Human capital planning

Oupa Magashula
Group Executive:
Human Resources
Employee efficiencies must improve

Lines per employee

<table>
<thead>
<tr>
<th></th>
<th>Portugal Telecom</th>
<th>Matav</th>
<th>TPSA</th>
<th>Cesky</th>
<th>Telkom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lines per employee</td>
<td>478</td>
<td>351</td>
<td>308</td>
<td>329</td>
<td>142</td>
</tr>
</tbody>
</table>

Employees expenses as % of revenue

<table>
<thead>
<tr>
<th></th>
<th>Cesky</th>
<th>Portugal Telecom</th>
<th>Matav</th>
<th>TPSA</th>
<th>Telkom Group</th>
<th>Telkom Fixed-line only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>13</td>
<td>14</td>
<td>14</td>
<td>17</td>
<td>18</td>
<td>22</td>
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</tbody>
</table>
Fixed-line employee targets

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2004</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lines per employee</td>
<td>113</td>
<td>142</td>
<td>&gt; 175</td>
</tr>
<tr>
<td>Number of employees</td>
<td>43,758</td>
<td>33,828</td>
<td>7–10% annual reduction</td>
</tr>
<tr>
<td>Employee costs to revenue</td>
<td>23%</td>
<td>22%</td>
<td>&lt; 20% of revenue</td>
</tr>
</tbody>
</table>

- Outsourcing
- Voluntary retrenchments
- Natural attrition
- Human capital planning
- Operational support systems
Human capital strategies

Quantitative forecasting (Historic trend analysis)

Gap analysis per organizational capability

SHCP interventions

“As is”
Current human capital supply

“To be”
Future human capital demand

Build
Bound
Borrow
Bounce
Buy
Status quo

Change management

Shareowner Expectations

Customer needs + wants

Change drivers

Qualitative Forecasting (Scenario Planning)
# Planning example

## Core organizational capabilities

<table>
<thead>
<tr>
<th>Leadership &amp; management capability</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Account management capability</td>
<td>Marketing/sales infrastructure capability</td>
</tr>
<tr>
<td>Business support capability</td>
<td>Network infrastructure capability</td>
</tr>
<tr>
<td>Business system capability</td>
<td>Network operations capability</td>
</tr>
<tr>
<td>Crime/fraud prevention capability</td>
<td>Procurement capability</td>
</tr>
<tr>
<td>Direct customer interface capability</td>
<td>Sales capability</td>
</tr>
<tr>
<td>Finance capability</td>
<td>Service management capability</td>
</tr>
<tr>
<td>Human capital development capability</td>
<td>Strategic planning capability</td>
</tr>
<tr>
<td>Human capital management capability</td>
<td>Technical operations capability</td>
</tr>
<tr>
<td>Marketing management capability</td>
<td>Telkom’s brand capability</td>
</tr>
</tbody>
</table>

## HC audit

<table>
<thead>
<tr>
<th>People capability</th>
<th>Key strategic organizational capabilities</th>
<th>Top human capital priorities</th>
<th>Staff cost</th>
<th>Operational efficiency dashboard</th>
<th>Quantitative HC forecasting model</th>
<th>Qualitative HC forecasting model</th>
</tr>
</thead>
</table>
Costs against capabilities

Results of pilot project implemented at Data and special services

Service management capability, 35.69%
Leadership and management capability, 9.29%
Technical operations capability, 22.85%
Business support capability, 14.60%
Direct customer interface capability, 13.84%
Marketing management capability, 0.01%
Account management capability, 0.06%
HC management capability, 0.10%
HC development capability, 0.21%
Finance capability, 0.45%
Network operations capability, 0.50%
Procurement capability, 0.59%
Network infrastructure capability, 0.66%
Business system capability, 1.15%

Employees mapped: 1269
Guaranteed remuneration

Telkom Executive Guaranteed Package Versus Market at October 2004

- **Policy**
- **Market Q3**
- **Market Median**
- **Market Q1**
- **Your Trend Line**
Performance remuneration

Telkom vs Market

<table>
<thead>
<tr>
<th>Grade</th>
<th>Market 25%tile</th>
<th>Telkom Avg</th>
<th>Market Avg</th>
<th>Market 75%tile</th>
</tr>
</thead>
<tbody>
<tr>
<td>M5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Improved performance incentivisation

Team award
- Fixed percentage per grade allocated based on achieving 100% of all targets
- No bonuses are payable if individual performance targets are not met

Conditional share plan
- 22 million shares available to be granted over next 5 years to management and employees
- Number of shares will depend on level and performance
- Grants to management vest 100% in 3rd year of grant
- Grants to employees vest over 3 years from 2nd year after grant date

Performance targets

Financial
- 70%
  - EBIT
  - ROA

Non-financial
- 30%
  - BEE
  - Customer satisfaction
  - Service targets
The challenge of Aids

The reality

» 9.6% prevalence in Telkom
» South Africa has estimated 22% prevalence rate
» Death ratio at Telkom of 3.8 per 1,000 employees in 2002 of which only 4% directly related to Aids
» Projections indicate prevalence ratio will increase to 11.4% in 2006

Telkom’s strategy

» Four pillars of strategy:
   ▶ education, awareness, prevention, support and care
» Previous focus
   ▶ awareness and prevention (~1.2 million condoms distributed annually)
» Future focus
   ▶ enhanced education, voluntary counselling, testing and treatment
» R7.7 million allocated for voluntary counselling and treatment programme for 2004/05