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."

2022

Telkom

The King IV application register is reflective of the information disclosed in the integrated report and the Group annual financial statements. The Board is committed to continuously enhance and embed corporate governance to improve stakeholder confidence in Telkom and drive long-term sustainability through its Value Unlock Strategy. For the period under review, Telkom applied the principles of King IV as disclosed below:

IV

Quick reference

Principle 1 The governing body should lead ethically and effectively.

The Board remains committed to building a Group that lives 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 annual ethics leadership pledge to include all employees with particular focus on the diversity of gender and age. To further enhance the declaration of interest and disclosure of ethics and governance-related activities, the definition of Group Prescribed Officers was amended to include all Executive Committee Members across the subsidiaries and the business units of the Group. This was through reviewing and approving the revised Group Ethics Handbook ("the Handbook") and the revised Group governance framework.

Through the outcomes of a Group employee and supplier ethics and fraud survey, Management developed a three-year Group ethics and Governance Strategy ("the Strategy") that was approved by the Board. These initiatives are underpinned by employee ethics-related activities, fraud prevention and the ethics management of suppliers.

Further, the Nominations Committee's terms of reference (TOR) and Board Charter was reviewed to include a formal process outlining the "fit and proper test" conducted when new Directors are recruited, in addition to the schedule 13 JSE compliance process. The Group Ethics Officer provides guidance on ethics-related activities and is responsible for the implementation and execution of the Handbook and the Strategy. The Group Ethics Officer is instrumental in creating an "active" ethical culture and provide guidance as part of the day-to-day business through Group communications, training, and awareness initiatives. The Handbook encompasses all ethics-related policies, and it is at a mature stage of being embedded within the Group.

Board
Stakeholders
Group Ethics Officer
Group CEO
Group Company Secretary
Handbook

Principle 2 The governing body should govern the ethics of Telkom in a way that supports the establishment of an ethical culture.

Telkom continues to have a zero-tolerance policy regarding unethical behaviour, fraud, and corruption. Through Telkom Group Forensics, an ISO 37001 gap analysis was completed by an independent service provider to propose enhancements to our current anti-corruption and ethics-based activities and policies. The supplier code of conduct ("the Code") was also reviewed and aligned to the Handbook to ensure that there are mechanisms in place to detect and remedy breaches of ethical standards by suppliers. Compliance with the Code is mandatory for all registered suppliers, and forms part of the onboarding process for new suppliers. Compliance with the Code was recorded at 75% as of 31 March 2022, and there will be increased focus to enhance this ratio in the next financial year.

Directors and employees declare their commitment to the Handbook on an annual basis, and this is captured manually for Directors and employees on the electronic SAP system, which is monitored by the Group Ethics Officer. In addition, the Group Ethics Office is responsible for the governance of ethics through monthly inductions for new employees, ethics-related awareness initiatives, and guidance to the Board and governance structures on ethical dilemmas that are encountered within the system. The revised Group Handbook, Strategy and Code were adopted by the subsidiaries of the Company and approved by their respective boards.

Board
Employee
Group Ethics Officer
Handbook
Group Company Secretary
Social & Ethics Committee
Supplier Code of Conduct

Quick reference

Principle 3 The governing body should ensure that Telkom is and is seen to be a responsible corporate citizen.

The Company has finalised its Environmental, Social and Governance (ESG) Strategy which was duly approved by the Board. The ESG Strategy encompasses the existing Shared Value Strategy which optimises its social impact approach, aligned to the business strategy. This strategy was developed to enhance sustainability, which will translate into ethical and responsible business practices and corporate social activities leading to shared value. The Group Executive Committee will support the effective implementation of the ESG Strategy. The ESG Strategy includes frameworks such as, but not limited to, the approved UN Sustainable Development Goals (SDGs), the Carbon Disclosure Project (CDP) and the Global Reporting Standards for Sustainability Reporting (GRI Standards and reports against these sustainability frameworks) and the Task Force on Climate-related Financial Disclosures (TCFD).

The Company's CSI activities are supported by the Telkom Foundation, as well as internal Company initiatives related to the prevention of fraud and corruption, 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 and to the business strategy.

Board
Employee
Social & Ethics Committee
ESG FRAME-WORK
GRI
SUSTAINABLE DEVELOPMENT GOALS
TCFD
Stakeholder

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 and approved by the Board. This strategy is led by the Group CEO and supported by the Group Executive Committee. The business risks, including the impact of COVID-19, were discussed extensively at the Board strategy review sessions. Continuous monitoring thereof is dealt with by the Risk Committee and reported to the Board. The Company developed a capital allocation framework that seeks to provide a balance between maintaining the integrity of our asset base, growing our business, and providing shareholders with a reasonable return. A gap analysis is continuously conducted in reviewing the maximum cash generated versus the utilisation of cash available in the most optimal way.

Following the suspension of the dividend policy for three years from FY2021, Management has reviewed its capital allocation framework which seeks to maximise returns on capital investments, maintain a healthy balance sheet, and generate strong free cash flow thus growing shareholder value over the long term. The reporting of the above continues to be enhanced in the integrated report, ESG Strategy, business performance reviews, Group Executive Committee and Board strategy sessions.

Group CEO
Group Exco
COVID-19
Board
Risk Committee

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 Integrated Reporting Framework (IIRC). 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. The integrated report for FY2022 was outcomes-based outlining the principles and practices of King IV through the King IV implementation plan; compliance with the desired governance outcomes is monitored and reported to the Group's executive, audit and Nominations Committees and the Board, respectively. Further, the Group's King IV compliance was audited by Telkom Internal Audit during March 2022, and a clean audit report with no findings was accordingly issued.

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 in which this information will be released. The Company sponsor provided training on the JSE Listings Requirements to the new Directors of the Board, the Group Executive Committee, key finance employees, compliance and risk officers and the Group Company Secretariat function.

Telkom makes use of assurance providers that provide assurance on financial and certain non-financial information prior to publication. External auditors, internal auditors, the Audit Committee, IBIS ESG Assurance, BEE online and Executive attestations form part of our assurance providers.

Quick reference

Stakeholders

Social & Ethics Committee

Audit Committee

Board

IV

Companies Act

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 and approval of the Board charter and its committees' terms of references. The committees' TORs and the Board charter were reviewed to align to the ESG Strategy and to ensure clarity on the definition of material financial interests, residual JSE Debt Listings Requirements amendments and the recommended disclosures of the TCFD Framework.

The Board-approved revised Group governance framework (Framework) is being continually embedded in the Group and all subsidiary boards to ensure alignment and consistency. Training and awareness initiatives on various corporate governance elements throughout the Group were implemented and shall continue to be embedded for the upcoming year. The framework sets out the mandate of the Board and provides accountability for Telkom's corporate governance.

Board

Committees

Stakeholders

IV

Companies Act

Quick reference

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. The Board gave special focus to the diversity gaps aligned to its diversity policy through the appointment of two additional black female Directors and one international Director. Diversity inclusion also remains a focus area of the Social and Ethics Committee.

The Board evaluation was conducted by an independent service provider in accordance with the Nominations Committee's TORs. This exercise includes gauging whether the Board is enabled to effectively discharge its role and responsibilities with the appropriate skills, knowledge, independence and experience. 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 of Directors has long-serving members which is an advantage as they have thorough knowledge of the Company's strategic direction, and the evolution thereof. However, three of the Directors serving longer than a nine-year tenure, shall retire at the upcoming annual general meeting. The Board will still be adequately constituted with the required skills and experience to carry out its fiduciary duties.

Board
Nominations Committee

Principle 8

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

The Group 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 operation 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.

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.

Board
DoA
JSE
Companies Act
Committees
IV

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. This year, the Board, its committees, a Director peer review and the Group Company Secretary and the function were evaluated by an independent service provider. The gaps identified by the independent service provider's evaluation were extensively considered by the Board's governance structures, and the outcome of the evaluation was tabled at the respective committees and the Board for consideration.

The recommended corrective actions were tabled to all the governance structures for adoption during the year and will be continually monitored by the respective committees with the support of the Group Company Secretariat function. The gaps identified during FY2021 were adequately addressed and have since been closed out.

Board
Committees
Group Company Secretary

Principle 10

The governing body should ensure that the appointment of, and delegation to, Management contribute to role clarity and the 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, the Board charter and the Executive Committee TORs.

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 conducted through the Remuneration Committee in conjunction with the Nomination 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 considered the succession planning of the Executive Management that led to the appointment of Serame Taukobong as its Group CEO with effect from 1 January 2022. The Board is satisfied that the current Group DoA is still fit for purpose to support its strategy.

Quick reference: Board, DoA, Group CEO, Nominations Committee, Remuneration Committee

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, risk-bearing capacity and risk tolerance levels outline Telkom's approach to risk management. The Group's risk appetite statement was reviewed and approved by the Board during the year under review. The Group continues to have 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 Risk Executives in the business units and subsidiaries are responsible for the design, implementation and monitoring of the risk management plan of the Group. Management has an integrated Risk Management Committee that reports to the Risk Committee which 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 role of the Executive: Enterprise Risk Management is independent and has direct access to the Chairpersons of the Risk Committee and the Audit Committee, and any other person required in order to adequately discharge her duties.

The TORs of the Risk Committee and the Social and Ethics Committee were amended and approved to include overseeing the implementation of the ESG Strategy and any related risks, and to oversee the effectiveness of the ESG-related activities, respectively. 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 ESG-related risks, technology and information risks and matters in relation to environmental, social and governance (ESG) as recommended by King IV.

Quick reference: Board, Risk Committee, ERM, Committees, Social & Ethics Committee, Audit Committee, IV

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 IT Governance Framework is based on King IV and is in line with the JSE Listings Requirements. In addition, ISO 38500 and COBIT 2019 were factored in from an IT control perspective. The objectives of IT governance, in alignment with King IV, are strategic alignment, resource management, risk management, value delivery and performance management. IT has governance structures that further ensure that these objectives are achieved. Flowing from the IT Governance Framework are additional guidelines, processes and standards that support operationalisation of the framework.

In response to the ever-changing threat and technology landscapes, Telkom pursues a risk-based approach to information security. Telkom has improved its security posture and continues to improve the maturity of its security programme. This is done in line with regulatory requirements, best practice guidelines and industry benchmark. The key Information Security artefacts such as policy, strategy and frameworks are reviewed on an ongoing basis considering the evolving attack surface and business strategy.

Quick reference: Board, Risk Committee, IV, COBIT 2019, ISO 38500

Quick reference

Principle 13

The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it 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. The Group has a dedicated Compliance function which resides within Enterprise Risk Management, and placed special focus on the impact and compliance of the Protection of Personal Information Act through Group training and awareness initiatives. Compliance reviews are included in the annual audit plan.

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.

Board

Risk Committee

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 and remuneration implementation plan 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.

Board

Remuneration Committee

Group CEO

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 and Audit Committee respectively considered and approved the Combined Assurance Framework on 8 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.

Risk Committee

Combined Assurance Framework

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 and its Value Unlock Strategy. 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 also adopted the TCFD by embedding the required disclosures in the ESG Strategy and integrated reporting framework. As indicated above, this will ultimately increase shareholder value and promote the satisfaction of the 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.

Quick reference

Board Stakeholders

TCFD