



Telkom

Telkom SA SOC Limited

Group Annual Results

For the year ended 31 March 2016

Tomorrow starts today

Agenda

- 01 Introduction
- 02 Business performance
- 03 Financial overview
- 04 Conclusion

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Introduction

01



Our purpose

Leading in the converged ICT market through deep and credible relationships

- The largest and most reliable network in South Africa
- The backbone of the banking industry
- The only truly converged operator in the market

Operating environment

Economic environment remains fragile

GDP growth slowing

Consumers and corporates under pressure

Currency volatility

Intensified competitive landscape

Increased number of fibre players

Margins under pressure

Regulatory environment uncertain

Policy unclear

Consolidation in the market is inevitable

Recap of the turnaround phase

Addressed the key issues affecting performance

The key issues

Key actions

Cost and capital efficiencies



Sustainable cost efficiency measures; disciplined capital allocation; very strong balance sheet

Telkom mobile unsustainable



De-risked mobile

Uncertain regulatory and policy environment



Proactive regulatory stance
Improved relationships across all stakeholders

Declining core



Finding growth in other profit pools (Fibre, LTE, BCX, mobile data). Managing traditional voice decline

Capability



Execution, skills, culture, systems, processes

Poor brand perception and customer service

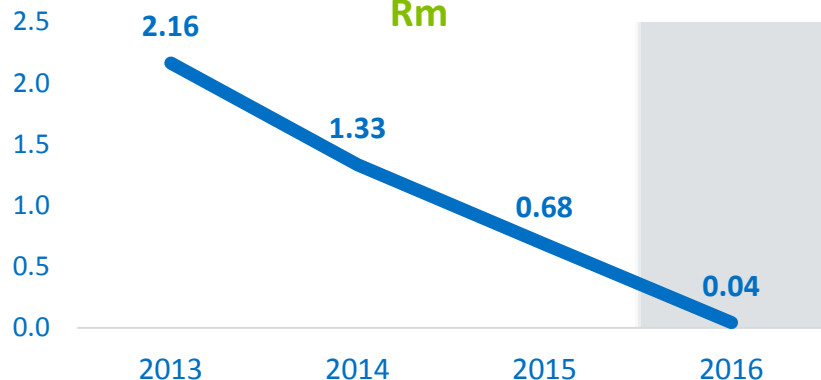


Resetting the brand
Improvement in the customer satisfaction indices

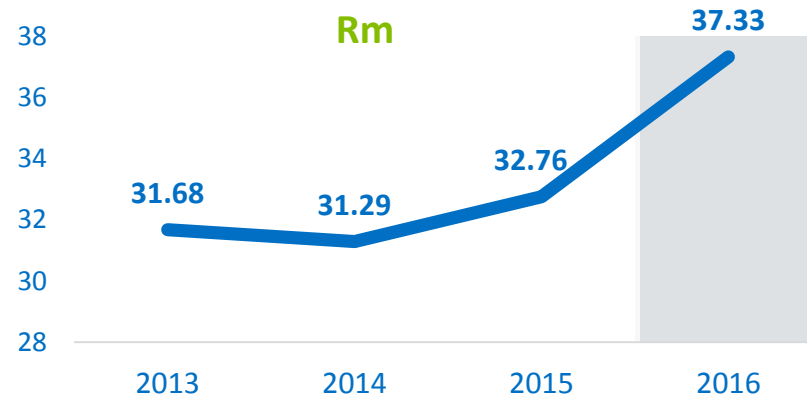
Solid execution of our turnaround strategy

A good foundation for growth

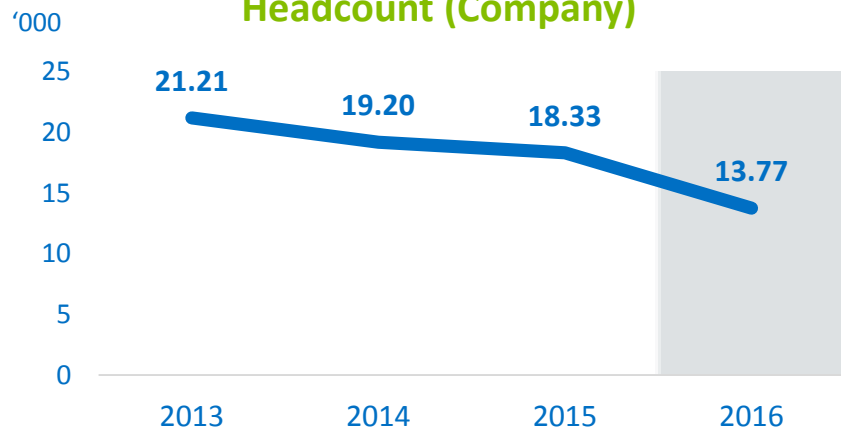
Mobile EBITDA loss
Rm



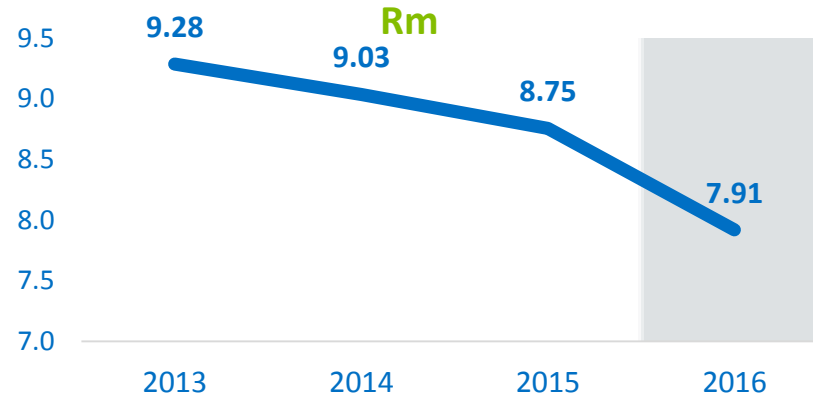
Group operating revenue
Rm



Headcount (Company)



Employee expenses (Company)*
Rm



*Excluding voluntary early retirement and severance package costs of R2 193 million and the related tax impact of R517 million for FY2016. The comparative numbers exclude voluntary early retirement and severance packages of R591 million and the related tax impact of R165 million, as well as the tax benefit on the post-retirement medical aid payment of R546 million

Strengthening the core business

Operational and financial assertion

- Launch of Openserve
- Acquisition of BCX
- Strong balance sheet
 - Net debt to EBITDA of 0.1x
 - Solid cash balance
- Re-instated dividend
- Social impact
 - FutureMakers
 - Telkom Foundation



Ongoing focus on customer experience

Transformation initiatives: short term challenges to ensure long term gain

- Established customer experience unit and introduced NPS
- Outsourced call centres
- Change in vehicle fleet
- Journey to address complex legacy IT systems
- Focus on digital and self-help channels

A large, modern call center or data center with multiple rows of desks, each equipped with multiple computer monitors. In the background, a long wall of large digital screens displays various data visualizations, including maps and charts. The ceiling is high with recessed lighting. Two men are seated at desks in the foreground, working on their computers. One man is wearing a blue shirt and the other is wearing a patterned shirt. The overall atmosphere is professional and high-tech.

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Business performance

02

Financial highlights

Strong financial performance in FY2016

HEPS up
15.5%*
To 657.9 cents

Employee expenses
(company) down
9.6%*

Dividend of
270cps

Operating revenue
up
13.9%

Mobile service revenue
up
39.3%

EBITDA improved
16.1%*
to R11 billion

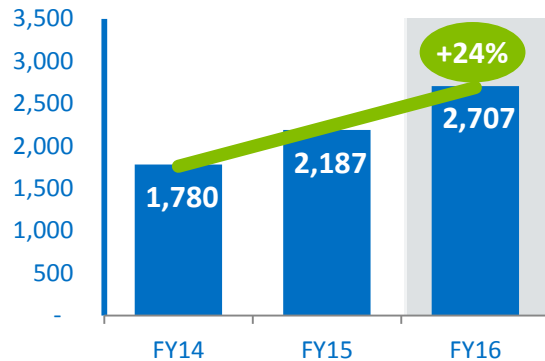
Margin of
29.3%*

*Excluding voluntary early retirement and severance package costs of R2 193 million and the related tax impact of R517 million for FY2016. The comparative numbers exclude voluntary early retirement and severance packages of R591 million and the related tax impact of R165 million, as well as the tax benefit on the post-retirement medical aid payment of R546 million

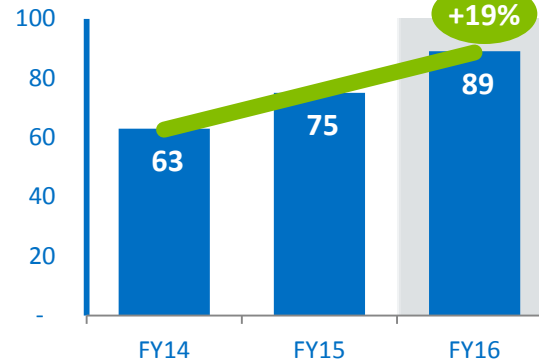
Consumer Mobile – a great story to tell

Strong operational performance by Mobile

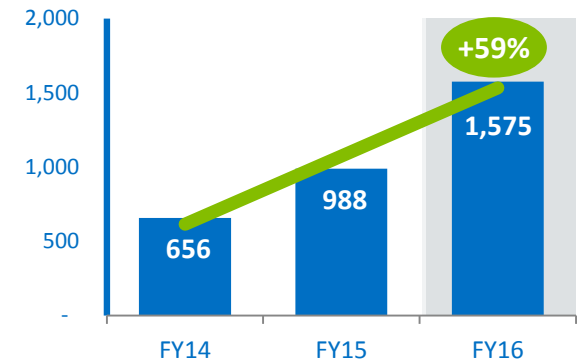
Active mobile subscribers (Mill)



Blended ARPU (Rand)



Data revenue (Rm)



- Data traffic grew by 72% and voice 37%
- LTE investment bearing fruit
- Nomadic broadband customers grew 174%
- Smart phone and data subscribers grew 42%
- Post-paid subscriber has grown by 37%
- Winner of MyBroadband mobile broadband provider of choice

Broadband-led product evolution

- Fixed revenue returned to growth
 - Data revenue increased by 8.7% year on year
- Accelerated demand for fibre
- Growth in fixed broadband
 - Continued upselling to DSL customer base
- Simplification and streamlining of product offering



Openserve

Product and pricing evolution: driving growth and competitiveness

Long term revenue growth



Revenue stabilised and growing
Churn reduced
New connections increasing

Grow broadband market



Increase in total broadband market
Lower entry-level point
Increase bandwidth

Slow Self-Provisioning



New orders from MNOs
Lower Leased Line churn
Growing new connections

Diversify ISP market



More ISPs
Less concentration of revenue



Openserve

Effective utilisation of our vast network

- Migrating from old to new efficient technology
- More than 850 gated communities covered with fibre
- Data connectivity revenue gains traction
 - ATM & Megalines revenue up 46%
 - Leased line revenue flat year on year in the second half of the year
- 78% increase in sub-marine cable utilisation

81 503

homes passed with FTTH

136%

Increase in Megaline
bandwidth capacity

1 451 986

homes passed FTTC

Enterprise

Transition from legacy to new products

- Proactively defended and de-risked legacy voice revenues
- Metro Ethernet revenues grew 55%
- Good growth in Unified Communications
- Converged bundle sales grew 58% year on year
- Cross-sell of BCX services to Telkom customers



BCX: Strong performance...

... despite constrained operating environment

- Revenue grew 17% for the 7 months
- Solutions and service delivery grew 11%, offset by 5% decrease in technology and sourcing revenue
- Integration and merger synergies being realised
- Good recovery in EMEA – revenues up by 40%



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Financial overview

03

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PS4

WHAT'S POSSIBLE

Developments in FY2016 affecting the financial results

- Prior year adjustment – Reassessment of the Telkom Retirement Fund (TRF) pensioner liability
- BCX incorporated – 7 months
- Trudon – reclassified as a continuing operation
- VERP/VSP impact of R2.2 billion and tax effect of R517 million
- Gains from property, plant and equipment of R704 million

Normalised earnings

	March 2016	March 2015	%	
Profit for the period	2 376	3 184	(25.4)	↓
VERP/VSP cost	2 193	591	271.1	↑
Tax on VERP/VSP cost	(517)	(165)	213.3	↑
Tax on PRML	-	(546)	-	
Normalised profit for the period	4 052	3 064	32.2	↑
Normalised headline earnings per share	657.9	569.7	15.5	↑

Successful execution of our transformation initiatives

Revenue stabilisation and growth

- Migration of customers to new services and products
- Fibre and LTE rollout intensified
- Significant improvement in mobile revenue growth and EBITDA

Variable cost base enabled by

- Voluntary severance and retirement packages
- Renegotiations of key long-term contracts
- Successful outsourcing of warehousing and call centre activities
 - Immediate savings realised

Strengthened balance sheet

- Sale of non-core properties
- Exited head office complex and onerous lease obligation
- Accelerated depreciation of legacy assets
- Remain lowly geared:
Net debt to EBITDA – 0.1:1

Key financial indicators

	March 2016	March 2015	%	
Operating revenue	37 325	32 760	13.9	↑
Net revenue	27 563	26 581	3.7	↑
Operating expenses	17 890	17 880	(0.1)	~
EBITDA	10 954	9 432	16.1	↑
Capital investments	6 090	5 214	16.8	↑
Normalised free cash flow	3 900	3 898	-	~

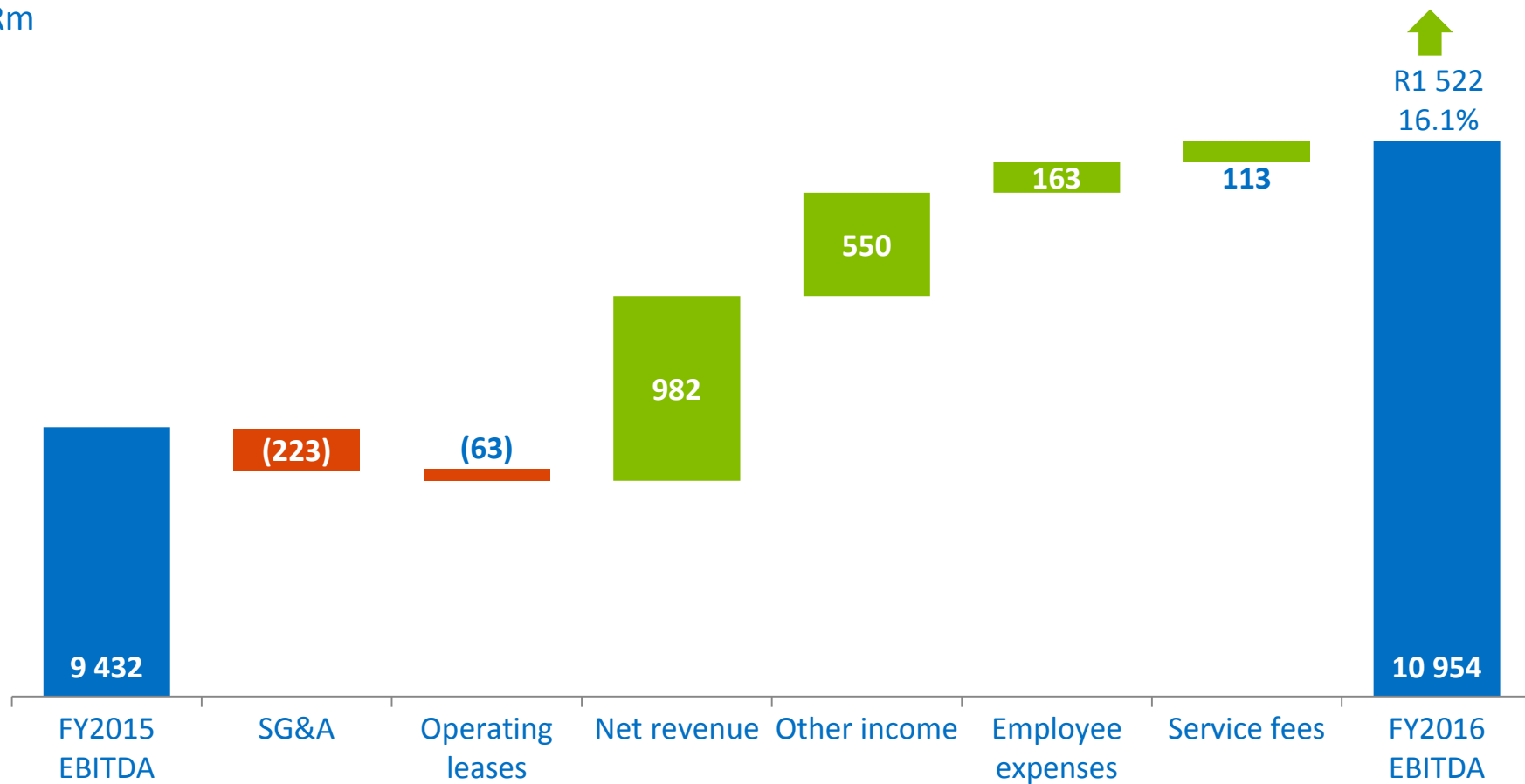
Quality of earnings

	March 2016	March 2015	%	
Profit for the year	2 376	3 184	(25.4)	↓
Gain from property, plant and equipment	(704)	(257)	(173.9)	↑
Severance package cost	2 193	591	271.1	↑
Profit of the sinking fund	(9)	(221)	(95.9)	↓
Tax benefit of PRML payment to insurer	-	(546)	-	
Reversal of provision for legal dispute	-	(121)	-	
Tax on VERP/VSPs	(517)	(165)	213.3	↓
Deferred tax asset	-	(250)	-	
Reversal of prior year tax provisions	-	(337)		
Adjusted profit for the year	3 339	1 878	77.8	↑

EBITDA

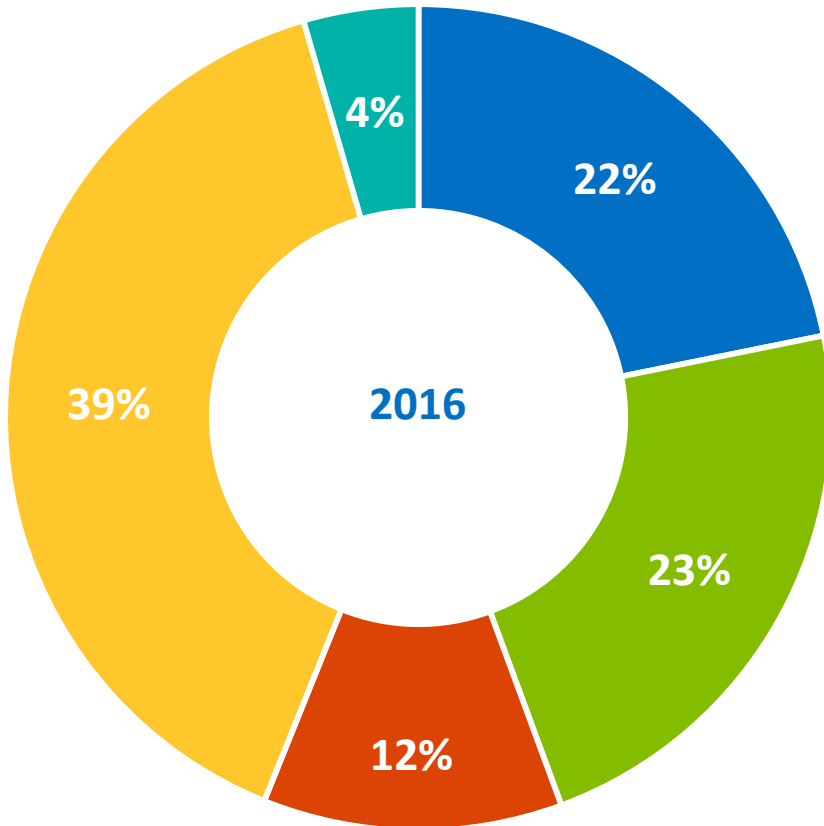
Normalised EBITDA movement

Rm

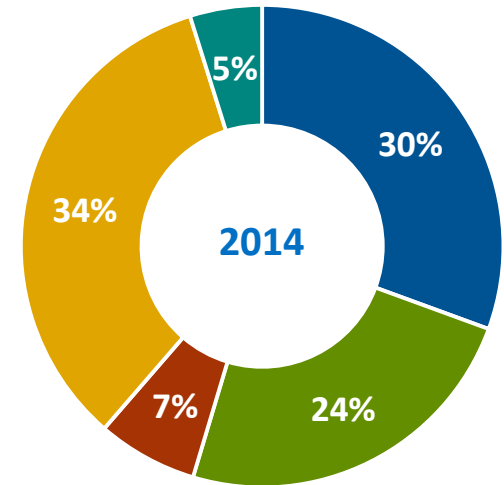
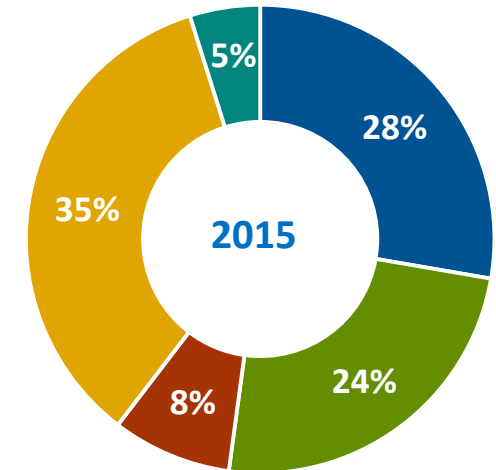


Reduced dependence on voice

Contribution to group revenue (%)

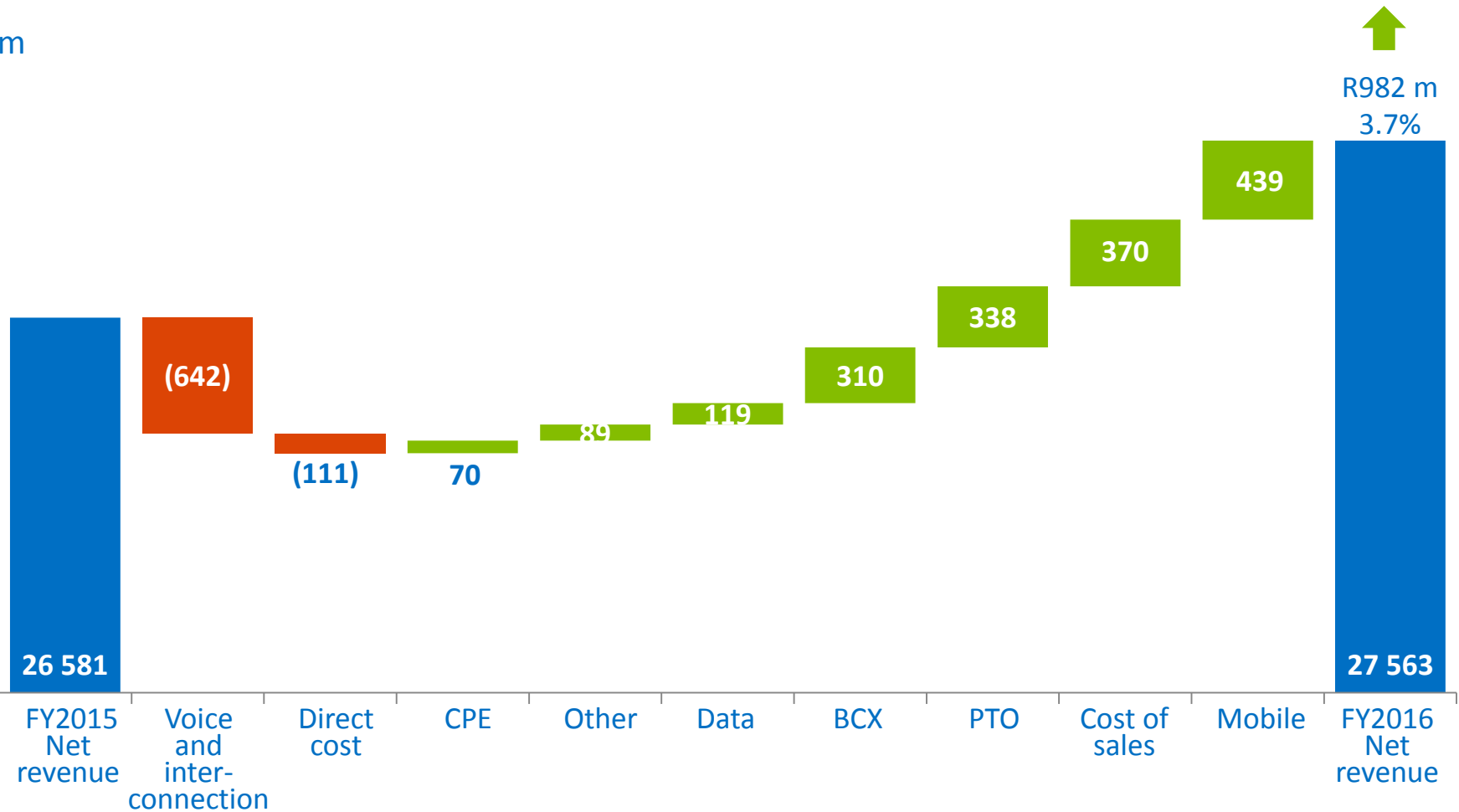


- Voice usage and interconnection
- Subscriptions
- CPE
- Data
- Other

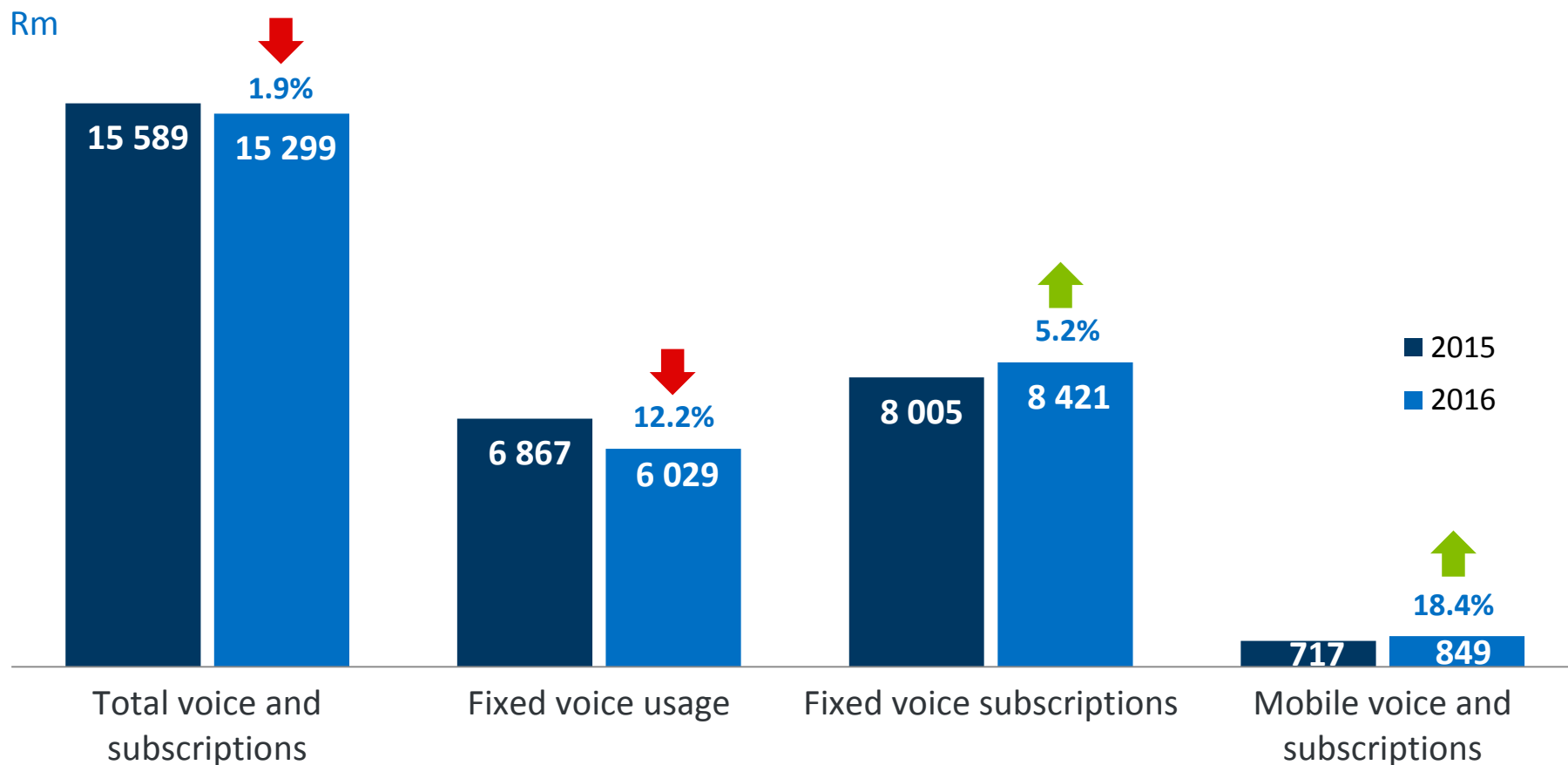


Net revenue movement

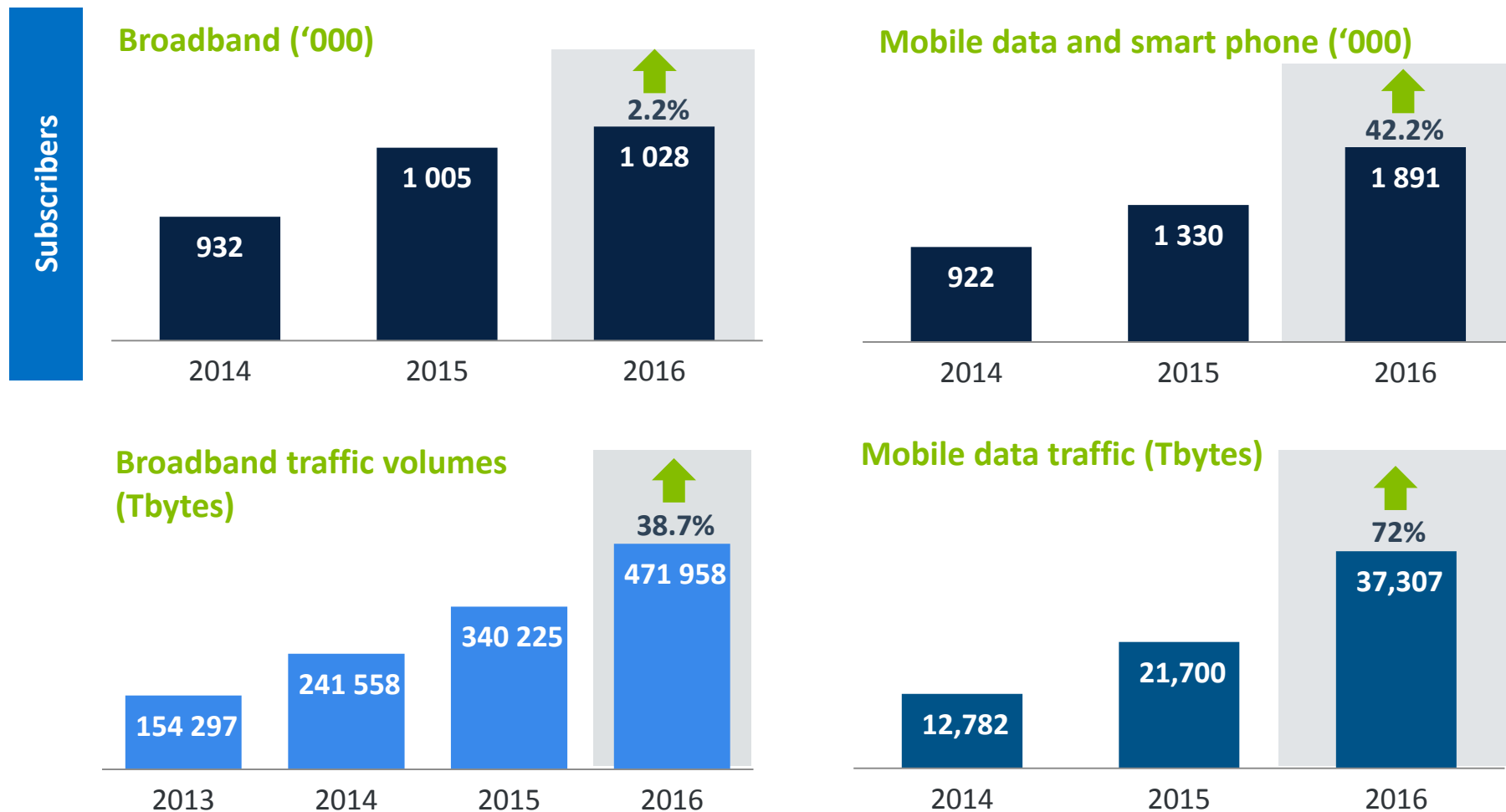
Rm



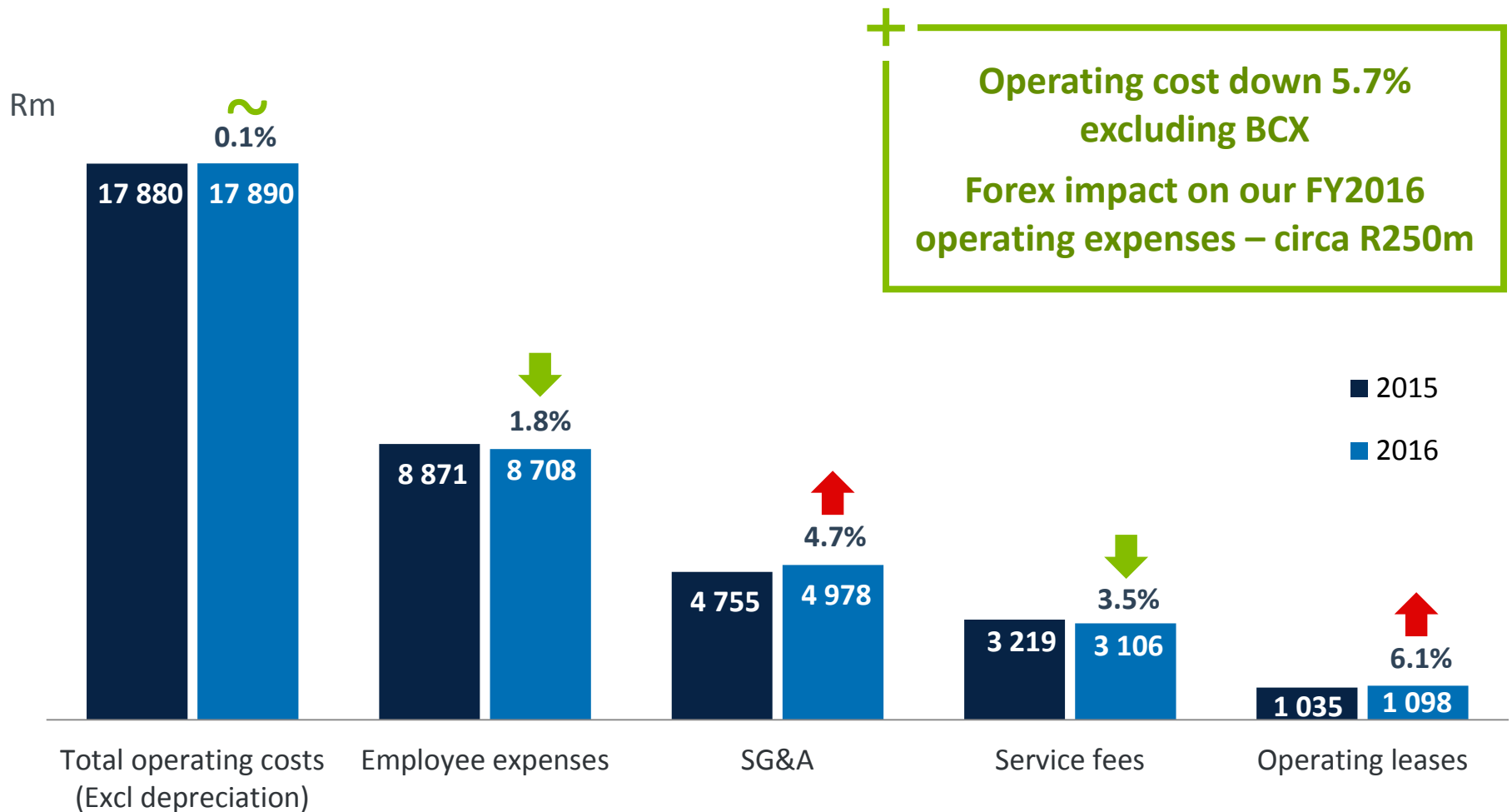
Declining voice revenue addressed through bundled and subscription based products and services



Growth in data volumes

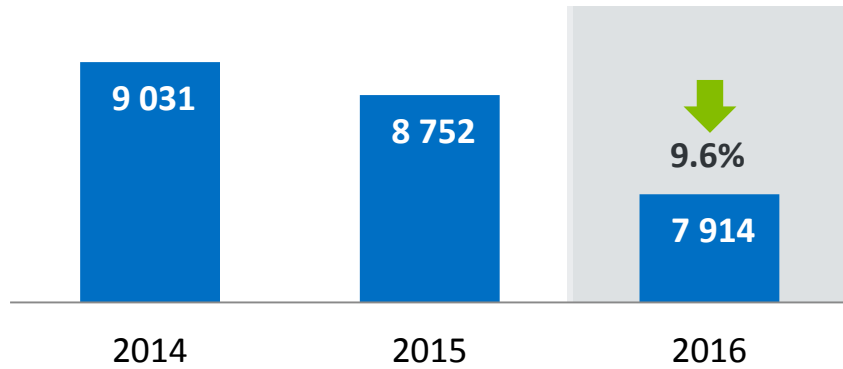


Operating cost containment

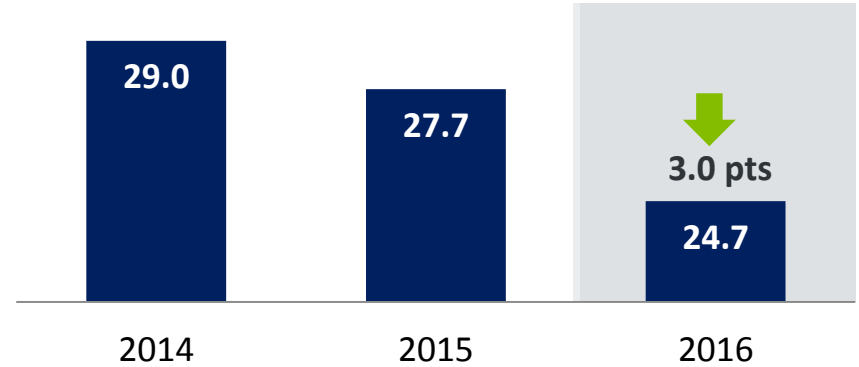


Transformation initiatives – Reduce and variabilise a rigid cost base

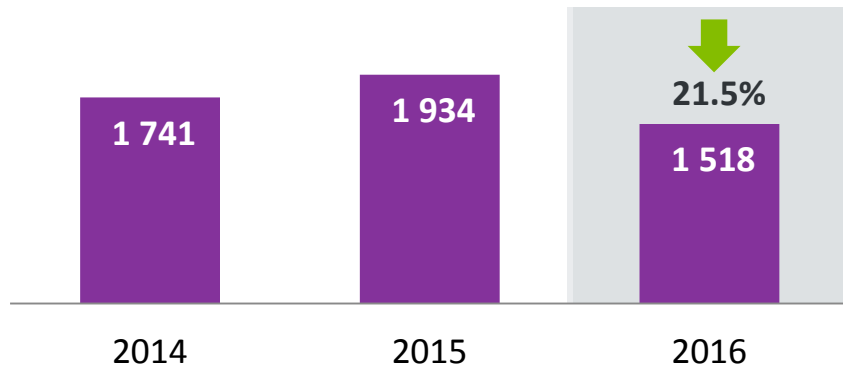
Employee expenses (Rm)



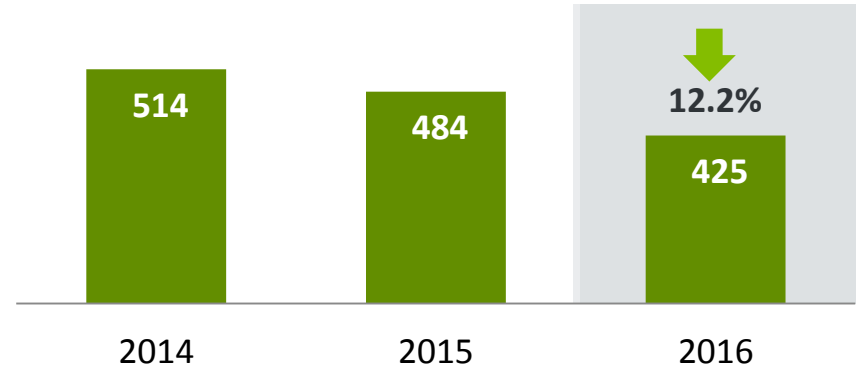
Staff cost to revenue (pts)



Property management (Rm)



Vehicle leases (Rm)



Increased capital expenditure to facilitate growth

	March 2016	March 2015	%	
Key focus areas:				
Fibre to home	757	252	200.4	↑
Mobile	660	481	37.2	↑
OSS/BSS programme	544	404	34.7	↑
Network rehabilitation/sustainment	674	429	57.1	↑
Service on demand	1 540	1 492	3.2	↑
Next generation network	553	857	(35.5)	↓

Strong cash position – Platform to enable growth

	March 2016	March 2015	%	
Cash sources				
Opening cash balance	3 642	1 841	97.8	↑
Cash flow from operating activities	8 153	6 402	27.4	↑
Significant cash applications				
Dividend paid	(1 402)	(121)	(1 058.7)	↑
BCX acquisition	(2 654)	-	-	
Cash paid on capital expenditure	(5 941)	(5 070)	(17.2)	↑
Cash at the end	2 542	3 642	(30.2)	↓
Cash and other money market instruments	4 176	4 742	(11.9)	↓

Guidance: Growth at lower margins

	F2016 guidance	F2016 (A)		F2017 guidance	F2018 guidance
Net revenue	Stabilise	+3.7%	✓	Modest growth	Modest growth
EBITDA margin	24% - 26%	23.5%*	✓	23% - 25%	23% - 25%
Capex to revenue	15% - 18%	16.3%	✓	15% - 18%	14% - 17%
Net debt to EBITDA	≤ 1	0.1	✓	≤ 1	≤ 1
Mobile EBITDA breakeven	During the year	R43m loss	~	Achieved	

Dividend policy: Our intention is to grow the dividend on an annual basis taking into account financial performance, capital and operating expenditure requirements, the Group's debt levels and available growth opportunities.

* Including additional VSPs/VERPs cost in FY2016

The Telkom logo is a blue square with the word "Telkom" in white, sans-serif font. It is positioned in the upper left corner of the slide.

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Conclusion

04

A road sign with a blue background and white text. It reads "Houghton Dr" and "M21" with arrows pointing down. The sign is illuminated by streetlights.

Houghton Dr
M21

Telkom Business Connexion : growth beyond connectivity

Leveraging joint and complementary capabilities

- Reverse integrating Telkom Business into BCX
- Earlier and enhanced realisation of synergies
- Avoid creation of parallel organizations and cultural silo
- Shorter period of uncertainty for staff and clarity for customers
- Strong in vertical capabilities across industries
- Head-start against new market developments

Telkom | **Business
Connexion**

Business Connexion

Africa's premium end-to-end digital partner

Business Connexion

- Advance unified comms
- Lead in the Internet of Things
- Offer cloud to simplify customer solutions
- Consolidate verticals approach
- Drive big data analytics

Key Performance Indicators

- New technology revenues
- Telkom | BCX synergies
- Embed entrepreneurial culture

Consumer

Aggressive product substitution

Consumer

- High speed broadband growth on the back of LTE & Fibre
- Continued Mobile growth through disruptive data led propositions
- Launch digital services to increase revenue and retention
- Content and VAS

Key Performance Indicators

- Broadband subscriber growth
- Improve ARPU
- Improve mobile revenue share
- Churn reduction

Combining search, display & digital marketing

Trudon

- Mobile Ad Exchange Network Coverage
- Expanding Omni-Channel offerings
- Establish E-Commerce market place
- Expand partnership to OTT

Key Performance Indicators

- New ad revenue
- Contextual advertising
- Expand customer base beyond SME

Openserve

Technology, product and pricing evolution

Openserve

- Continue to modernise the network
- Product and pricing transformation
- Grow broadband penetration

Key Performance Indicators

- Operational effectiveness (assurance and installations)
- Intensify deployment and connections
- Drive returns

The Telkom Foundation

Our success is inextricably linked to the success of South Africa therefore community interventions are purposefully aligned to the National Development Plan

We invest in education, with a focus on Math, Science and Technology. In 2015, the Foundation spent R50m in supporting programmes in these areas.

40

Connected schools
around the country

1000

Maths and science
teachers trained

2000

Telkom employees
volunteered in
supporting our
causes

4000

Learners in maths, science &
technology Learner Support
Programme

20

NPOs provided support
and grants

FutureMakers 2015/16 performance in numbers

203

Supported
businesses with
BDS support

866

Total
enquiries

1 621 Businesses touched through the FM Programmes

14
Cisco
partnership

11
3rd Party
dealers

11
(R37m)
FutureFund

3
IFT programme

367
FutureHub

1215
TechSavvy

To compete we must shift our culture...

...and change the ways we do things

From “old” Telkom behaviours

Working slowly



Working in small, hierarchical silos



Protecting ideas and knowledge



Not focussing on customer needs



Towards the Telkom of tomorrow

Quick cycle times

Collaborating to compete

Rapid knowledge dissemination

Focusing every output on the customers

In closing

- We are embarking on the next phase, the transformation to grow our business
- Investing in next generation products towards strengthening our core business
- A relentless focus on customer service will also always be part of our strategy
- We will ensure we implement the right processes and systems to enable and empower our employees

ORGANISATION

CULTURE

TECHNOLOGY

FINANCE

Telkom

Thank you
Questions?

telkomir@telkom.co.za

Tomorrow starts today