

Telkom SA SOC Ltd

Application of King IV Principles

2023

“Telkom follows a combined assurance approach which integrates our internal audit function, Telkom Group Internal Audit (TGIA), other independent assurers and risk management activities across the Group.”



Telkom

Application of King IV Principles

The Board is committed to continuously enhance and embed corporate governance to improve stakeholder confidence in Telkom to drive long-term sustainability through its value unlock strategy.

This King IV¹ application register reflects the information disclosed in the integrated report, remuneration report and the Group annual financial statements, which are available at [online](#). This register reflects how the King IV principles were applied during the financial year 1 April 2022 to 31 March 2023 (FY2023 or the year).

Principle 1

The governing body should lead ethically and effectively.

The Board remained committed to building a group that lives the integrity of the business. It also supported management in enhancing the assurance functions to promote an ethical culture. 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.

In our continuous efforts to enhance the declaration of interest (DoI) processes in support of an ethical culture, the annual leadership ethics pledge was added to the Values Hub. This went live during International Fraud Awareness Week (13 – 19 November 2022). There has been a significant uptake on this cloud-based pledge by employees, indicative of personal commitment to an ethical environment.

The share dealing policy was revised in FY2023 and approved by the Board. The updates were to provide clarity on the definition of Prescribed Officers for Telkom. The naming convention for Executive Committee Members at the business unit/subsidiary level was changed to Prescribed Executive to ensure minimal ambiguity when considering the provisions of the JSE Listings Requirements.

The Group Ethics Office remains instrumental in creating an active ethical culture and providing guidance as part of the day-to-day business through Group communications, training, and awareness initiatives. The Group Ethics Handbook encompasses all ethics-related policies, and it is at a mature stage of being embedded within the Group.

The Group Ethics Office hosted an awareness day to assist employees on DoI-related matters on 17 November 2022. We achieved 94% compliance for the DoI (FY2022: 80%). We are pleased by this improvement, as it indicates that the implemented interventions are yielding the required results. There will be increased focus on enhancing this ratio through various interventions in FY2024.

Further reading in the [integrated report](#):

- Managing our business with integrity, page 108



Board



Stakeholders



Group CEO



Group Ethics Officer



Handbook



Group Company Secretary

Principle 2

The governing body must 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. An ISO 37002 gap analysis on Whistle-blowing Management Systems Guidelines was completed by an independent service provider through Telkom Group Forensics. The service provider proposed enhancements to our current anti-corruption and ethics-based activities and policies, and these are being considered.

The Supplier Code of Conduct was reviewed and aligned to the Group Ethics Handbook to ensure that there are mechanisms in place to detect and remedy breaches of ethical standards by suppliers. Compliance to the Code of Conduct is mandatory for all registered suppliers, and forms part of the onboarding process for new suppliers. Group compliance to the Code of Conduct was 98.5% as of 31 March 2023 for the Top 200 Suppliers, excluding BCX.*

Directors and employees declare their commitment to the Group Ethics Handbook on an annual basis at the beginning of the financial year, and this is monitored by the Group Ethics Office. 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 various governance structures on ethical dilemmas that are encountered. Refer to principle one for information on the annual leadership ethics pledge.

The most notable activity was the formal designation of Ethics Champions by the various Chief Executive Officers (CEOs). The designation was pursued to boost ethics capacity throughout the Group. These Ethics Champions will be responsible for ethics support on a Group, business unit/subsidiary and employee level.

The Group Ethics Office arranged training by an independent service provider to onboard the Ethics Champions in March 2023 to ensure that the roles and responsibilities are clearly understood, and there is uniformity in executing ethics-related activities within the Group. The training aimed to ensure a clearer understanding of overall ethics, how to make good ethical decisions, and how to effectively deal with ethical challenges and dilemmas which may emerge within the operational environment.

Further reading in the [integrated report](#):

- Managing our business with integrity, page 108

* BCX's processes were recently automated. These will be included as from FY2024.



Board



Employee



Handbook



Social & Ethics Committee



Group Ethics Officer



Group Company Secretary



Supplier Code of Conduct



Principle 3

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

The Board approved the Company's Environmental, Social and Governance (ESG) strategy in FY2022. This strategy was developed to enhance Telkom's sustainability, which will translate into ethical and responsible business practices and corporate social activities, and leading to shared value for the Group. The Group Executive Committee supports the effective implementation of the ESG strategy, and has related KPIs in their performance contracts for FY2024. The implementation status of the ESG strategy is periodically reported to the Social and Ethics Committee.

Telkom held various ESG roadshows with the investment community in July 2022, with the following key themes:

- Gender diversity.
- ESG: Link to remuneration-related KPIs.
- Disclosure and transparency of information.

Telkom is a responsible corporate citizen. The Group's corporate social investment activities are supported by the Telkom Foundation. All these activities are monitored by the Social and Ethics Committee, which reports to the Board, and also to the shareholders at the annual general meeting (AGM).

Telkom has an approved responsible corporate citizenship statement and policy which focuses on optimising its social impact of its initiatives and to the business strategy. The responsible corporate citizenship statement has been aligned to the approved ESG strategy, and approved by the relevant governance structure in FY2023. It is available [online](#).

Further reading in the [integrated report](#):

- Our ESG strategy, page 49
- Social and relationship capital, page 82
- Social and Ethics Committee report, page 110
- Telkom's contribution to the United Nations SDGs, page 125



Board



Employee



Social & Ethics Committee



ESG FRAMEWORK



GRI



SUSTAINABLE DEVELOPMENT GOALS



Stakeholder

Principle 4

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

Telkom has a strategy that is formulated and developed by management and approved by the Board. This implementation of the strategy is led by the Group CEO and supported by the Group Executive Committee.

The Board has extensively considered potential value unlock activities and the detrimental impact of economic downturn on the various aspects of the business. There is continuous monitoring of this strategy through various committees, especially the potential risk elements, which is within the ambit of the Risk Committee.

Management has continued with the practice of continuously conducting a gap analysis in reviewing the maximum cash generated vs the utilisation of cash available in the most optimal way. It is encouraging that the implemented measures are yielding the required benefit.

Furthermore, Telkom has a sustainable financial framework, focusing on disciplined capital allocation in growth areas, sustainable cost management, and defending and growing revenues while ensuring an appropriately geared balance sheet. There is an annual budget review and approval inclusive of the following elements:

- Revenue growth
- Profitability
- Capex investment (internal rate of return, return on invested capital and weighted average cost of capital)
- Cash flow management and funding plans

Following the suspension of the dividend policy for three years from FY2021, the suspension period ended on 31 March 2023. In assessing whether it is appropriate to reinstate a dividend policy, Telkom had to revisit the initial triggers that lead to the suspension of the dividend policy, and these were the following:

- High levels of net debt to EBITDA of 1.4x at the time (FY2019).
- Negative annual FCF.
- Uncertainty relating to Spectrum.

All three factors still remain a concern as at 31 March 2023, and the suspension of the dividend policy remains in force.

Further reading in the [integrated report](#):

- GCFO'S report: FY2023's financial performance, page 20
- Unpacking our PIVOT strategy, page 45



Group CEO



Group Exco



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 Framework. The Board approves management's basis for determining materiality and takes accountability for the integrated report.

Telkom adheres to the disclosure requirements as required by the JSE, Companies Act, King IV and all relevant legislation and codes that it needs to abide by. As it has been in the previous years, the FY2023 integrated report remains outcomes-based, outlining the principles and practices of King IV through the related implementation plan. Compliance to the desired governance outcomes is monitored and reported to the Group Executive, Audit and Nominations Committees and Board respectively. Further, the Group's King IV compliance was audited by Telkom Group Internal Audit during March 2023, and there were no adverse findings.

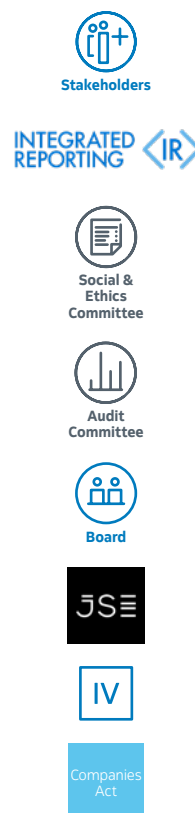
To ensure credibility of information that is released to the public, a JSE Disclosure Policy defines how information is released to the public, and identifies the persons responsible for the release of such information. There are defined internal processes for validating and approving information or communication to be released to the public, regardless of the manner in which this information will be released. The Company's sponsor has continued to provide training on the JSE Listings Requirements to the new Directors, 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 of the integrated report. Our joint external auditors, internal auditors, Audit Committee, certain independent service providers and executive attestations form part of our assurance providers

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. The other Board Members are granted an opportunity to also review the integrated report.

Further reading in the [integrated report](#):

- Report boundary and approval, page 2
- The basis of preparing our report, page 123



Principle 6

The governing body should serve as the focal point and custodian of the 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. These were reviewed to align to the ESG strategy and to ensure alignment with good governance practices.

The Board approved a revised Group governance framework (framework) to enhance certain governance elements. The framework sets out the mandate of the Board and provides for its accountability for Telkom's corporate governance.

Over the years, the Group Secretariat has ensured that the framework is embedded in the Group and all subsidiary Boards to boost alignment and consistency. Training and awareness initiatives on various corporate governance elements throughout the Group were implemented and the intensity thereof shall continue for the upcoming year.

Further reading in the [integrated report](#):

- An effective Group governance framework, page 95
- A delegation of authority, page 95



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, considers its composition in terms of balance of skills, experience, diversity, independence, and knowledge. Diversity and inclusion also remains a focus area of the Social and Ethics Committee.

As is the norm, the Board evaluation was conducted internally in accordance with the Nominations Committee's terms of reference, following an external process for FY2022. This exercise included gauging whether the Board is able 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 terms of reference. It specifies various elements that should be considered in selecting an incumbent for appointment to the Board.

The Board has a combination of long-serving and new Directors. This is advantageous as the longest serving Directors have thorough knowledge of the Group's strategic direction and the evolution thereof, and provide the required institutional memory in the decision-making processes. Despite the resignation of many long serving Directors in FY2023, the Board was recapacitated and is appropriately constituted with the required skills and experience to carry out its fiduciary duties.

Sello Moloko resigned as the Chairperson of the Board with effect from 31 March 2023. Geoffrey Qhena was appointed as an independent Non-executive Director with effect from 27 March 2023, and took over as the Chairperson of the Board with effect from 01 April 2023.

The Board gave special focus to the diversity gaps through the appointment of three black female Directors in FY2023. As at 01 April 2023, female representation at Board level, excluding Executive Directors, was at 36%. Further, the Nominations Committee has recommended that the Board diversity policy be reviewed in FY2024 to indicate a 50% female representation target at Board level over a three-year period.

Board succession planning remains a focus area for the Nominations Committee and the Board. The Board had its annual succession planning workshop in January 2023, with follow-up engagements in February 2023. There are various activities in progress to ensure that the Board has an adequate succession planning model for implementation.

Further reading in the [integrated report](#):

- Diverse and competent leadership, page 96
- Leveraging Board diversity, page 99



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) is continually 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.

A new DoA, aligned with the Group DoA, was developed for Openserve post the approval and finalisation of its carve-out with effect from 1 September 2022. This was adopted by the Openserve Board for implementation.

The Board Committees continue to assist the Board in the discharge of its duties and responsibilities.

Further reading in the [integrated report](#):

- Diverse and competent leadership, page 96
- Leveraging Board diversity, page 99



Board



DoA



Companies Act



Committees



IV

Principle 9

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

As per provisions of the governance instruments, the Board, its Committees and individual Directors are evaluated every third year by an independent service provider, and annually by the Group Company Secretariat function through an independently owned governance assessment instrument.

In FY2023, this evaluation was conducted by the Group Company Secretariat function. The gaps identified through the internal 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. All the Committees will enhance their respective annual committee workplans for FY2024 to address any identified areas of improvement.

Further reading in the [integrated report](#):

- Board and Committee evaluations, page 100



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 effective exercise of authority and responsibilities.

As already indicated under Principle 8, 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 Group Executive Committee terms of reference.

The Board continually monitors the succession plan for executive management as developed by the Group CEO, and ensures that talent management within the Group is sufficient, with a suitable pool for the implementation of the succession plan. As indicated under Principle 7 above, the Board had various succession planning activities in January and February 2023. The Board considered the succession planning of the executive management as presented by the Group CEO and resolved to support his intention for a reconfiguration of the operating model.

The Board is satisfied that the current Group DoA is still fit for purpose to support its strategy.

Further reading in the [integrated report](#):

- Succession and career mobility, page 77
- A delegation of authority, page 95



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 continues to have a fully-fledged risk management department which is managed by the Group Executive: ERM, Forensics and Security and headed by the Group CFO. The Group Executive: ERM, Forensics and Security, 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. The Group Executive: ERM, Forensics and Security's role is independent and has direct access to the Risk and Audit Committee Chairpersons respectively, and any other person required to discharge their duties.

The Group has a five-year ERM strategy aimed at recognising the current realities while leveraging on existing strengths across the Group. ERM supports the Board by executing on this five-year ERM strategy. ERM's effective risk management approach is key to Telkom's sustainability and underpins the Company's long-term relationship with its customers and other stakeholders. ERM actively supports the rollout of Telkom's ESG strategy and plans.

ERM remains focused on its strategic goal to serve as a trusted strategic business partner that seeks to add value and contribute to the improvement of the control environment. This goal was supported by improved operational efficiencies, through strengthening of governance documentation for risk management, business continuity management, compliance and combined assurance, and inclusion of future-oriented processes in risk identification such as scenario planning. In addition, there are various ERM policies which guide executives and senior management to encompass the required risk management principles and responsibilities and to conduct healthy business practices.

In the execution of the ERM strategic plans, a risk intelligent culture across the Group was embedded. The Group-wide risk culture survey underlined a high employee agreement that ERM has a sound risk and compliance culture and is viewed as adding value to the environment through strong collaboration with business.

ERM's robust implementation of the Group's reviewed risk appetite statement and supporting risk tolerance levels ensure alignment with the Group's purpose and goals. ERM identified the Group's strategic, preventable, and external risks and opportunities and continuously ensure that mitigations are in place to address the inherent risks, in order to arrive at the acceptable residual risk levels.

ERM is constantly building on achieving an agile team that can create rapid risk responses to the evolving environment, as well as supporting management in understanding the evolution of telecommunications and associated risks and opportunities.

In addition, the Risk Committee has the primary mandate for assisting the Board in fulfilling its risk responsibilities and works with other Committees, including the Audit, Investment and Transactions and the Social and Ethics Committees respectively, to ensure that risks are properly managed from all relevant dimensions. These Committees will continue with their respective heightened attention to ESG-related risks, potential investment risks, technology and information risks and matters in relation to environmental, social and governance as recommended by King IV.

Further reading in the [integrated report](#):

- Enterprise risk management and compliance, page 37



Board



Risk Committee



ERM



Social & Ethics Committee



Audit Committee



Investment and Transaction Committee

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, 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, are strategic alignment, resource management, risk management, value delivery and performance management. IT has governance structures which 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.

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 benchmarks. The key information security artefacts such as policy, strategy and frameworks are reviewed on an ongoing basis, considering the evolving attack of environment and business strategy.

The information security framework has been revised and implemented to incorporate new security domains in line with the changing threat surface. The information security strategy will be revisited after transition to a refreshed managed security service.

The future focus is to safeguard and secure our defences by looking at anticipated cyberthreats and appropriate security measures, especially as the business unit/subsidiaries continue their respective digital transformation journeys and manage multiple new channels.

Telkom finalised developing and documenting IT governance KPIs, and these are continually being enhanced to align with best governance practices.

Further reading in the [integrated report](#):

- Intellectual capital, page 70



Board



Risk Committee

COBIT²⁰¹⁹

ISO 38500

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 potentially have dire consequences. Telkom has developed a compliance framework and policy. The Group has a dedicated compliance function which resides within enterprise risk management and places 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 internal 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 a quarterly basis.

Further reading in the [integrated report](#):

- Enterprise risk management and compliance, page 37



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.

On behalf of the Board, the Remuneration Committee sets the Group's remuneration policy. 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.

The Board ensures that Telkom develops and implements fair and responsible remuneration policies and practices that promote sound risk management in line with the Group's strategy, values and code of ethics through the Remuneration Committee. 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 Group to attract and retain talent.

The Remuneration Committee regularly reviews the remuneration policies to ensure that the design and management of remuneration motivates high performance and enables sustainable creation of value for all stakeholders. It also ensures transparent disclosure of the Group's remuneration practices, ensuring a reasonable assessment by stakeholders of the way it endeavours to promote fairness and transparency within a robust governance framework.

Refer to Telkom's stand-alone [remuneration report](#).

Further reading in the [integrated report](#):

- Remuneration report summary, page 112



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 and Audit Committees respectively considered and approved the combined assurance framework. 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. Our internal and external assurance providers provide assurance on certain financial and non-financial information.

In Q4 of FY2023, an annual audit was conducted by Telkom Group Internal Audit to review whether the ethics, corporate governance, regulatory compliance, enterprise risk governance and IT governance controls across the Group were adequately and appropriately designed and effectively implemented to mitigate any risks associated with applying the King IV recommended practices. The report indicated that there were no adverse findings from the audit.

Further reading in the [integrated report](#):

- Combined assurance, page 106
- Internal audit, page 107
- The basis of preparing our report, page 123



Risk Committee

Combined Assurance Framework



Audit Committee

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 Group's reputation and how this can, in turn, affect performance, long-term sustainability, and its value unlock strategy. In all its dealings, the Board focuses on acting in the best interests of Telkom. As such, balancing the needs and expectations of the various stakeholders is a critical component of the Board's decision-making processes.

The stakeholder management policy and framework has been reviewed to align with international best practice, and is going through internal consultation processes for alignment purposes. The proposed stakeholder management policy and framework will be tabled through the respective governance structures in FY2024.

Further reading in the [integrated report](#):

- Engaging with our stakeholders, page 30



Board



Stakeholders

TCFD

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.

This principle is not applicable to Telkom.

Telkom
Consumer

open serve

BCX

swiftnet

Gyro