

Telkom

Telkom SA SOC Limited

Group Provisional Annual Results

for the year ended 31 March 2017

Tomorrow starts today



Introduction



Tough trading environment



Economic Environment

- > Limited GDP growth
- > Sovereign rating downgrade
- > Consumers under pressure



Competitive landscape

- > Increased number of fibre players
- > Competition in the wholesale space
- > Consolidation in the market



Regulatory environment

- > Spectrum
- > ICT Policy
- > Cost to communicate

Key actions laid groundwork for growth

Key issues to address



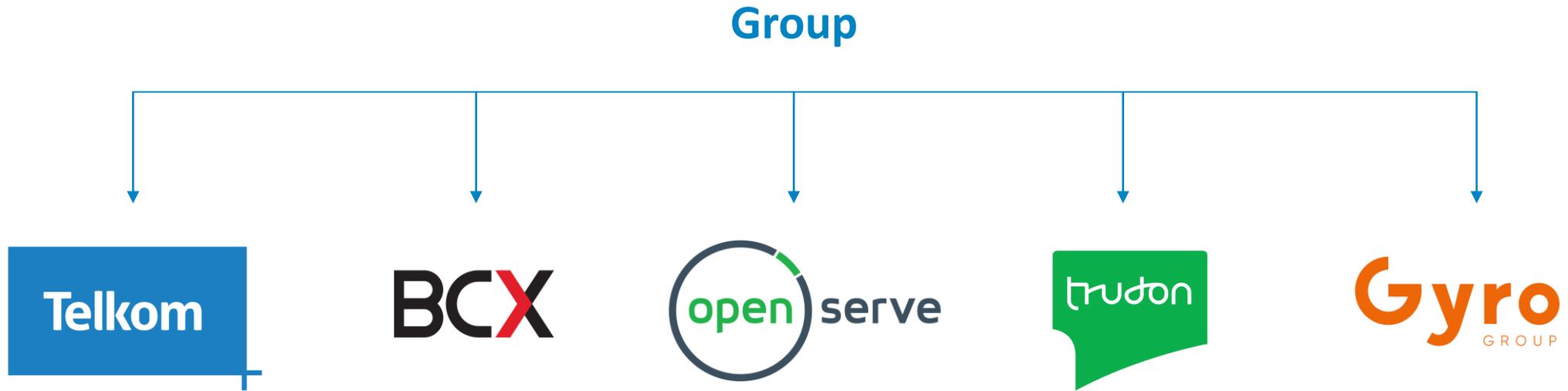
- > Cost and capital efficiencies
- > Sustainability of Telkom Mobile
- > Uncertain regulatory and policy environment
- > Core business
- > Capability
- > Brand perception and customer service

Key actions taken



- > Stabilise organisation, clear turnaround strategy
- > Sustainable cost efficiency; disciplined capital allocation
- > De-risked mobile business
- > Proactive regulatory interaction
- > Growing new profit pools (fibre, LTE, BCX, mobile data)
- > Execution of strategy, skills, culture change, systems, processes
- > Resetting the brand and ongoing improvement of customer experience

New fit for purpose operating model



Critical enablers of the new operating model



Relentless focus on cost

- > Instil a relentless focus on driving down costs
- > Ensure cost efficiencies achieved are not temporary



Capability and talent

- > Place the right individuals in the right roles
- > Empower individuals with the right training and support



Performance culture

- > Create culture of performance, grounded in Founders Mentality (i.e. ownership mindset, insurgency, frontline obsession)



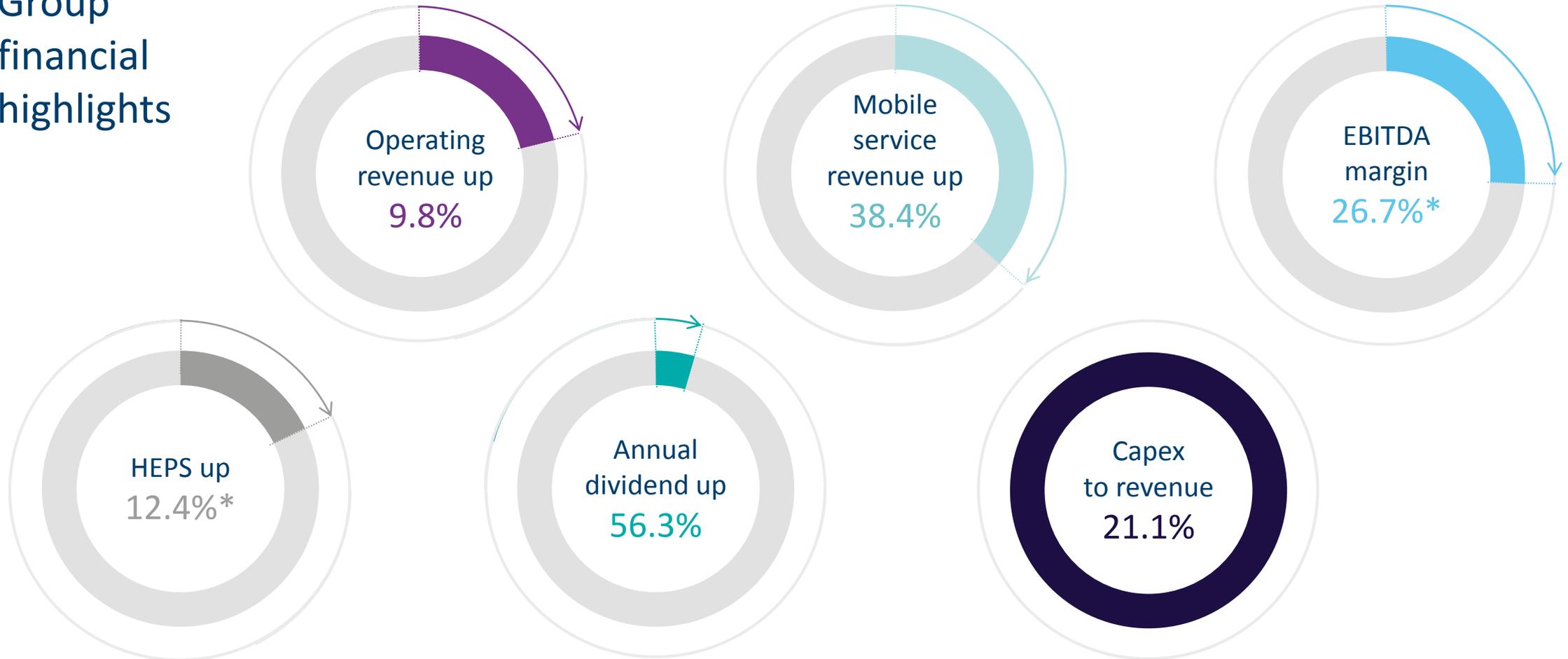
Systems and processes

- > Set-up systems and processes to enable operations and create transparency on performance

Business performance



Group financial highlights



*The figures exclude voluntary early retirement and severance package cost of R66 million and the related tax impact of R13 million.
The comparative numbers exclude voluntary early retirement and severance package cost of R2 193 million and the related tax impact of R517 million.

Performance against focus strategic areas



- > Modernise the network
- > Commercialise the network
- > Service delivery transformation



- > Cloud computing
- > Unified communications
- > Big data analytics
- > Internet of Things
- > Security



- > Mobile growth through data
- > High speed broadband growth
- > Content and VAS



- > Mobile Ad Exchange
- > Expanding Omni-channel offerings
- > Establish e-commerce market place
- > Expand partnership to OTT

Key focus areas

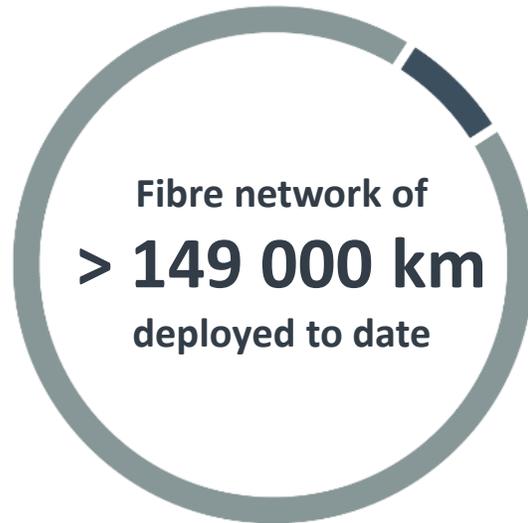
Modernise network

Commercialise the network

Transforming service delivery



Modernise the network – fibre deployment



Passed over **2.2 million** premises



Fibre to the home

219 825

up **169.7%**

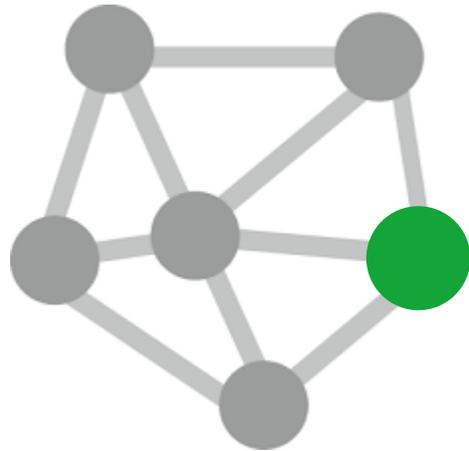


Fibre to the cabinet

1 991 449

up **37.2%**

Modernise the network – POTN* deployment



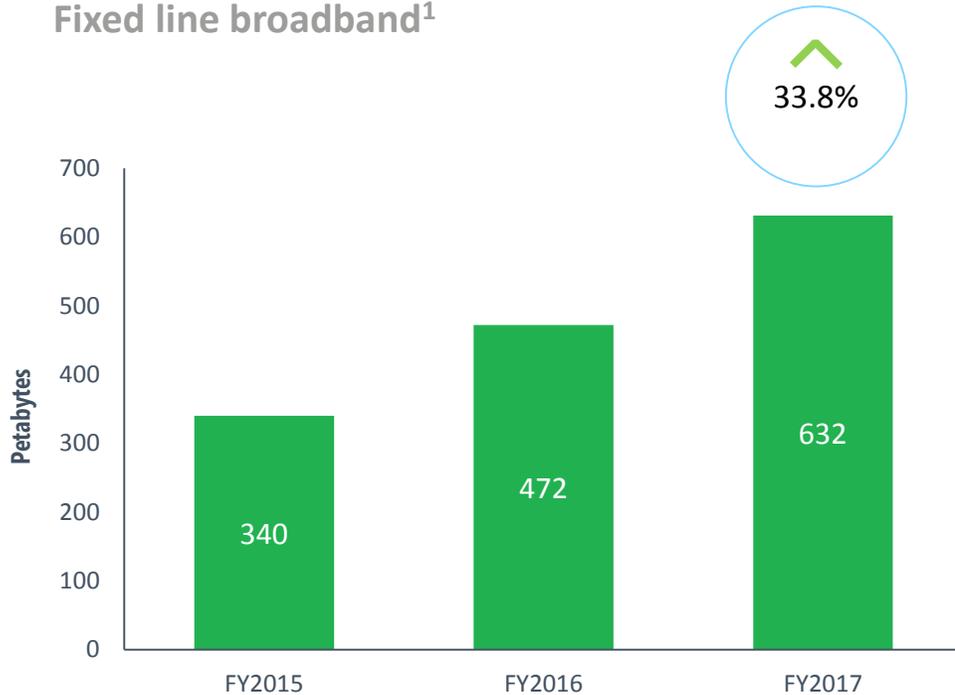
*Packet optical network

One of the 1st commercial deployments in the world

- > Simplified operations through common interworking platforms
- > Improved cost for high bandwidths
- > Increased efficiency through multi-layer utilisation by delayering the network

Commercialise the network – increased network consumption

Fixed line broadband¹



1. Access links



Fibre to the business

52 755
end points terminating



Fibre to the base stations

5 928
base stations



Fibre to the home

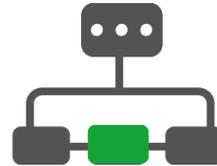
18%
connectivity rate

Transforming service delivery



Digitalise and automate business processes

- > Introduction of digital technician
- > Photo quality App and new Workforce Management solution “Click”



Continuously improve customer experience

- > “Right First Time” approach
- > Pro-active maintenance of the network



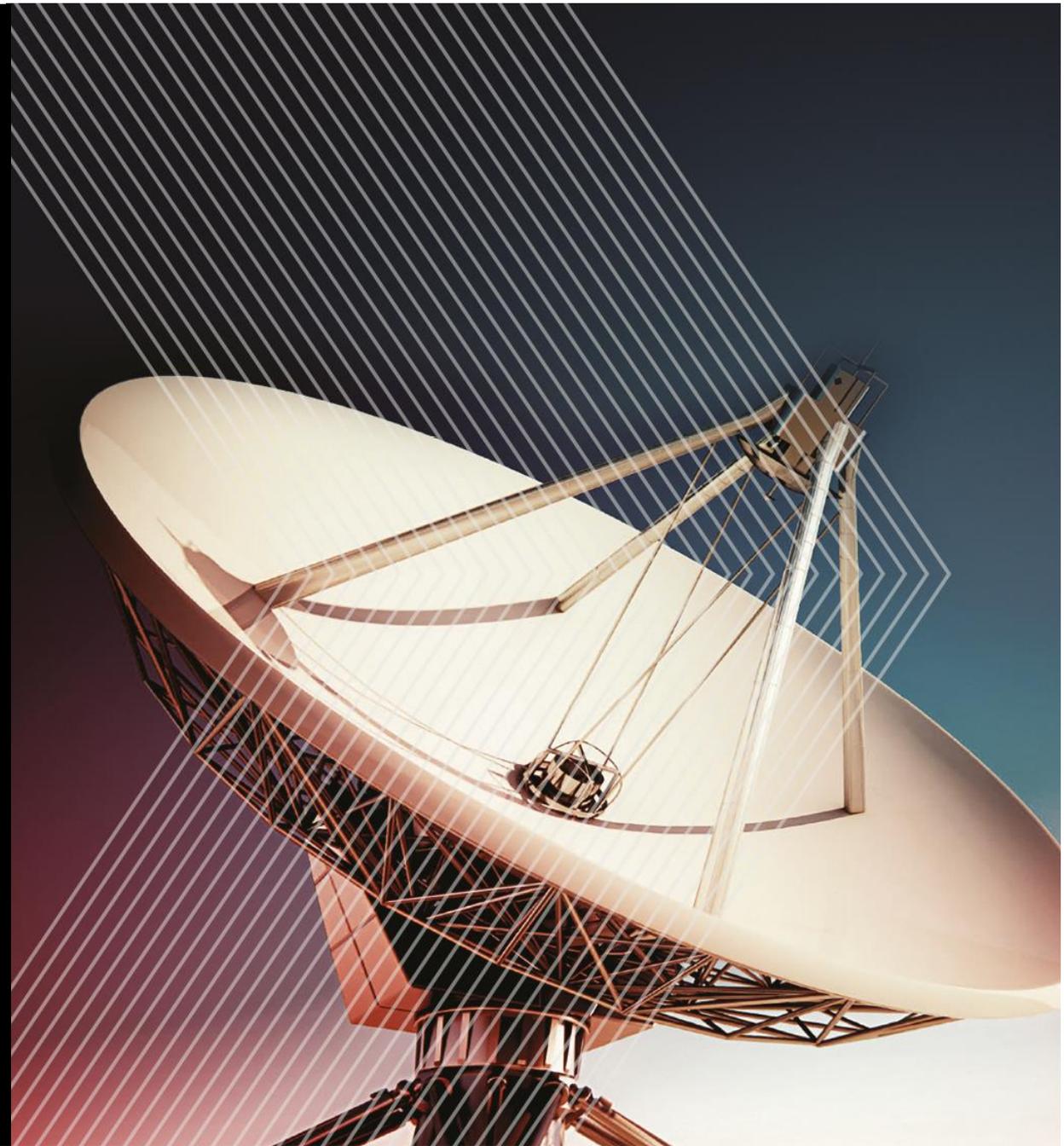
Optimise service delivery and cost efficiency

- > Improve dispatching methodology through bundling
- > Individual incentives through Performance Pays



Key focus areas

Cloud computing
Unified communications
Converged communications
Big data analytics
Internet of Things
Security



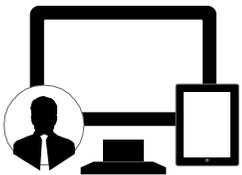
Benefits of the integration

People



- > New Exco
- > One sales force team

Resources



- > Unmatched data centres capabilities
- > Strong fixed network
- > Group IT to be managed by BCX

Product offering



- > Offer end-to-end solutions
- > Converged products and services
- > Increased scale and scope of products, services and business solutions

Financial profile – 31 March 2017



R14.0 billion
Total revenue



15.1%
EBITDA margin



R1.8 billion
Operating profit

Delivered against key focus areas

Cloud Computing



- > Launched Enterprise Business Critical Cloud
- > Enhanced BCXCloud.com
- > Launched SAP HANA Enterprise Cloud (HEC)
- > Strengthened Oracle capability

Unified Communications (UC)



- > Migrated customers onto NGN such as fibre, VoIP
- > Expanded UC offers to include full suite of options i.e. IPT, UC
- > Launched Cisco hosted collaboration solution
- > Launched Skype for Business UC practice
- > Launched a broadband satellite services

Big Data Analytics



- > A business unit was set-up
- > Big data platforms deployed for data scientists to mine and monetise data
- > Analytics as a Service
- > Data as a Service
- > Integrated into BCX Intelligent Solutions (Cloud, IoT, Digital, Big Data)

Delivered against key focus areas (continued)

Internet of Things



- > Continued growth within the IoT industrial and retail ecosystems
- > Products delivered focussed on the management of the IoT data and device ecosystem
- > Enabled ability via Cloud service provider to host in Azure via BCXCloud.com

Security



- > Fastnet Payment Card Industry Security Standard v3.2 certification
- > ISO 27001 certification

Digital Technology Organisation through collaboration, innovation and service focused



Customer Relationship Management system to effectively manage:

- > Pipeline and opportunities
- > Gather leads from BCXCloud.com via automated ticketing system



Customer First Program strengthened to drive:

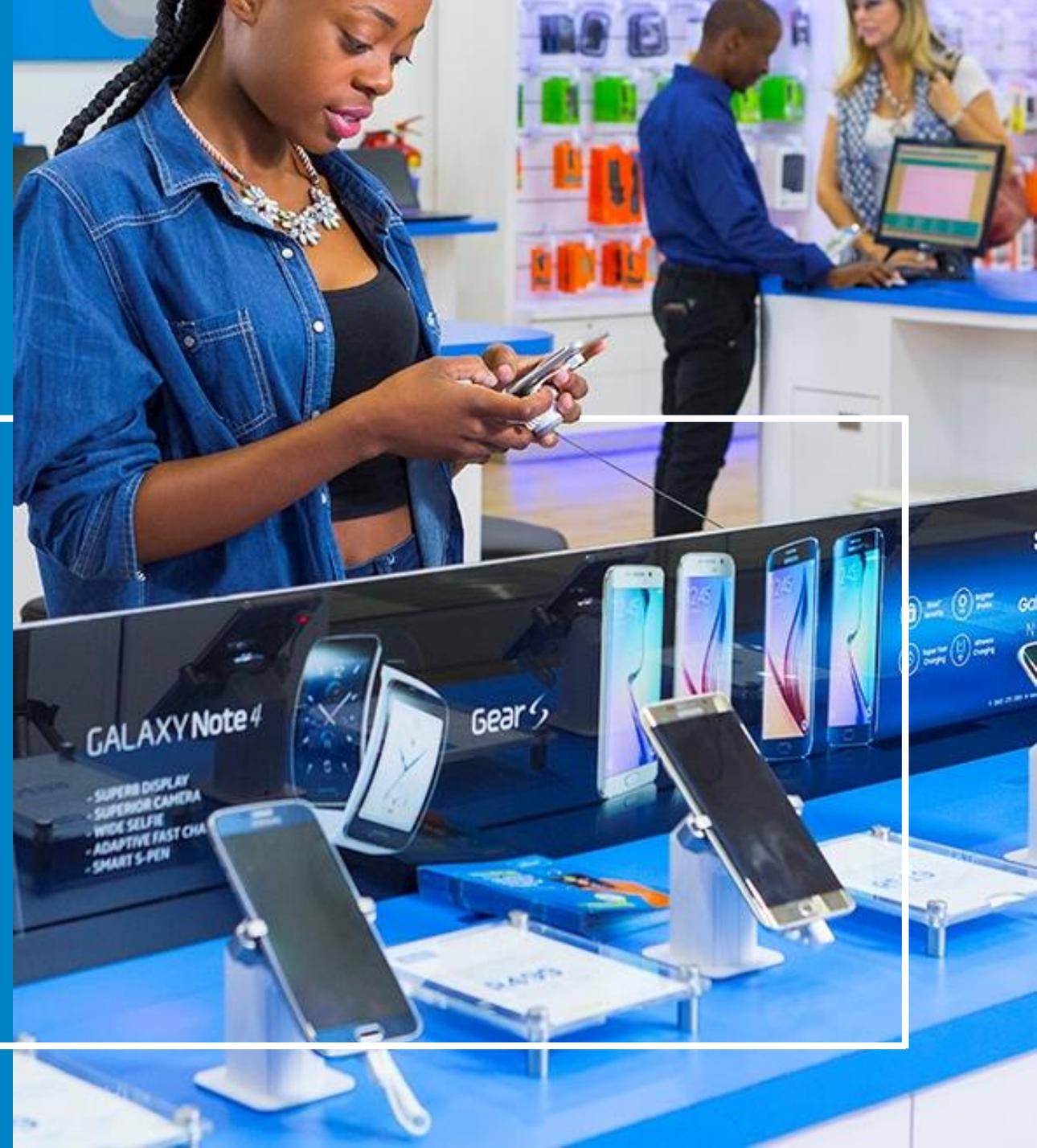
- > customer insights
- > capability to manage customer life cycles
- > Ability to offer self help on core cloud services at BCXCloud.com

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Consumer

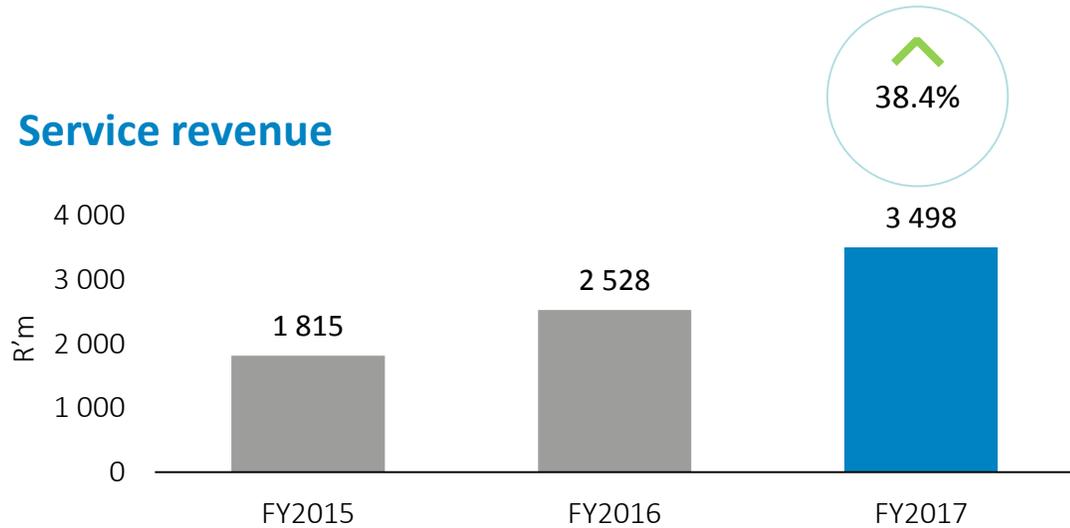
Key focus areas

- > Mobile growth through data-led propositions
- > High speed broadband growth
 - LTE & fibre
- > Digital services
- > Content and VAS



Solid execution by mobile business

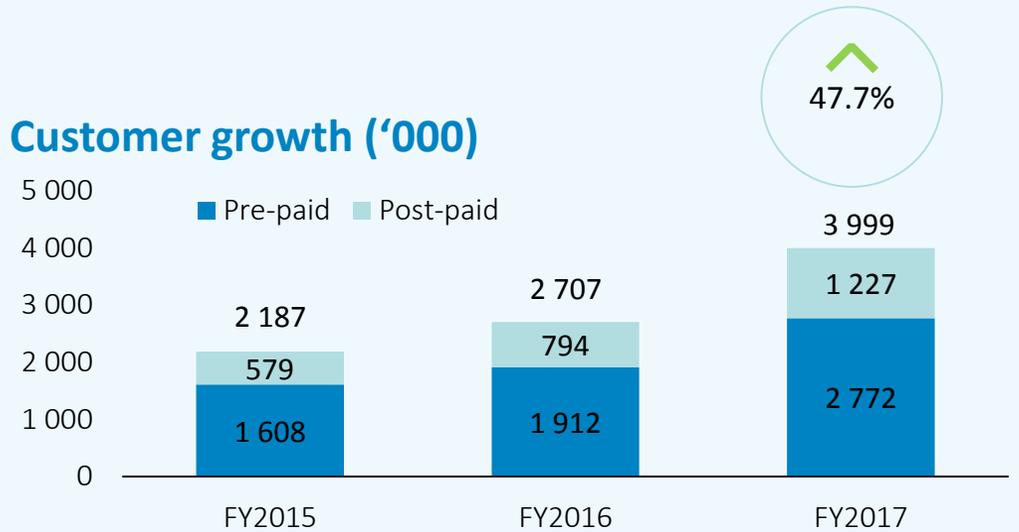
Service revenue



EBITDA



Customer growth ('000)



> Strong subscriber growth supported by network roll-out

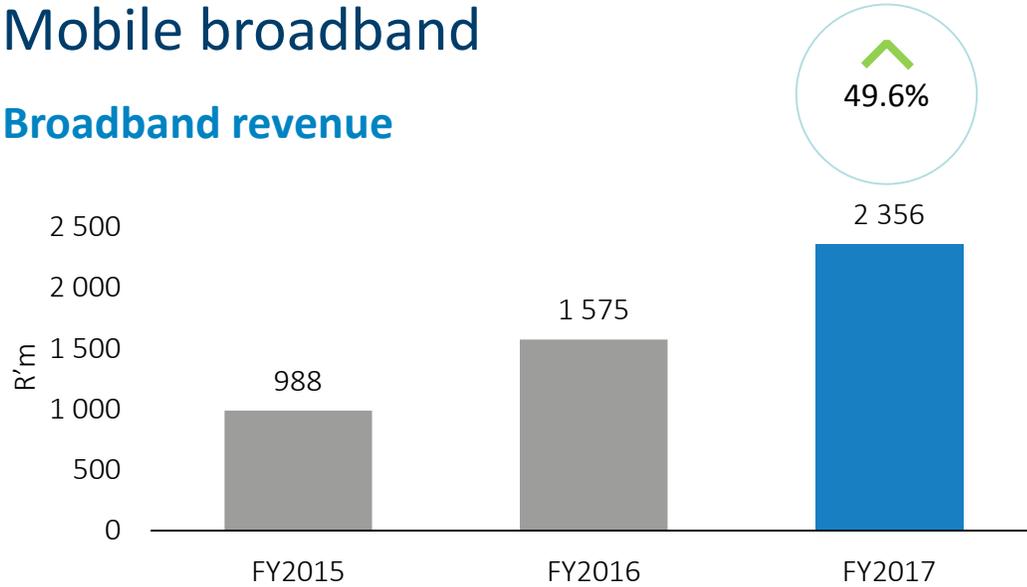


> 2G/3G base stations growth from 2 663 FY2016 to 2 986 FY2017

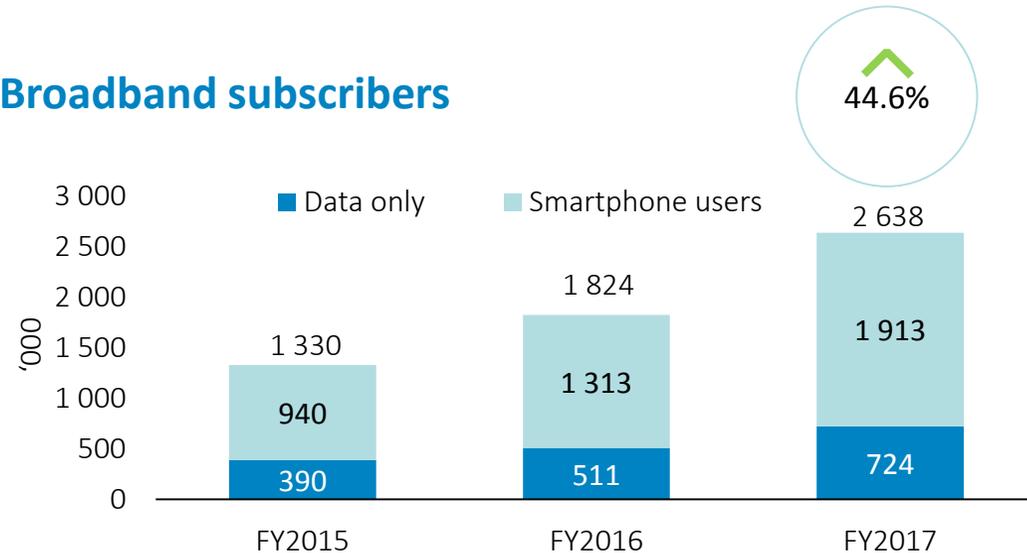
- of which there are 2 607 re-farmed sites and
- 1 677 LTE sites

Mobile broadband

Broadband revenue



Broadband subscribers



High speed broadband



> Uptake of Fixed Broadband:

- Significant demand for fibre
- Migration from ADSL/VDSL to fibre
- Fixed broadband uncapped strategy yielding results

> Partnerships with ShowMax and other OTT providers

Ongoing improvement to customer experience



System upgrades

- > Reduced time to capture, process & vetting
- > Paperless applications
- > Digital & self-help



Store initiatives

- > Queue management system
- > Customer call back support
- > V-Docs: paperless application process



Call centres

- > Improved first time resolutions
- > Reduced call volumes
- > Live chat

Key focus areas

Mobile Ad Exchange

Expanding Omni-channel offerings

Establish e-commerce market place

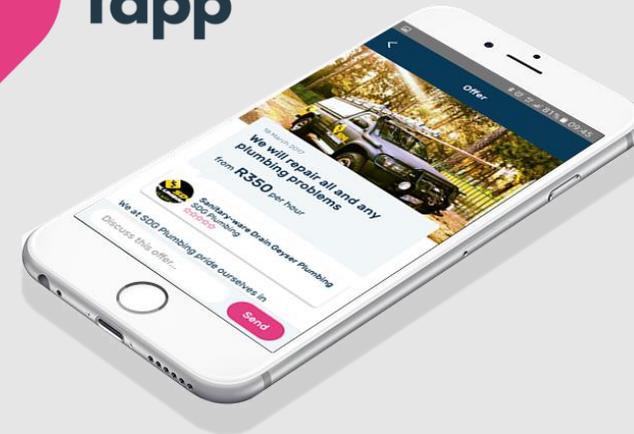
Expand partnership to OTT



Establish e-commerce marketplaces



- > 200% growth in traffic
- > 663 117 leads generated
- > 1 000 000 consumers reached
- > Launched first Black Friday and Cyber Monday deals



- > Launched web and mobile apps (iOS & Android) in January 2017
- > Agile delivery of business critical features on a monthly basis
- > 8x leads generated per service provider
- > 100% traffic growth per month

Mobile Ad Exchange



- > **997** deployed for projects
- > **1 000** registered
- > In negotiations for deployment of **1 Private Network**

OTT partnership



34%

Growth in Google Revenues

New Partners



Expanding Omni-channel offerings



- > **118 000** quotes sent to business
- > **4 000** appointments sent to business
- > **50 000** consumers serviced in digital queue

Customer and Process Improvements



15%

Improvement in NPS



100 days

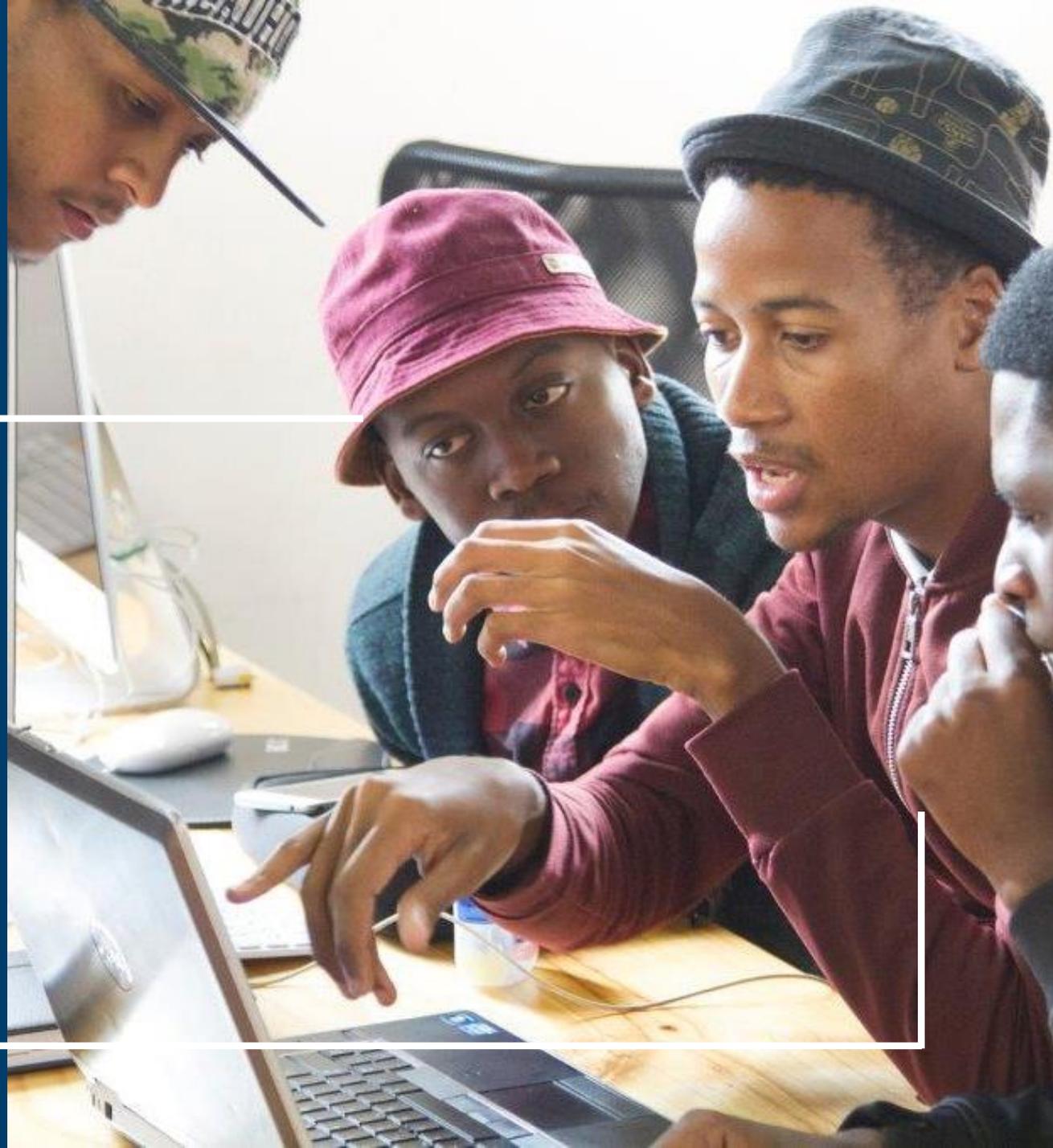
From concept to go-live



75 000

new Businesses Added

Human and social capital



HR - Focusing on attracting and growing talent



Performance based incentives

- > Performance Pays – up to 12%
- > Performance Management



Recruitment

- > Bright Young Minds
- > WeThinkCode



Leadership & development

- > Talent management & succession
- > Female Leadership

CSR - Empowering youth through education and entrepreneurship

Foundation –

Main focus is on education



R85 million
allocated to education



9 770
Learners benefited from
supplementary teaching



4 140
teachers trained in ICT

*Foundation over the past 3 years
FutureMakers investment since 7 May 2015*

FutureMakers –

Enterprise and Supplier Development Fund



R234 million
invested into the FutureMakers Fund



40 black owned businesses through our
IFT programme who in turn employed
364 technicians



1 102
new jobs created by FutureMakers
beneficiaries

Financial overview



Developments in FY2017



Mobile

Mobile EBITDA profitability



Accelerated capex deployment

120% growth in capex
deployment to priority areas



BCX

BCX inclusion for the full year and the
integration of Enterprise with BCX



Dividend

Introduction of interim dividend
and dividend policy

Earnings excluding VERPs and VSPs

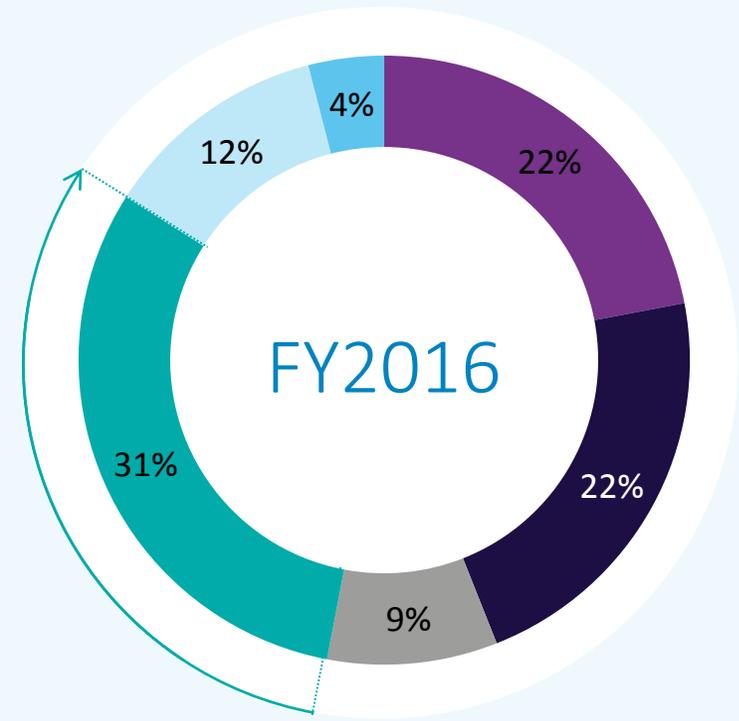
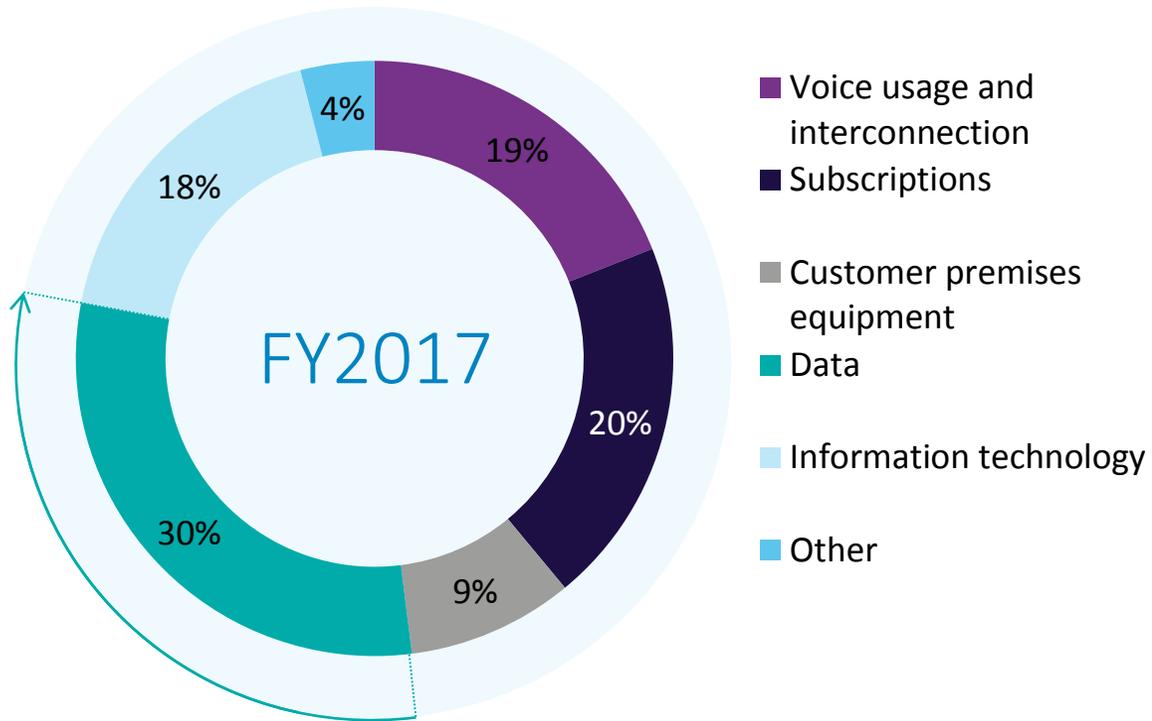
	FY2017	FY2016	%
Profit for the year	3 854	2 321	66.0
VERP/VSP cost	66	2 193	(97.0)
Tax on VERP/VSP cost	(13)	(517)	97.5
Profit for the year excluding VERPs and VSPs	3 907	3 997	(2.3)
Headline earnings per share excluding VERPs and VSPs* (cents per share)	731.4	650.9	12.4

* R217 million profit on sale of assets in the current year (March 2016: R704 million)

Key financial indicators excluding VERPs and VSPs

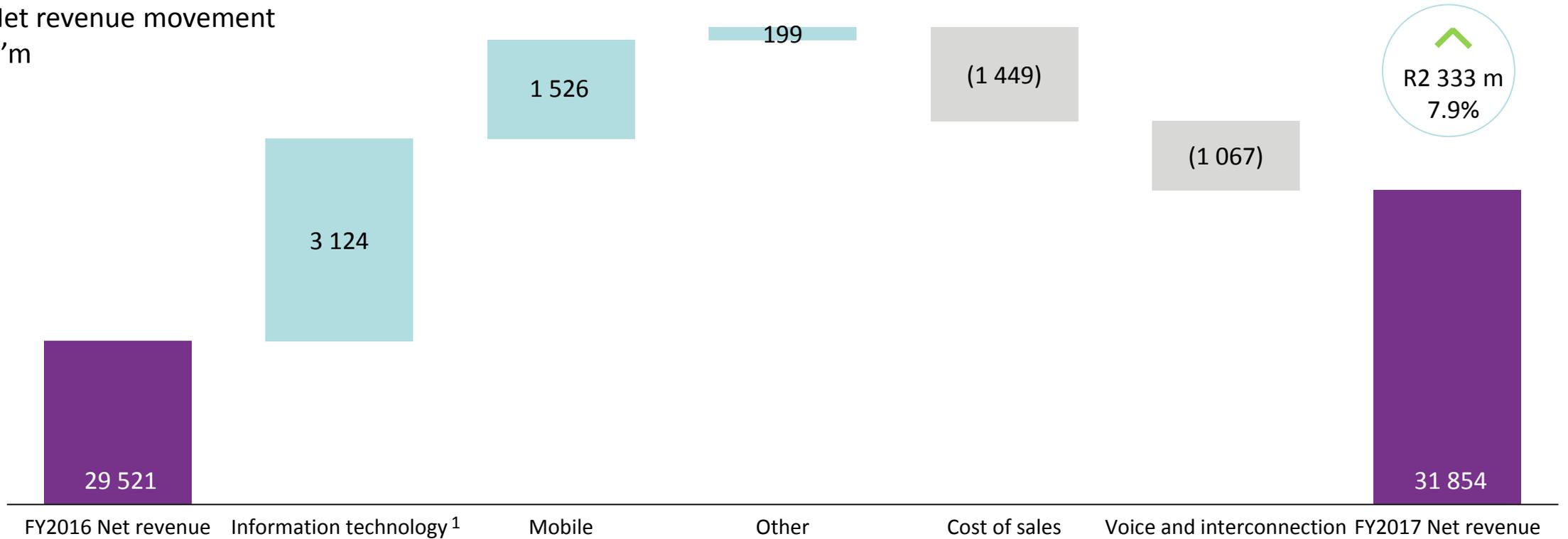
	FY2017	FY2016	%
Operating revenue	40 970	37 325	9.8
Net revenue	31 854	29 521	7.9
Operating expenses	21 647	19 833	(9.1)
EBITDA	10 941	10 969	(0.3)
Capital investments	8 654	6 040	43.3
Free cash flow	(137)	3 900	(103.5)

Creating a diversified revenue base



Solid growth in future revenue streams

Net revenue movement
R'm

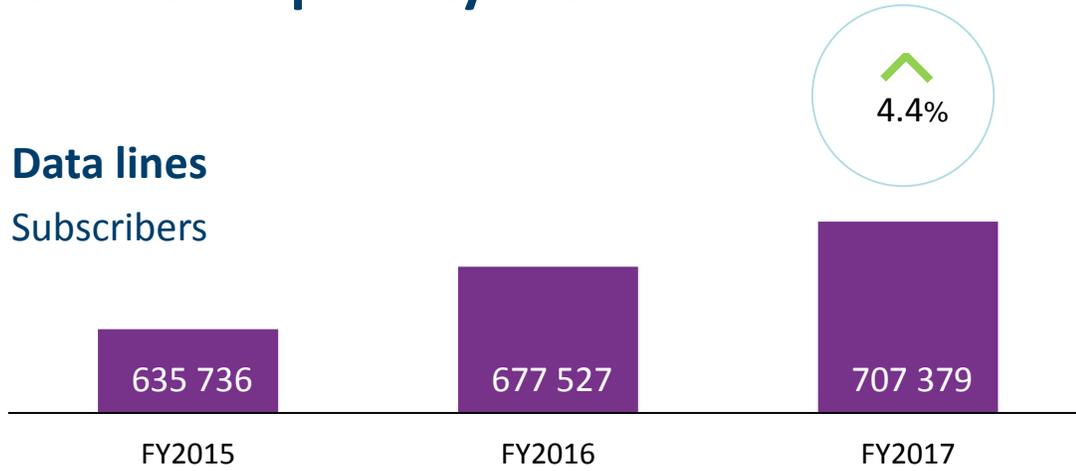


1. IT business revenue of R767 million (March 2016: R314 million) previously reported as fixed data is now disclosed as information technology.

Growth in priority areas

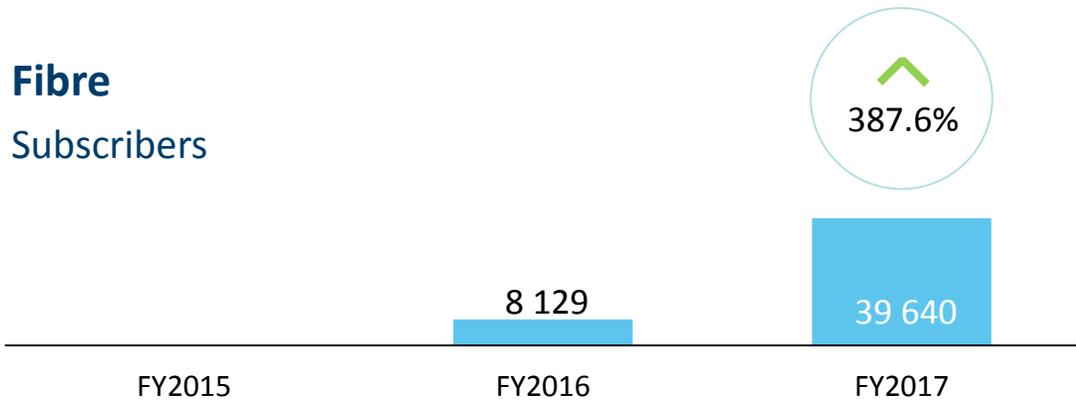
Data lines

Subscribers



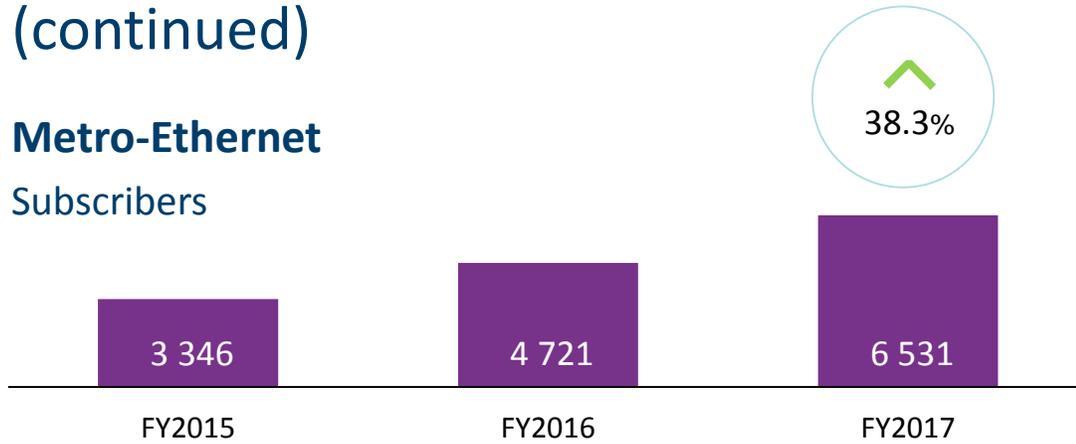
Fibre

Subscribers

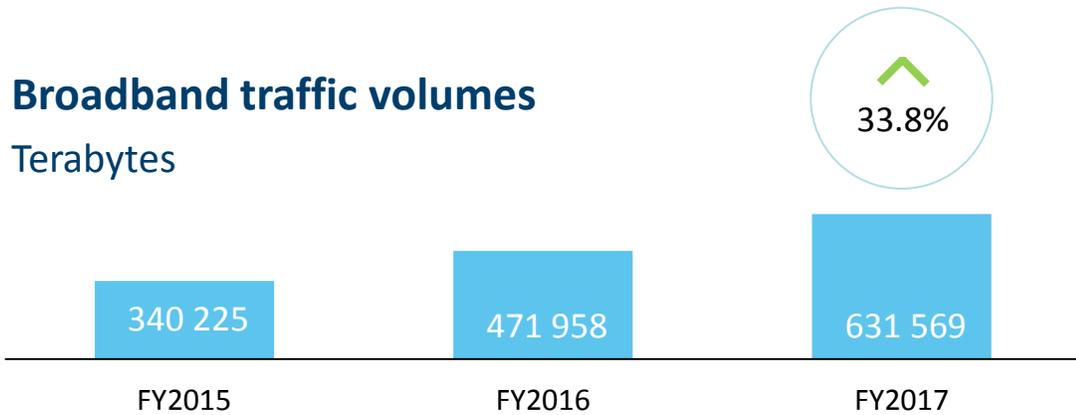


Growth in priority areas (continued)

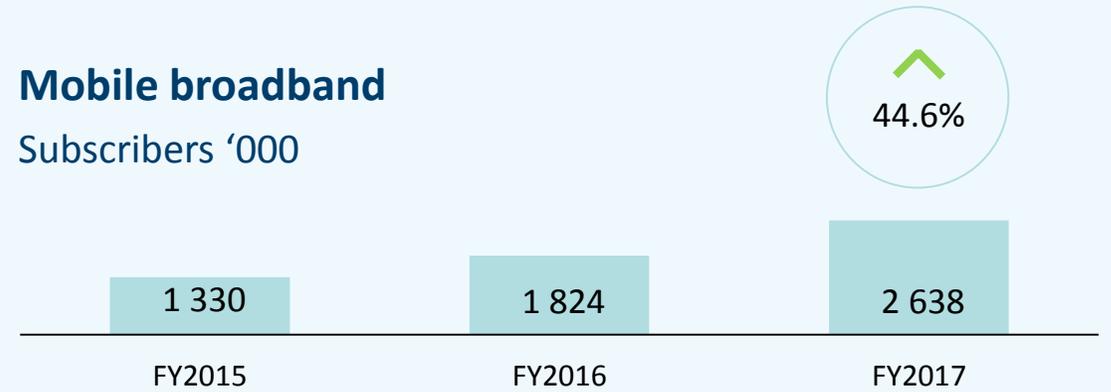
Metro-Ethernet Subscribers



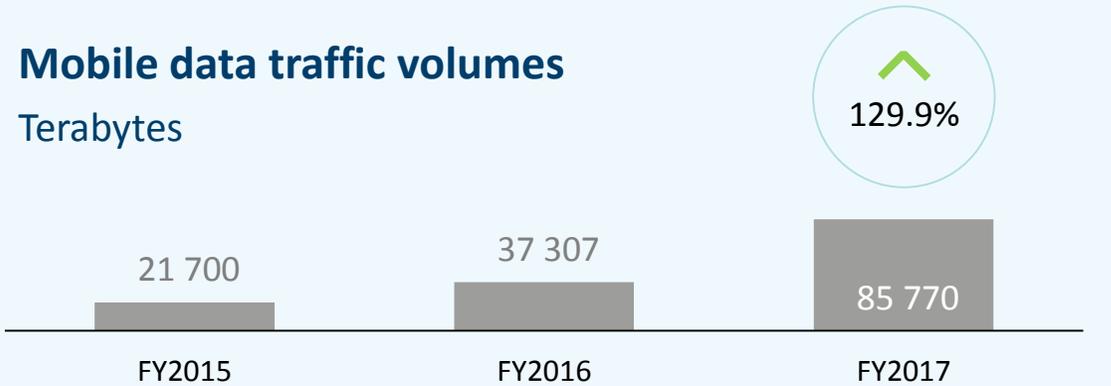
Broadband traffic volumes Terabytes



Mobile broadband Subscribers '000



Mobile data traffic volumes Terabytes



Good performance in new growth areas

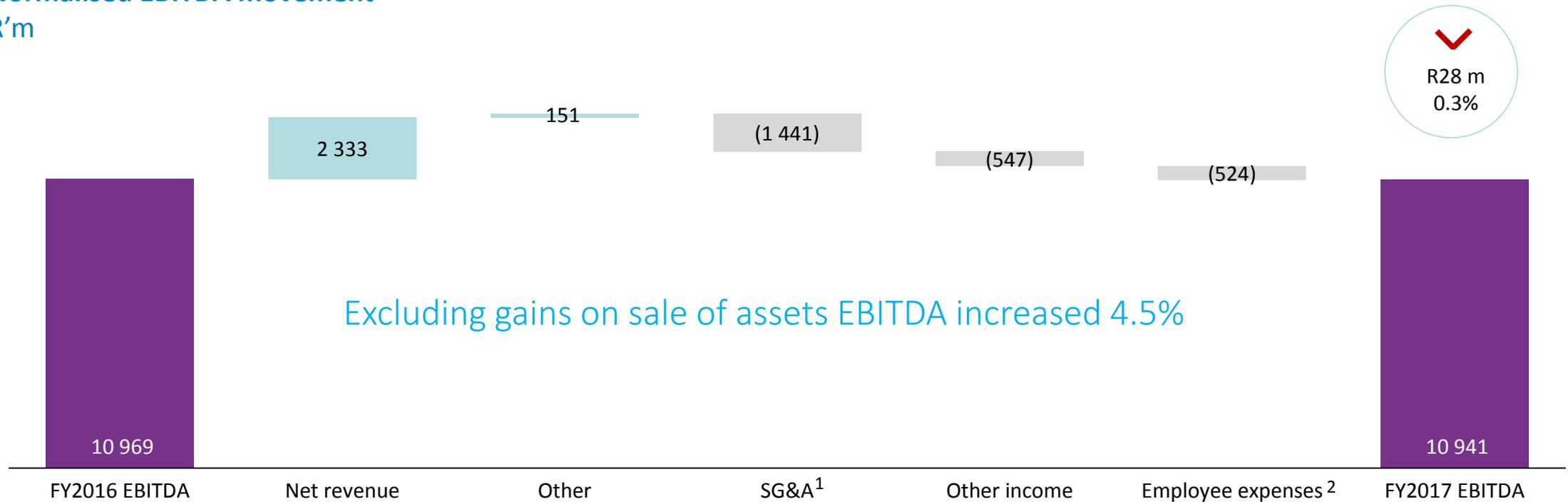


2016 2017

1. IT business revenue of R767 million (March 2016: R314 million) previously reported as fixed data is now disclosed as information technology.

EBITDA

Normalised EBITDA movement R'm



1. The increase in selling, general and administrative expenses is largely attributable to the inclusion of the full year expense of BCX as well as increased outsourcing costs.
2. The increase in employee expenses is largely attributable to the inclusion of the full year expense of BCX which amounted to an year on year increase of R1.9 billion.

Increased capital expenditure in priority areas

	FY2017	FY2016	%
Fibre ¹	2 392	1 310	82.6
Mobile	1 936	660	193.3
OSS/BSS programme	741	544	36.2
Network rehabilitation/sustainment	567	674	(15.9)
Service on demand	1 251	1 540	(18.8)
Core network	962	273	252.4

1. Includes access and backbone expenditure

Our capex is scalable and allocation dependant on growth

Strong cash position – Platform to support growth

	FY2017	FY2016	%
Cash sources			
Opening cash balance	2 542	3 642	(30.2)
Cash flow from operating activities	5 542	6 701	(17.3)
Significant cash applications			
Dividend paid	(2 171)	(1 402)	(54.9)
BCX acquisition	-	(2 654)	-
VERPs and VSPs paid	(629)	(1 688)	62.7
Cash paid on capital expenditure	(8 479)	(5 891)	(43.9)
Cash at the end of the year	1 519	2 542	(40.2)
Discretionary investments	2 514	3 989	(37.0)

Guidance

	FY2017 guidance	FY2017 Actual		FY2018 guidance
Net revenue	Modest growth	7.9%	✓	N/A
Operating revenue				Mid-single digits
EBITDA margin	23% - 25%	26.5% *	✓	23% - 25%
Capex to revenue	15% - 18%	21.1%	✓	17% - 20%
Net debt to EBITDA	≤ 1	0.5	✓	≤ 1
Mobile EBITDA breakeven	Achieve	R660 million	✓	N/A

Annual dividend increased 56.3% to 422.0 cents per share

* Includes VERP and VSP costs

Conclusion



- > Second year of solid financial results
- > Shareholders handsomely rewarded = Total shareholder return = 38%
- > Strong balance sheet
 - 43.3% growth in capital expenditure to R 8 654 million
 - R2.1 billion dividend payment
 - R629 million VSP and VERP payments



- > Entering growth phase of our transformation
- > Challenging environment
 - Low growth
 - High unemployment
 - Effect of downgrade and resultant impact on key economical drivers



- > We are prepared
 - Measured and focused capital expenditure a good platform for growth
 - We have developed an execution and innovation mindset and culture.
 - Strong balance sheet

Outlook



An 'extreme makeover' to thrive in the changing landscape

In a changing landscape ...

- > Shifting consumer demographics
- > Increasingly competitive industry
- > Device proliferation increasing data consumption
- > New technologies providing "more for less" to end users
- > 'Next frontier' opportunities and the rise of platforms
- > Regulatory



... We are responding with an 'extreme makeover'



- > Modernise the network
- > Commercialise the network
- > Service delivery transformation



- > Mobile growth through data led propositions
- > High speed broadband growth - LTE & fibre
- > Content and VAS



- > Cloud computing
- > Unified communications and collaboration
- > Converged connectivity
- > Big data analytics
- > Internet of Things
- > Security



- > Mobile Ad Exchange
- > Expanding Omni-channel offerings
- > Establish e-commerce market place
- > Expand partnership to OTT



- > Unlock value through commercialising property portfolio
- > Extract value from excess building capacity
- > Enable smart building solutions
- > Diversify income streams



Telkom

Thank you

Questions

Tomorrow starts today

