

Telkom SA SOC Limited

# Group Interim Results

for the six months ended 30 September 2012



## Remaining focussed and determined in uncertain times

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“Telkom is engaged in constructive dialogue with its key stakeholders to chart a more successful way forward. Strategically, Telkom has reached a pivotal cross road.

While we anticipate government providing a clear understanding of its strategic direction, we remain focused on achieving our current business strategy.”

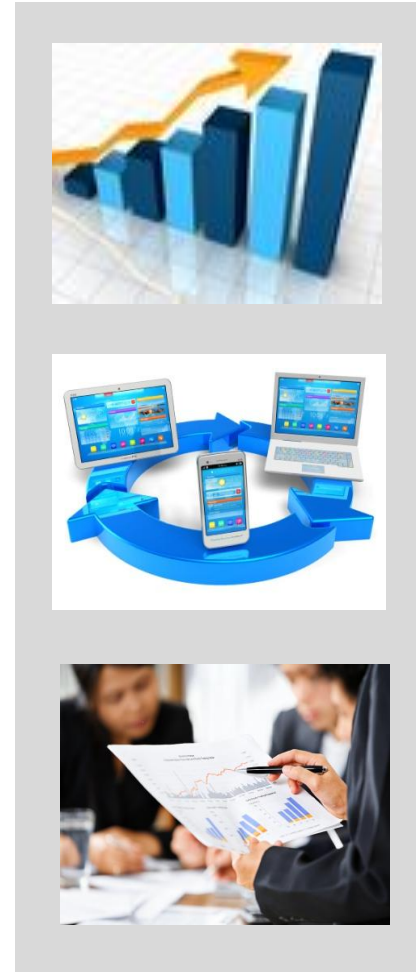
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## Headwinds for Telkom are significant but can be overcome

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- Operational execution on current strategy evident
- Future of fixed-line business
- Inappropriate termination rate regime
- Rigid cost structure
- Regulatory obligations
- Government engagement



# Clarity from government critical to restore confidence and chart a successful way forward

- Board stability
  - Corporate governance
  - Strengthen board
- National incumbent vs. listed company priorities
  - Developmental versus commercial objectives
- Capability Gaps
  - Reduce execution risk on Mobile, NGN and Consumer VAS strategies
  - Address declining fixed-line business
  - Deliver on convergence offering
- Regulatory burden



# We are committed to ongoing dialogue with our shareholders

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## Short-term priorities

- Management stability
  - Succession plans in place
- Focus on business priorities
- No impact to customer service
- Ongoing constructive dialogue with minority and majority shareholders

## Process going forward

- Re-constitution of the board
- Appointment of Chairman
- Appointment of board committees
- Appointment of CEO

...and delivering on our business objectives

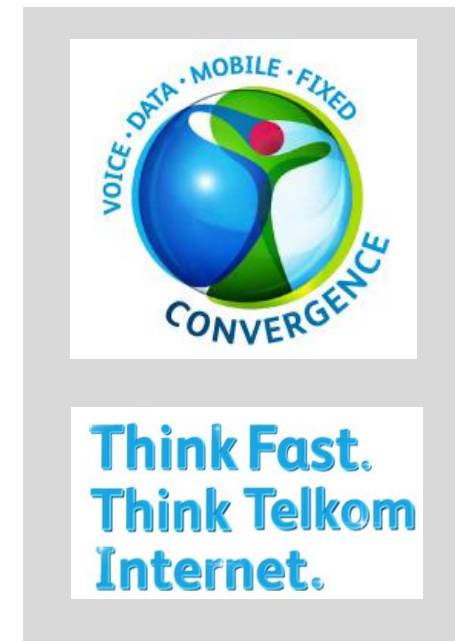


# Our strategy, as it stands, remains focussed on achieving leadership in data and convergence

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## Lead in data:

- Data & broadband
  - Convergence
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- Grow Telkom Business revenue by diversifying the service portfolio
  - Regain market competitiveness in the consumer market
  - Consolidate our position as wholesaler of choice
  - Focus on profitable market segments & services
  - Enhance operational efficiency



## Operational and managerial priorities to support improved execution

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- Complete transformation to an all **IP enabled network**  
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- Build a differentiated **mobile data network**  
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- Roll out high speed fixed **broadband network**  
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- Optimise **capital structure** and **improve cost efficiencies**  
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- Inculcate **fit for purpose** mindset across the group



## Results reflect the tough environment faced by fixed-line incumbents

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• Operating revenue of <b>R16.1bn</b>	(1.5%)	~
• Operating expenses of <b>R15.6bn</b>	(1.6%)	~
<hr/>		
• EBITDA (excl. mobile) <b>R4.3bn</b>	(19.7%)	×
• EBITDA (incl. mobile) <b>R3.6bn</b>	(17.7%)	×
<hr/>		
• Headline earnings for the period <b>R190m</b>	(80.6%)	×
• Profit after tax for the period <b>R222m</b>	(55.8%)	×
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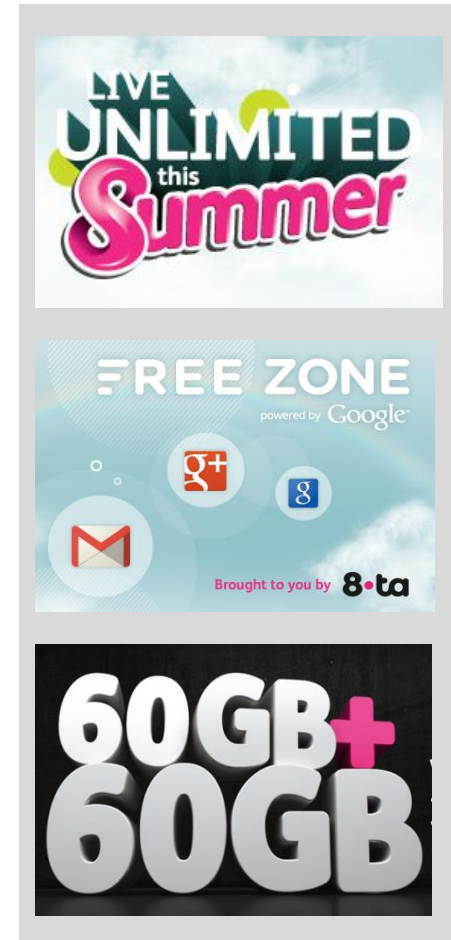




## Key factors impacting performance

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- Decline in voice revenues
- 3% growth in data
- Mobile business on track but challenges remain
- Infrastructure competition growing
- Increasing costs
- Cost of network transformation
- Provision for Competition Tribunal penalty



### Highlights

- Solid sales performance and healthy pipeline of deals
- Continued excellence in project delivery and service levels to Corporate customers
- Return to growth of data revenues
- Launched FMC commercial bundles offering pre-packaged voice, data and combo deals; revised pricing on bundle offers
- Traction in IT and Cloud services portfolio
- New Fibre offers launched
- Developed retention bundles at the low end of the broadband product base and repositioned ISP portfolio
- Steady progress made with the expansion of African Services capability



# Telkom Business: Progress on business deliverables

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## We said

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**Launch productised cloud services**

## We delivered

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- Launched core SMBS offerings (accounting, payroll)
- Hosted exchange was also launched

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**Launch pre-packaged & tailor-made FMC bundles**

- Launched pre-packaged and tailor-made FMC bundles

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**Re-positioning our fibre portfolio**

- Introduced new fibre prices
  - Revamped business processes to make fibre far more accessible
  - Programme in place to migrate large customers to fibre
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### Highlights

- Roll out of the 40 Telkom Express stores and 30 3rd Party retail channels
- NGNEC pilot launched
- Customer service experience improvements
  - Flexible and Simplified Broadband service
  - Simplified customer interface processes
  - Resolving 85% of billing disputes within 3-days
  - Simplified self-service portals (Internet; IVR; SMS)



# Telkom Consumer: Progress on business deliverables

## We said

**Rationalise & simplify fixed voice portfolio**

## We delivered

- Reduced product catalogue
- Enhanced 'Closer' bundles enabling addition of mobile minutes

**Improve entry level broadband product proposition**

- Upgraded product speeds from 384kbps to 1024kbps
- Launched the 'Awesome R169' campaign

**Launch new FMC & content services for broadband**

- Enhanced 'Telkom Mix II'
- Introduced FMC 'Killer Deal' offering that combines fixed-line, mobile, Voice and Data

**Increase retail footprint**

- Increased presence from 109 to 128 stores
- Agreement reached in 30 third party retail channels to be launched in December

**Improve customer service & experience**

- Increased customer self-service options
- Simplified invoicing
- Simplified ISP account migration process



### Highlights

- Prepaid subscribers increased 52.4% to 1.1 million since September 2011
- 2.2% market share (0.9% September 2011)
- Improved on net voice (65.4%) and data (93.6%) traffic volume
- Improved product offerings: Prepaid offer (8.ta more), Unlimited voice, Smartphone facelift bundles
- Progress on innovation and first to market in areas such as:
  - Unlimited voice
  - Google Freezone
  - Free Wi-Fi in cabs
  - Data applications for Android devices



# Telkom Mobile: Progress on business deliverables

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## We said

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### Build a data network

- 2,067 Base stations constructed
- LTE testing trial
- Other data solutions are being evaluated

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### Increase distribution through direct channels

- Roll out of Telkom Express stores on track
- 2 New Flagships launched

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### Loss control while preparing debut to data market

- Improved our billing process and software
  - Robust credit management
  - Improved call centre customer experience
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- Renewed focus on customer service delivery – implementing geographical and customer service differentiation
- Network Transformation on track:
  - Replacement of the first TDM access switch with an all IP concentrator
  - High speed broadband pilot launched
  - Good traction toward ‘One-IT’
- First Telkom traffic successfully activated on WACS
  - City to City International Link (CCIL) services now available on WACS
- Strong growth in services provided to our Wholesale customers:
  - Various new multi-year agreements signed for national and regional long distance data connectivity (Neotel, IS and MTN Business)
  - Significant win-back, in excess of 1 500 transmission backhaul links deal done
  - Monthly upgrades of the IP Connect services exponential
  - Strong growth on DSL resell





# Business review: Wholesale and Networks

## We said

**Enable the network to support higher entry level fixed-line broadband access speeds**

## We delivered

- Upgrades of the 1Mbps to 2Mbps completed
- Upgrade of the 384 Kbps to 1Mbps commenced - to be completed by end November 2012
- Close to 200 000 10Mbps services installed

**Establish & complete the pilot footprint for our new high-speed broadband network**

- Installation & commissioning of 53 MSANs completed
- Pilot commenced October 2012, with the involvement of 6 ISP's

**Install 90% of all new ADSL orders within 7 working days**

- Performance at 79.81% and improving

**Commence enablement of FMC in network & IT systems**

- Launched 'Telkom mix II' and 'Awesome' deals for consumer
- Implemented 9 new 'Business add-on tablet' deals
- 7 New Business FMC bundles implemented



Financial overview

**Jacques Schindehütte**

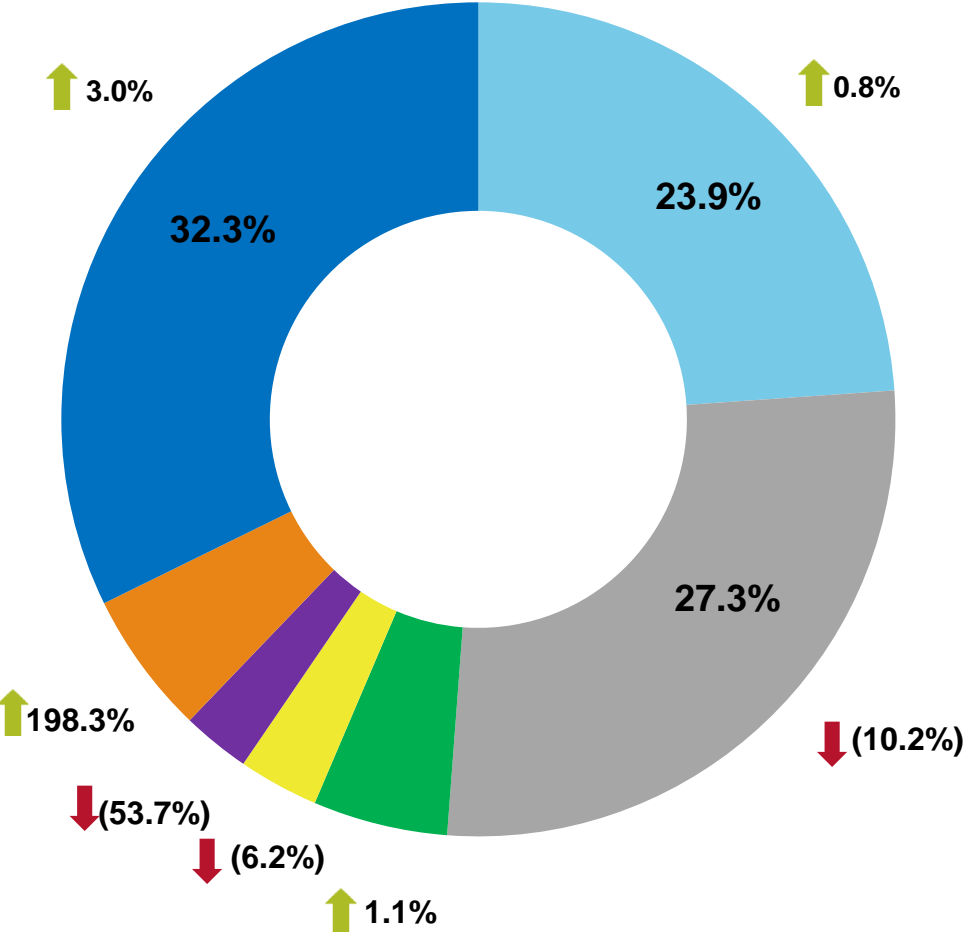


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<hr/>		
• HEPS for the period <b>37.2 cents</b>	(80.6%)	×
• BEPS for the period <b>30.2 cents</b>	(64.5%)	×



# Group revenue contribution

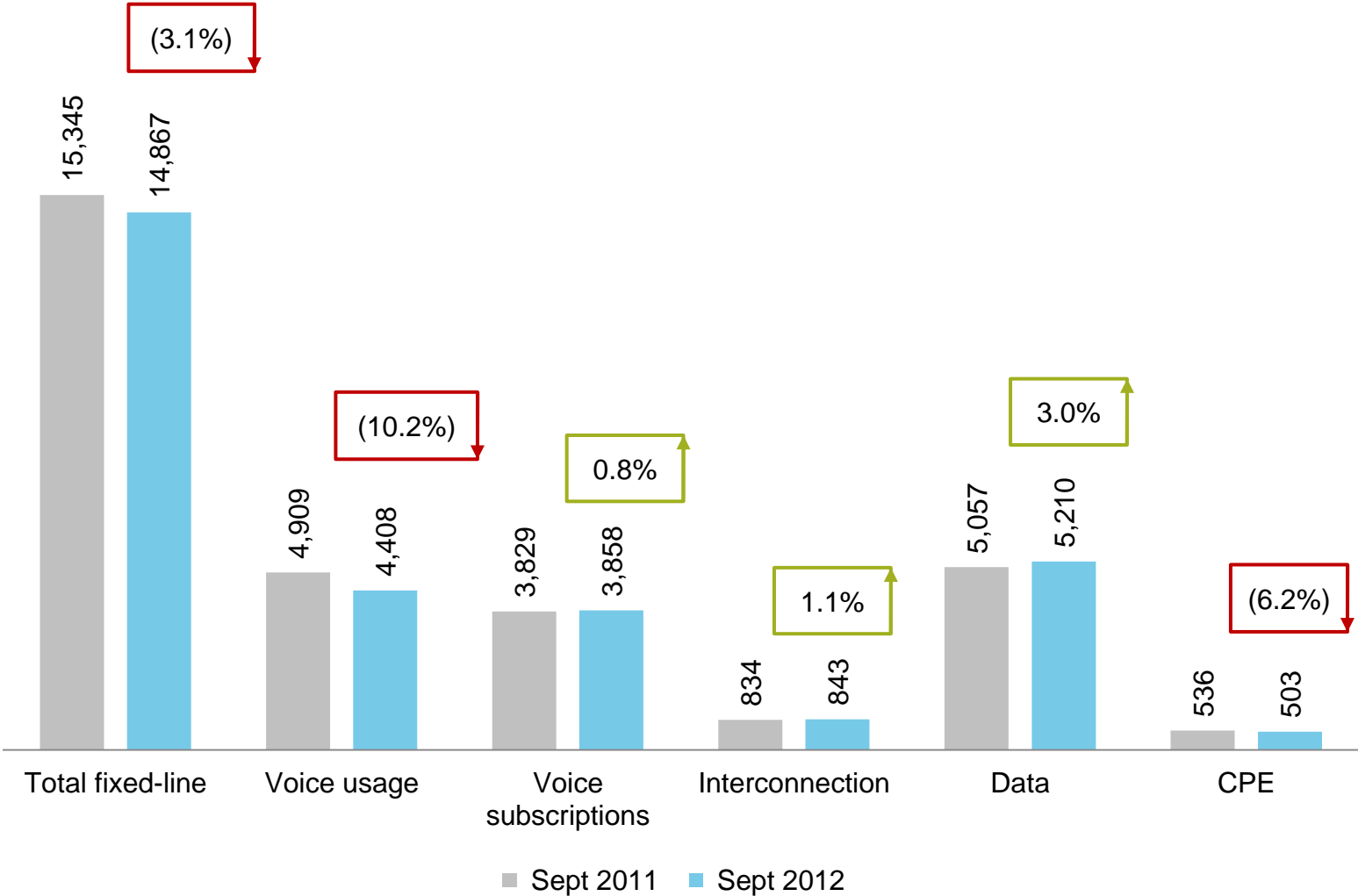


- Fixed-line data:** R5 210m – 32.3% (Sept 2011: 30.9%)
- Voice subscriptions:** R3 858m – 23.9% (Sept 2011: 23.3%)
- Voice usage:** R4 408m – 27.3% (Sept 2011: 30.0%)
- Interconnect:** R843m – 5.2% (Sept 2011: 5.1%)
- CPE:** R503m – 3.1% (Sept 2011: 3.3%)
- Subsidiaries & other:** R426m – 2.6% (Sept 2011: 5.6%)
- Mobile:** R898m – 5.6% (Sept 2011: 1.8%)

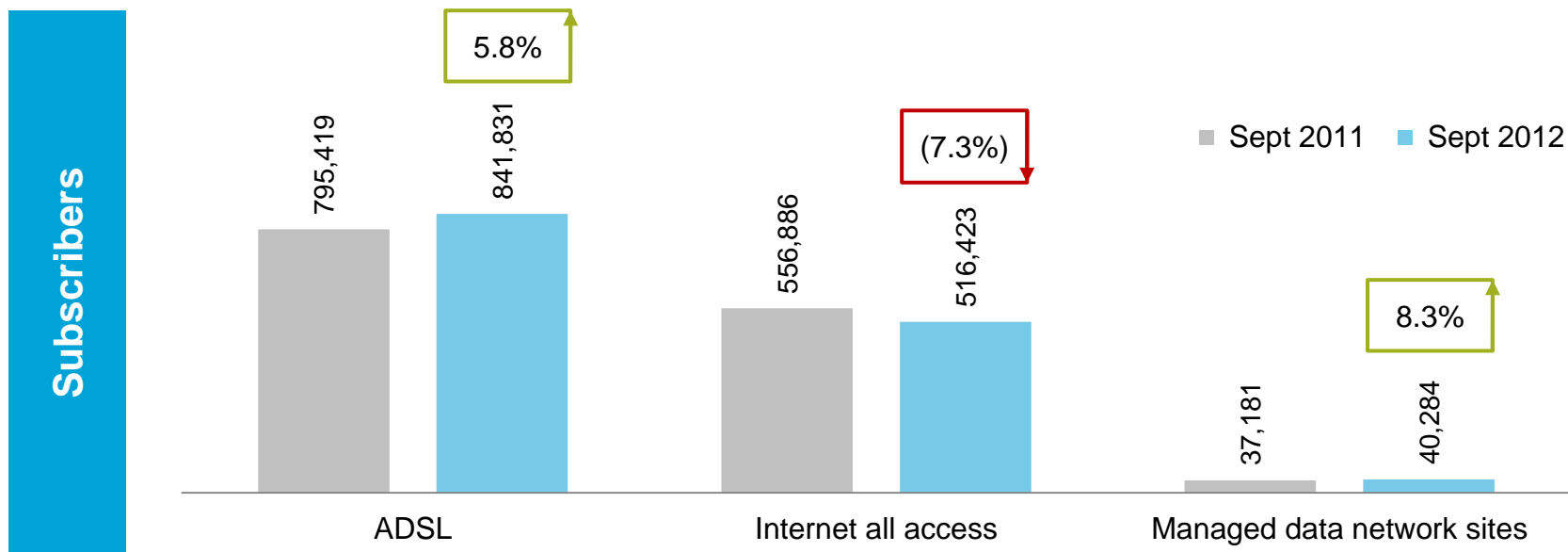
↑ Year on year revenue increase  
 ↓ Year on year revenue decline



# Fixed-line revenue



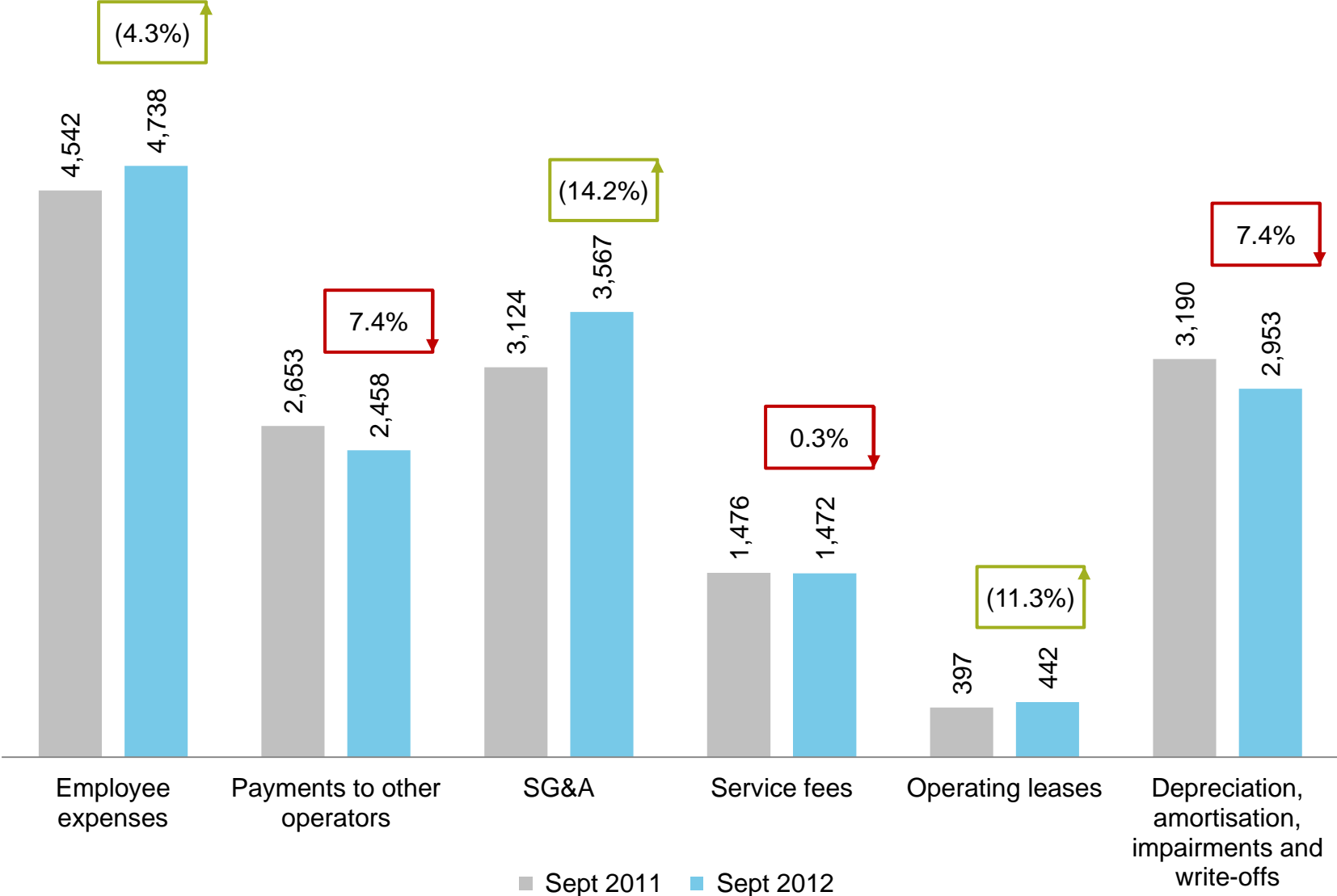
## Data usage grows strongly and lifts revenue modestly



ZAR million	Sept 2012	Sept 2011	%
Data connectivity	2,761	2,657	3.9
Leased line facilities	1,160	1,143	1.5
Internet access & related services	798	791	0.9
Managed data network services	464	442	5.0
Multi-media services	27	24	12.5
	<b>5,210</b>	<b>5,057</b>	<b>3.0</b>



# Group operating expenses



## Group capital expenditure

ZAR million	Sept 2012	Sept 2011	Mar 2012
Total	2 123	1 805	4 783
Group capital expenditure excluding Mobile	1 602	1 247	3 411
Converting access network to IP (NGN)	276	-	211
Maintaining/ Enhancing existing Telecoms & IT Networks	1 326	1 247	3 200
Mobile	521	558	1 372

Cumulative NGN capex to date – R487m  
 Cumulative Mobile capex to date – R3,369m





## Capital expenditure largely funded by internally generated cash

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- Medium term debt maturities **R3.8bn**

- Cash balances at 30 September 2012 **R4.8bn**

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- Three year capital expenditure **R18 - 21bn**

- Debt market **< R4bn**

- Debt to EBITDA **< 140%**



Thank you

