

8 June 2015

## Telkom's turnaround strategy is still on track.

### Key financial highlights:

- Group net revenue increased 3.1% to R26.0 billion
- Group operating expenses, excluding depreciation, down 1.2% to R17.7 billion
- EBITDA increased 15.1% to R9.0 billion
- Headline earnings per share increased 60% to 532.5 cents
- EBITDA margin recorded at 28.3%
- Group debt reduced by 92.8% to R151 million
- Net debt to EBITDA of 0.02x
- Return on invested capital increased from 4.6% to 11.3%
- Total Dividend of 245 cents per share will be paid

Telkom SA SOC Limited today published its annual results for the year ended 31 March 2015, recording a normalised profit after tax of R2.8 billion for the year, excluding severance package costs and the tax benefit of the settlement of the post-retirement medical aid liability for certain pensioners. This is a 135.7% increase compared to the previous year. Group EBITDA also improved 15.1% to R9 billion (2014: R7.8 billion).

Headline earnings per share from continuing operations, excluding once-off items, increased 60% to 532.5 cents from the previous year, while basic earnings per share increased by 135.7% to 542,3 cents from 230.1 cents.

"We set out to achieve further stability in the business and largely attained it under challenging conditions. We are nearing the completion of the stability phase of our turnaround, which included a de-risking of the mobile business, strengthening of our balance sheet with the settlement of the post-retirement medical aid liability for certain pensioners and addressing our fixed asset base. We have been able to maintain good cash management with free cash flow at R3.9 billion and a low gearing ratio with very low net debt to enable us to be nimble as we move ahead with plans to grow our revenues organically and inorganically," said Sipho Maseko, Group Chief Executive Officer.

Telkom has achieved net revenue growth of 3.1% for the year. The Group still faces significant challenges largely as a result of the continued pressure on voice revenue, resulting from fixed-to-mobile substitution, but the mobile business recorded a strong performance, with the EBITDA loss improving by 48.7%.

Mobile data grew 50.6% while fixed line data revenue increased by 1.5%. Changes to the mobile termination rate added R725 million to EBITDA. Fixed line revenues declined by 2.3%.

The enterprise sector has become more competitive, affecting margins for Telkom, but Metro-Ethernet continues to gain traction and market share is stable. Managed data network services grew by 13.8% to R1 046 million. Business IT services revenue increased by 82,4% to R633 million.

Operating costs decreased 1.2%, which was achieved through a staff efficiency programme, greater effectiveness in marketing spend and a lower business transformation cost. Telkom must also have a highly efficient and cost effective workforce. Much like most telecoms operators globally, Telkom must move towards a leaner and more productive workforce. As previously indicated, our aim is to achieve a staff cost to revenue ratio of 25% over the next four years. The 2016 financial year will see an

acceleration of our efforts in pursuit of this objective. To this end, we will continue to engage with our major labour unions.

"Telkom is now preparing to embark on the next phase of the turnaround, in order to position ourselves for commercial sustainability. To date, the turnaround has delivered results, but we will work to achieve greater efficiency and are reviewing our current operating model. A major part of this review is concerned with a deep functional separation between the wholesale and retail businesses, and the establishment of an infrastructure business unit which will be accountable for network deployment and network efficiency. We believe the separation will remove complexities, allowing for faster solution delivery and encouraging the right business behaviours," said Maseko.

Telkom is pleased that the South African Competition Commission has recommended to the South African Competition Tribunal that the Business Connexion transaction should be approved with conditions. This is a significant and positive development as it allows for the next phase in the approval process to commence. In due course, the Tribunal will set down the matter for hearing. After this hearing is completed we should be in a position to advise on the outcome and on an implementation date for the transaction.

Going forward, the challenging operating environment experienced during the year under review is expected to continue in the year ahead, compounded by increasing competitive pressures and regulatory interventions. Telkom will maintain good cost discipline and a careful and considered approach to capex, and to make good use of the strong balance sheet by taking advantage of new opportunities for growth. Telkom will also put more focus on strengthening customer value proposition and instil a high performance culture to ensure an improved customer experience.

#### **Editors' Notes:**

The ordinary and special dividend has been calculated with reference to Telkom's current and future debt and cash flow levels. The level of dividend payments going forward will be based on a number of factors, including the consideration of the financial performance, capital and operating expenditure requirements, the group's debt level, interest coverage, internal cash flows, prospects and available growth opportunities.

Ordinary dividend number [17] of [215] cents per share (March 2014: 0 cents) and a special dividend of 30 cents per share in respect of the year ended 31 March 2015 has been declared payable on Monday, 20 July 2015 to shareholders recorded in the register of the company at close of business on Friday, 17 July 2015.

#### **Salient dates with regard to the ordinary and special dividend 2015**

Dividend declaration date Friday, 05 June 2015

Last date to trade cum dividend Friday, 10 July 2015

Shares trade ex dividend Monday, 13 July 2015

Record date Friday, 17 July 2015

Payment date Monday, 20 July 2015

Share certificates may not be dematerialised or rematerialised between Monday, 13 July 2015 and Friday, 17 July 2015, both days inclusive.

On Monday, 20 July 2015, dividends due to holders of certificated securities on the South African register will either be transferred electronically to shareholders' bank accounts or, in the absence of suitable mandates, dividend cheques will be posted to such shareholders.

Dividends in respect of dematerialised shareholders will be credited to shareholders' accounts with their relevant CSDP or broker.

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**Telkom Park, The Apex**

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Technopark

Highveld

Centurion

#### **ABOUT TELKOM:**

Telkom is a leading communications services provider in South Africa. We had consolidated operating revenue of R16.8 billion and normalised profit after tax of R1, 683 million for the period ended 30 September 2015. Total assets amounted to R41.9 billion and equity attributable to the owners of Telkom to R23.5 billion as of 30 September 2015. The group generated normalised free cash flow of R1.4 billion for the period ended 30 September 2015.

As of 30 September 2015, we had approximately 3.3 million telephone access lines in service and 1,030,441 ports connected via MSAN access. We offer business, residential and payphone customers a wide range of services and products, including:

- fixed-line retail voice services using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription based value-added voice services and calling plans;
- fixed-line customer premises equipment rental and sales services both voice and data needs and these include PABX, Computers, Routers, Modems, Telephone handsets and other ancillary equipment;
- interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;

- fixed-line data services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services;
- Data Centre Operations includes e-commerce, application service provider, hosting, data storage, e-mail and security services;
- W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services;
- mobile communication services, including voice services, data services and handset sales through our mobile navbar-brand called Telkom Mobile;
- information and communication services including cloud services, infrastructure services, workspace services, global service integration management and hardware and network equipment sales locally, in seven African countries, the UK and Dubai through Business Connexion Group; and
- other services including directory services, through Trudon (Pty) Ltd, wireless data services, through Swiftnet (Pty) Ltd.

Convergence is one of our key strategic initiatives in building a sustainable future for Telkom. We will lead the provision of converged services in South Africa in support of our mission statement: Seamlessly connecting people to a better life.