoral education training authority
SHW	Safety, health and wellbeing
SME	Small and medium sized enterprises
SMME	Small, medium and micro enterprises
SOEs	State owned enterprises
SPPIA	Standards for Professional Practice of Internal Auditing
STI	Short-term incentive
TCAF	Telkom Combined Assurance Forum
TERMC	Telkom executive risk management council
TGIT	Telkom Group Information Technology
TMT	Telecoms multimedia and ICT
TSR	Total shareholder return
USO	Universal service obligations (such as provision of payphones)
VANS	Value added network services
VAS	Value added services
VDSL	Very-high-bit-rate digital subscriber line
VERP	Voluntary early retirement package
VESP	Voluntary employee severance package
VoIP	Voice over Internet Protocol
VPN	Virtual private networks
VSP	Voluntary severance package
WAN	Wide area network
W-CDMA	Wideband code division multiple access

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