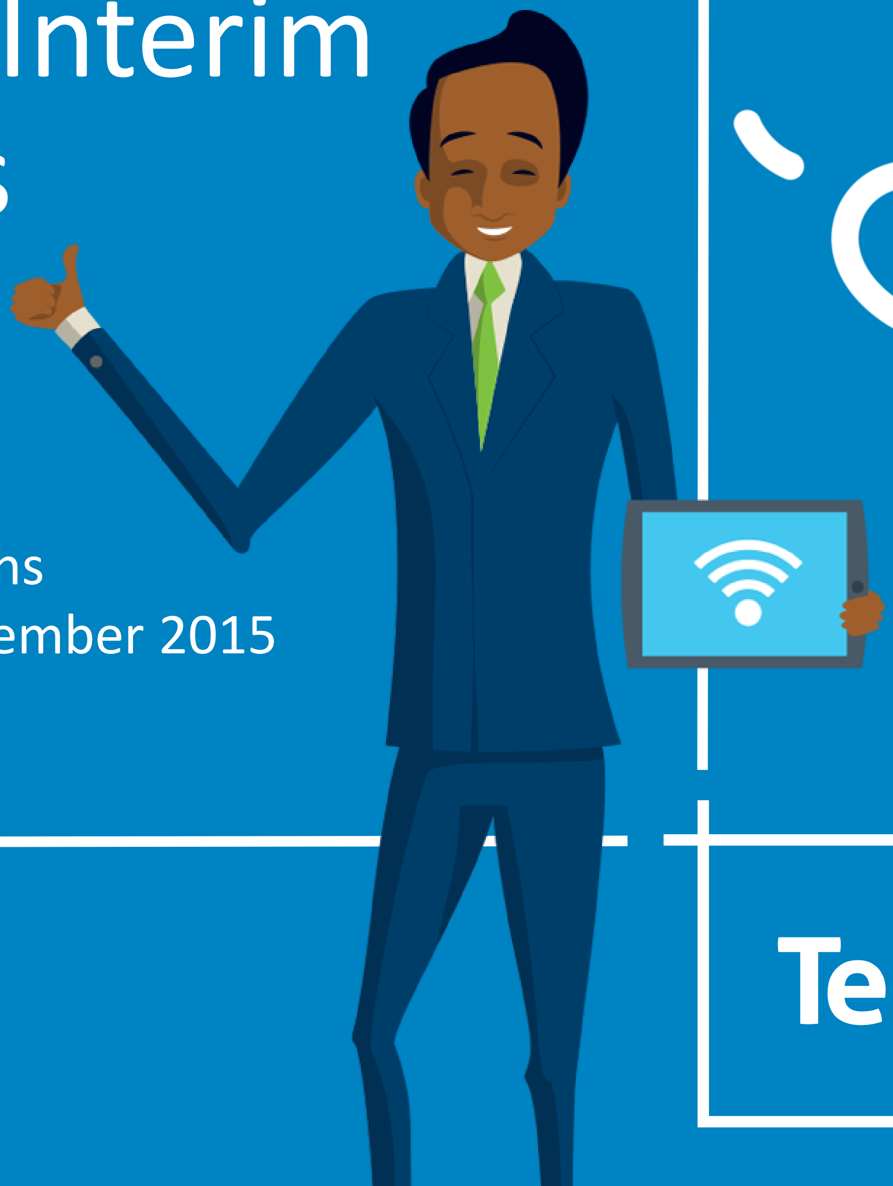
Group Interim Results

for the 6 months
ended 30 September 2015

16 November 2015



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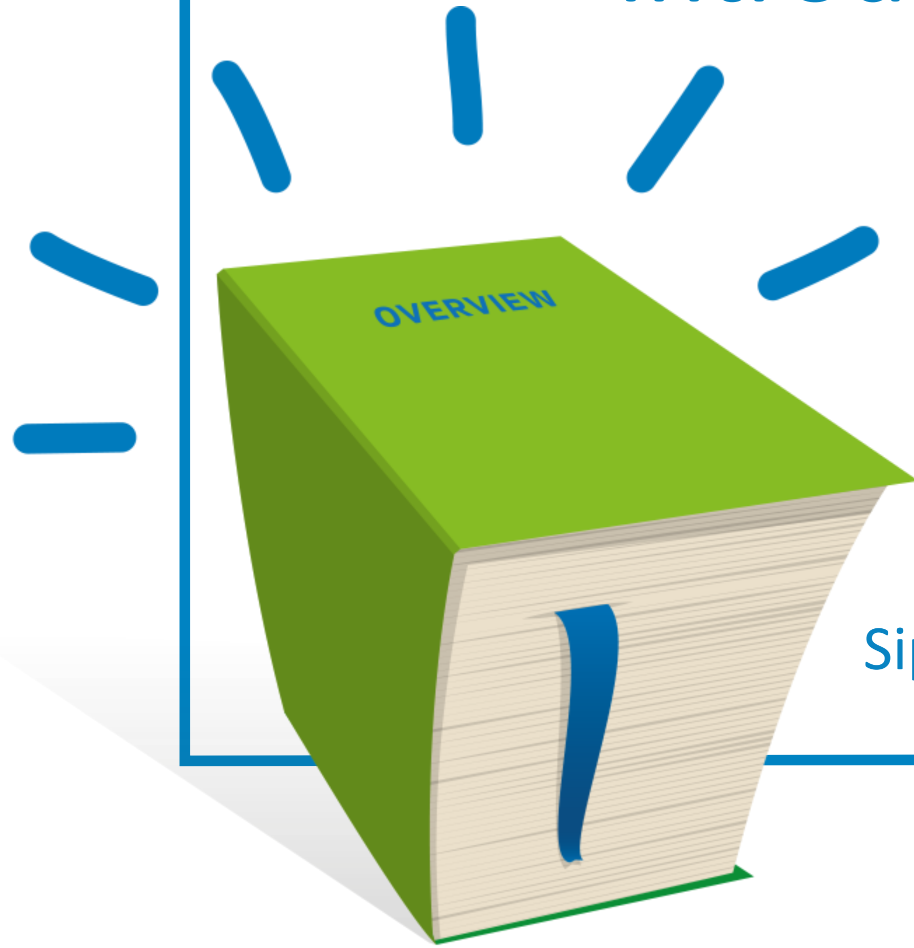
Introduction



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Operating environment

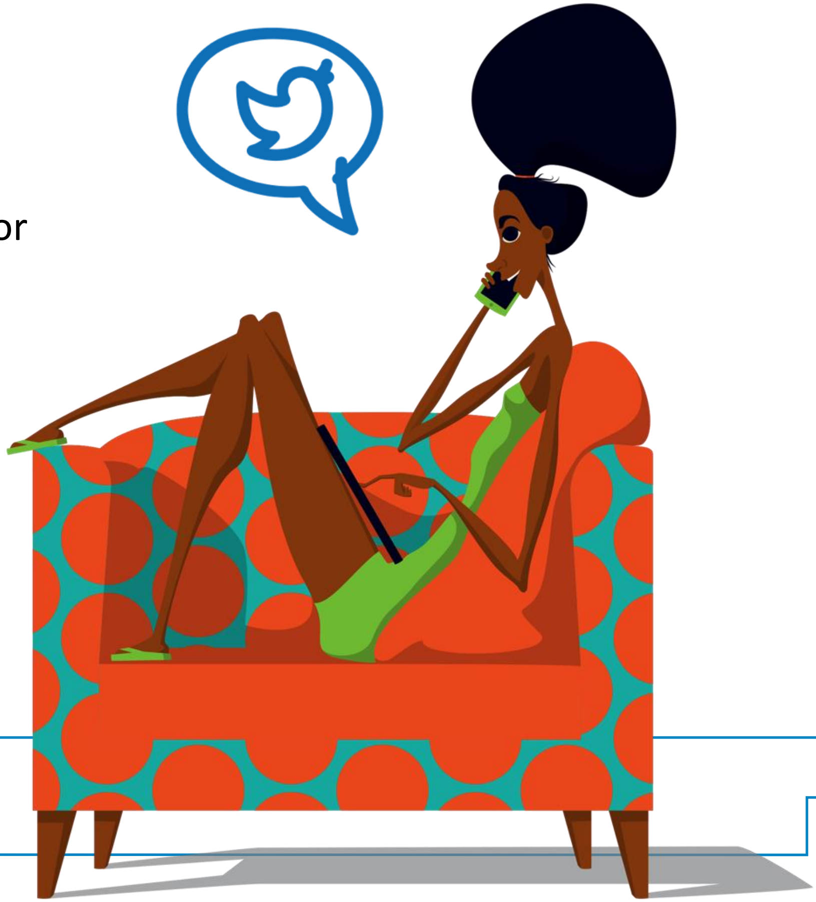
Industry undergoing rapid change

- Consumption of data continues to grow
  - New innovative uses – smartphones and devices, IPtv, cars, smart home
  - Changing work force patterns and needs
- Ecosystem/OTT players - disruptive role
  - Influence telco economics but not own infrastructure
  - Key partners for capability/innovation
- Network differentiation will remain a source of competitive advantage
  - All IP networks - fibre, LTE
- Data prices continue to decline
- Rise of new competition – infrastructure players, new innovation in content and services
- Increasing concentration of industry structure – via consolidation
- Uncertainty in regulatory environment – spectrum

Customer experience remains critical to our success

Continued focus on customer advocacy

- Customer First programme central to the strategy
- Stabilise employee culture with a focus on delivery and customer experience
- Improve the broadband network and experience
  - Simplify installation process
  - Ensure customers get the speed they pay for
- Improve systems and processes
- Establish customer trust and emotional bond



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Operational overview

We have continued with the transformation of our business

- Implementing new operating model – Openserve launched
- Completed BCX transaction
- Staff efficiency – resetting labour relationship
- Completed move to new campus
- Outsourcing – call centres, warehouses
- Procurement:
  - Consolidating suppliers
  - Improving supply chain
- Social impact – FutureMakers, Telkom Foundation

Financial highlights

Stabilised revenue decline

HEPS up
13.9%
To 280.6 cents

Net revenue up
1.2%
to R13.5 billion

Fixed-line voice usage revenue declined by
14.1%

Operating costs, excl. depreciation down
2.3%

Fixed data revenue, excluding leased line revenue increased
4.1%

EBITDA improved
15.1%
to R5 billion

Margin of
30.0%

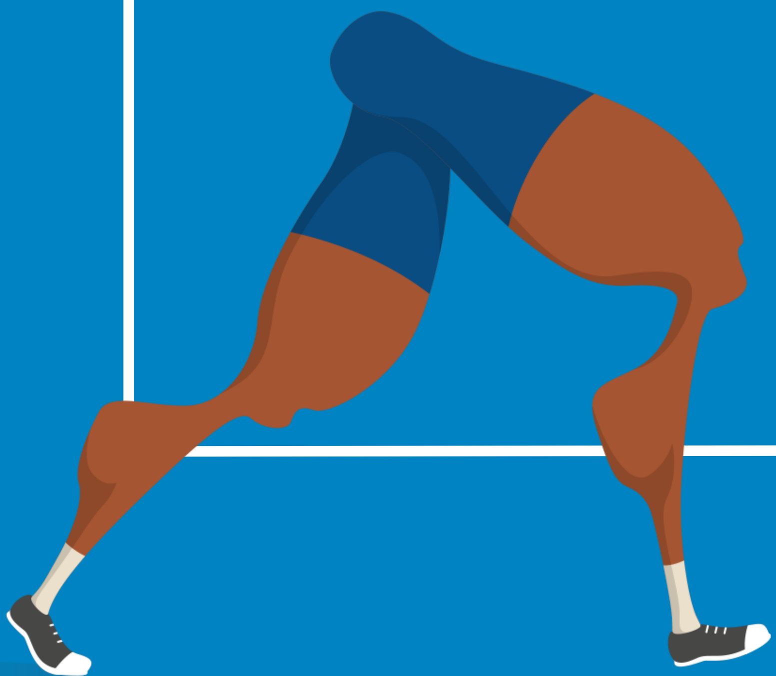
* Excluding VSPs/VERPs cost of R1 523 million in the current period and R325 million for September 2014 and related tax

We are fulfilling our ambitions…

…addressing the key issues affecting performance

Customer service	**Improving NPS, a lot more to be done**
Efficiencies	**Costs, VERPS/VSPs, outsourcing, procurement**
Managing regulatory issues	**Proactive in managing regulatory matters**
Relationship with organised labour	**Resetting the relationship with labour**
Product evolution	**Revenue decline stabilisation; improved mobile performance; BCX**
Capability	**Execution, skills, culture, systems, processes**

Business Performance



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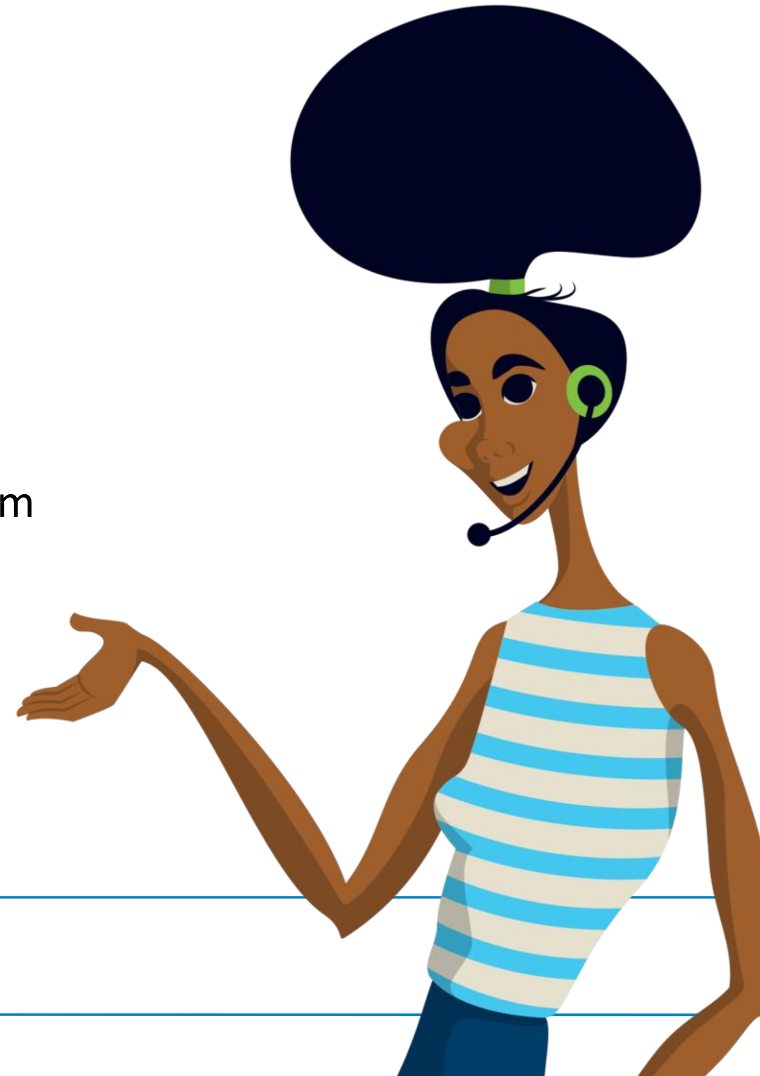
Consumer

Continued strong performance by mobile; recovery from fixed line

- Mobile Consumer: Gross operating revenue increased by 44%
  - Service revenue increased by 36.4%
  - Data revenue increased 59.7%
- Fixed-line Consumer: Net operating revenue increased by 1.5%
  - Data revenue increased 10%
- Mobile subscribers increased 9% to 2.1m with a blended ARPU of R76
- DSL subscribers have grown by 2% YoY



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Enterprise

Good progress on stabilising the business

- Metro Ethernet revenue grew 52%
  - Despite price reductions on bandwidth and access
- Voice decline – 2.9%
  - Compounded by competition
  - New technology voice
- Telkom Business Mobile growth
  - 51.9% customer growth
  - 42.5% revenue growth
- Traction in Unified Communications
  - R1bn pipeline

Openserve

Accelerated fibre roll out

- ADSL subscribers increased 4.2% to 1 012 416
- Revenue shift to other data connectivity products
  - Leased line revenue down 25.8%
  - Megalines revenue up 78%
- Launched 1Mbs DSL service to reduce barriers to broadband

1 105 382
homes passed

~38 000
FTTH homes passed

1 030 441
Ports activated via MSAN

BCX integration going well

Leveraging joint and complementary capabilities

Business Connexion		Telkom
Fully diversified IT services provider	+	Full-service telecommunications provider
LAN capabilities		WAN capabilities
Enterprise and mid-tier client base		
Specialist ICT technical skills		
Significant data centre footprint		
Applications skills	+	Communications skills
Europe, Middle East & Africa footprint		
		Consumer customer base
Strong retail, manufacturing, mining & insurance verticals	+	Strong financial services, public sector & health verticals

Financial Overview

Deon Fredericks

Chief financial officer

Developments in H1 2016 affecting the financial results

- Prior year adjustment - Reassessment of the Telkom Retirement Fund (TRF) pensioner liability
- Accounting treatment of post retirement pensioner pool: R87 million
- BCX incorporated – 1 month
- Trudon – continuing operation
- VERP/VSP impact of R1.5 billion and tax effect of R446 million
- Higher profit on sale of properties of R229 million
- Challenges and delay in our transformation initiatives: R56 million

Reassessment of the TRF pension liability

- Reassessment of the accounting treatment of the TRF
- Adjustment to prior year opening retained earnings and a restatement to the comparative in statement of profit and loss
- Non-current employee related provision raised (R1.6bn) – No cash outflow
- Accounting interpretation differs from economic reality and statutory actuarial valuation used for determining true solvency of fund
- TRF pension payment obligation currently in an overfunded/surplus position
- Affects post retirement pension payment benefit obligation
- Non-related to other post retirement benefits i.e. medical aid

H1 2016 : "A changed and challenging landscape"…

Trading conditions more challenging than expected

- Deterioration in economic growth
- Weakening exchange rate
- Competitor response much more aggressive
  - Pricing
  - Customer base targeted

Exacerbated by operational challenges

- Voice usage continues to deteriorate
- Challenges and delays impacting transformation initiatives
- Non-approval of MTN RAN
- Transformation cost – investment in our future

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…continued commitment to our transformation journey

Short term cost - long term sustainability

Revenue stabilisation and growth

- Successfully concluded BCX acquisition
- Migrated customers to Next generation services, bundled and value offerings
- Fibre and LTE rollout intensified

Variable cost base

- Voluntary severance and retirement packages
- Successfully outsourced warehousing and call centre activities
- Renegotiations of key long-term contracts

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 – 0.4 :1

Normalised earnings

	Sept 2015	Sept 2014	%
Profit for the period	606	1 078	(43.8)
VERP/VSP cost	1 523	325	368.6
Tax on VERP/VSP cost	(446)	(91)	390.1
Normalised profit for the period	1 683	1 312	28.3
Normalised headline earnings per share	280.6	246.4	13.9

Normalised H1 FY2016 results

	Sept 2015	Sept 2014	%
Operating revenue	16 782	15 911	5.5
Net revenue	13 457	13 299	1.2
Operating expenses	8 981	9 192	2.3
EBITDA	5 040	4 379	15.1
Depreciation and impairments	(2 615)	(2 489)	(5.1)
Capital investments	2 335	1 939	20.4
Normalised free cash flow	1 445	1 785	(19.0)
Headline earnings per share	280.6	246.4	13.9

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Quality of earnings

	Sept 2015	Sept 2014	%
Profit for the period	606	1 078	(43.8)
VERP/VSP	1 523	325	368.6
Tax on VERP/VSP expenses	(446)	(91)	390.1
Profit on sale of PPE	(282)	(53)	(432.1)
Loss/(Profit) on Cell Captive	60	(132)	(145.5)
Quality of earnings for the period	1 461	1 127	29.6

EBITDA

Normalised EBITDA movement

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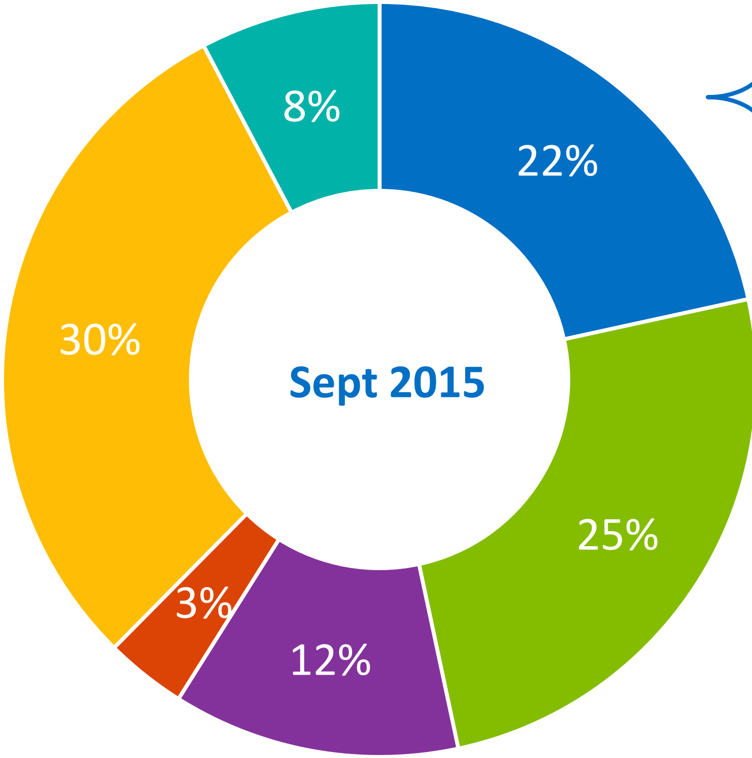
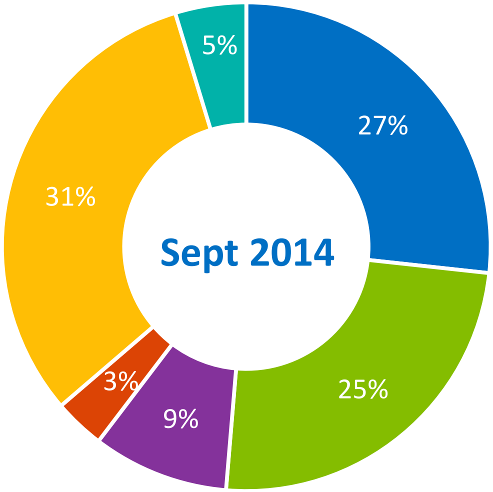
Group revenue

Contribution to group revenue (%)



Revenue at risk declined

Contributes 22% (27%) of group revenue



■ Voice usage and interconnection ■ Subscriptions ■ Mobile ■ CPE ■ Data ■ Other

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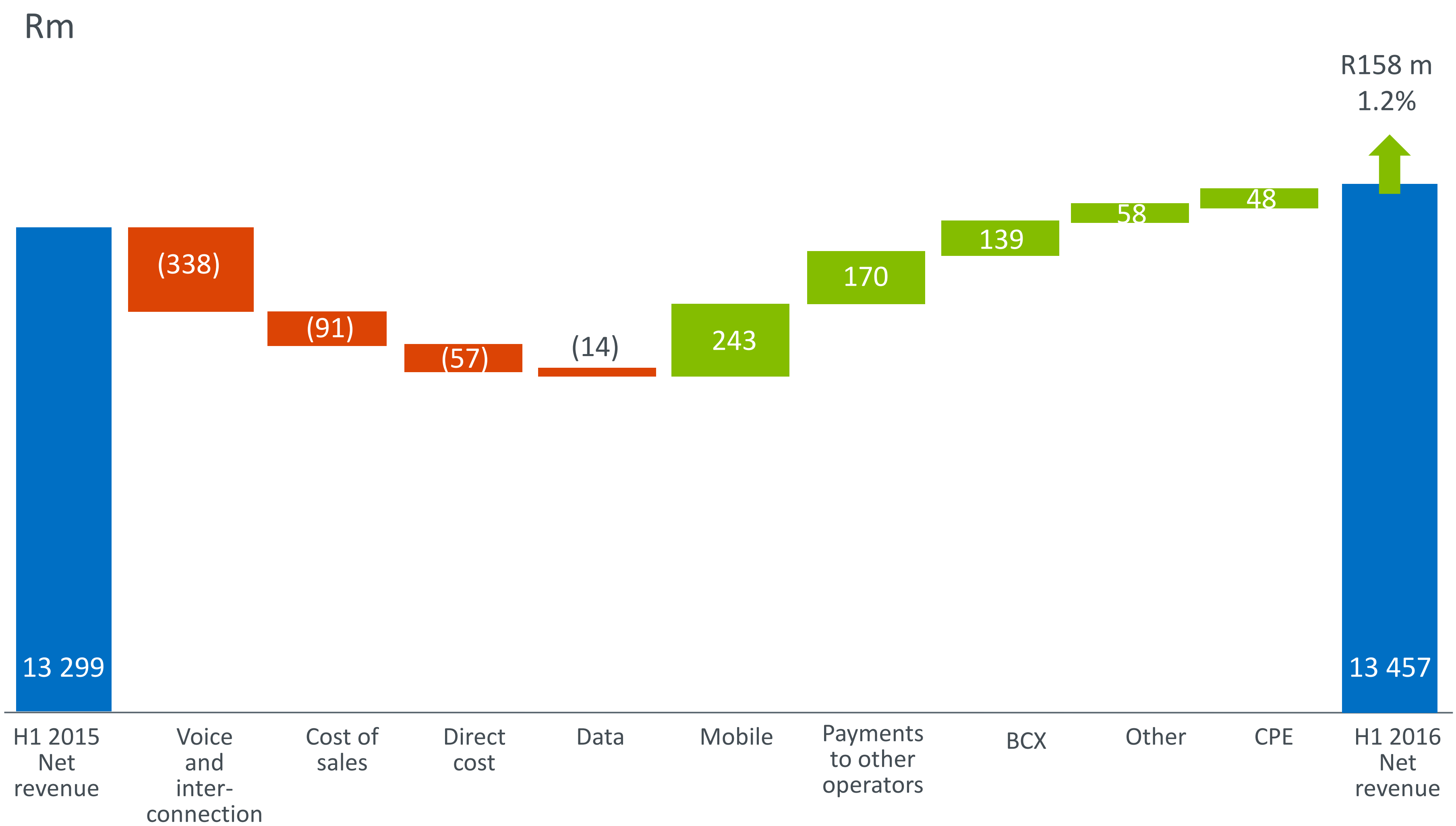
Net revenue movement



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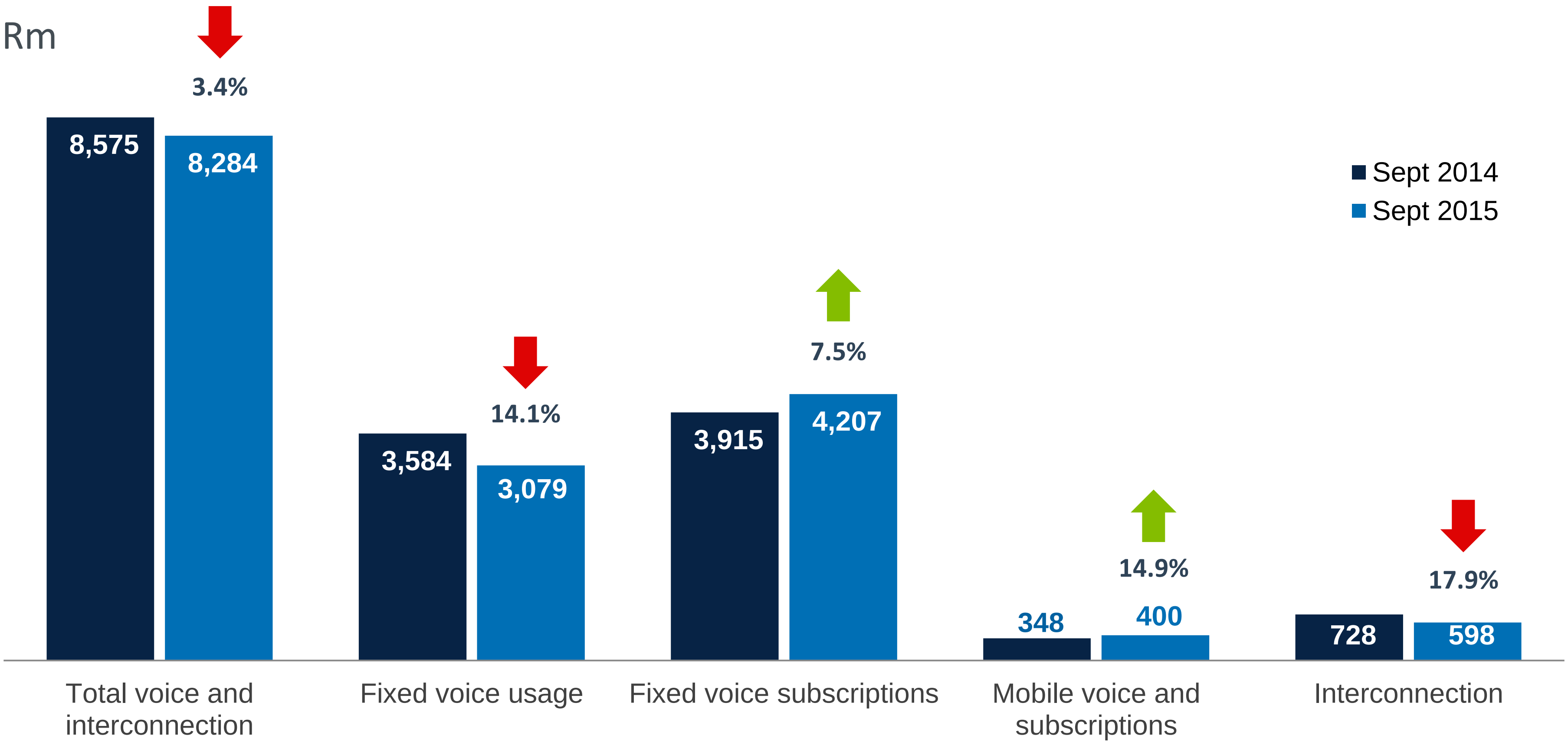
Managing the decline in voice usage revenue



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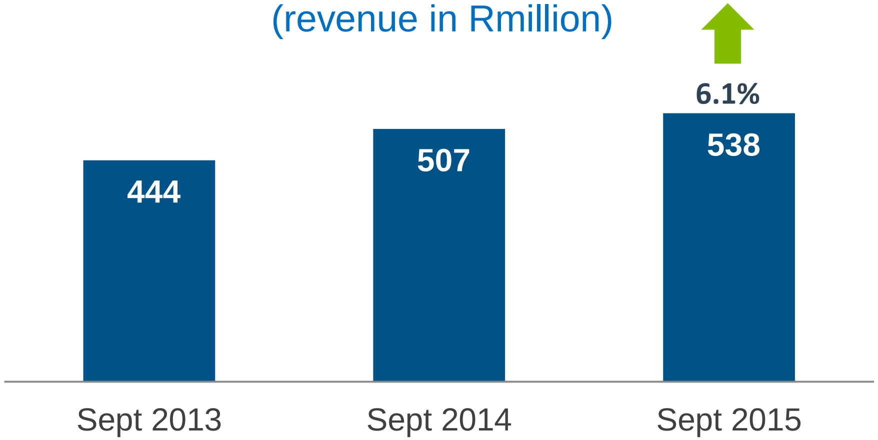
Data volumes increased

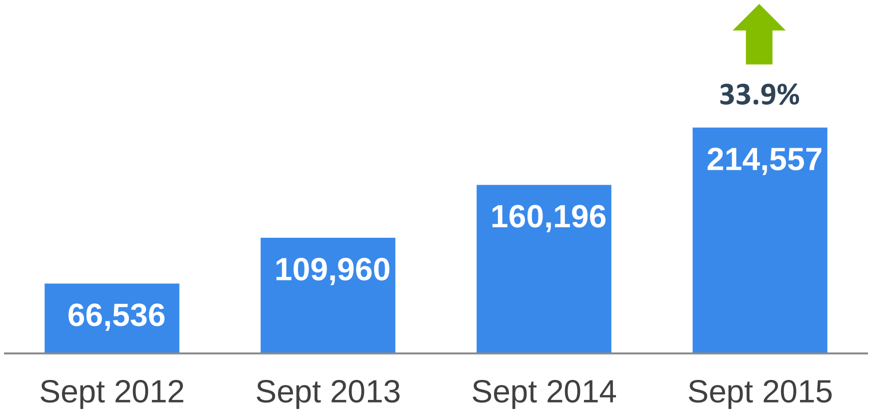
Subscribers

ADSL

Managed data network sites
(revenue in Rmillion)

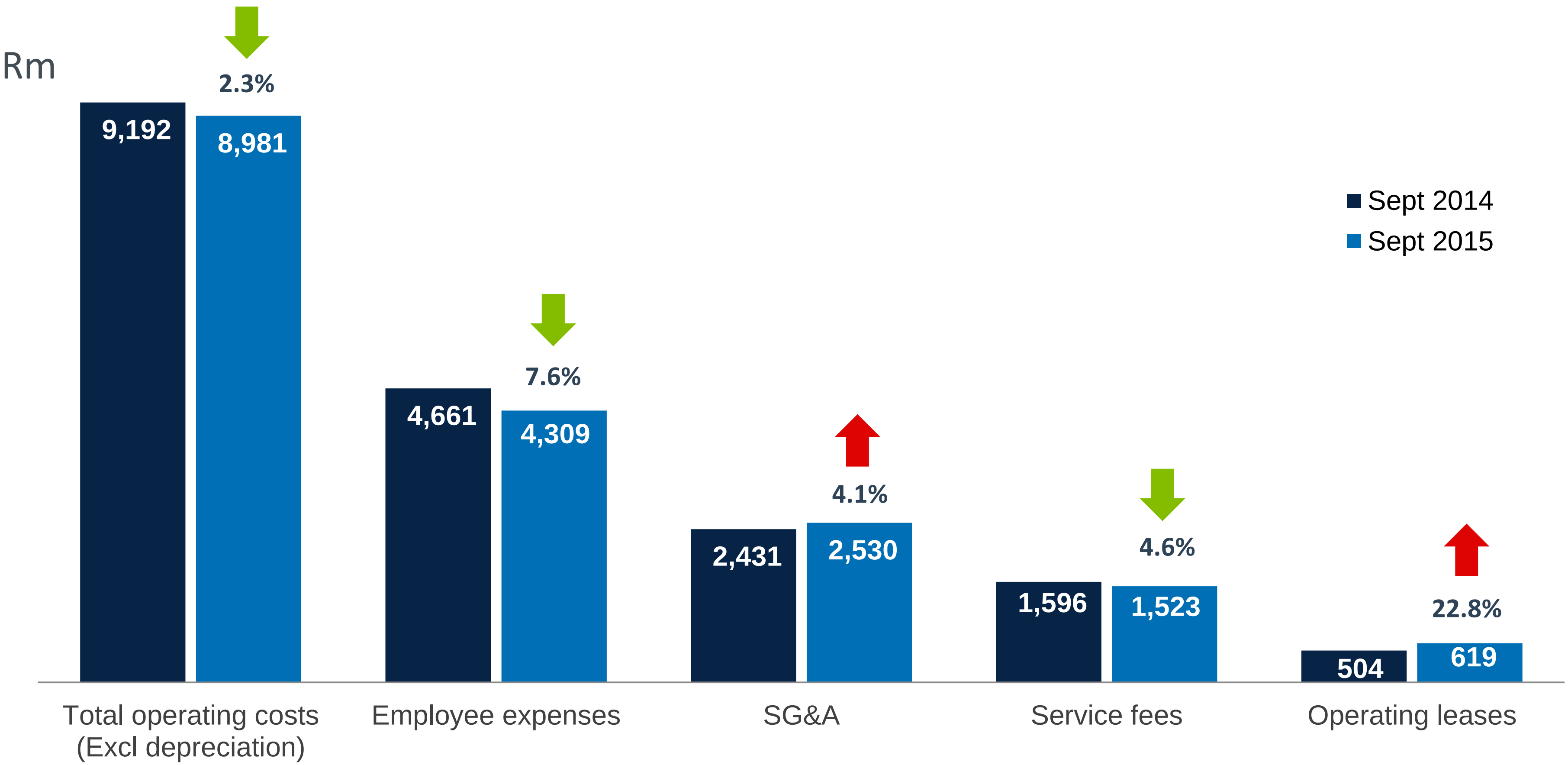


Traffic volumes in TBytes



*Restated to include total installation base

Multi year cost focus



 Excluding VSPs/VERPs cost of R1 523 million in the current period and R325 million for September 2014

Increased capital expenditure to facilitate growth

	Sept 2015	Sept 2014	%
Total capital expenditure	2 335	1 939	20.4
Group capital expenditure excluding mobile	2 135	1 775	20.3
Converting access network in IP (NGN)	291	241	20.8
Maintaining/enhancing existing telecoms and IT networks	1 844	1 534	20.2
Mobile	200	164	22.0

131% increase in FTTH and FTTB capex spend

Normalised cash flow from operations

	Sept 2015	Sept 2014	%
Cash flow from operating activities	2 029	3 469	(41.5)
Add back: VERP/VSP cost paid	1 464	86	1 602.3
Adjusted cash generated from operations	3 493	3 555	(1.7)
Cash paid on capital expenditure	(2 048)	(1 770)	15.7
Normalised free cash flow	1 445	1 785	(19.0)
Cash at end of period	623	4 409	(85.9)
Discretionary investments	2 400	3 581	(33.0)

Performance against guidance

	FY 2016 guidance	Sept 2015	FY 2015 guidance	Sept 2014
Net revenue	Stabilise	+1,2%	Stabilise to grow	+1.6%
EBITDA margin	26% - 27%	21.0%*	26% - 27%	25.5%*^
Capex to revenue	15% - 18%	13.9%	14% - 17%	11.4%
Net debt to EBITDA	≤ 1	0.4	≤ 1	0.1
Mobile EBITDA breakeven	During the year	(R37m)		

* Including VSPs/VERPs cost of R1 523 million in the current period and R325 million for September 2014
^ Restated to include the impact of the reassessment of the Telkom Retirement Fund Defined Benefit Members – In fund annuitation option

H2 2016: Extracting value amid a challenging landscape

Challenging operating environment and weak economic conditions expected to continue

- Lower growth
- Unemployment rate
- Exchange rate
- Interest rate increase
- Sovereign credit rating, key variable

Our strong balance sheet , cash generating ability and progress in transforming our cost structure provides a solid base as we enter the next phase of transformation Journey.

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Updated guidance

BCX and Trudon included

	FY 2016 guidance	Updated guidance	Status
Net revenue	Stabilise	Stabilise	No change
EBITDA margin	26% - 27%	24% - 26%	Changed (*)
Capex to revenue	15% - 18%	15% - 18%	No change
Net debt to EBITDA	≤ 1	≤ 1	No change
Mobile EBITDA breakeven	During the year	During the year	No change

(*) Impacted by inclusion of 7 months of BCX

Conclusion

Sipho Maseko

Telkom

Telkom's transformation

Telkom's turnaround has three phases: current focus is on implementing the new operating model

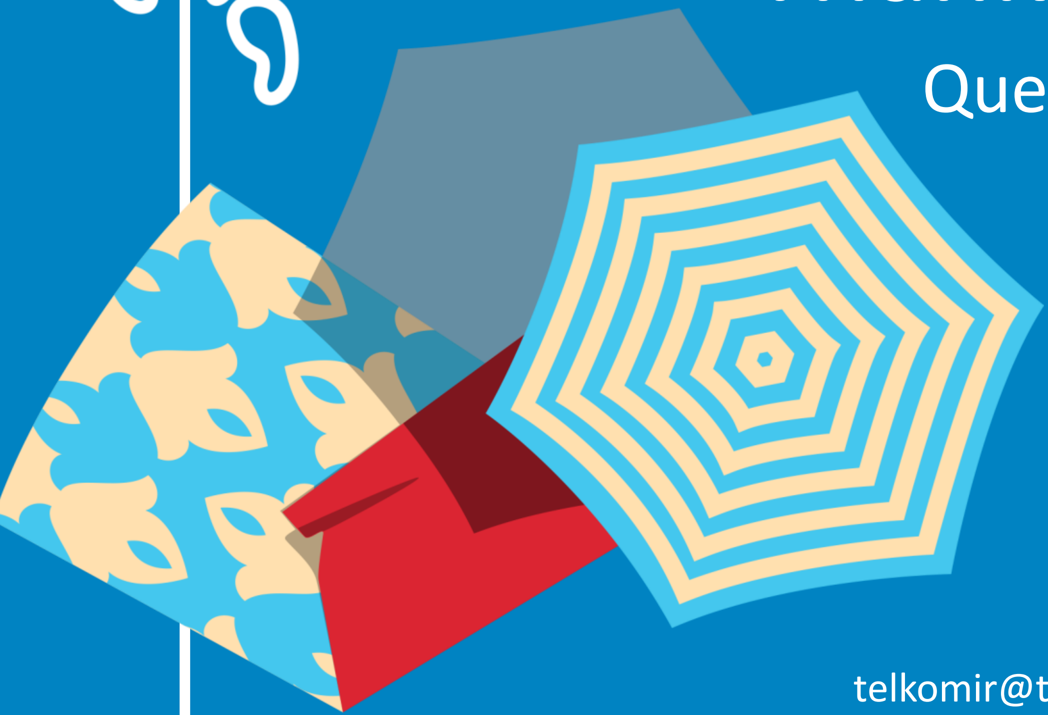
Turnaround	Transform			Grow
Stabilise the business	New operating model	Improve core business	Capability	Sustainable growth phase
Efficiencies People Culture Regulation	Openserve: FTTH Customer service Mobile: LTE Systems and processes			BCX, Trudon, Swiftnet IoT Content Value added services
Period to FY2016	FY2017 to FY2018			

Reset → Phase of establishing a profitable core platform → Scale

Turn around → Business transformation → Renewed core

Thank you

Questions?



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