

15 November 2016

Mobile Makes Positive Contribution to Telkom Earnings

Telkom SA SOC Limited today published its interim results for the six months ended 30 September 2016.

Key highlights are:

- Operating revenue up 21 percent to R20 billion
- Net operating revenue up 3 percent to R14 billion
- EBITDA increased 5 percent to R5 billion with an EBITDA margin of 26 percent
- Headline earnings per share (HEPS) increased 20 percent to 336 cents
- Capex increased 56 percent to R3.6 billion with a capex to revenue ratio of 18 percent
- Group's net cash and cash equivalent increased to R1.8 billion supporting the interim dividend of 131 cents per share

(Note: normalised earnings reflected)

The Telkom Group delivered a solid performance in a tough economy where businesses continue to operate under pressure. The consolidation of Business Connexion, as well as the satisfactory performance of the company's mobile business, drove revenue performance during the six months.

Mobile voice and subscriber revenue increased 30 percent to R520 million (September 2015: R400 million). This is on the back of a 42 percent increase in the number of active mobile subscribers and resulted in the mobile business contributing positively to Group EBITDA for the first time since its launch.

Telkom Group CEO, Siphos Maseko, says, "The splendid performance in our mobile division was assisted by the complete overhaul of our mobile product offering in the form of FreeMe, the launch of new stores and sales channels as well as competitive products and pricing such as Deal of the Month campaigns."

FreeMe product offers customers a data bundle with voice, WhatsApp calls, text for free and free Wi-Fi. According to an analysis by Tariffic, the FreeMe packages are the top choice for high data and voice users in South Africa.

"FreeMe continues to be a very popular offering with customers and has performed even better than our initial expectations. We saw increased gross connections from both existing customers and new to franchise customers," says Maseko.

In the six-month period Telkom sold approximately 170 000 prepaid FreeMe bundles, with over 70 percent of sales coming through our channels.

"Our mobile business has been able to establish itself as a meaningful player in the market. We intend growing our scale in the mobile market through focusing in the post-paid and data market in which we are already making inroads," says Maseko.

As from November, the Enterprise business has been fully integrated with Business Connexion under the leadership of Isaac Mophatlane as CEO of the merged entity.

"I'm delighted to announce that synergies were already realised through cross selling to each other's customer base, thanks to a go-to-market strategy which was well received by customers. In addition, the

teams won business together as they leveraged on their ability to offer end-to-end solutions to Enterprise customers," says Maseko.

The combined entity is the only truly converged business in the market that offers end-to-end solutions to enterprise customers. Telkom Business Connexion remains a key growth platform for the Group through which, among others, cloud computing and the Internet of Things (IoT) are delivered.

The positive contribution by the mobile and BCX divisions was partly offset by the decline in fixed-line voice revenue. Fixed-line voice usage and subscription revenue decreased by 4 percent to R7 billion (September 2015: R7.3 billion) driven by competition, mobile substitution, a 7 percent decline in the number of lines and customers migrating to lower value bundled offerings.

Customer experience remains the Group's priority. It has undertaken a process redesign to simplify and improve the quality of interactions with customers. As part of the systems redesign programme, the Group has also progressed well with the fixed and mobile convergence platform for both consumer and enterprise businesses. This convergence will allow customers to have a single view of their accounts by the end of the financial year.

"Despite the increased competition in the market, we are in a good position to execute on our strategy. However, the tough economic environment presents a challenge, as Business Connexion including the Enterprise business is particularly impacted by these adverse conditions. We will continue to deploy capital to the growth areas of the business, which will ultimately grow our revenue. Our capital investment has given priority to fibre to the premises and the mobile business as we see these areas as growth platforms for our businesses," says Maseko.

Telkom will continue to modernise its network with the intention to migrate customers from legacy systems to fibre. This programme is expected to increase network utilisation and, over time, improve returns.

The board has decided to amend the current dividend policy to a total dividend distribution of 60 percent of headline earnings for the year with an interim dividend of 40 percent of interim headline earnings. Therefore, an ordinary interim dividend of 131 cents per share (March 2016: 270 cents) in respect of the period ended 30 September 2016 has been declared.

"We will remain efficient and exercise cost and capital discipline throughout the business. We will also continue to focus on skills and expertise, simplification of processes and ongoing upgrade of our IT systems and network to ensure the sustainability of our business and improved customer services," concludes Maseko.

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ABOUT TELKOM:

Telkom is a leading communications services provider in South Africa. We had consolidated operating revenue of R37.3 billion and normalised profit after tax of R4,052 million for the year ended 31 March 2016. Total assets amounted to R46.8 billion and equity attributable to the owners of Telkom to R26.1 billion as of 31 March 2016. The group generated normalised free cash flow of R3.9 billion for the year ended 31 March 2016.

As of 31 March 2016, we had approximately 3.2 million telephone access lines in service and 1,077,939 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 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.