Outline

1. Our View of the Market, & Convergence from a Telkom perspective
2. Our Strategy Execution Framework
3. Customer experience

4. Enterprise: Beyond Connectivity – Verticalisation & Solutions
5. Portfolio Evolution
6. Our ICT Strategy
7. Fixed Voice

9. Winning the digital home - our Integrated Broadband strategy for the home
10. Winning in Mobile
11. Transforming our Go-to-Market
12. Transforming our Contact Centres
13. Content and VAS
The Market
and our perspective on convergence
Overview of the South African TMT Market

CAGR
9.1%
9.2%
6.1%
0.8%
7.4%
21.9%
5.8%
5.0%
8.1%
8.5%
10.6%
5.2%
15.7%
-1.1%
15.9%
8.2%
-2.5%

“MEDIA”
R 71Bn*
6.8% CAGR

“IT”
R 120 Bn*
7.0% CAGR

“MOBILE”
R 154 Bn*
6.1% CAGR

“FIXED”
R 48 Bn*
4.2% CAGR

* 2019

© Telkom 2014
The world is changing…
Digital Home & Lifestyle

Digital Business
Strategy
and our execution framework
Telkom’s Overall Strategy

Seamlessly connecting South Africans to a better life

as the leading provider of converged ICT solutions

Optimising shareholder value

- Stabilise revenue to return to growth.
- Grow EBITDA margin to between 26-27% in F2015 and 27-28% in F2016.
- Strengthen free cash flow.
- Normalise capex to revenue in line with benchmark and peers at 14-17%.

Centre of the digital home & lifestyle
Lead in business, enterprise and government
Pre-eminent in wholesale

People and organisational capabilities
- An invincible network
- The right technologies & solutions
- A competitive cost base and efficiency
- A sustainable regulatory stance
- Partnerships in non-core activities that build our converged proposition

Telkom’s Overall Strategy

Purpose
Our vision is tied to a national vision

Outcome
....leading to sustainability...

Strategy
...by putting the customer first

Enablers
Enabled by....

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Telkom’s Retail Strategy

GOALS

• To be #1 in fixed and converged communication and networked services to SA business.
• Maintain share of wallet in top 1000 accounts; grow IT and mobile as % of sales
• Grow market share of SME telecoms market and ARPU per customer. Maintain 67% share of SME fixed broadband market share.
• Majority of non-DSL services converted to Fibre by FY18;

KEY ACTIONS

1. Develop a vertical go-to-market- and solutions capability for large, corporate and Government business
2. Grow into adjacent IT markets through organic growth, partnerships and acquisitions.
3. Improve our offer to SMEs with lower cost products, simple bundled solutions and better targeted channels to market
4. Establish ourselves as Government’s lead partner for the provision of e-Services and e-platforms
5. Aggressively migrate our business customers to fibre-based products
6. Rationalise our Product Portfolio
7. Manage voice decline and technology transitions to IP based networks
8. Achieve sustainability in Mobile services to the Business Market

Leader in enterprise, business and government
Centre of the digital home & lifestyle

GOALS

• Become a Customer Advocacy Leader in the SA Consumer Market
• 1.5 million homes connected with fixed and LTE by 2019
• Accelerate mobile break-even and cash flow
• Number 3 player in Mobile
• Significant % of Revenue from bundles, content and value added products by 2019

KEY ACTIONS

1. Customer First! We will improve customer experience, with a dedicated office focusing on process improvements.
2. Deliver a sustainable, winning mobile proposition
3. Develop and deliver an Integrated Broadband Plan to accelerate and extend NGN
4. Stimulate demand and participate in new markets with content and VAS
5. Transform our Go-to-Market, with a particular focus on channel optimisation
6. Optimise contact centres with one point of contact and more self-help.
7. Deliver simple and compelling bundles and converged products
8. Rationalise & simplify our Product Portfolio
9. Develop and deliver a strategy for WiFi leadership
1. Find a sustainable and winning position in Mobile (“Green” plus others)
2. Become a Customer Experience Leader (“Customer First”)
3. Deliver an Integrated Broadband Plan (IBP, previously Retail Blue or 1m line project)
4. Develop and Execute a compelling Content and VAS strategy
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6. Contact Centre Transformation
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9. Build a significant Business Mobile presence
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11. Verticalisation and Solutions Capability for Enterprise (inc. Sales transformation)
12. Become Government’s e-services platform partner
13. Accelerated fibre migration for Enterprise customers
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15. Product Rationalisation
16. Convergence and Bundling for SMB
17. Become South Africa’s WiFi leader as a VAS differentiator for fixed

Legend:
- Active
- New (pending)
- Starting
CUSTOMER FIRST

Becoming a Customer Experience Leader in South Africa
## Telkom’s Retail Strategy Execution Framework

### Consumer Centred

1. Find a sustainable and winning position in Mobile (“Green” plus others)

2. Become a Customer Experience Leader (“Customer First”)  
   - Go-to-Market Transformation (with a particular focus on Channel transformation)

3. Deliver an Integrated Broadband Plan (IBP, previously Retail Blue or 1m line project)

4. Develop and Execute a compelling Content and VAS strategy

5. Contact Centre Transformation

6. Address unprofitable products (Payphones, Prepaid)

7. Convergence and Bundling for the Consumer market

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### Business Centred

9. Build a significant Business Mobile presence

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15. Product Rationalisation

16. Convergence and Bundling for SMB
Customer First programme is putting the Customer First, by...

1. Building a dedicated CEX team to act as CEX nerve centre & watch dog

2. Fixing what is broken

3. Bringing the customer’s voice into Telkom – what makes our customers feel good or bad

4. Create an army of promoters - employees & customers
Focused Scope to Deliver Results

We want to become the **undisputed customer advocacy leader** across target customer segments through a **relentless focus** on making Telkom products and services **relevant, easy to buy, satisfying to use and easy to manage**.

**Customer First ambition:**

- **1 Product category**: Fixed broadband and voice (ADSL, ISP, POTS)
- **1 Customer segment**: Volume customers (Consumer and SMB)
- **4 Episodes**: Explore and Buy, Get Started, Fix Fault, and Use
We measure CEX using the Net Promoter Score (NPS)

"On a scale 0-10, how likely is it that you would recommend our company to a friend or colleague?"

Extremely likely

9 - 10

PROMOTERS

• Loyal customers
• Make repeat purchases
• Talk about Telkom to friends and colleagues

Extremely unlikely

0 - 6

DETRACTORS

• Dissatisfied by their experience
• Frequently make complaints
• Bad-mouth Telkom to others

7 - 8

PASSIVES

• Got what they asked for but nothing more
• Indifferent about who they use
• Talk with low energy about Telkom

NPS = % Promoters minus % Detractors

(Net Promoter® Score)
Customer loyalty leaders grow faster and have lower costs than the average.

**Growth (indexed)**

- Loyalty Leader: >2x CAGR
- Average

**Costs**

- Average
- Loyalty Leader: 15% Lower

Source: Bain & Company, Inc.
Key advocacy drivers can be grouped in 5 categories with varying degree of importance to customers

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<tr>
<th>Very high</th>
<th>Decreasing order of importance</th>
<th>Medium</th>
</tr>
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<td><strong>Connection functionality</strong></td>
<td><strong>Price</strong></td>
<td><strong>Reporting and fixing faults</strong></td>
</tr>
<tr>
<td>• Experienced speed</td>
<td>• Cheap versus expensive</td>
<td>• Responsiveness</td>
</tr>
<tr>
<td>• Stability and quality of connection</td>
<td>• Overall value for money</td>
<td>• Timely fixing of faults</td>
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<tr>
<td>• Experienced speed</td>
<td>• Strong stability and quality of connection</td>
<td>• Agent knowledge and attitude</td>
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<td>• Experienced speed</td>
<td>• Overall value for money</td>
<td>• Communication</td>
</tr>
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<td><strong>“Have a 10mbps line and have never ever reached 3mbps.”</strong></td>
<td><strong>“Reduce the cost, it seems to just go up and never goes down”</strong></td>
<td><strong>“When you report something they respond immediately”</strong></td>
</tr>
<tr>
<td><strong>“Connection is stable and I have never had a problem with it being down”</strong></td>
<td><strong>“Best price for an amazing uncapped product, with mobile data built in..”</strong></td>
<td><strong>“9 out of 10 reports of a problem get &quot;resolved&quot; without checking or asking me”</strong></td>
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</table>
What do our Customers say is Important?

Connection functionality, service responsiveness and timely resolution of issues are the key drivers of customer advocacy.

Source: Telkom primary research, 2013, N= xxxx
Customer Promoter Plan overview

**Explore & buy: Easy to find, choose and buy**
- Deliver simple and efficient application process
  - PoC 8,11,E2
  - Albertus

**Get started: Conveniently connected**
- Ensure consistent experience across within stores (consistent info, processes,...)
  - PoC 2,4,8,11
  - Mark

**Fix fault: One contact, one day**
- Enable effective customer onboarding including self-installation process
  - PoC 12,13
  - Erna

**Usage experience: Always as needed**
- Manage physical network infrastructure and quality (backhaul, congestion, etc.)
  - Graeme

**Enable effective customer onboarding including self-installation process**
- PoC 2,3,4,14
- Theo

**Enable quick, first-time right resolution and appointments**
- (information, training, equipment, ...)
- PoC 9
- Farhad

**Install an efficient escalations process**
- to manage complex or overdue customer issues
- PoC 1, E1
- Farhad

**Enable quick, first-time right installation and appointments**
- (information, training, equipment, ...)
- PoC 2,4,8,11
- Theo

**Address critical ISP product performance opportunities**
- (peering, international bandwidth, etc.)
- Arnold

**Enable best-in-class in-home connectivity experience**
- (equipment, wifi, set-up)
- Erna

**Proactive customer communication**
- (including expectation mgmt e.g. for mass faults)
- Thami

**Implement required systems and support structures**
- PoC 1,11,E1
- IT/ Channel

**Empower and enable front line staff**
- ("do the basic things extraordinarily well")
- PoC 5,7
- CEX Office

**Churn Management**
- Thami

**Further development of online channel**
- (sales, self-service, ...)
- PoC 11

**FY-15 priorities**
- PoC initiatives incorporated

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“Sometimes it takes long for some issues to be sorted out”

“BAD EXPERIENCE
“We had four incidences at year end and month ends during the last six months”

“NO FEEDBACK
“They meet my business requirements, the quality is good and the team I dealt with was a pleasure to work with”

“They are never offline and also when I log a call in the next 15 minutes my problem is solved, they act immediately”

“The service is always up and running, available and has minimal down time”

Base: All respondents who rated CyberNest overall (n = 67) (Q12.2)
Improving Perceptions of Overall Quality of Service

Telkom Overall Quality of Service top 2 Box Score

- Significant Customer Satisfaction Improvement across ALL segments
- Enterprise, Government & Mobile Customer Satisfaction now at Global Benchmark levels

Source: Telkom annual customer loyalty surveys 2008 – 2013
GROWING BEYOND CONNECTIVITY IN ENTERPRISE

Vertical Solutions
Growing into ICT
Mobile
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**Telkom’s Retail Strategy Execution Framework**

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Beyond Connectivity

Customer Premise

Connectivity
- Managed VPN
- WAN Optimization
- Threat Management

Off-Premise / Cloud

Product Sales
- ICT Hardware: Router, Switches, LAN, etc.
- End User Hardware: Laptops, PC, Printers, Monitors

SaaS
- Hosted Exchange
- Hosted Pastel My Business
- VIP Liquid Payroll

IaaS

Hosting

Disaster Recovery

Storage

Outsourcing & Managed Services

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Financial Services, Retail and Government represent more than 65% of the total South African IT spend in 2012.
Approach to Solutions

Customer Centric Approach

Solution(s)
- Solution 1
- Solution 2
- Solution 3

Solution Modules

Telkom Product Houses
- Product House A
- Product House B
- Partner(s)

Customer Input
Innovation
ICT Trends

Product Centric; Engineering Approach

© Telkom 2014
New operating model and structure: Solutions Business plays a pivotal role, supporting the account manager, solutions architect and service management team, and draw input and expertise from the product houses where required.
PORTFOLIO EVOLUTION:
Consolidating product suite and focus on fibre and high bandwidth products
In our view the underlying needs are enduring, but the product sets which satisfy these needs will transform dramatically.
Telkom Business – Four Product Journeys

- Fixed Line Telephony
  - Managed Unified Communications (UC)
  - Fixed Mobile Convergence (FMC)
  - SIP Trunking
  - Hosted Communication Services
  - FMC

- Broadband + ISP
  - Comprehensive equipment and services bundles
  - Virtual desktop computing and support
  - Software as a service
  - Security, storage and archiving
  - Integrated support

- Data Connectivity
  - Multi-hybrid access; Single e2e multiservice NW
  - LAN–WAN convergence
  - On-demand Cloud Ready Networks
  - M2M Fabric
  - Content rich, content aware services
  - Embedded NW services (APM, WaaS..)
  - Software Defined Networking; & NFV

- Hosting
  - Infrastructure as a service
  - Platform as a Service
  - Software as a service
  - Hosting as a service
  - Virtual Desktop
  - IT Outsourcing
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Strategic Rationale

- **IT-IP convergence is real.** Network and IT infrastructure coming together. Individually we are struggling to compete in this new era;

- Like all fixed Telcos we need to find alternative sources of revenue growth. We have decided to expand into mobile and IT adjacencies.

- **Together we can lead the market** in Cloud; managed end-to-end IT infrastructure services; Unified Communications

- Telkom is exposed to competitive attacks from other IT players and we need a defence in the customer space: EUD; LAN; Workspace apps; Professional services led customer engagements

Plans for BCX in Telkom

- Don’t want to destroy the value we acquire: intend to retain BCX as a separate operating entity in Telkom Group

- Intend to retain key management and technical skills

- Plan to integrate Cybernest into BCX

- Achieve synergies / value creation through
  - **Go-to-market alignment**, to ensure coherent engagement with customers, including virtual KAM team for large customers.
  - **Product portfolio alignment**: BCX will own IT portfolio; TB will own comms portfolio. Portfolios will be designed to be inter-operable technically and commercially
  - **Service Alignment**, to allow SPOC service management; end to end SLAs; single account governance frameworks; single escalation paths; etc.
Together BCX + Telkom can build distinct market differentiation

<table>
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<th>Best-in-class data center offering</th>
<th>Competitive connectivity + infrastructures offering</th>
<th>Full suite ICT offering via partnership with Global ICT player</th>
<th>One-stop-shop SME ICT value proposition</th>
<th>E-Gov’t ICT platform</th>
</tr>
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<tbody>
<tr>
<td>• Successful integration of BCX &amp; Telkom asset base would give market leading portfolio in terms of network access, capacity (&gt;13,000 m2) and infrastructure services offered to SA market</td>
<td>• Telkom is market leader in connectivity offering • BCX is market leader in infrastructure services • BCX &amp; Telkom combined would be a clear market leader in Managed IT Infrastructure services with a wide customer offering, covering the entire ICT stack • Go-to-Market and portfolio alignment / inter-operation with Telkom Business</td>
<td>• BCX helps Telkom to expand ICT stack offering, but still does not cover the entire value chain • Partnerships with specialized ICT players will help to complete ICT stack coverage (e.g. BPO, system integration, IT consulting...) • Longer term opportunity, to be participated in after BCX/Telkom integration</td>
<td>• BCX is well positioned on the SME market • Telkom can offer connectivity services to SMEs • BCX &amp; Telkom combined have a wide customer offering for SMEs and would be capable of clear market leadership • BCX &amp; Telkom will need to integrate / bundle their offers • Successful combined go-to-market to be developed</td>
<td>• BCX is well positioned on the Gov’t sector • BCX has software development capabilities to leverage to build-up solutions for the Gov’t sector • Telkom is a key Gov’t connectivity provider</td>
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<td>TKG Board approved the offer</td>
<td>16 May</td>
</tr>
<tr>
<td>BCX Board approved offer</td>
<td>21 May</td>
</tr>
<tr>
<td>Transaction announced</td>
<td>22 May</td>
</tr>
<tr>
<td>All Conditions Precedent to offer met</td>
<td>8 July</td>
</tr>
<tr>
<td>Offer Circular to be posted</td>
<td>11 July</td>
</tr>
<tr>
<td>Competition Commission filing</td>
<td>31 July</td>
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<td>Scheme meeting (BCX shareholder Approval)</td>
<td>11 August</td>
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- Competition Approval: ~ January 2015
- Transaction completed: January/February 2015
We will manage BCX/DCO integration around 5 imperative areas with 16 initiatives to capture deal value and mitigate risks.

1. **Focus on the core**
   - 1-1 Focus BCX on core - IT managed services
   - 1-2 Develop options for other BCX businesses

2. **Grow the revenue base**
   - 2-1 BCX KA GTM and portfolio expansion
   - 2-2 Cross sell BCX products to Telkom customer base
   - 2-3 Cross sell Telkom products to BCX customer base
   - 2-4 Joint sell expanded Telkom/BCX portfolio

3. **Optimise the cost-base**
   - 3-1 SG&A synergies and savings
   - 3-2 COGS synergies
   - 3-3 CapEx synergies
   - 3-4 Optimize DCO costs

4. **Mitigate dis-synergies**
   - 4-1 Customer/ vendor loss

5. **Enable the organisation**
   - 5-1 Communication plan
   - 5-2 Governance
   - 5-3 Organizational and cultural alignment
   - 5-4 Talent retention
   - 5-5 Integration Management Office
FIXED VOICE

Our challenge to defend and migrate our historical core business
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**14. Defend Fixed Voice**
Fixed voice market is being disrupted through three major developments

### Decline in fixed voice spend
- Global revenue is expected to **drop 7.5% annually**, nearly halving to 81Bn by 2020

### Migration to voice over IP
- IP voice enables savings & scalability to customers
- VoIP providers subsidizing voice to cross-sell other IP services (e.g.: data, hosting)

### Demand for richer communication solutions
- Rising adoption of ‘unified communication’ with multi-channel communication
- Integrated operators benefit by fixed-mobile convergence

### Drivers
- **Fixed-Mobile substitution**
- **Proliferation of VoIP providers**
- **Convergence of services on IP**

- Mobile termination rate drop
- Higher bandwidth speeds at lower costs
- Pervasive fibre network

Source: Ovum – Future of Voice, Broadsoft

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Telkom has witnessed the least decline in fixed voice compared to other fixed incumbents...

Fixed voice revenue evolution\(^1,2\)
(Baseline year revenue = 100)

Source: Company annual reports; Note: 1. Excludes VoIP revenue for all operators except for 'Telekom Malaysia', 2. AT&T consisted of different subsidiaries which were combined in 2007 hence 2007 used as baseline year; Telkom Indonesia's current accounting system started in 2008, 3. Includes revenue from calls and lines category only; 4. Decline driven by competition from 2\(^{nd}\) entrant (Indosat)

Note: \(^1\)Arc elasticity of total outgoing minutes relative to EPPM from 2009 to 2012; Source: Wireless Intelligence; Operator reports

….but elasticity >1 of mobile operators and high volume gains indicate fixed-mobile substitution after MTR-driven price drops
WINNING IN THE DIGITAL HOME

Our strategy in the Consumer market
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Telkom intends to be the broadband leader in South Africa, whether at home or work

**“At home”**

- Video calls, Entertainment, Web browsing, Email, Video streaming

**“On the go”**

- Driving
- Walking
- Shopping

**“At work”**

- Videos, Music streaming, SMS

**Location**

- PC
- Laptop
- Tablet
- TV

**Device**

- Wired (xDSL, FTTx)
- Wireless (LTE)

**Broadband use case**

- Video calls, Entertainment, Web browsing, Email, Video streaming

**Access technology**

- Public Wi-Fi
- Wireless (LTE)

© Telkom 2014
To successfully achieve leadership in broadband, Telkom have developed an integrated broadband plan considering three key aspects:

**USAGE BEHAVIOUR**
- **Location**
  - “Home”
  - "At work"
  - “On the go”
- **Device**
  - Smartphone
  - Tablet
  - Laptop
  - PC
  - TV
- **Use case**
  - E-mails
  - Browsing
  - Pictures
  - Video calls
  - Streaming video
- **Ability to pay**
  - High
  - Medium
  - Low

**VALUE PROPOSITION**
- **Speed and data capacity**
  - 10 Mbps – 100 Mbps
  - 10MB – +100GB
- **Additional features (non-exhaustive)**
  - Ease of installation
  - Mobility
  - Value added services
  - Free Public WiFi
  - Reliability

**TECHNOLOGY TO SERVE**
- **Broadband technology choices**
  - FTTH
  - xDSL
  - 3G dongle/router
  - LTE dongle/router
  - 3G/LTE mobile

**Pricing**
- $ $ $$$
- R5
- R500
- R50,000

© Telkom 2014
### Overview of Integrated Broadband Plan

| **IBP Demand Assessment** | - Detailed geographic view of broadband demand based on demographics of 22,000 Sub Places in South Africa  
- Telkom performance assessment at Sub Place level and identification of immediate opportunities areas  
- In-depth customer survey to determine optimal technology mix and pricing to maximize subs/revenue take-up by 2019 |
| **IBP Network Alignment** | - Provide information on NGN infrastructure which is ‘ready for sell’ in prioritized Sub Places, identify any Network–related issues and intervention actions required  
- Identify appropriate technologies to serve priority areas and integrate into NGN rollout planning |
| **IBP Go-to-Market (GTM)** | - Enhance GTM plans with specific prioritization and direct focus on NGN enabled sub-places and LTE coverage areas  
- Prioritize and calibrate GTM efforts based on results of demand assessment by Sub Place and information on specific technology requirements |
| **Gated Communities** | - Gated Communities (GC) prioritization & demand model to enable co-ordination of GC targeting with NGN plan  
- Expanded range of services for home owner associations and developers (B2B) and consumers in GCs (B2C)  
- Solution based engagement model offering customizable ICT/E, Estate and Consumer value-added services |
| **Improve ISP** | - Re-design key processes and approaches to enhance customer experience and remove ‘pain points’  
- Ensure quality Internet experience through good connectivity at all points in the chain (access; backhaul; international …)  
- Improved self-service and online capability |
Unique & fact-based approach used, leveraging census and Telkom data to develop Telkom’s Integrated Broadband Plan

2013 KEY FACT BASE
- Census data of 14.9M HH in SA
  - BB affordability
  - Interest in internet
  - Large screen at home
  - Land area

22K SUB PLACES VIEW
- Demand Assessment
- Supply Assessment
- Identify broadband quick wins

SA BB REVENUE MAP
- Sub Place Prioritization
- Revenue Attractiveness
- Set FY 2020 broadband aspirations

TELKOM PRESENCE
- 2013 Performance Analysis
  - Telkom market share
  - Prioritized Sub Places
  - Over perform (>40%)
  - Average (20-40%)
  - Under perform (<20%)
2013 number of consumer BB subscribers with >R12.8K monthly income

2013 broadband market size at Sub Place level – HH >R12.8K income view

- **NUMBER OF SA HH**
  - Total # of SA HHs by income bracket in each of 22K Sub Places

- **BROADBAND AFFORDING**
  - 1.4%* of HH income to be affordable for the entry BB product**

- **INTEREST IN INTERNET**
  - HH currently using internet at any device / anywhere

- **ADDRESSABLE HH**
  - HH affordable and could be interested in using internet at home

- **LARGE SCREEN AT HOME**
  - HH currently with PC, laptop or tablets at home

- **LARGE SCREEN ENABLED HH**
  - Addressable HH with any large screen already at home

**14.9M HH**

- **HH Inc. >R12.8K?**
  - Y
  - 1.4%* of HH income to be affordable for the entry BB product**
  - 3M (20%)

- **Interested in internet?**
  - Y
  - 1.9M HH
  - 1.1M (7%)

- **Lg. screen at home?**
  - Y
  - 1.4M HH
  - 0.5M (3%)
The consumer broadband market is expected to grow by ~13% to reach 2.9M broadband households by FY2020

Addressable Broadband Households

(R13k/m household income threshold)

Note: FY14 subscribers based on high level demand analysis at the Subplace level; FY15-20 subscribers based on conjoint analysis and demand forecast using SA growth and international benchmarking; Starting coverage based on current NGN plan; Coverage in FY20 based on IBP plan; Subscribers at R’13K monthly income threshold

Source: Telkom IBP Conjoint Analysis
WINNING IN MOBILE
Winning in Mobile

- **Execution Excellence**
  - “Deliver the Numbers”

- **MTN Transaction**
  - Transform Network Economics

- **Combine Consumer & Mobile**
  - Operational Efficiency

- **Differentiate with LTE**
  - Data Leadership
Operational Excellence

Current Status

• Improved Mobile EBITDA loss by 20% to R1.3Bn
• Reduced Mobile Capex by 12% to R1.37 Bn
• Subscriber base grew 18%;
• Dramatic improvements in Mobile Customer Experience
• 1200 LTE Base Stations on air; ~3000 WiFi APs.
• Launched SIM-Sonke; Unlimited

Looking Forwards

• Shift from Voice to Data
• Growth of LTE
• Spectrum remains constrained
• Convergence with fixed; growth of WiFi
• We are well positioned for where the market is moving to
• But we need to manage exponential data growth carefully
The Mobile Market is Transforming

Revenue Growth Rates: 5yr CAGR

<table>
<thead>
<tr>
<th>Period</th>
<th>Total</th>
<th>Voice</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>'09/14</td>
<td>2.3%</td>
<td>2.3%</td>
<td>23%</td>
</tr>
<tr>
<td>'14/19</td>
<td>3.6%</td>
<td>-3.1%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: SA Telecoms Model – June 014, Africa Analysis, FY March

Key Messages
1. Mobile remains a critical and attractively growing sector of the SA telecoms market
2. Pressure on voice and growth of data will change the market
3. Winning in data is key
4. Multi-screen behaviour driving data growth

FY2014 Telecoms Retail Revenue (R billion)

SA Mobile Services Revenue (R billions)

Mobile Voice
Revenue (billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2014</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>52</td>
<td>58</td>
<td>49</td>
</tr>
</tbody>
</table>

Mobile Data
Revenue (billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2014</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>10</td>
<td>29</td>
<td>56</td>
</tr>
</tbody>
</table>

Data Usage per Smartphone (MB pm)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2014</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>20</td>
<td>253</td>
<td>689</td>
</tr>
</tbody>
</table>

Data Usage per Tablet (MB pm)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2014</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0</td>
<td>743</td>
<td>2896</td>
</tr>
</tbody>
</table>

Source: SA Telecoms Model – June 014, Africa Analysis, FY March

© Telkom 2014
Mobile price elasticities shows different consumption behaviours

- Exponential Data growth anticipated, but long term forecasts very volatile
- Competitive data unit production cost key to success
- Spectrum an important enabler of delivering high quality data services

- Telkom well positioned w.r.t. spectrum, tablets & dongle, backhaul cost-efficiency
- BUT we need to find a way to reduce unit costs and cater for demand variability

Historical voice shows a linear relationship between price reductions and usage increases

Historical data shows strong non-linear relationship between price reductions and usage increases

Source: Africa Analysis workings using industry data, 2014
De-risking our mobile business

The Proposed Transaction

- MTN will take over financial and operational responsibility for the roll-out and operation of Telkom’s RAN.

- Reciprocal roaming agreements will enable customers of either Party to roam on both networks and have full access to capacity and coverage of both networks.

- Parties’ independent networks will be configured, such that use of parties’ network assets will provide greater efficiencies, improved quality of service and coverage for customers.

- The arrangements will optimise usage of the Parties’ respective RANs but leave all other areas unaffected: retail and wholesale mobile services, marketing, distribution network, client service infrastructure and billing activities.

Rationale

- Industry is facing unprecedented shift from voice to data

- SA operators need to expand capacity and footprint to meet growth in mobile voice and data demand

- Bilateral roaming arrangements allow for increased footprint for both parties

- Expect significant reduction in Telkom’s mobile opex and capex

- Adjustable nature of the roaming fees will assist in moving operating cost base from fixed to variable

- Opportunity to stem current annual FCF losses and improve ability to compete in competitive SA market

- Maintain mobile offering to support converged product set in consumer and enterprise segments
TRANSFORMING OUR GO-TO-MARKET

Project overview
Towards more integrated consumer Propositions
Evolving the Channel
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<th>Business Centred</th>
</tr>
</thead>
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<td></td>
</tr>
</tbody>
</table>

Telkom’s Retail Strategy Execution Framework
Go-To-Market Project overview

We are revamping our GTM in terms of Segmentation, Value Proposition and Channels Matrix...

1. High-level segments and sub-segmentation
2. Integrated value proposition design (from customer view)
3. Integrated channel strategy (Omni-channel, channel mix, etc.)
4. Stores
5. E-commerce
6. Telesales
7. Independent / 3rd party Channels
8. Go-to-Market operationalisation (September summer campaign)
## High-level deliverables for the Go-to-Market project

### Segmentation
- Agreed principles for developing a segmentation
- Single, actionable segmentation for consumer
  - Sub-segmentation for the “home” segment
  - Sub-segmentation for nomadic (already in place as done by Telkom Mobile)
- Clarity on sub-segments size, TK share and future potential

### Value Proposition
- 1 and 3 year value proposition for key segments identified (Home)
- Framework to develop channel mix, activation plans, etc.
- Channel mix / value proposition
- Channel activation plan (scripts, tools etc…) /proposition
- Clarity on commercial proposition for the channel

### Channel optimisation & ownership models
- Integrated channel strategy for Telkom volume businesses (primarily consumer)
- Specify role of stores, online, informal, outbound / inbound cc, national channels
- Define our omni-channel approach
- Understand channel economics- recommend channels / products
  - Target return, cost to serve and customer experience
- For stores – recommended format, footprint and ownership model
- Create reporting dashboard across all channels

### GTM Operationalisation
- Mobilise for proposition launch for the summer campaign within Home segment
  - TPD
  - IT requirements
  - Commercial viability
  - Operationalise channel activation / customer journey
  - Marketing campaigns
  - ...
- Actively sell propositions for Home segment – new to base and in-base
- Track and monitor results, and make required changes to value propositions
Product strategy: Product decisions based on set of key strategic drivers

1. Design products to capture greater **share of wallet of total telco spend**

2. **Simplify** product proposition

3. Drive ‘**premium’ positioning of high speed broadband** through product range and pricing

4. Drive **80% sales through ‘bundled’ propositions** of core data, voice and value added services

5. Drive customers from **voice only to plans driven by data**

6. Anchor bundle propositions on **speed, cap and pricing**
### 4 SIMPLE HOME VOICE & BROADBAND BUNDLES

<table>
<thead>
<tr>
<th>S 5GB BROADBAND</th>
<th>M 100GB BROADBAND</th>
<th>L 200GB BROADBAND</th>
<th>XL 500GB BROADBAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Essentials bundle</td>
<td>Everyday bundle</td>
<td>Mix bundle</td>
<td>Flexible bundle</td>
</tr>
<tr>
<td>Great for infrequent use such as light web surfing and email</td>
<td>Ideal for regular use including some videos and gaming</td>
<td>Perfect for households that watch videos online or download lots</td>
<td>Includes local and national calls to standard fixed line numbers</td>
</tr>
<tr>
<td>Home fixed line calls included</td>
<td>Includes local and national calls to standard fixed line numbers</td>
<td>Includes calls to standard Australian mobiles</td>
<td>Includes calls to standard Australian mobiles</td>
</tr>
<tr>
<td>No mobile calls included</td>
<td>No mobile calls included</td>
<td>Unlimited mobile calls included</td>
<td>Unlimited mobile calls included</td>
</tr>
<tr>
<td>Additional benefits</td>
<td>Additional benefits</td>
<td>Additional benefits</td>
<td>Additional benefits</td>
</tr>
<tr>
<td>Add Foxtel TV</td>
<td>Add Foxtel TV</td>
<td>Add Foxtel TV</td>
<td>Add Foxtel TV</td>
</tr>
<tr>
<td>Free Samsung Galaxy Tab</td>
<td>Free Samsung Galaxy Tab</td>
<td>Free Samsung Galaxy Tab</td>
<td>Free Samsung Galaxy Tab</td>
</tr>
<tr>
<td>For new Foxtel from Telstra customers, without a connection in the last 3 months</td>
<td>For new Foxtel from Telstra customers, without a connection in the last 3 months</td>
<td>For new Foxtel from Telstra customers, without a connection in the last 3 months</td>
<td>For new Foxtel from Telstra customers, without a connection in the last 3 months</td>
</tr>
<tr>
<td>Starting at $80 per month for 1 line</td>
<td>Starting at $105 per month for 1 line</td>
<td>Starting at $135 per month for 1 line</td>
<td>Starting at $145 per month for 1 line</td>
</tr>
</tbody>
</table>

### CLEAR, SIMPLE PROPOSITION

**Internet:** All capped, range from 5 to 500GB broadband

**Home voice:** Range from no free to unlimited (including mobile)

**Additional:** Unlimited calls to a limited number of mobile num., 500MB mobile broadband

**Content:** Add Foxtel TV with a free tablet • 3 package options

**Channel specific promotions (online discount), clear explanations, straightforward navigation**
Virgin Media example

TV
- Base product
- 60+ to 260+ channels

Internet
- 50Mbps to 152Mbps (fair usage policy uncapped)

Fixed Voice
- Unlimited Weekend Calls to landlines and on-net numbers
- WiFi calling with Smartapp

Note 1: Prices exclude first 12 months half price discount
How the role of channel will change in the next 1-3 years

**Stores**
- Predominantly **mobile sales** – also play a role in **fixed ‘exploration’**
- **Reduced service** (over time) fulfilled via self-service terminals

**Call centre**
- Focus on **fixed / bundle sales** (inbound & outbound)
- Outbound centre will drive **cross- and up-sell** across base

**Online**
- Focus on **fixed / bundle sales** – also a ‘shop window’ for mobile
- **Product and pricing consistent** with other channels

**3rd Party**
- National chains will **focus on mobile** – sell fixed via joint promotions
- Non-tied ‘dealers’ / retailers likely to be needed to cover 2nd tier areas

**Alternative**
- Build number of **‘direct’ sales forces** to sell fixed (community based sales)
- **Informal channel will focus on mobile**
CONTACT CENTRE TRANSFORMATION

Principles and vision, main messages
Short term interventions
End state design
### Telkom’s Retail Strategy Execution Framework

#### Consumer Centred

1. Find a sustainable and winning position in Mobile ("Green" plus others)

2. Become a Customer Experience Leader ("Customer First")

3. Deliver an Integrated Broadband Plan (IBP, previously Retail Blue or 1m line project)

4. Develop and Execute a compelling Content and VAS strategy

5. Go-to-Market Transformation (with a particular focus on Channel transformation)

6. **Contact Centre Transformation**

7. Address unprofitable products (Payphones, Prepaid)

8. Convergence and Bundling for the Consumer market

9. Build a significant Business Mobile presence

10. Expand into Adjacent ICT segments

11. Verticalisation and Solutions Capability for Enterprise (inc. Sales transformation)

12. Become Government’s e-services platform partner

13. Accelerated fibre migration for Enterprise customers

14. Defend Fixed Voice

15. Product Rationalisation

16. Convergence and Bundling for SMB

17. Become South Africa’s WiFi leader as a VAS differentiator for fixed
• The ‘End State’ for the Call Centre environment is driven by a) Customer Experience orientation, b) cost efficiency, and c) flexibility to adapt to future changes in the environment.

• Three main blocks characterize the End State:
  - **Functionality:** Consolidation of Call Centres with similar functions into single, larger units providing scale and cost efficiencies.
  - **Organization:** Alignment of line of command with function (rather than geography or others) will result in an improved span of control and better cost efficiencies, in addition to a cleaner and more efficient ownership.
  - **Infrastructure:** The reduction of total call centres and functions enables a reduction in the number of buildings required to operate the call centres.

• Lines evolution paired with improvements in main metrics (AHT, FCR, Productivity %) and a self-service strategy resulting in a reduction of call volumes offered to the Call Centres and better handling, hence reducing overall costs of operation.
## Initiatives in Contact Centres

Initiatives in Contact Centres seek to address the main three issues identified: first call resolution, difficulty of access and long calls.

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>No</th>
<th>Initiative Name</th>
<th>Status</th>
<th>What has happened</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Call Resolution</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>4.1</td>
<td>Streamline Call Centre organization</td>
<td>✓</td>
<td>Review Call Centres’ organizational model to reduce inefficiencies.</td>
</tr>
<tr>
<td>4.2</td>
<td>4.2</td>
<td>Introduce a tier-2 centre to handle complex calls</td>
<td>✓</td>
<td>Create a second line of support for complex internet faults</td>
</tr>
<tr>
<td>4.3</td>
<td>4.3</td>
<td>Consolidate ISP and Assurance Call Centres</td>
<td>✓</td>
<td>Handle Internet faults in a consolidated ISP + Assurance Centre</td>
</tr>
<tr>
<td>4.4</td>
<td>4.4</td>
<td>Establish an independent Quality Control Centre</td>
<td>✓</td>
<td>Oversee quality in the CCs through a specialized Quality Control Centre</td>
</tr>
<tr>
<td>4.5</td>
<td>4.5</td>
<td>Review PEPs for Contact Centre staff</td>
<td>✓</td>
<td>Introduce Customer Experience metrics in PEPs</td>
</tr>
<tr>
<td><strong>Difficulty accessing the right agent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1</td>
<td>5.1</td>
<td>Adapt opening hours and review agents schedules</td>
<td>✓</td>
<td>Map staffing schedules to match call patterns (peaks and leave)</td>
</tr>
<tr>
<td>5.2</td>
<td>5.2</td>
<td>Review auto-attendant / IVR trees</td>
<td>✓</td>
<td>Simplify auto-attendant tree for optimal time and accuracy of routing</td>
</tr>
<tr>
<td><strong>Lengthy and inconsistent calls</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>6.1</td>
<td>Review call scripts, diagnostics and testing</td>
<td>✓</td>
<td>Define and enforce standard diagnostics and trouble shooting procedures</td>
</tr>
<tr>
<td>6.2</td>
<td>6.2</td>
<td>Post-call agent rating for all calls</td>
<td>✓</td>
<td>Simple, immediate survey to customers after all interactions with Telkom</td>
</tr>
<tr>
<td>6.3</td>
<td>6.3</td>
<td>Re-define SMS for in progress comms</td>
<td>✓</td>
<td>Address key moments of Truth correctly in SMS in progress messaging and introduce Assurance appointments</td>
</tr>
</tbody>
</table>

✓ = Completed
Transformation To End State

Business Process Improvements executed by the customer experience office for transformation

AS IS | Transformation Phase | End State

**Fixed Line**
- Complex Call Centre organization consists of 17 centres across 15+ locations
- Existing overlaps in functions and segments covered
- No single dimension used for alignment, alternating between function, location, segment or customer value
- 27% of contact centre staff are functionally misaligned

**Mobile**
- Co-Source Model
- 3 centers across 3 locations
- Tier1 and Tier2 structures
- Aligns to end State

**Transformation Phase**
- Business Process Improvements
- Simplify managerial organization
- Virtual consolidation of Call Centres resulting into alignment of functionality resulting into fewer centers and locations
- Building consolidation or Co-Source Model decision

**End State**
- Merge Fixed and Mobile
- End State Operating Model

**Continuous business improvement initiatives**
- Voice of the customer
- Single Front End (SFE)
- Relevance Engine
- Knowledge Management
- Business Process Enhancements
CONTENT & VAS

Overview
Content as driver for High Speed Broadband
South African Market
Options
Our Approach
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Telkom’s Retail Strategy Execution Framework

© Telkom 2014
Owning the digital home requires a holistic approach - covering content, connectivity and VAS

Owning the digital home...

...requires securing key services

<table>
<thead>
<tr>
<th>Digital content</th>
<th>Connectivity</th>
<th>Security and automation</th>
<th>E-learning</th>
</tr>
</thead>
</table>
| • Live HD TV channels  
• VoD: movies and series  
• Anywhere, anytime | • High-speed broadband  
• Fixed- DSL or Fibre  
• Mobile- 3G or LTE  
• Voice | • Alarm and video surveillance  
• Remote access and control | • Online e-learning courses/training  
• Self-learning or instructor led |

© Telkom 2014
Our Taxonomy of Content and VAS

Video & Entertainment
- IPTV
- VoD
- Own Video Streaming
- Games
- Music Streaming

Smart Home Services
- Utilities and “House” Management
- Home security
- Convenience

E-Commerce & Payments
- e/m Payment
- e/m Banking
- Charge-to-Bill
- Online portals
- Education

Other
- Video-calling
- Social
- Non-Linear
- Linear
- Interactive
- SVOD & TVOD
- OTT Integration (e.g. Netflix, Apple TV)
- Auto & remote energy management
- Surveillance
- Bank-in-the-Home
- Proximity
- Remote
- E-Shopping
Context: Need for 3P/4P
TV is the main driver towards the demand for high-speed broadband

Products and services bandwidth requirements (Mbps)

- **FTTH**
  - Internet browsing 1990-2000
  - Multiplayer games 2006-2010
  - HD videocall 2012
  - VoD 2005-2015
  - HD TV 2010-2015
  - 2 HD TV + browsing 2010-2015
  - 3D TV 2010-2015
  - 4K TV 2020
  - Example 1 2015
  - Example 2 2015-2017

- **VDSL**

- **ADSL**

**Smart home examples**

When could an FTTC connection (max 40Mbps) be insufficient?

1. 3DTV 30 Mbps
2. HDTV 10 Mbps
   - Video security 10 Mbps
   - TOTAL 50 Mbps
3. HDTV x 2 20 Mbps
   - Video security 10 Mbps
   - Gaming 5 Mbps
   - File sharing 5 Mbps
   - VoIP <1 Mbps
   - TOTAL 41 Mbps

Source: Alcatel-Lucent, NBN Australia, PT, Delta Partners analysis
As a result, many operators have adopted bundling IPTV and other VAS services to drive demand.

<table>
<thead>
<tr>
<th>Price range(^1) (USD)</th>
<th>BB speed range(^3) (Mbps)</th>
<th>IPTV Channels(^4)</th>
<th>FMC</th>
<th>VAS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First mover wins</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>48 → 90</td>
<td>5 20</td>
<td>18 53</td>
<td>WiFi</td>
<td>e-learning, VoD, e-security</td>
</tr>
<tr>
<td>23 → 33</td>
<td>20 100</td>
<td>66 129</td>
<td>WiFi</td>
<td>VOD, OTT, music, e-security</td>
</tr>
<tr>
<td>32 → 549</td>
<td>20 1K</td>
<td>X</td>
<td>WiFi</td>
<td>VoD (Turkcell TV), e-learning</td>
</tr>
<tr>
<td>162 → 231</td>
<td>25 400</td>
<td>55 200</td>
<td>WiFi</td>
<td>VoD, OTT, music, home security</td>
</tr>
<tr>
<td>46 → 59</td>
<td>100 1K</td>
<td>74 121</td>
<td>WiFi</td>
<td>VoD, OTT music, gaming, mVOIP</td>
</tr>
<tr>
<td>95 → 120</td>
<td>15 300</td>
<td>210 520</td>
<td>WiFi</td>
<td>VoD, SmartHome, OTT content</td>
</tr>
<tr>
<td>40 → 226</td>
<td>6 400</td>
<td>15 135</td>
<td>WiFi</td>
<td>VoD, SmartHome, music, games</td>
</tr>
<tr>
<td><strong>Defend strategy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>95 → 175</td>
<td>25 100</td>
<td>10 45</td>
<td>WiFi</td>
<td>VoD, music, apps, OTT</td>
</tr>
<tr>
<td>79(^2)</td>
<td>50 100</td>
<td>70 180</td>
<td>WiFi</td>
<td>VOD, multi-room TV</td>
</tr>
</tbody>
</table>

Note: \(^1\)3P or equivalent\(^2\)Offer providing same cost for 100Mbps as 50Mbps, provided customer is with Movistar mobile\(^3\)Full range on fibre\(^4\) Full range IPTV

Source: Operator websites, Delta Partners analysis

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3P/4P have allowed operators to reduce churn and increase ARPU

**Monthly churn by offer - UK (Q3 2012 annualised)**

- **1P**: 33.0% (-44%)
- **2P**: 18.5%
- **3P**: 16.5% (-53%)
- **4P**: 7.8%

**Monthly churn by offer - Belgium (Q3 2012 annualised)**

- **1P**: 12.5% (-10%)
- **2P**: 11.3%
- **3P**: 8.0% (-50%)
- **4P**: 4.0%

**Churn MEO - Portugal (Indexed)**

- DSL
- Fibre

- 1Q10: 10.0
- 3Q10: 9.5
- 1Q11: 8.0
- 3Q11: 7.5
- 1Q12: 7.0

**NPV MEO customer - Portugal (Indexed)**

- MEO DSL: 10.0
- MEO Fibre: 19.5

Source: Operators’ website; Delta Partner analysis
To extract maximum value, operators are now integrating vertically, either organically or through acquisitions.

<table>
<thead>
<tr>
<th>Players</th>
<th>Description of deal</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comcast</td>
<td>• After acquiring a controlling stake (51%) in 2009, Comcast is completing the acquisition of Universal from GE to own 100% of share.</td>
<td>• Increase control of content to enrich existing offer (accelerate availability of movie on TV) and potentially shape/ control new competition format: e.g., Netflix</td>
</tr>
<tr>
<td>Orange Sport</td>
<td>• Created Studio 37 and renamed it Orange Studio to produce and acquire French and European movies • Acquired French “Ligue 1” soccer rights to distribute on Orange Foot, renamed Orange Sport</td>
<td>• Participate in the content value chain • Retain/ attract subscribers on ADSL at the time when Free and Neuf Telecom where gaining shares</td>
</tr>
<tr>
<td>Vivendi</td>
<td>• Vivendi created a conglomerate with Pay TV (Canal+) and integrated operator (SFR) to create a media conglomerate</td>
<td>• The conglomerate structure failed to capture the synergies across the 2 entities</td>
</tr>
<tr>
<td>BT</td>
<td>• BT acquired premium sport rights and launched own channel (e.g. BT sport) to monetize FTTH and LTE deployment • Acquire ESPN Europe • BT have also made their sport channels available on Google Chromecast</td>
<td>• Compete with BskyB TV + Broadband offering • Monetize FTTH and LTE deployment • Reduce dependencies on current YouView platform</td>
</tr>
<tr>
<td>Sky</td>
<td>• Offer Broadband offer to bundle with Satellite TV to compete with cable operator and fixed line IPTV provider • Acquire O2 fixed-broadband</td>
<td>• Compete with cable and fixed line provider in context where regulator has forced content wholesale</td>
</tr>
</tbody>
</table>
Recent announcements reflect how rapidly the content industry is moving

<table>
<thead>
<tr>
<th>Players</th>
<th>Date</th>
<th>Description of deal</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT</td>
<td>01/04/2014</td>
<td>• BT announces the launch of all of their sport channels on Chromecast (Google’s digital media player)</td>
<td>• Reduce dependency on the YouView television platform currently used</td>
</tr>
<tr>
<td>Amazon</td>
<td>02/04/2014</td>
<td>• Amazon releases a $99 multi-feature TV box (Fire TV) for watching digitally delivered shows and movies. Fire TV includes Netflix Inc., Hulu Inc., Walt Disney Co.’s ESPN, Bloomberg TV and CBS Corp.’s Showtime applications for viewing</td>
<td>• Build scale of Amazon content distribution, driving Prime subscriptions and locking-in customers to a single suite of services • Reduce dependency on TV manufacturers</td>
</tr>
<tr>
<td>Comcast</td>
<td>24/03/2014</td>
<td>• Apple is in talks with Comcast about deploying a streaming-television service that uses an Apple set-top box and bypasses congestion on the Web</td>
<td>• Modernize and provide quality TV viewing • Provide Apple with an inroad into the TV market through user-friendly set-top box technology</td>
</tr>
<tr>
<td>Etisalat</td>
<td>24/03/2014</td>
<td>• Etisalat announces a partnership with Abu Dhabi Media Company and will offer Abu Dhabi Media’s high quality and diversified content, as demanded, on various platforms</td>
<td>• Strengthen ties between Etisalat and Abu Dhabi Media • Establish Etisalat’s position as an integrated communication services provider</td>
</tr>
<tr>
<td>Netflix</td>
<td>23/02/2014</td>
<td>• Netflix agrees to pay Comcast to ensure Netflix movies and television shows stream smoothly to Comcast customers</td>
<td>• Reduce congestion and hence disruptions for customers trying to stream off the Netflix platform</td>
</tr>
</tbody>
</table>

Source: Delta Partners analysis
TV/Video content represents 64% of the content market in South Africa and is amongst the fastest growing

South African Digital Services & Content – 2013[e]
(ZAR billions, % of total market)

1 Source: PWC Entertainment & Media Outlook 2013-17, Delta Partners analysis
There are 4 potential options although not mutually exclusive (i.e. could be successive incremental ‘layers’)

<table>
<thead>
<tr>
<th>Description</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Connectivity</strong></td>
<td><img src="image1.png" alt="Image" /></td>
<td><img src="image2.png" alt="Image" /></td>
</tr>
<tr>
<td>- Infrastructure only play</td>
<td>- Focus on current expertise – connectivity</td>
<td>- Lack of services could stunt demand for high-speed broadband</td>
</tr>
<tr>
<td>- Create a high-speed national BB network</td>
<td>- No content associated risk</td>
<td>- Limited profit potential</td>
</tr>
<tr>
<td>- OTT players use Telkom infrastructure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **2. Mediation** | ![Image](image3.png) | ![Image](image4.png) |
| - Unlock further value for OTT services through infrastructure (QoS, billing) and customer insight/ intimacy | - Increase adoption of connectivity | - Enhancing OTT players could prevent Telkom from ever challenging |
| - Develop mediation platform | - Additional revenue stream | - Limited profit potential |

| **3. Aggregation** | ![Image](image5.png) | ![Image](image6.png) |
| - Create IPTV platform | - Create demand for high-speed broadband services | - Content providers could disintermediate Telkom from content value chain |
| - Offer IPTV through reselling other content providers’ products | - Additional revenue stream | - Limited profit potential |

| **4. Content ownership** | ![Image](image7.png) | ![Image](image8.png) |
| - Acquire own content | - Create large additional content revenue stream | - Risk of not reaching required scale to monetize content profitably |
| - Go-to-market with own IPTV product | | |

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