Telkom SA Limited

Deutsche Bank Technology Workshop
22-23 May 2003
Forward-looking statements

All statements contained herein, as well as oral statements that may be made by Telkom SA Limited or by officers, directors or employees acting on behalf of the Telkom Group, that are not statements of historical fact constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, specifically Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve a known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause our actual results or outcomes to differ materially from our expectations are those risks identified under the caption “Risk Factors” contained in the prospectus relating to Telkom’s initial public offering filed with the U.S. Securities Exchange Commission and available on Telkom’s website at www.telkom.co.za/ir, including, but not limited to, increased competition in the South African fixed-line and mobile communications markets; developments in the regulatory environment; Telkom’s ability to reduce expenditure; the outcome of arbitration or litigation proceedings with Telcordia Technologies Incorporated; general economic, political, social and legal conditions in South Africa and in other countries where Vodacom invests; fluctuations in the value of the Rand; and other matters not yet known to us or not currently considered material by us. You should not place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this press release, either to conform them to actual results or to changes in our expectations.
Five key focus areas

• Redefining capital expenditure
• Network strategy
• Building for selected growth
• Maintaining the network
• Investment in operational support systems
Redefining capex
A new view of fixed-line capex

Reporting for licence obligations

- Company support: 9%
- OSS: 34%
- Network modernisation: 32%
- Line rollout: 25%

Management reporting

- Company support: 7%
- Baseline: 40%
- Cost savings: 25%
- Regulatory: 0%
- Network evolution: 27%
- Revenue generation: 1%

Year ended March 31, 2002. Fixed-line capex of R6,962 million
Building and maintaining the core

Baseline capital expenditure

<table>
<thead>
<tr>
<th>In R millions</th>
<th>contribution %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline: 2,728</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Definition**

- Capex required to meet voice and data service requirements
- Known demand and costs – can be modelled based on history and trends

**Categories**

- **Voice** – line build, ISDN, national core network, international network, business systems, payphones and CPE
- **Data** – data leased line growth, e-business
- **Mobile** – wholesale (COFLS)
- **Business solutions** – VPNs, CNC, IPVPN
Baseline investment

Baseline capital expenditure

In R millions

- 2000: 4,887
- 2001: 4,687
- 2002: 2,728
- Sep-01: 1,258
- Sep-02: 689

Significant capex driven by line rollout and related customer premise equipment (CPE), mobile leased facilities and data leased lines

Current capex largely for data leased line growth, mobile leased lines, leased business systems, business solutions

Year ended March 31.
Evolving the network

Network evolution capital expenditure

<table>
<thead>
<tr>
<th>Definition</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure aimed at evolving the network and improving its resilience, redundancy and efficiency</td>
<td>Access line evolution</td>
</tr>
<tr>
<td>Upgrade, rehabilitate, modernise</td>
<td>Transmission</td>
</tr>
</tbody>
</table>

Network evolution: 1,906 in R millions, 27% contribution
Network evolution investment

- **Network evolution capital expenditure**

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Sep-01</th>
<th>Sep-02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>954</td>
<td>985</td>
<td>1,906</td>
<td>676</td>
<td>341</td>
</tr>
</tbody>
</table>

- **Driven by significant investment in evolving the transmission network** – (Local transport network, National Transport network & ATM), WDM
- **Evolving our data network to a packet network for IP carrying capacity**
- **Evolving the access and public phone network**
- **Includes significant spend on evolving the switching network** – replacing manual exchanges with digital exchanges
- **Includes investment in international network** – SAT-3/WASC/SAFE
- **Continued investment in evolving transmission network with DWDM and evolving access and public phone network**

Year ended March 31.
Increasing operational efficiencies

Cost savings capital expenditure

<table>
<thead>
<tr>
<th>In R millions</th>
<th>contribution %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost savings: 1,743</td>
<td>25%</td>
</tr>
</tbody>
</table>

Definition

Expenditure aimed at reducing costs, improving effectiveness and allowing better service

Categories

- OSS (FlowThru and iCare)
- Network management
- IT business systems
- Management systems and process enhancements
- Centralisation
Cost savings investment

Cost savings capital expenditure

Year ended March 31.

- **Spend driven largely by Telcordia together with spend on network management and other core new IT systems**
- **Spend driven by the deployment of Flexibill, OSS project spend, implementation of SAP and network management systems**
- **Current capex largely for OSS project and to a lesser extent network management and IT systems**
Capital management

Telkom has enhanced its capital management process to improve capital efficiency through:

- Strict capital budget approval process to ensure optimal capex allocation
- Utilisation of existing infrastructure to drive down investment in new line growth
- Utilisation of spare capacity in lieu of line rollout
- Benefit tracking and reporting processes of capital programmes
- Benchmarking of network rollout costs against industry standards
- Reducing capital expenditure as a percentage of revenues
Network strategy
Basic network infrastructure

Access Network

Digital Line Unit (DLU)

Digital Secondary Switching Unit (DSSU)

Digital Primary Switching Unit (DPSU)

National Transmission

Local Transmission
Previous network investment strategy

• Licence obligation
  ➔ Rollout to under-serviced areas
  ➔ Replace analogue lines with digital
  ➔ Increase teledensity

• Modernise network
  ➔ Deployment of Asynchronous Transfer Mode (ATM) and fibre technologies
  ➔ Customer specific solutions
  ➔ Replacement of analogue/manual exchanges with digital exchanges
  ➔ Managed network (National Network Operations Centre-NNOC)
  ➔ Transport rings in core, metro and access
## Network modernisation programme

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
</table>
| 1997/1998 | • Replaced 228 353 non-digital lines  
            • 71 000 km of fibre laid                                        |
| 1998/1999 | • Replaced 518 105 non-digital lines  
            • ATM deployed                                                    
            • NNOC started                                                   
            • Afrolinque (SAT-3/WASC/SAFE) project launched                 |
| 1999/2000 | • Replaced 350 440 non-digital lines  
            • NNOC open                                                       |
| 2000/2001 | • DWDM deployed                                                       
            • xDSL deployed                                                  |
| 2001/2002 | • IP clearing house                                                  
            • IP network (VOIP)                                              
            • Afrolinque (SAT-3/WASC/SAFE) projects completed               |
Access network deployed

- Access network consists of
  - Mainly copper
  - Radio technologies deployed in rural areas
  - Fibre deployed in high-end of the market
  - Access network supports basic voice to broadband

- Cost efficiencies from embedded copper
- Improving bandwidth capability of copper

Future direction of access network

1. Video Digital Subscriber Line
Switching and transmission network

• Voice network
  ➔ Two-tier switching network with SS# 7 (Signally System #7)
  ➔ Deployed intelligent network platform

• Non-voice network
  ➔ Constant-bit rate, variable bit rate platforms
  ➔ End-to-end leased circuits
  ➔ IP enabled

• Transmission network
  ➔ Consists of fibre digital microwave, Synchronous Digital Hierarchy (SDH), Dense Wavelength Division Multiplexing (DWDM), ATM
International network

- Satellite investments
- Cable investments
  - New submarine cable investment – Afrolinque (SAT-3/WASC/SAFE)
    - 26 448 km Telkom-driven undersea cable between Portugal and Malaysia
    - Ultimate capacity for SAFE – 130 Gb/s (25 year expected life); SAT-3 – 120Gb/s
    - 12,1 million simultaneous telephone calls
    - 36 major global operators invested $650M, Telkom investment $85M as of 31 March 2002
    - Telkom is network administrator
    - Launch date 27 May 2002
VOIP network deployed

• Established Voice Over Internet Protocol (VOIP) Point of Presence (PoP) in London
  → Attracting voice minutes destined for RSA and Africa from “emerging” carriers
  → Traffic outgoing from RSA on “Least cost Routing - LCR” basis
• Established Telkom as VOIP clearing house
• Deploying VOIP with African carriers
• More global VOIP PoPs to be deployed
• The VOIP leader in Africa
Current network strategy

- **Increase network efficiency**
  - Evolve to converge network using existing legacy technologies
  - From current to packet switching
  - Reinvestment to ensure reliability and efficiencies

- **Lower costs**
  - Investment in operational support systems (OSS) to drive greater efficiencies
  - Investment in managed networks

- **Take advantage of market opportunities**
  - Customer specific solutions
  - Build driven by demand

- **Overall objective is to achieve satisfactory rates of return**
Migrating the network

1. Build-out Packet Access
2. Support Voice over Packet Access
3. Create NGN network
4. Interwork NGN with TDM
5. Customer Swing-over

Applications

IP-enabled access
- Dial-in
- xDSL
- Fiber-to-the-X

PSTN

TDM² network

NGN¹

1. Next Generation Network
2. Time Division Multiplexing
Investing for growth
Telkom continues the need to connect customers in profitable economic centres to maintain existing customer base. Customer migrations have resulted in high level of prepaid and ISDN connections.
Investing for mobile growth

South African mobile customers (000s)

Telkom’s wholesale benefits from the continued strong growth in mobile customers and traffic

Mobile leased facilities revenue (Rm)

Telkom carries all mobile traffic and continues to build backbone for operators

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobile leased facilities revenue (Rm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>3,337</td>
</tr>
<tr>
<td>2000</td>
<td>5,188</td>
</tr>
<tr>
<td>2001</td>
<td>8,339</td>
</tr>
<tr>
<td>2002</td>
<td>10,789</td>
</tr>
<tr>
<td>Sep-02</td>
<td>12,081</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobile leased facilities revenue (Rm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>588</td>
</tr>
<tr>
<td>2001</td>
<td>704</td>
</tr>
<tr>
<td>2002</td>
<td>834</td>
</tr>
</tbody>
</table>

Year ended March 31, Rm
Investing for growing bandwidth demands

Minimum Bandwidth for Application per User:

- **1544 Kbps**: Video, Multimedia
- **128 Kbps**: Simple Video, Voice
- **64 Kbps**: Web Browsing
- **56K**: E-Mail, File Transfer
- **28.8 Kbps**: Narrowband
- **19.2 Kbps**: Old Modem
- **9.6 Kbps**: New Modem
- **56K**: ISDN, Frame Relay
- **128 Kbps**: ISDN, Frame Relay
- **1544 Kbps**: Leased Line, Frame Relay, XDSL
Maintaining the network
What is maintenance capex?

**Maintenance operating expenditure**

- Expenditure to maintain an asset that has not reached the end of its life AND if expenditure is a one for one replacement then it is opex
- Expenditure less than R2000 is opex

**Capital expenditure**

- Expenditure to enhance or rehabilitate
- Expenditure that increases capacity or new technology
- Replacement of equipment at the end of its useful life with new equipment

1:1

1:＞1
Challenges in maintaining the network

- Balancing service and cost objectives
- Prioritisation of fault repairs
- Customer segmentation
- Fault repeat rates
- Reskilling and restaffing the network
Why reinvest in the network?

- Reduce long-term maintenance costs
- Improve customer service
- Increase network resilience and efficiencies
- Eliminate duplication and surplus resources
Containing maintenance costs

Telkom’s investment in the network together with its continued effort to improve the access network operations contributes to the containment of materials and maintenance costs.

Telkom continues to focus on alarming the network and controlling the theft incidents to ensure network maintenance costs decrease.

Year ended March 31
Improving customer service

- Mean time to install residential voice improved by 67% to 7 days (2000: 21 days, 2003: 7 days)
- Mean time to install ISDN improved by 77% to 20 days (2000: 88 days, 2003: 20 days)
- Mean time to repair business voice improved by 58% to 11 hours (2000: 26 days, 2003: 11 hours)

Year ended March 31, 2000 and six months ended September 2002.
Reducing fault rates

Faults per thousand business lines

Focused improvement on reducing repeat fault rates in business segment

Number of fault rates per 1000 2Mb

Improving the fault rates in our data network

Year ended March 31
The multi-skilled technical officer
OSS investment
Company strategic objectives

Increase shareholder value

Increase profitability and cash flows, reduce indebtedness, reinstate dividend payments

- Increase revenue
- Minimise revenue loss
- Reduce costs
- Increase profits

Maintain market leadership positions

Position the Group for competition

- Improved service quality
- Improve service delivery time
- Service and maintain network cheaper
## OSS strategic direction

<table>
<thead>
<tr>
<th>Organisation</th>
<th>• Focused on servicing Telkom to improve productivity, improve efficiencies, and empower customer facing staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>• Develop and enhance current operational, business and support systems</td>
</tr>
<tr>
<td>Objective</td>
<td>• Address critical business needs by providing solutions that will enable end-to-end integration, mechanisation and automation</td>
</tr>
<tr>
<td>Strategy</td>
<td>• Phased approach, focus on sales and marketing, billing, service activation, service assurance and eventually extend to integrating systems into back-end systems</td>
</tr>
</tbody>
</table>
Sustainable Competitive Advantage (SCA)

• Key enablers for sustainable competitive advantage in the service industry are
  → Product bundling
  → Customer care
  → Cost structures
  → People
  → Speed and flexibility

• OSS to develop solutions to ensure Telkom remains competitive, differentiates itself and becomes the lowest cost provider of service
OSS Programme
Core OSS Projects

OSS Five year project spend – estimate spend R4bn

- Workforce management: 18%
- Assurance: 18%
- Provisioning/fulfillment: 30%
- Customer care: 34%
Customer Care

The Customer Care Functional Area includes all customer-oriented functions and data. Its scope encompasses handling all types of contact with the customer, the management of the relationship, and the administration of customer data, including information related to Telkom owned CPEs sold as part of the product to the customer.

Rationale

- Current legacy Customer Relationship Management systems are duplicate and non-integrated.
- We do not have a holistic view of the customer and his/her related products/services

Benefits

- Customer retention and revenue protection
- Cost reduction
- Service level improvement
- Targeted marketing & services
A complete OSS assurance solution can support revenue protection, reduce costs, and increase productivity of staff and resources. The functional capabilities established in this domain will afford Telkom SA an opportunity to develop and standardise processes for resolving troubles.

<table>
<thead>
<tr>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current legacy assurance systems are duplicate and non-integrated</td>
</tr>
<tr>
<td>We do not have a holistic view of the customer and his/her related troubles/problems and cannot therefore effectively sell or manage SLA’s</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accurate tracking of the complete end-to-end trouble resolution process</td>
</tr>
<tr>
<td>Appropriate escalation &amp; fallout management</td>
</tr>
<tr>
<td>Improvements in ATTR</td>
</tr>
<tr>
<td>Improvement in adherence to SLA requirements</td>
</tr>
</tbody>
</table>
Provisioning/Fulfilment

An effective and efficient asset management is prerequisite. The projects in this domain establish the the Network Inventory data base (physical, logical & service) for Telkom and the maintenance capability on the data.

<table>
<thead>
<tr>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current legacy network inventory systems are duplicate, non-integrated and in certain instances non-existent</td>
</tr>
<tr>
<td>We do not have a holistic view of the network data and therefore cannot do effective network asset management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of lost assets (physical and logical)</td>
</tr>
<tr>
<td>Efficient management of known assets (sweating the assets)</td>
</tr>
<tr>
<td>Improvement in adherence to SLA requirements</td>
</tr>
</tbody>
</table>
Workforce management

This initiative is aimed at providing an automated mechanism to manage and optimise the workforce.

<table>
<thead>
<tr>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telkom did not have an integrated workforce management system prior to the award of the contract to MDSI</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective and efficient management of the workforce with the resulting ability to reduce staff (Cost Cutting)</td>
</tr>
<tr>
<td>Customer satisfaction</td>
</tr>
</tbody>
</table>
OSS benefits

Setting
- Business and OSS do a high level benefits setting prior to launch
- Re-evaluate at Launch / Scope
- Re-evaluate after design
- Final evaluation and baseline setting during Class Room Pilot

Objective
- From Class Room Pilot 3 to 6 months stabilising period
- Track monthly in detail for total payback period

Strategy
- Cost reduction and cost avoidance
- Revenue generation
- Revenue protection
Investor Relations
telkomir@telkom.co.za

Tel: +27 12 311 5720
Fax: +27 12 311 5721

Ticker - JSE: TKG, NYSE: TKG
ADR ratio 1: 4