Telkom SA SOC Ltd

Application of King IV Principles

"The Group embraces the importance of a well-governed Company as an environment conducive for an ethical culture, effective control, good performance and legitimacy while reducing the likelihood of fraud and breaches of authority."

Telkom

2021

Application of King IV Principles

The Board is committed to continuously enhance corporate governance to improve society's confidence in Telkom, and to drive long-term sustainability through the application and embedding the King IV principles across the Group. For the period under review, Telkom applied the principles of the King IV as disclosed below:

Principle 1

The governing body should lead ethically and effectively.

The Board remains committed to building a Group that maintains the integrity of the business. It also supports management in enhancing the assurance functions to promote an ethical culture to all stakeholders.

To ensure the continuance of setting an ethical tone at the top, the Board enhanced the declaration of interest process for Directors and prescribed officers. This was through reviewing and approving its charter and Committee terms of references to include a materiality threshold for personal interest financial or otherwise. The Board and the Group Exco adopted the annual ethics leadership pledge for the third consecutive year, and the signed annual pledge is published on the Company website. The Group CEO designated the Group Company Secretary as the Group Ethics Officer with effect from 15 March 2021. The Group Ethics Officer will provide guidance on ethics-related activities, and is be responsible for the implementation and execution of the Group ethics handbook (the Handbook). The Group Ethics Officer will be instrumental in creating an "active" ethical culture and to provide guidance as part of the day-to-day business. The Handbook encompasses all ethics-related policies, and it is in the process of being embedded within the Company through a series of online training activities and other initiatives.

Principle 2

The governing body should govern the ethics of Telkom in a way that supports the establishment of an ethical culture.

Telkom has a zero-tolerance policy regarding unethical behaviour, fraud and corruption. The Company has a Handbook that is applicable to the Board and all employees. Employees declare their commitment to the Handbook on an annual basis, and this is captured on the electronic SAP system and monitored by the Group Ethics Officer.

In addition, the Group Ethics Office is responsible for the governance of ethics including monthly inductions for new employees, ethics-related awareness initiatives, guidance to the Board and governance structures on ethical dilemmas that are encountered within the system.

Through the office of the Group Company Secretariat, each Board member completes the annual declaration of interest register and any potential, perceived or actual conflicts of interest are managed through the Social and Ethics Committee Chairperson and the Board Chairperson. The Board is supported by the Social and Ethics Committee in ensuring the establishment and monitoring of the Handbook and the promotion of ethical behaviour.

Management established the Combined Assurance Awareness Forum to further enhance the reporting to the Social and Ethics Committee in relation to embedding an ethical culture and the zero-tolerance approach against fraud and corruption. The Supplier Code of Conduct was also reviewed and aligned to the Handbook to ensure that mechanisms are in place to detect and remedy breaches of ethical standards by suppliers. Compliance to the Supplier Code of Conduct is mandatory for all registered and potential suppliers and bidders.

Principle 3

The governing body should ensure that Telkom is, and is seen to be a responsible corporate citizen.

The Company acts in a socially responsible manner and endeavours to meet its legal, ethical and economic responsibilities. This is conducted through its shared value strategy and the activities of the Telkom Foundation, as well as internal Company initiatives related to the prevention of fraud and corruption, the fair treatment of employees and responsible sponsorships. All these activities are monitored by the Social and Ethics Committee which reports to the Board and shareholders at the Annual General Meeting (AGM). The Company has an approved Responsible Corporate Citizenship Statement and Policy which is focused on optimising the social impact of its initiatives to the business strategy.

The Board adopted certain environmental, social and governance (ESG) frameworks and will implement these in a phased approach. The Board will place reliance on the Social and Ethics Committee to embed a sustainability strategy for the Group that will enhance the use of the natural resources available to the Company, whilst preserving energy and identifying potential investment benefits. Telkom intends developing a sustainability strategy, policy and framework that supports the approved UN Sustainable Development Goals (SDGs). This may increase the credibility of the Group and provide it with a competitive edge. Through the Social and Ethics Committee, Telkom has adopted certain SDGs that it may positively impact, the Carbon Disclosure Project (CDP) and the Global Reporting Standards for Sustainability Reporting (GRI) Standards, and reports against these sustainability frameworks. Telkom adopted the following four (4) SDGs to be reported on, and these are SDG 4: Quality Education; SDG 8; Decent Work and Economic Growth; SDG 9: Industry, Innovation and Infrastructure; and SDG 12: Responsible Consumption and Production. These SDGs will be incorporated into the shared value strategy that is being developed.

Telkom has adopted the Task Force on Climate-related Financial Disclosures (TCFD) which include governance, strategy, risk and targets . The plan is to implement the TCFD activities over the next 2 financial years by embedding the required disclosure requirements. This will ultimately increase shareholder value and promote satisfaction with stakeholders and the investment community.

Principle 4

The governing body should appreciate that Telkom's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

Telkom has a short, medium- and long-term strategy that is formulated and developed by management, led by the Group CEO and supported by the Group Executive Committee.

Business risks, including the impact of COVID-19, were discussed extensively at the annual Board Strategy Review held on 29 and 30 September 2020 respectively. Progress on the implementation was discussed at the Board Strategy Review held on 24 and 25 February 2021 respectively, and the Board is comfortable with management's interventions to address the COVID-19 challenges. Continuous monitoring thereof will be dealt with by the Risk Committee and reported to the Board on a periodical basis. In addition, management conducted a gap analysis of the actual value created versus planned, both in terms of the Board activities and the employment of capital by the Company and indicated considerate satisfaction with its activities.

In response, Telkom developed a capital allocation framework that seeks to provide a balance between maintaining the integrity of our asset base, growing our business, and/or providing shareholders with a reasonable return. A gap analysis is continuously conducted to review the maximum cash generated versus the utilisation of available cash in the most optimal way. To this end, an opportunity was presented to Telkom through the allocation of temporary spectrum, and this enabled the Company to compete with other mobile providers. Capital was allocated accordingly to utilise this opportunity.

Principle 5

The governing body should ensure that reports issued by Telkom enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.

Telkom's integrated report is prepared in line with the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework. The Board approves management's basis for determining materiality and takes accountability for the integrated report. The Audit Committee and the Social and Ethics Committee are closely involved in the process of reviewing and recommending the integrated report to the Board for approval, and this is executed in a joint sitting of both governance structures. Telkom aims to adhere to the disclosure requirements as required by the JSE, Companies Act, King IV and all relevant legislation and codes that Telkom abides by.

To ensure the credibility of information that is released to the public, a JSE Disclosure Policy is in place that defines how information is released to the public, and the responsible persons for the release of such information. There are defined internal processes for validating and approving information or communication to be released to the public regardless of the manner that this information will be released in.

Telkom makes use of assurance providers that provide assurance on financial and certain non-financial information before it is published. External auditors, internal auditors, Audit Committee, IBIS ESG Assurance, BEE online and Executive Directors' attestations form part of our assurance providers.

Principle 6

The governing body should serve as the focal point and custodian of corporate governance in Telkom.

The Board is the focal point and custodian of corporate governance in Telkom. This is demonstrated through the annual review of the Board charter and the its Committees' terms of references (ToRs). The Committees' ToRs and the Board charter were reviewed to align to the amendments set out in the JSE Debt Listings Requirements and the recommended disclosures of the TCFD framework. These changes and recommendations were approved by the Board on 26 March 2021, post consideration by the relevant governance structures. The Board-approved Group governance framework (Framework) is being continually embedded in the Group and all subsidiary Boards to ensure alignment and consistency. The Framework sets out the mandate of the Board and provides for its accountability for Telkom's corporate governance.

The provisions and guidelines set out in the Framework assist business to mitigate against potential governance challenges and possible reoccurrences thereof. The implementation of the Framework has brought new focus on corporate social responsibility and enhancing the responsibility towards the Group's stakeholders.

The Framework's content is subject to the statutory and regulatory environment within which the Group operates, being the JSE Listings Requirements, the Companies Act, Telkom's Memorandum of Incorporation (MOI), the Electronic Communications Act, King IV and all relevant legislation and codes that Telkom is subjected to.

Principle 7

The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The Board, through the Nominations Committee, annually considers its composition in terms of balance of skills, experience, diversity, independence and knowledge. This exercise is to gauge whether the Board is enabled to effectively discharge its role and responsibilities. Directors are appointed through a formal process in accordance with the procedures set out in the Nominations Committee's ToRs. These ToRs specify various elements that should be considered in selecting an incumbent for the Board.

The Board approved a Diversity Policy, which articulates various categories of diversity to be considered in the composition of the Board including gender, race, experience and qualifications. The Nominations Committee reviewed the Board diversity as part of its annual Board and Committee composition activities to ensure that there is adequate spread on all elements thereof. The Board recently appointed Messrs Herman Singh and Alphonzo Samuels. The decision to appoint these Directors addressed the skills gap identified through the annual skills assessment preparation for the Telkom of the Future. There has been a reduction in female representation due to the retirement of Mses Santie Botha and Khanyisile Kweyama, the passing of the late Dolly Mokgatle and the resignation of Ms Tsholo Molefe during the year under review. The Nominations Committee is aware of the reduction in female representation and it will continuously review the status through future appointments.

Principle 8

The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

The new delegation of authority (DOA) was approved by the Board in FY2021, and is being embedded throughout the Group. The subsidiary DOAs were duly aligned with the principles of the Group DOA and have been adopted by the respective subsidiary Boards. The implementation of the DOA has led to an agile business that enables quicker decision-making processes and efficiencies that support the delivery of the strategic objectives. The DOA is aligned to the JSE Listings Requirements, Companies Act and the Company's Memorandum of Incorporation (MOI).

The Board Committees assist in the discharge of its duties and responsibilities. Each Committee's ToRs have been amended to align with the Debt Listings Requirements, as amended, and the management-identified King IV enhancements.

Principle 9

The governing body should ensure that the evaluation of its own performance and that of its Committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The Board, its Committees and individual Directors are evaluated every third year by an independent service provider, and every other year by the Group Company Secretariat function through an independently owned governance assessment instrument. The gaps identified by the independent service provider's evaluation are extensively considered by the Board's governance structures, and included in the internal evaluation process, facilitated and conducted by the Group Company Secretariat. The recommended corrective actions were tabled to all the governance structures for adoption during the June 2020 meetings, and were continually monitored by the respective Committees. The gaps identified were adequately addressed during FY2021.

Principle 10

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.

Telkom has a DOA in place, which outlines the responsibility of the Group CEO and that of the Executive management. The Board delegates the implementation of the strategy to the Group CEO who is supported by the Executive management. Specific Board-reserved matters are stipulated in the DOA and in the Board charter.

The appointment of the Group CEO is considered and approved by the Board. The Board, with the assistance of the Nominations Committee, is responsible for the performance evaluation of the Group CEO through the Board-approved process. Succession planning for top management is done through the Remuneration Committee in conjunction with the Nominations Committee. The Board will continually develop the succession plan for Executive management, and ensure that talent management within the Group is sufficient with a suitable pool of persons for the implementation of the succession plan. For the year under review, the Board convened a succession planning workshop on 26 January 2021, and it is satisfied with its current pool.

Principle 11

The governing body should govern risk in a way that supports Telkom in setting and achieving its strategic objectives.

The enterprise risk management (ERM) framework's risk bearing capacity and risk tolerance levels outline Telkom's approach to risk management. The Group has a fully-fledged Risk Management Department which is managed by the Executive: Enterprise Risk Management and headed by the Group CFO. The Executive: Enterprise Risk Management, together with a risk team, are responsible for the design, implementation, and monitoring of the risk management plan of the Group. The Risk Committee assists the Board in ensuring that Telkom has an effective risk management process in place that identifies and monitors the management of the Group's key risks in an integrated and timely manner.

The Executive: Enterprise Risk Management role is independent and has direct access to the Risk and Audit Chairpersons, respectively, and any other person or governance structure required in order to adequately discharge the ERM duties.

The Risk Committee oversees the governance of risk and climate-related risks and opportunities through the Group's ERM framework and its system of internal controls. The Risk Committee increased its focus on managing technology and information-related activities.

In addition, the Risk Committee has the primary mandate for assisting the Board in carrying out its risk responsibilities and works with other Committees, including the Audit Committee and the Social and Ethics Committee, to ensure that risks are properly managed from all relevant dimensions.

These Committees will be paying heightened attention to technology and information risks and matters in relation to environmental, social and governance (ESG) as recommended by King IV. The ToRs of these Committees were updated to include the additional responsibilities in this regard in FY2021.

Principle 12

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

The Risk Committee is responsible for the governance of technology and information as mandated by the Board. The information security strategy was developed and approved in 2018 and is being embedded into the operations of the Group. An Information Security Policy has subsequently been developed, approved and implemented in compliance to the strategy. IT Governance KPIs have been developed and are currently being presented through various governance structures for alignment and approval. The IT Governance KPIs are based on King IV, COBIT 2019 and ISO/IEC 38500. An Integrated Service Management Framework with a specific focus on the Change Advisory Board has been established in line with the IT Governance Policy, and coordinates all service delivery, changes and impact across business units accordingly.

The Change Advisory Board is a Management Committee within the IT governance structures of Telkom. The future focus areas which also form part of the IT strategic objectives are seamless digital processes, improved user and workforce experience, reliable and trusted service delivery and operational efficiency.

Principle 13

The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports Telkom being ethical and a good corporate citizen.

Compliance with laws and regulations applicable to Telkom's operations is critical as non-compliance may have potential serious consequences. To this end, Telkom has developed a compliance framework and policy. Compliance reviews are included in the annual audit plan. The Group has a dedicated compliance function which is charged with responsibility for ensuring compliance with laws applicable to it.

The Board issues a compliance statement confirming that there were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations reported during the period under review. The status of the compliance risks is provided to the Risk Committee, which reports back to the Board on quarterly basis.

Principle 14

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The Remuneration Committee sets the Group's remuneration policy on behalf of the Board. It oversees remuneration for Executive Directors and senior executives. It further monitors the execution of the Remuneration Policy for the Group, including Non-executive Directors, and makes recommendations to either the Board or shareholders for consideration.

Further, the Remuneration Committee delegated the implementation and execution of the Remuneration Policy to the Group CEO. A benchmarking exercise is performed annually to ensure that the remuneration paid by Telkom is competitive and fair, and that it enables the Company to attract and retain talent.

Principle 15

The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The Risk Committee approved the Combined Assurance Framework on 08 October 2019. The Combined Assurance Framework places reliance on both internal and external assurance providers. Telkom follows a combined assurance model that is informed by the risks and opportunities that affect the Group's ability to create value. We rely on the three lines of defence which enable an effective control environment, thereby supporting the integrity of our information. We have both internal and external assurance providers that provide assurance on the financial and non-financial information.

Principle 16

In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

The Board understands the impact of stakeholder perceptions on the Company's reputation and how this can in turn affect the Company's performance and long-term sustainability. In all its dealings, the Board focuses on acting in the best interests of the Company. As such, balancing the needs and expectations of the various stakeholders is a critical component of the Board's decision-making processes. Telkom will also be adopting the TCFD by embedding the required disclosures in the reporting framework. As indicated above, this will ultimately increase shareholder value and promote satisfaction of stakeholders and the investment community.

Principle 17

The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote the good governance and the creation of value by the companies in which it invests.

Not applicable to Telkom.

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