

2014

Telkom

Group Annual Results

For the year ended 31 March 2014

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- 04** Conclusion
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Overview

Sipho Maseko: Group Chief Executive Officer

01

Seamlessly connecting South Africans to a better life

01



Fibre



- Roll out of **largest fibre network in Africa** – 147,000km
- **Enabler of VDSL** – high speed broadband services
- Almost 400,000 homes passed and 475,144 active ports Mar' 14

Mobile



- **LTE rollout gaining momentum** – 1,183 LTE sites integrated
- Achieving speeds of up to **80Mbps**
- **Data traffic increasing** exponentially – 89% y-o-y

Wi-Fi



- Building the **largest Wi-Fi network** in South Africa
- Approximately **2,426 on air Wi-Fi hotspots**

BEPS at
285cps,
↑6%*

Revenue is
flat,
↑1% at
R32.5bn

Operating expenses down
↓2.1%*
(8.2% in real terms)

EBITDA **↑3.8%*** to
R8.4bn

HEPS at
388cps,
↑35%*

Free cash flow generated,
remains strong at **R1.2 billion***

- Initial phase of cost transformation successful
- Good progress in correcting market distortions and regulatory imbalance with government and regulator
- Strengthen our balance sheet
 - Inventory
 - Property, plant and equipment
 - Curtailment of post-retirement medical aid liability for in-service staff
 - Long term debt
- MTN South Africa/Mobile agreement
- Strengthening Telkom Enterprise



We have started the journey to improve customer service

01

- Product rationalisation
- Improve service and consistency in end-to-end delivery of products and services
- Focus on IT systems – Business Process Management
- Rebuilding the brand
- Improved our rating in the Ask Afrika Orange Index and won MyBroadband Fixed and Mobile broadband provider for 2013



Telkom Consumer: data gaining traction with fixed-line voice under pressure

01

Key highlights:

- Mobile continues to track favourably against targets
- Data revenue growth:
 - Fixed: + 5.4%
 - Mobile: + 73%
- Growth in traffic volumes year on year - voice (60%) & data (89%)
- Improved customer service – Ask Afrika Orange Index & MyBroadband

Key focus areas:

- Accelerating broadband penetration
- Enriching content and value added services
- Optimising our voice portfolio
- Exploiting convergence opportunities
- Driving a lower cost-structure by exploiting synergies through integrating fixed and mobile



Number of LTE sites integrated
1,183

ADSL subscribers increase
6.5%

1,8 million mobile subscribers

800k mobile data subscribers

Telkom has 2,426 Wi-Fi hotspots on air across the country

Telkom Enterprise: Business IT revenue growth and retention of key client accounts

01

Key highlights:

- Telkom Business mobile increased revenues ~ 281% as convergence strategy gains momentum
- Business IT services revenue increased 69.3%
- 40% growth in metro-ethernet revenues
- Increased internet revenues ~9%

Key focus areas:

- Building a solutions-based business through vertical clusters
- Offering converged solutions, leveraging off fixed-line, mobile and data centre services capabilities
- Consolidating product suite and focus on fibre and high bandwidth products



Strong and trusted relationships with key enterprise customers

High bandwidth products grew

55%

Business Mobile Customers grew by **78%**

Partnered with government to provide broadband connectivity and interactive learning management systems in 1,650 schools across the country

Wholesale and Networks: Transforming exchanges in support of convergence strategy

01

Key highlights:

- Increased entry level speeds
- Reduced IPC prices by 15% during FY14
- IP services grew by 3.9% in value
- Revenues negatively affected by continued self-provisioning
- Improving operational efficiencies: streamlining maintenance processes and changing fleet logistics and mix

Key focus areas:

- Reducing the turnaround of new installations to 90% within 5 working days
- Repositioning Wholesale business to achieve access agnostic network
- Increasing capability: Commercial launch of basic voice and broadband FTTH/B services to enable the sale of 100Mbps broadband services



475,144 active ports
399,606 homes passed

Significant
real cost savings achieved

Reduced value of copper theft by
19.7%

Telkom provided and successfully operated all voice, data, broadband broadcasting and mobile services during the Madiba funeral

Financial overview

Deon Fredericks

02

A tough operating environment

- Challenging operating environment
 - Impacted by regulations and requirements
 - Industry consolidation and competition
 - Significant pace of technological evolution
- Challenging economic environment
- Customers demand “more for less”
- Traditional voice under significant pressure and considered commodity
- Good growth in data dissipated by lower tariffs being driven down by fierce competitive service offerings
- Cost pressures as CPI increases exceed the targeted band of 6%
- Three-year agreement signed with labour at average 6.8%
- Fuel and electricity prices
- Increasing interest rate cycle

A sound foundation for a challenging future

- Stabilised and consolidated business
 - Revenue flat
 - Increased EBITDA excl. once off items by 3.8%
- Improving Mobile EBITDA loss by 20% to R1.3bn
- Focussed on cost efficiencies
 - Critical appointments;
 - Improved business processes:
 - 782 less vehicles and 10 800 less km
 - 46% reduction in bad debt
 - SG&A expenditure down 7.5%
- Remove volatility in earnings
 - Implemented hedge accounting effective 1 October 2013
- Curtailed loss making activities - iWay
- Strengthened our balance sheet
 - Inventory
 - Property, plant and equipment
 - Post- retirement medical aid liability by R4bn
 - Long term debt
- NGN roll out gathered momentum
 - 400 000 homes passed
 - > 475 000 active ports
- Remained lowly geared despite significant cash flows:
 - R878m PRMAL curtailment payment
 - R710m VERP payment
 - R6.5bn capex (12% increase)

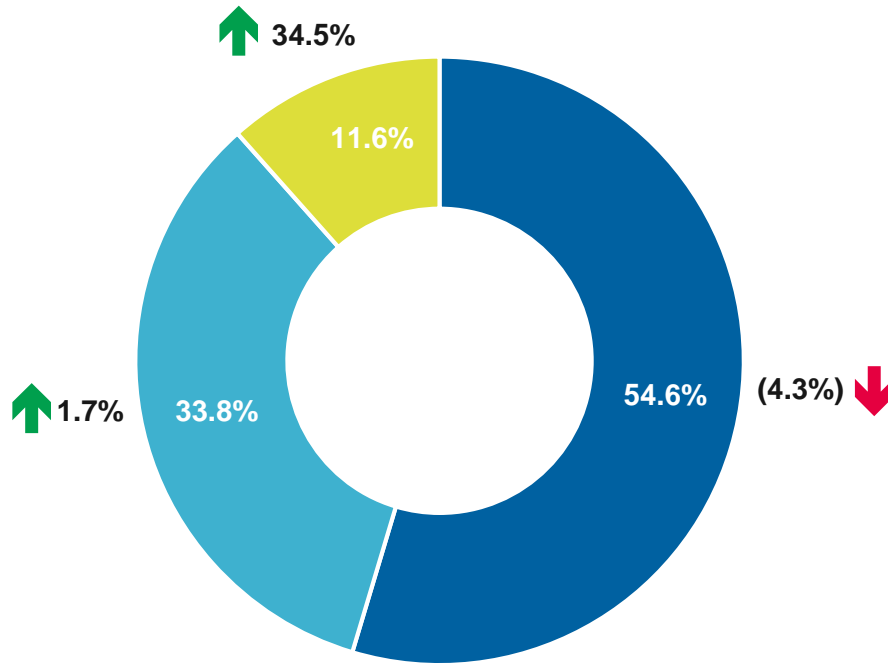
Results impacted by some significant once-offs

02

	Mar 2014#	Mar 2013*	%	
Operating Revenue	R32,483m	R32,143m	1.1	☹️
Net Revenue	R26,041m	R26,134m	(0.4)	☹️
Operating Expenses	R18,150m	R18,543m	2.1	😊
EBITDA	R8,370m	R8,061m	3.8	😊
Depreciation & Impairments	R5,937m	R6,180m	3.9	😊
Capital Investment	R6,458m	R5,768m	(12.0)	☹️
Free Cash Flow	R1,145m	R2,022m	(43.4)	😞

Excludes net curtailment gain of R2,169m.

* Excludes R12bn asset impairment, the Competition Commission fine of R592m and R434m for voluntary severance packages.



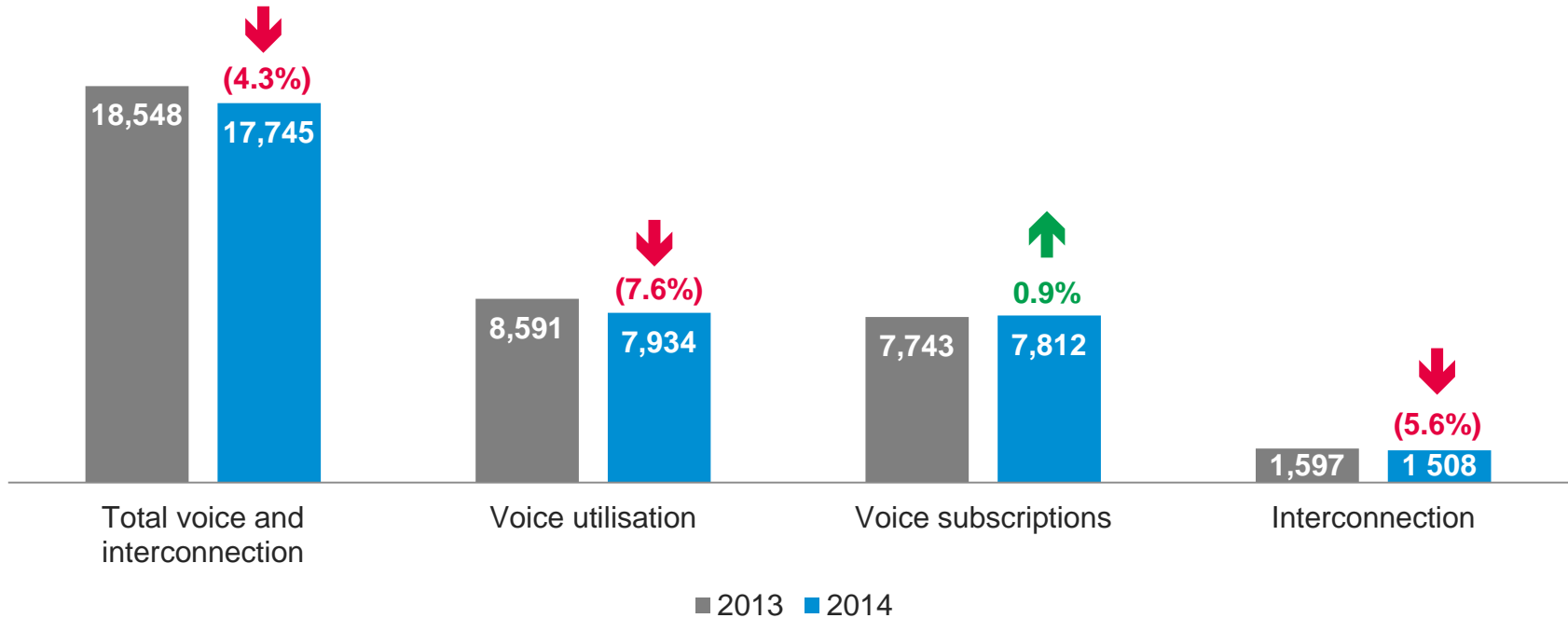
Voice and interconnection:
R 17,745m – 54.6% (2013: 57.7%)

Data:
R 10,981m – 33.8% (2013: 33.6%)

Subsidiaries, CPE sales and other:
R 3,757m – 11.6% (2013: 8.7%)

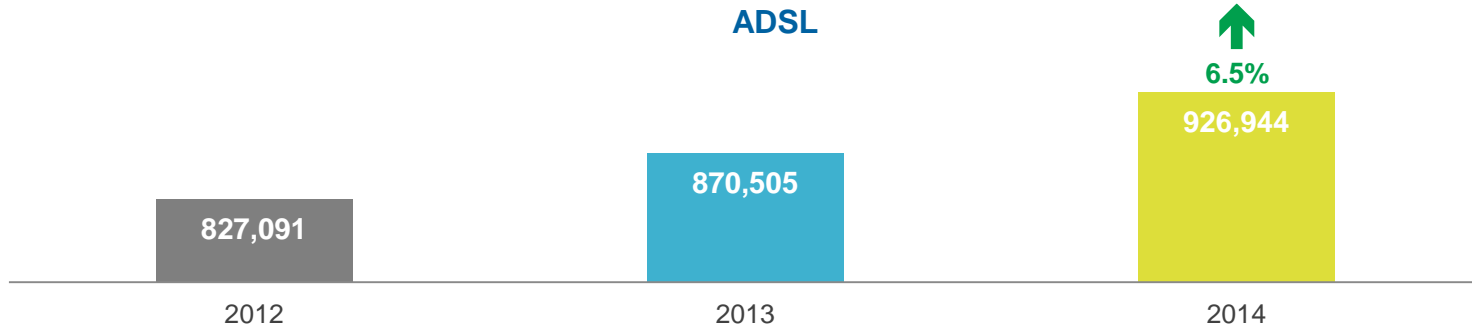
↑ Year on year revenue increase

↓ Year on year revenue decline

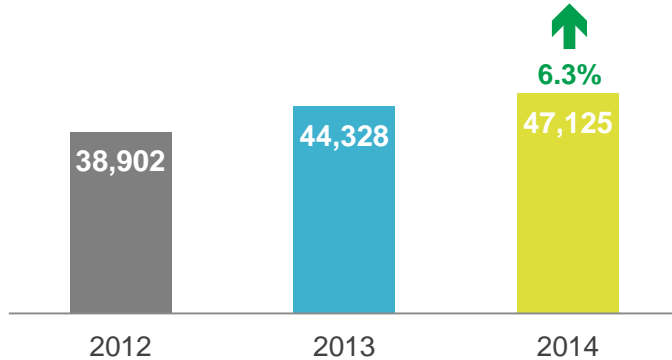


Subscribers

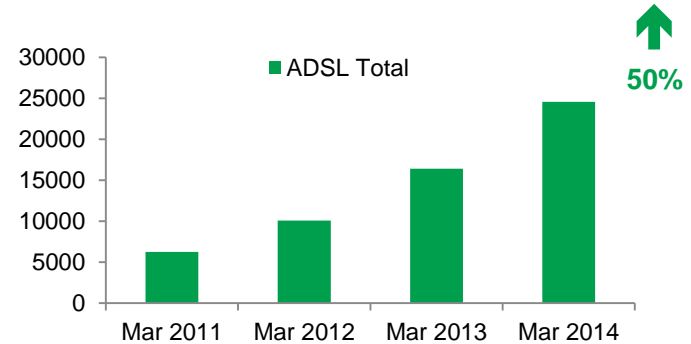
ADSL

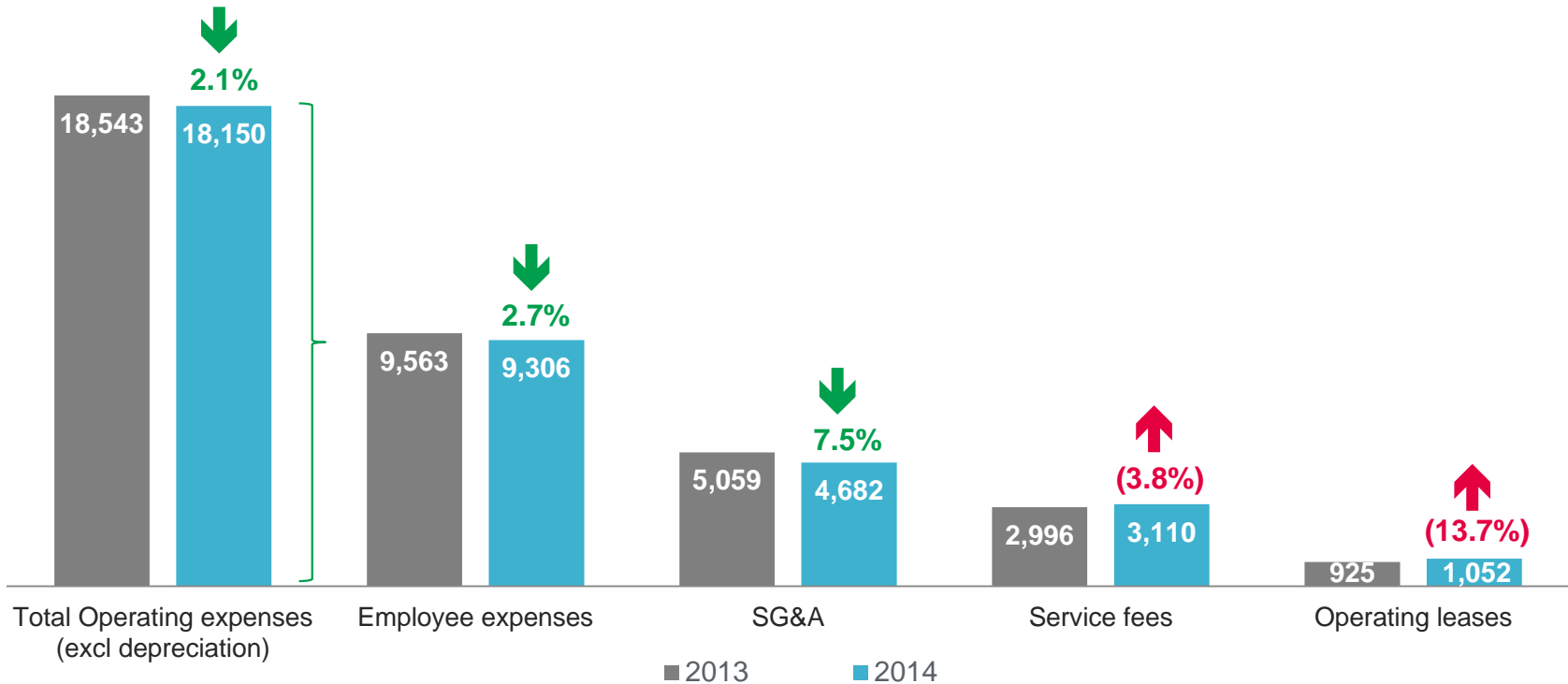


Managed data network sites



Traffic Volumes in TBytes





Excluding the curtailment gain in the current year and the Competition Commission fine and voluntary severance packages in the prior year.

NGN investment drives growth in capital expenditure

02

	Mar 2014	Mar 2013	%
Total capital expenditure	R6,458m	R5,768m	(12.0)
Group capital expenditure excluding mobile	R5,090m	R4,220m	(20.6)
Converting access network to IP (NGN)	R2,439m	R1,232m	(98.0)
Maintaining/enhancing existing telecoms & IT networks	R2,651m	R2,988m	11.3
Mobile	R1,368m	R1,548m	11.6

Maintained strong cash balances despite increased capital investment

02

	Mar 2014	Mar 2013	%
Cash flow from operating activities	R6,366m	R7,472m	(14.8)
Capital Investments	(R6,370m)	(R5,627m)	(13.2)
Reduction in term debt	(R2,583m)	(R731m)	(253.4)
Cash at end of period	R1,841m	R2,381m	(22.7)
Discretionary investments	R3,016m	R4,713m	(36.0)

Net debt to EBITDA ratio: 0.3x

Prospects

	F2014 A	F2015	F2016
Revenue	+1.1%	Stabilise to grow	Stabilise to grow
EBITDA margin	25.8%	26%-27%	27%-28%
Capex to Revenue	19.9%	14% - 17%	14% - 17%
Net Debt to EBITDA	0.3	≤ 1	≤ 1

The above have not been reviewed or reported on by the external auditors of the company.

Our dividend policy going forward

Dividends are considered on an annual basis based on the financial performance of the Group, with reference to financial performance of the group, operating environment, growth opportunities, as well as debt and cash flow levels.

Our intention is to reinstate the dividend in 2015.



MTN SA and Telkom Mobile






- MTN will take over **financial and operational responsibility** for the roll-out and operation of Telkom's RAN.
- **Bilateral roaming agreement** 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








Telkom and Business Connexion

- Support **growth beyond core business of connectivity** by expanding into ICT services
- Proposed transaction is **funded from our balance sheet** and enables the realisation of **synergies**
- Significant opportunity to increase and **leverage off respective client base**
- Maintain BCX as a **separate operational entity** within Telkom.
- Reverse-integrate Cybernest into BCX and retain BCX key management skills
- Addresses both **revenues** and **costs**
 - BCX skills and certifications are aligned to Telkom's strategy for future growth

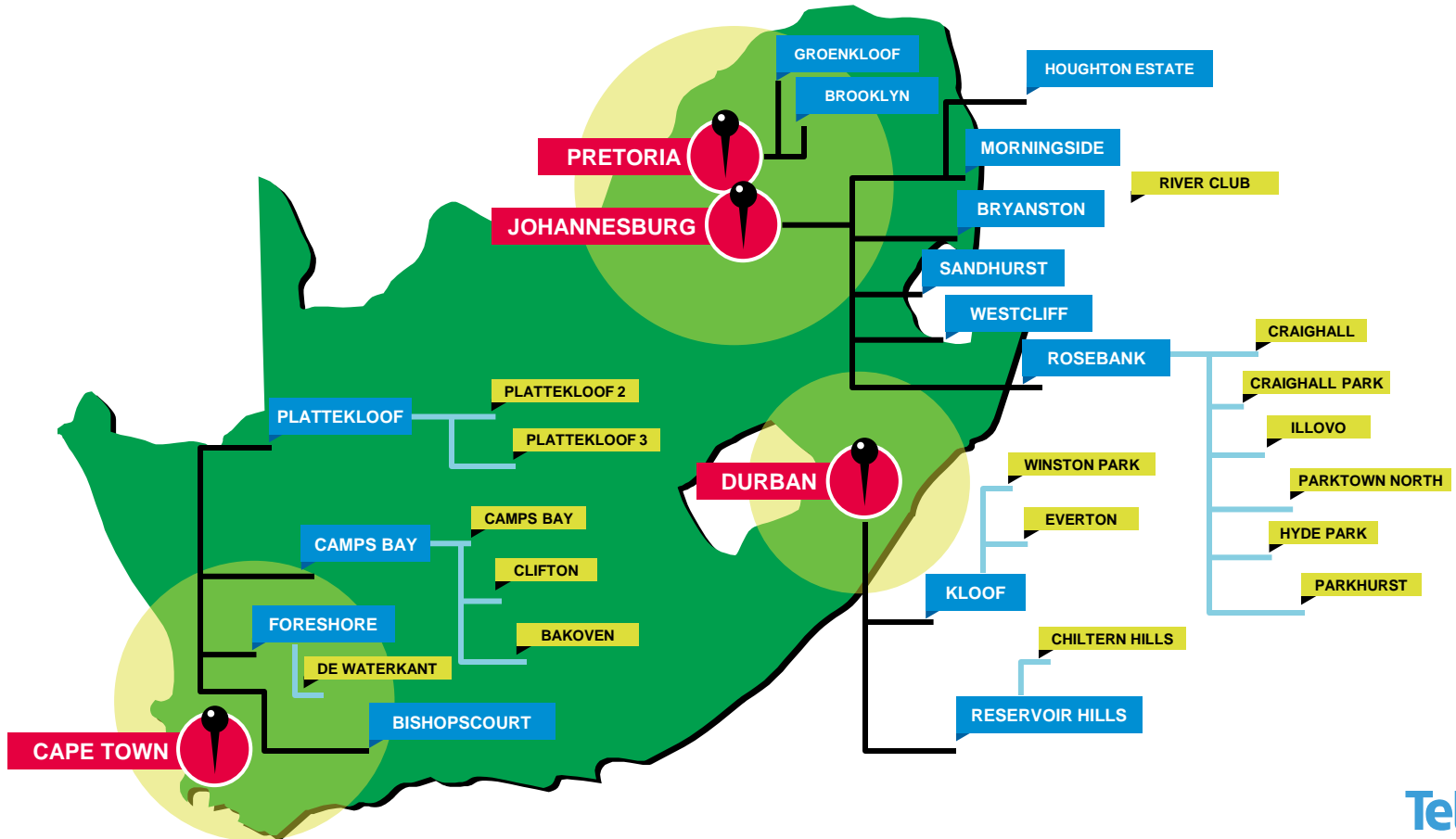
What we said

-  Deliver superior customer experience
-  Resolve Mobile – remove uncertainty and curtail future opex and capex
-  Disciplined capital allocation with greater emphasis on productivity and returns
-  Improve efficiency – cost base, execution
-  Find revenue growth – to secure future

What we did

-  Improved our rating as shown by external surveys
-  MTN SA/Mobile proposed agreement begins to address uncertainty
-  Strict funding model in place
-  Initial efficiency measures produce benefits, significant room for further reductions
-  Business Connexion, explore content and VAS

- We will **improve customer experience**, with a dedicated office focusing on process improvements
- Deliver a sustainable, **winning mobile** proposition
- Develop and deliver a plan to **accelerate and extend NGN**
- Stimulate demand with **content and value added services**
- Transform our Go-to-Market strategies, with a particular focus on **channel optimisation**
- Optimise **contact centres** with one point of contact and more self-help facilities
- Deliver **simple and compelling bundles** and converged products



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

- Define more **competitive pricing and broadband offers**
- Migrate from legacy to scalable **metro ethernet products**
- Strengthen wholesale **sales and business development capabilities**
- Define wholesale/retail and **network operating model boundaries**
- Develop **adjacent growth areas** that can be done in partnership such as wholesale content delivery, voice, infrastructure, and international growth

Enabled by:

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

Conclusion

We have three fundamental goals to reposition the business for growth

04

Stabilise our operations to achieve growth in the long term

Implementing efficiency drives is necessary but not sufficient

Reposition the business to achieve long term commercial sustainability

Reposition commercially to generate sustainable revenue streams

Implement new operating models that support commercial directions – that are efficient and responsive

Fulfill key role in transforming South African telecommunications economy

Dedicated to being South Africa's network, and to create an open and even access environment

Questions and answers

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