29. PROVISIONS (continued)

Annual leave

In terms of the Telkom's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 days (2012: 22 days) which must be taken within an 18-month (2012: 19-month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

The bonus scheme consists of performance bonuses which are dependent on the achievement of certain financial and non-financial targets. The bonus is payable annually to all qualifying employees after the Company's results have been made public.

Other

Non-employee related provisions increased due to the fines imposed by the Competition Commission.

Other provisions contain provisions for certain legal matters that have been disclosed in the contingencies note (refer to note 38).

30. EMPLOYEE BENEFITS

The Group provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership to one of the funds is compulsory. In addition, certain retired employees receive medical aid benefits and a telephone rebate. The liabilities for all of the benefits are actuarially determined in accordance with accounting requirements each year. In addition, statutory funding valuations for the retirement and pension funds are performed at intervals not exceeding three years.

At 31 March 2013 the Group employed 22,192 (2012: 22,045) employees and the Company employed 21,209 (2012: 20,939) employees.

Actuarial valuations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented.

The Telkom Pension Fund

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

The latest actuarial valuation performed at 31 March 2013 indicates that the pension fund is in a surplus position of R100 million. The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19 Employee Benefits. The Telkom Pension Fund is closed to new members.

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30. EMPLOYEE BENEFITS (continued)

The Telkom Pension Fund (continued)

The funded status of the Telkom Pension Fund is disclosed below.

	Group		Company	
	2013 Rm	2012 Rm	**2013 Rm**	2012 Rm
The Telkom Pension Fund				
The net periodic pension costs includes the following components:				
Interest cost on projected benefit obligations	**22**	20	**22**	20
Service cost on projected benefit obligations	**5**	5	**5**	5
Expected returns on plan assets	**(35)**	(30)	**(35)**	(30)
Net periodic pension gain recognised in profit and loss	**(8)**	(5)	**(8)**	(5)
The net periodic other comprehensive income includes the following components:				
Actuarial (gain)/loss	**(33)**	6	**(33)**	6
Asset limitation in terms of IAS 19.58(b)	**38**	1	**38**	1
Net periodic pension expense recognised in other comprehensive income	**5**	7	**5**	7
Cumulative actuarial loss	**(18)**	(51)	**(18)**	(51)
Pension fund contributions	**(2)**	(2)	**(2)**	(2)
The status of the pension plan obligation is as follows:				
At beginning of year	**242**	224	**242**	224
Interest cost	**22**	20	**22**	20
Current service cost	**5**	5	**5**	5
Employee contributions	**2**	2	**2**	2
Benefits paid	**(13)**	(7)	**(13)**	(7)
Curtailment gain	**(4)**	–	**(4)**	–
Actuarial loss/(gain)	**8**	(2)	**8**	(2)
Benefit obligation at end of year	**262**	242	**262**	242
Plan assets at fair value:				
At beginning of year	**301**	284	**301**	284
Expected return on plan assets	**35**	30	**35**	30
Benefits paid	**(13)**	(7)	**(13)**	(7)
Contributions	**2**	2	**2**	2
Curtailment loss	**(4)**	–	**(4)**	–
Actuarial gain/(loss)	**41**	(8)	**41**	(8)
Plan assets at end of year	**362**	301	**362**	301
Present value of funded obligation	**262**	242	**262**	242
Fair value of plan assets	**(362)**	(301)	**(362)**	(301)
Fund surplus	**(100)**	(59)	**(100)**	(59)
Asset limitation in terms of IAS 19.58(b)	**50**	12	**50**	12
Recognised net asset (refer to note 17)	**(50)**	(47)	**(50)**	(47)
Expected return on plan assets	**35**	30	**35**	30
Actuarial gain/(loss) on plan assets	**41**	(8)	**41**	(8)
Actual return on plan assets	**76**	22	**76**	22

	Group		Company	
	2013	2012	**2013**	2012
30. EMPLOYEE BENEFITS (continued)				
The Telkom Pension Fund (continued)				
Principal actuarial assumptions were as follows:				
Discount rate (%)	**7.6**	8.9	**7.6**	8.9
Yield on government bonds (%)	**7.6**	8.9	**7.6**	8.9
Long-term return on equities (%)	**11.6**	12.9	**11.6**	12.9
Long-term return on cash (%)	**6.9**	8.4	**6.9**	8.4
Expected return on plan assets (%)	**10.8**	11.7	**10.8**	11.7
Salary inflation rate (%)	**7.1**	7.4	**7.1**	7.4
Pension increase allowance (%)	**5.6**	3.8	**5.6**	3.8
The overall long-term expected rate of return on assets is 10.8%. This is based on the portfolio as a whole and not the sum of the returns of individual asset categories. The expected return takes into account the asset allocation of the Telkom Pension Fund and expected long-term return of these assets, of which South African Equities and Bonds are the largest contributors.				
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	**95**	100	**95**	100
The fund portfolio consists of the following:				
Equities (%)	**59**	51	**59**	51
Bonds (%)	**9**	14	**9**	14
Cash (%)	**7**	10	**7**	10
Foreign investments (%)	**25**	25	**25**	25
The total expected contributions payable to the pension fund for the year ending 31 March 2014 are R1.8 million.				

The Telkom Retirement Fund

The Telkom Retirement Fund was established on 1 July 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer the government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments will belong to the Telkom Retirement Fund but will not be able to retire from the Telkom Retirement Fund at retirement age. These members would be required to purchase their pensions from an insurance company.

The Telkom Retirement Fund is a defined contribution fund 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.

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 was to exceed the fair value of plan assets, Telkom would be required to fund the statutory deficit.

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	Group		Company	
	2013	2012	**2013**	2012
	Rm	Rm	**Rm**	Rm
30. EMPLOYEE BENEFITS (continued)				
The Telkom Retirement Fund (continued)				
The funded status of the Telkom Retirement Fund is disclosed below:				
The net periodic retirement costs include the following components:				
Interest cost on projected benefit obligations	**772**	717	**772**	717
Expected return on plan assets	**(859)**	(800)	**(859)**	(800)
Net periodic pension expense recognised in profit and loss	**(87)**	(83)	**(87)**	(83)
The net periodic other comprehensive income includes the following components:				
Actuarial loss	**(87)**	(83)	**(87)**	(83)
Net periodic pension expense recognised in other comprehensive income	**(87)**	(83)	**(87)**	(83)
Cumulative actuarial loss	**(1,997)**	(1,910)	**(1,997)**	(1,910)
Retirement fund contributions	**606**	558	**606**	558
Benefit obligation:				
At beginning of year	**9,015**	8,654	**9,015**	8,654
Interest cost	**772**	717	**772**	717
Benefits paid	**(740)**	(647)	**(740)**	(647)
Liability for new pensioners	**195**	26	**195**	26
Curtailment loss	**–**	17	**–**	17
Actuarial loss	**1,462**	248	**1,462**	248
Benefit obligation at end of year	**10,704**	9,015	**10,704**	9,015
Plan assets at fair value:				
At beginning of year	**9,015**	8,654	**9,015**	8,654
Expected return on plan assets	**859**	800	**859**	800
Benefits paid	**(740)**	(647)	**(740)**	(647)
Asset backing new pensioners' liabilities	**195**	26	**195**	26
Curtailment gain	**–**	17	**–**	17
Actuarial gain	**1,375**	165	**1,375**	165
Plan assets at end of year	**10,704**	9,015	**10,704**	9,015
Present value of funded obligation	**10,704**	9,015	**10,704**	9,015
Fair value of plan assets	**(10,704)**	(9,015)	**(10,704)**	(9,015)
Unrecognised net asset	**–**	–	**–**	–
Expected return on plan assets	**859**	800	**859**	800
Actuarial gain on plan assets	**1,375**	165	**1,375**	165
Actual return on plan assets	**2,234**	965	**2,234**	965
Included in the fair value of plan assets is:				
Office buildings occupied by Telkom	**831**	791	**831**	791
Telkom shares	**27**	34	**27**	34

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.

	Group 2013	Group 2012	Company 2013	Company 2012
30. EMPLOYEE BENEFITS (continued)				
The Telkom Retirement Fund (continued)				
Principal actuarial assumptions were as follows:				
Discount rate (%)	**7.6**	8.9	**7.6**	8.9
Yield on government bonds (%)	**7.6**	8.9	**7.6**	8.9
Long-term return on equities (%)	**11.6**	12.9	**11.6**	12.9
Long-term return on cash (%)	**6.9**	8.4	**6.9**	8.4
Expected return on plan assets (%)	**9.3**	9.9	**9.3**	9.9
Pension increase allowance (%)	**5.6**	5.0	**5.6**	5.0
The overall long-term expected rate of return on assets is 9.3%. This is based on the portfolio as a whole and not the sum of the returns of individual asset categories. The expected return takes into account the asset allocation of the Retirement Fund and expected long-term return on these assets, of which South African equities, foreign investments and SA fixed interest bonds are the largest contributors.				
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Funding level per statutory actuarial valuation (%)	**100**	100	**100**	100
The number of pensioners registered under the Telkom Retirement Fund	**13,136**	13,379	**13,136**	13,379
The number of in-service employees registered under the Telkom Retirement Fund	**21,257**	20,864	**21,257**	20,864
The fund portfolio consists of the following:				
Equities (%)	**37**	29	**37**	29
Bonds (%)	**63**	68	**63**	68
Cash (%)	**–**	3	**–**	3

The expected contributions payable to the Retirement Fund for the year ending 31 March 2014 are R51 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 6.1. 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 1994 ('Post-94'); and the in-service members. The Post-94 and the in-service members' liability is subject to a Rand cap, which increases as per Board's approval.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent actuarial valuation of the benefit was performed as at 31 March 2013.

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.

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	Group		Company	
	2013	2012	**2013**	2012
	Rm	Rm	**Rm**	Rm
30. EMPLOYEE BENEFITS (continued)				
Medical benefits (continued)				
Medical aid				
Benefit obligation:				
At beginning of year	**7,142**	6,775	**7,119**	6,752
Interest cost	**622**	569	**621**	568
Current service cost	**110**	107	**110**	106
Actuarial loss/(gain)	**510**	(17)	**510**	(16)
Curtailment (gain)/loss	**(276)**	2	**(276)**	2
Termination settlement	**(3)**	(2)	**(3)**	(2)
Benefits paid from plan assets	**(202)**	(188)	**(202)**	(188)
Contributions paid by Telkom	**(82)**	(104)	**(81)**	(103)
Benefit obligation at end of year	**7,821**	7,142	**7,798**	7,119
Plan assets at fair value:				
At beginning of year	**2,233**	2,094	**2,233**	2,094
Expected return on plan assets	**241**	208	**241**	208
Benefits paid from plan assets	**(202)**	(188)	**(202)**	(188)
Transfer from sinking fund to annuity policy	**71**	47	**71**	47
Actuarial gain	**150**	72	**150**	72
Plan assets at end of year	**2,493**	2,233	**2,493**	2,233
Present value of funded obligation	**7,821**	7,142	**7,798**	7,119
Fair value of plan assets	**(2,493)**	(2,233)	**(2,493)**	(2,233)
Liability as disclosed in the statement of financial position (refer to note 29)	**5,328**	4,909	**5,305**	4,886
The net periodic other comprehensive income includes the following components:				
Actuarial (loss)/gain	**(360)**	89	**(360)**	88
Net periodic pension expense and income recognised in other comprehensive income	**(360)**	89	**(360)**	88
Cumulative actuarial loss	**(2,670)**	(2,310)	**(2,670)**	(2,310)
Plan assets at fair value:				
Expected return on plan assets	**241**	208	**241**	208
Actuarial gain on plan assets	**150**	72	**150**	72
Actual return on plan assets	**391**	280	**391**	280
Principal actuarial assumptions were as follows:				
Discount rate (%)	**7.6**	8.9	**7.6**	8.9
Expected return on plan assets (%)	**10.4**	11.3	**10.4**	11.3
The expected return on plan assets assumption rate has been derived by considering the actual asset allocation and the expected long term real return of each asset class using the actuarial asset liability model.				
Salary inflation rate (%)	**7.1**	7.4	**7.1**	7.4
Medical inflation rate (%)	**7.6**	7.9	**7.6**	7.9

The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.

	Group 2013	Group 2012	Company 2013	Company 2012
30. EMPLOYEE BENEFITS (continued)				
Medical benefits (continued)				
Contractual retirement age	**65**	65	**65**	65
Average retirement age	**60**	60	**60**	60
Number of members	**9,492**	10,857	**9,492**	10,857
Number of pensioners	**8,761**	8,414	**8,761**	8,414

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 some of the valuation assumptions above:

The Trudon (Pty) Ltd benefit obligation of R20 million has been excluded from the sensitivity analysis below.

2013	**Current assumption Rm**	**Decrease Rm**	**Increase Rm**
Medical cost inflation rate	7.6%	**–1%**	+1%
Benefit obligation	7,798	**(1,108)**	1,406
Percentage change		**(14.2%)**	18.0%
Service cost and interest cost 2013/2014	731	**(110)**	143
Percentage change		**(15.0%)**	19.6%
Discount rate	8.9%	**–1%**	+1%
Benefit obligation	7,798	**1,456**	(1,126)
Percentage change		**18.7%**	(14.4%)
Service cost and interest cost 2013/2014	731	**55**	(46)
Percentage change		**7.5%**	(6.3%)
Post-retirement mortality rate	**PA(90) Ultimate-1**	**–10%**	**+10%**
Benefit obligation	7,798	**44**	(43)
Percentage change		**0.6%**	(0.6%)
Service cost and interest cost 2013/2014	731	**6**	(5)
Percentage change		**0.8%**	(0.7%)

2012	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	7,9%	–1%	+1%
Benefit obligation	7,119	(982)	1,234
Percentage change		(13.8%)	17.3%
Service cost and interest cost 2012/2013	674	(111)	141
Percentage change		(16.5%)	20.9%
Discount rate	8.9%	–1%	+1%
Benefit obligation	7,119	1,251	(979)
Percentage change		17.6%	(13.8%)
Service cost and interest cost 2012/2013	674	60	(49)
Percentage change		8.9%	(7.3%)
Post-retirement mortality rate	PA(90) Ultimate-1	–10%	+10%
Benefit obligation	7,119	40	(39)
Percentage change		0.6%	(0.5%)
Service cost and interest cost 2012/2013	674	6	(5)
Percentage change		0.9%	(0.7%)

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	Group		Company	
	2013	2012	**2013**	2012
	Rm	Rm	**Rm**	Rm
30. EMPLOYEE BENEFITS (continued)				
Medical benefits (continued)				
The fund portfolio consists of the following:				
Equities (%)	**53**	48	**53**	48
Bonds (%)	**9**	17	**9**	17
Cash and money market investments (%)	**10**	12	**10**	12
Foreign investments (%)	**28**	23	**28**	23
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 2013. 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:				
Benefit obligation	**521**	558	**521**	558
Unrecognised past service cost	**(5)**	(7)	**(5)**	(7)
Current service cost	**6**	7	**6**	7
Interest cost	**44**	47	**44**	47
Actuarial gain	**(129)**	(66)	**(129)**	(66)
Past service cost	**2**	2	**2**	2
Curtailment loss	**6**	–	**6**	–
Benefits paid	**(25)**	(25)	**(25)**	(25)
Liability as disclosed in the statement of financial position (refer to note 29)	**420**	516	**420**	516
The net periodic other comprehensive income includes the following components:				
Actuarial gain	**129**	66	**129**	66
Net periodic pension income recognised in other comprehensive income	**129**	66	**129**	66
Cumulative actuarial gain/(loss)	**32**	(97)	**32**	(97)
Principal actuarial assumptions were as follows:				
Discount rate (%)	**7.6**	8.9	**7.6**	8.9
Rebate inflation rate (%)	**–**	3.4	**–**	3.4
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	**14,447**	15,294	**14,447**	15,294
Number of pensioners	**10,090**	10,863	**10,090**	10,863

30. EMPLOYEE BENEFITS (continued)

The amounts for the current and previous four years are as follows:

Group	2009 Rm	2010 Rm	2011 Rm	2012 Rm	2013 Rm
Telkom Pension Fund					
Defined benefit obligation	(199)	(219)	(224)	(242)	**(262)**
Plan assets	247	294	284	301	**362**
Surplus	48	75	60	59	**100**
Asset limitation	–	(25)	(10)	(12)	**(50)**
Recognised net asset	48	50	50	47	**50**
Experience adjustment on assets	(67)	20	(8)	(8)	**41**
Experience adjustment on liabilities	1	5	(10)	9	**(2)**
Telkom Retirement Fund					
Defined benefit obligation	(6,704)	(7,207)	(8,654)	(9,015)	**(10,703)**
Plan assets	6,675	7,776	8,654	9,015	**10,703**
Unrecognised net (liability)/asset	(29)	569	–	–	**–**
Experience adjustment on assets	(1,735)	856	41	165	**1,375**
Experience adjustment on liabilities	(645)	109	(199)	(285)	**(48)**
Medical benefits					
Defined benefit obligation	(5,410)	(6,371)	(6,775)	(7,142)	**(7,821)**
Plan assets	1,618	2,062	2,094	2,233	**2,493**
Liability recognised	(3,792)	(4,309)	(4,681)	(4,909)	**(5,328)**
Experience adjustment on assets	(393)	(433)	(32)	72	**150**
Experience adjustment on liabilities	246	266	11	18	**303**
Telephone rebates					
Defined benefit obligation liability	(471)	(527)	(551)	(516)	**(420)**
Experience adjustment on liabilities	2	(15)	(13)	12	**4**

Company	2009 Rm	2010 Rm	2011 Rm	2012 Rm	2013 Rm
Telkom Pension Fund					
Defined benefit obligation	(199)	(219)	(224)	(242)	**(262)**
Plan assets	247	294	284	301	**362**
Surplus	48	75	60	59	**100**
Asset limitation	–	(25)	(10)	(12)	**(50)**
Recognised net asset	48	50	50	47	**50**
Experience adjustment on assets	(67)	20	(8)	(8)	**41**
Experience adjustment on liabilities	1	5	(10)	9	**(2)**
Telkom Retirement Fund					
Defined benefit obligation	(6,704)	(7,207)	(8,654)	(9,015)	**(10,704)**
Plan assets	6,675	7,776	8,654	9,015	**10,704**
Unrecognised net (liability)/asset	(29)	569	–	–	**–**
Experience adjustment on assets	(1,735)	856	41	165	**1,375**
Experience adjustment on liabilities	(645)	109	(199)	(285)	**(48)**
Medical benefits					
Defined benefit obligation	(5,389)	(6,350)	(6,752)	(7,119)	**(7,798)**
Plan assets	1,618	2,062	2,094	2,233	**2,493**
Liability recognised	(3,771)	(4,288)	(4,658)	(4,886)	**(5,305)**
Experience adjustment on assets	(393)	298	(32)	72	**150**
Experience adjustment on liabilities	246	266	11	18	**303**
Telephone rebates					
Defined benefit obligation liability	(471)	(527)	(551)	(516)	**(420)**
Experience adjustment on liabilities	2	(15)	(13)	12	**4**