

Telkom SA SOC Limited

Group Interim Results

For the six months ended 30 September 2016



Telkom

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Telkom

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Introduction



Delivering against difficult trading environment

ECONOMIC ENVIRONMENT

- Limited GDP growth
- Consumers under pressure
- Volatile currency



COMPETITIVE LANDSCAPE

- Increased number of fibre players
- Consolidation in the market
- OTT players



REGULATORY ENVIRONMENT

- Spectrum
- ICT Policy
- Cost to communicate



Customer Experience remains a key priority

SYSTEM UPGRADES

- Reduce time to capture, process and vetting
- Paperless applications
- Digital and self-help



PROCESSES

- Fulfilment
- Assurance
- Billing



STORE INITIATIVES

- Queue management system
- Customer call back support



CALL CENTRES

- Improved First Time Resolutions
- Reduced call volumes

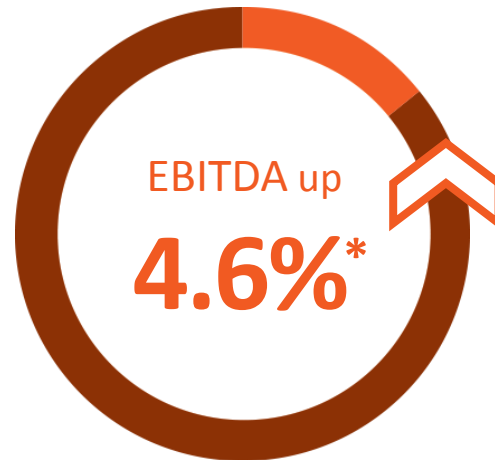
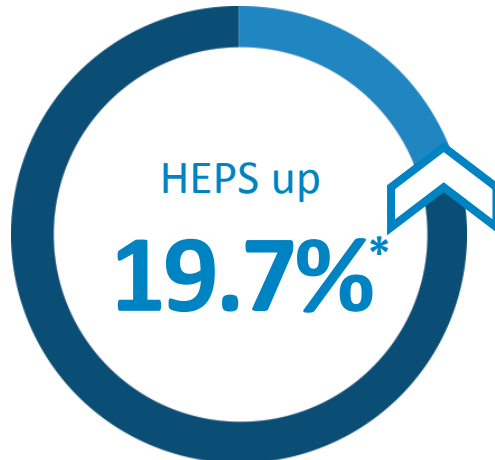
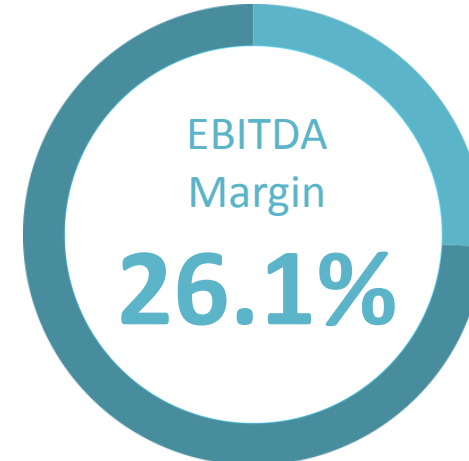
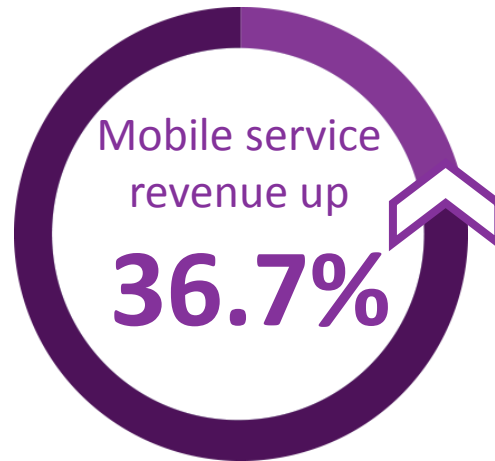
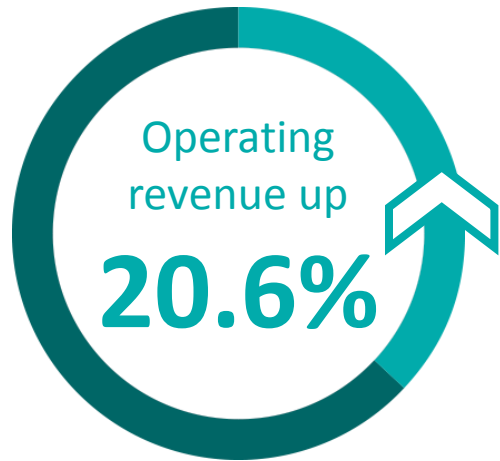


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Business
performance



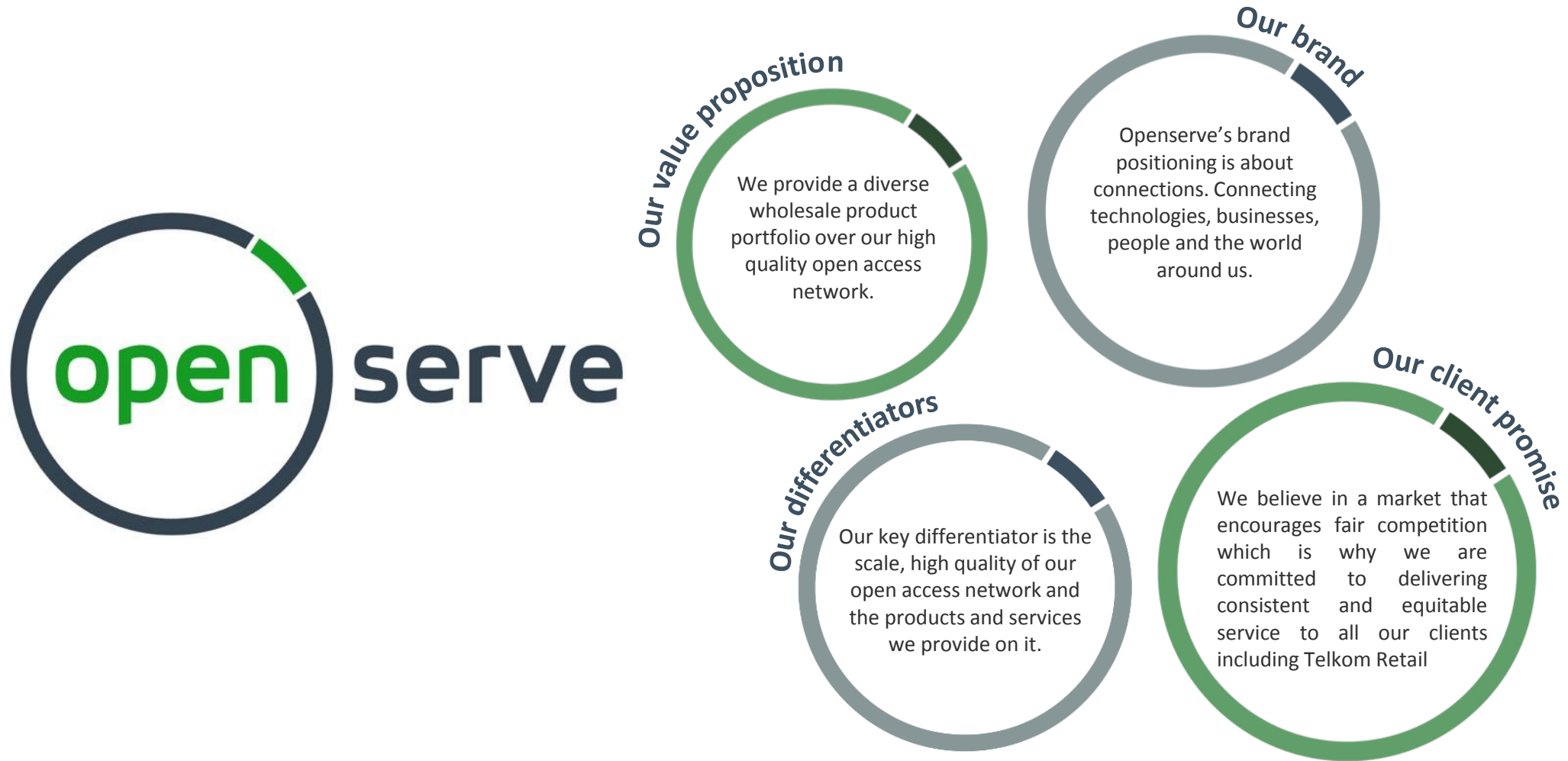
Group financial highlights



**The prior corresponding period numbers exclude voluntary early retirement and severance packages of R1 523 million and the related tax impact of R446 million*



SA's leading and largest broadband and data provider



Leading in the fibre market

Openserve has passed over
2 million premises providing
high speed broadband
connectivity using fibre



Fibre to the
Home

144 512

with connectivity
rate of **13%**

Fibre to the
Business

42 176

end points
terminating

Fibre to the
Cabinet

>1.8 m

homes passed

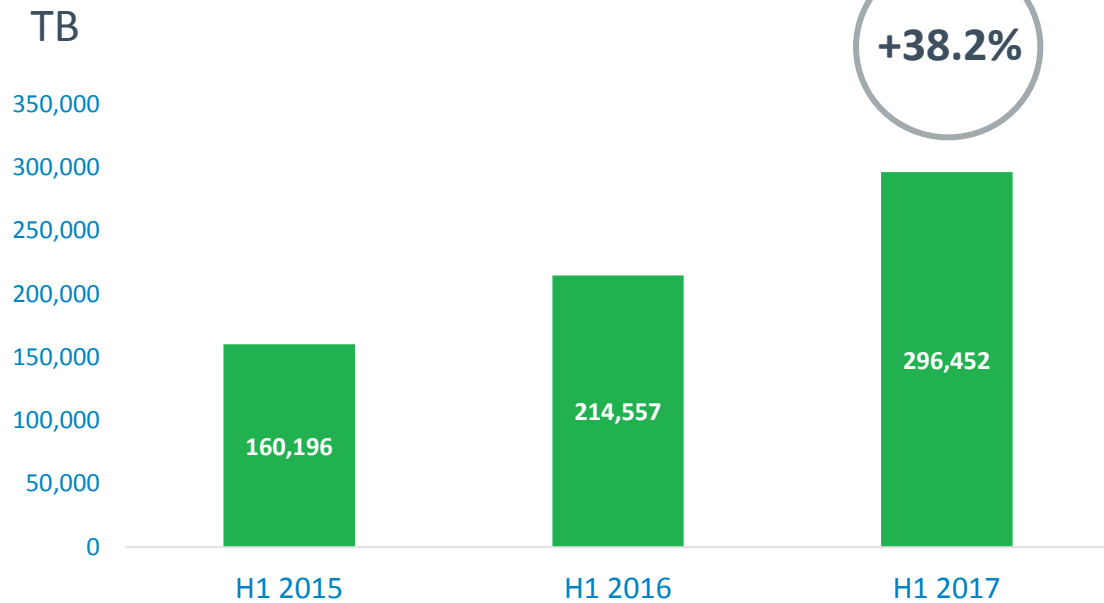
Fibre to the
Base Stations

~5 600

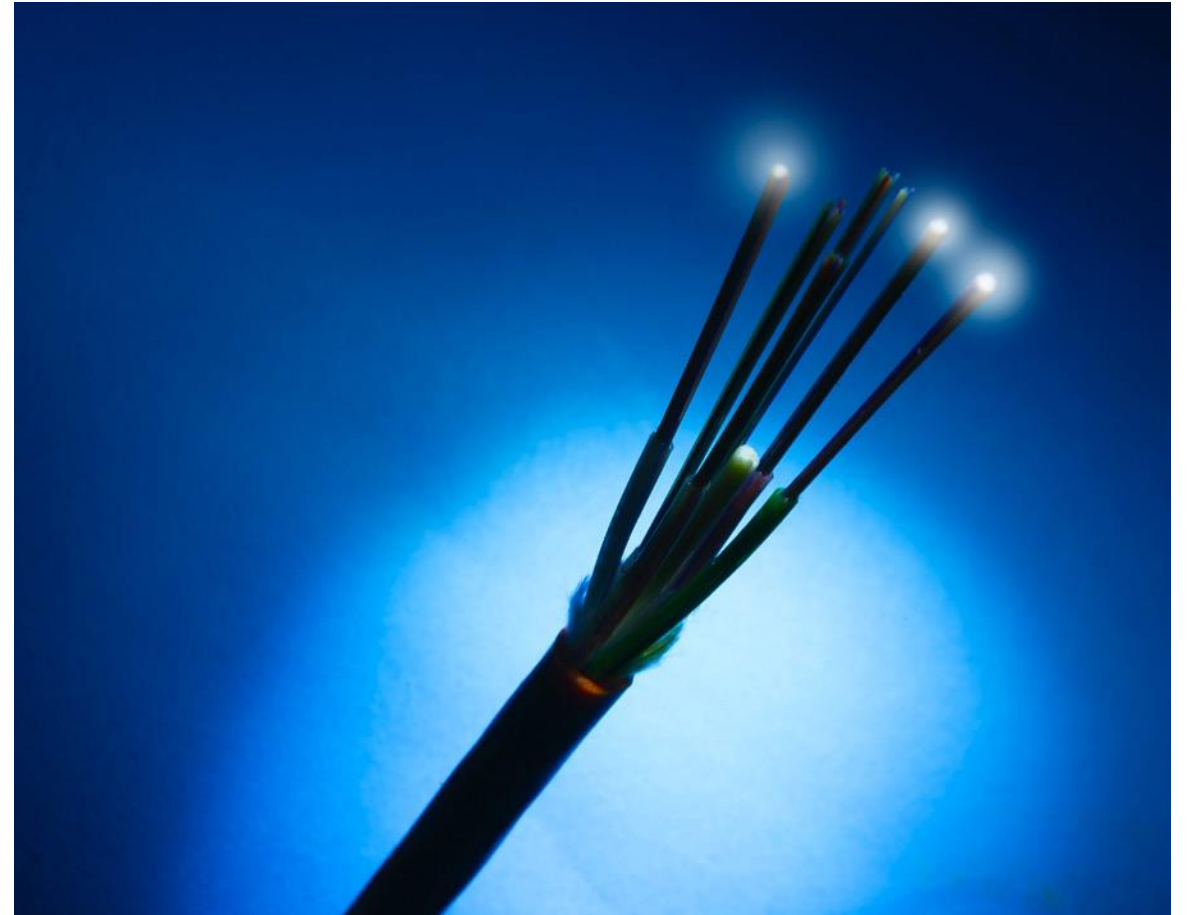
base stations

Improved network consumption

Fixed line broadband¹



¹ Access links



Business Connexion

Is your
business ready
for tomorrow's
customers?

Meet the future today
with Telkom and
Business Connexion.



Africa's premium end to end digital partner

Unmatched Data Centres

- 3 Tier 1V designed data centres

Unrivalled ICT Solution Set

- Proven ICT capabilities
- Market leadership position on IT and telecommunication

Industry Vertical Leadership

- Market leader in Retail, Mining, Manufacturing, Banking and Financial Services
- Key solutions in Public Sector

Leader in Service Excellence

- Leading IT Service Management

Source: Pink Elephant - 2014

Geographical Reach

- Trained IT field engineers in multiple locations across Africa

Vendor Relationships

- Strong strategic relationships with key technology vendors to ensuring best technology solutions

Synergies realised

Key achievements



- Launched Cisco Hosted Collaboration solution
- Launched SAP HANA Enterprise Cloud Services
- Creation of bundled solutions including fixed, wireless, mobile connectivity and IT services
- Awarded business contracts



**growth in Metro-Ethernet
revenue**



**IT Business
service revenue**



growth in Unified Communications revenue

A photograph of a woman with curly hair smiling broadly while holding a smartphone. A man's head with curly hair is visible next to her, looking towards the phone. The scene is set in a living room with a sofa and pillows in the background. The entire image has a blue color overlay.

Consumer

Telkom

Initiatives underpinning good performance

MOBILE

- Product innovation - FreeMe, Smart broadband
- Extension of distribution channels and store footprint
- Network investment
- Ongoing investment in customer experience



FIXED

- Re-engineering of processes for simplicity
- Upselling the DSL base faster speed and bigger bundles
- Provide fibre connectivity from multiple providers
- Partnership to provide content and entertainment



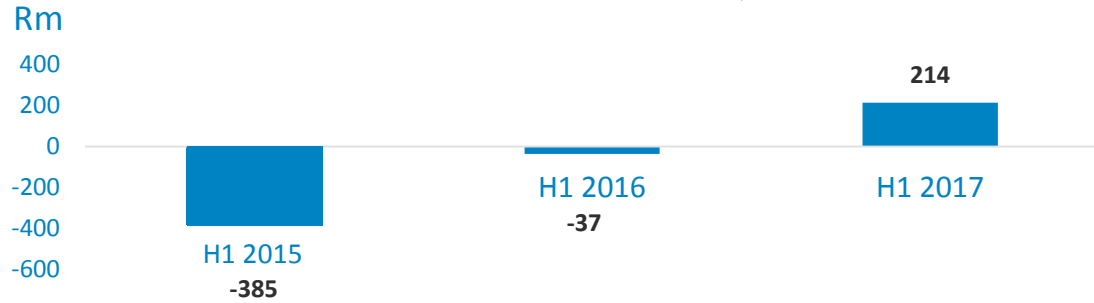
SMALL BUSINESS

- Launch of Voice and Data Failover
- Always-on to Small Business customers
- Re-engineering the value chain and operating model to ensure effective delivery

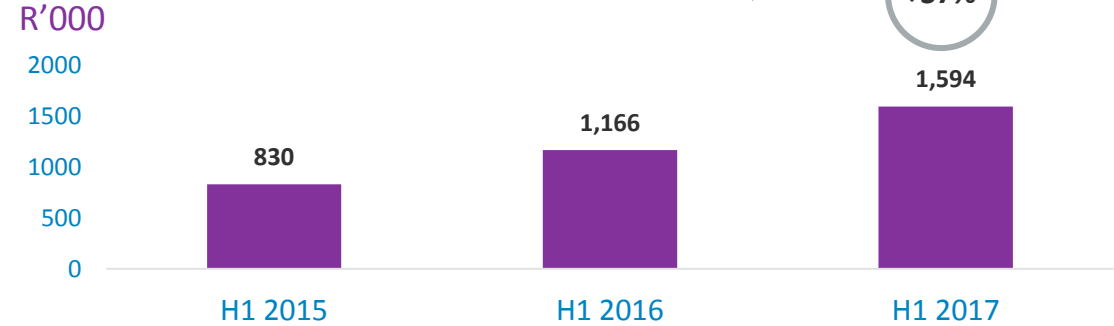


A good foundation for growth

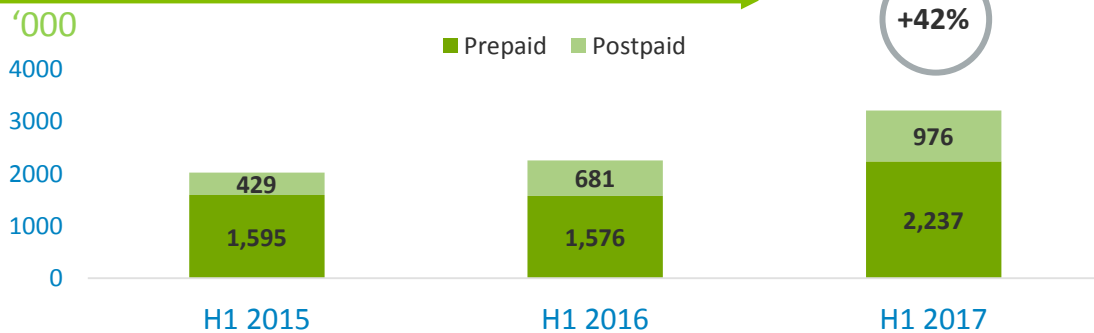
Mobile EBITDA



Mobile service revenue



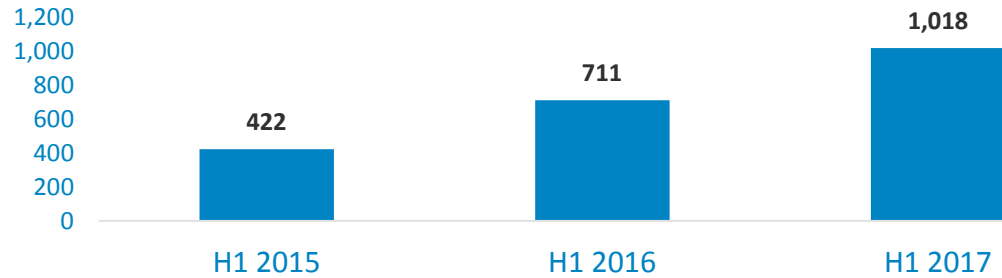
Mobile customer growth



Broadband strategy underpins solid performance

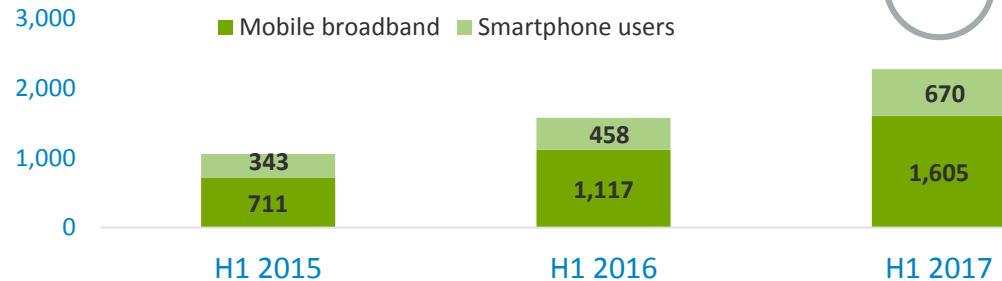
Mobile broadband revenue

R'000



Mobile broadband customers

'000



Fixed and Small Business

FIXED BUSINESS

- Significant demand for fibre
- Migration from ADSL/VDSL to fibre

SMALL BUSINESS

- Fail Over
- Always On
- Smart Virtual Office solution



Focusing on attracting and growing talent

REWARDS

- Performance Pay – up to 12%
- Performance Management
- All employees are shareholders



RECRUITMENT & TRAINING

- Bright Young Minds
- Internships
- Training - Retail staff and technicians



LEADERSHIP & DEVELOPMENT

- Bursaries
- Female Leadership
- Development plan – Step Up



Empowering youth through education and entrepreneurship

Foundation

Main focus is on Education

R24.4m

allocated to
education

43

schools
connected

543

Teachers
trained in ICT

FutureMakers

Enterprise and Supplier Development Program

R117m

Invested into
FutureMakers

20

Black owned
businesses
through our IFT
programme

1 000

Tech entrepreneurs
financially supported
by Future Makers

3

Financial overview



Developments in the first half of FY2017

Mobile



Mobile EBITDA profitability

BCX inclusion for six months



BCX

Capex deployment



185% growth in capex deployment to priority areas

Dividend policy and interim dividend



Interim dividend

Normalised earnings

	Sept 2016	Sept 2015	%	
Profit for the period	1 821	606	200.5	↑
VERP/VSP cost	-	1 523	-	
Tax on VERP/VSP cost	-	(446)	-	
Normalised profit for the period	1 821	1 683	8.2	↑
Normalised headline earnings per share	336.0	280.6	19.7	↑

Key financial indicators

	Sept 2016	Sept 2015	%	
Operating revenue	20 237	16 782	20.6	↑
Net revenue	13 849	13 404	3.3	↑
Operating expenses	8 978	8 929	(0.5)	~
EBITDA	5 272	5 040	4.6	↑
Capital investments	3 639	2 335	55.8	↑
Normalised free cash flow	241	1 445	(83.3)	↓

Quality of earnings

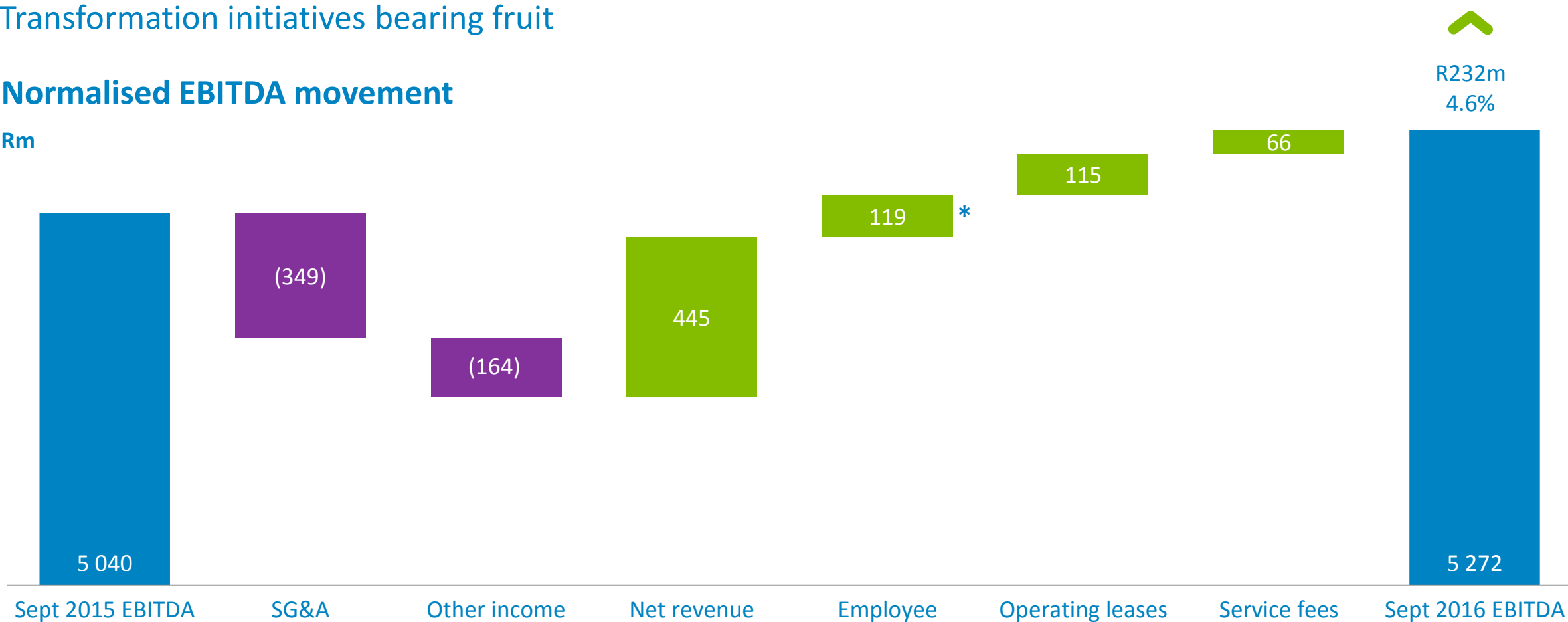
	Sept 2016	Sept 2015	%	
Profit for the period	1 821	606	200.5	↑
Gain from property, plant and equipment	(143)	(282)	49.3	↓
Severance package cost	-	1 523	-	↓
(Profit)/Loss of the sinking fund	(90)	60	(250.0)	↓
Tax on VERP/VSPs	-	(446)	-	↑
Adjusted profit for the period	1 588	1 461	8.7	↑

EBITDA

Transformation initiatives bearing fruit

Normalised EBITDA movement

Rm



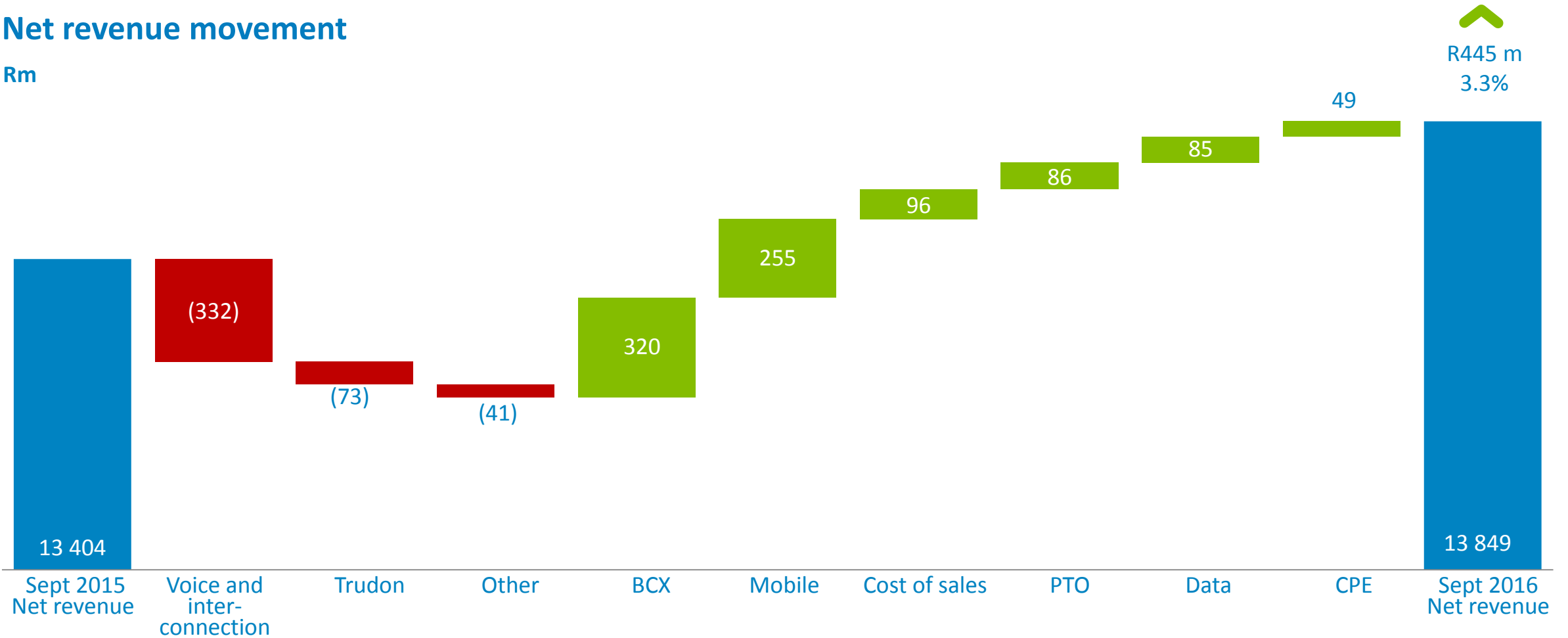
R232m
4.6%

*Company reduction of R608 million

Growth in strategic focus areas

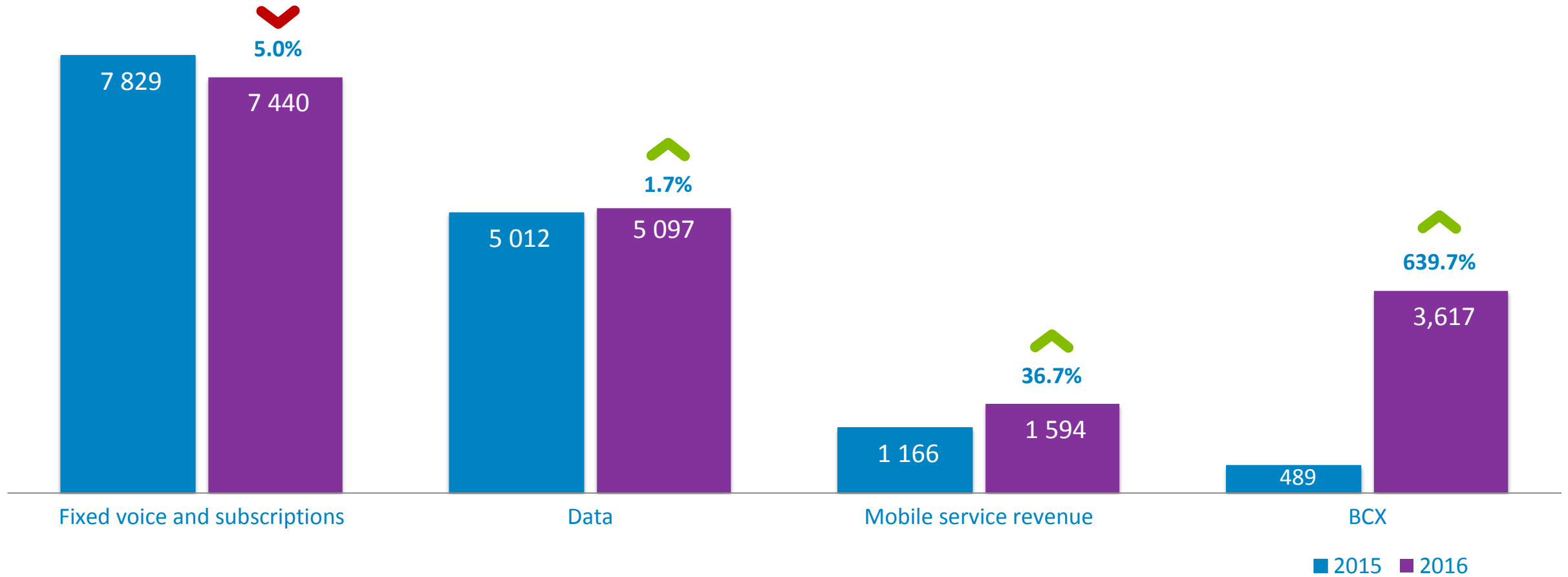
Net revenue movement

Rm

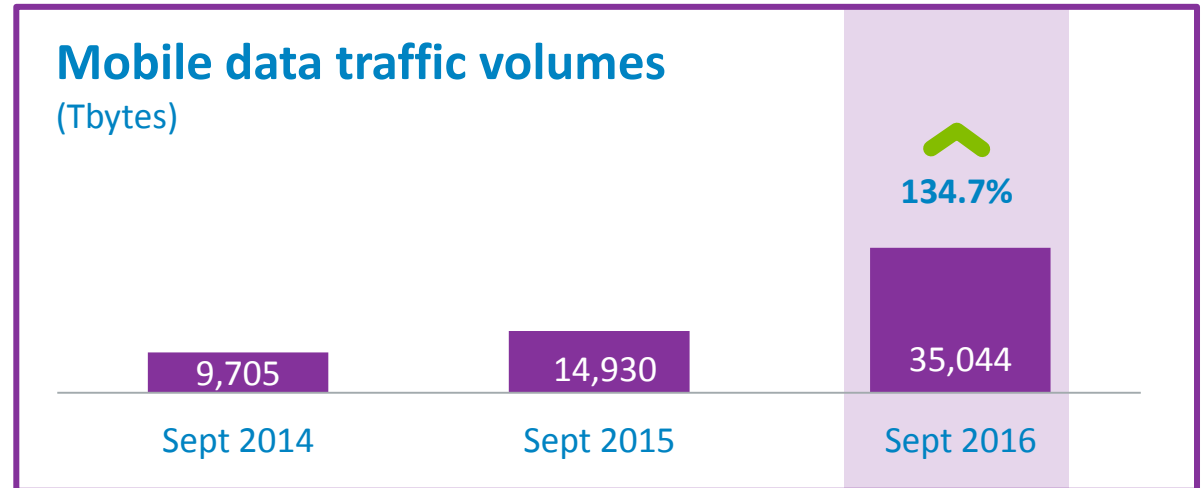
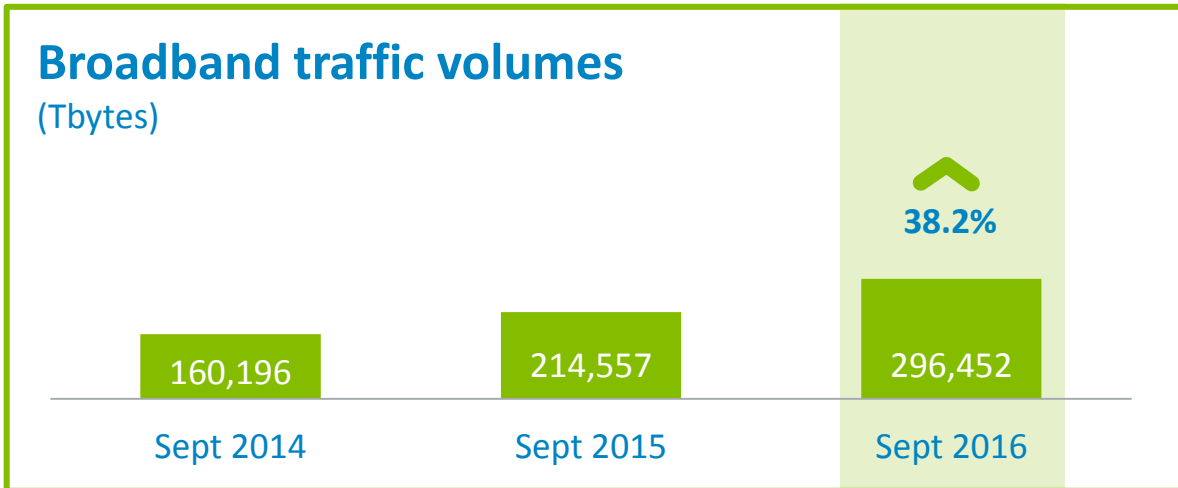
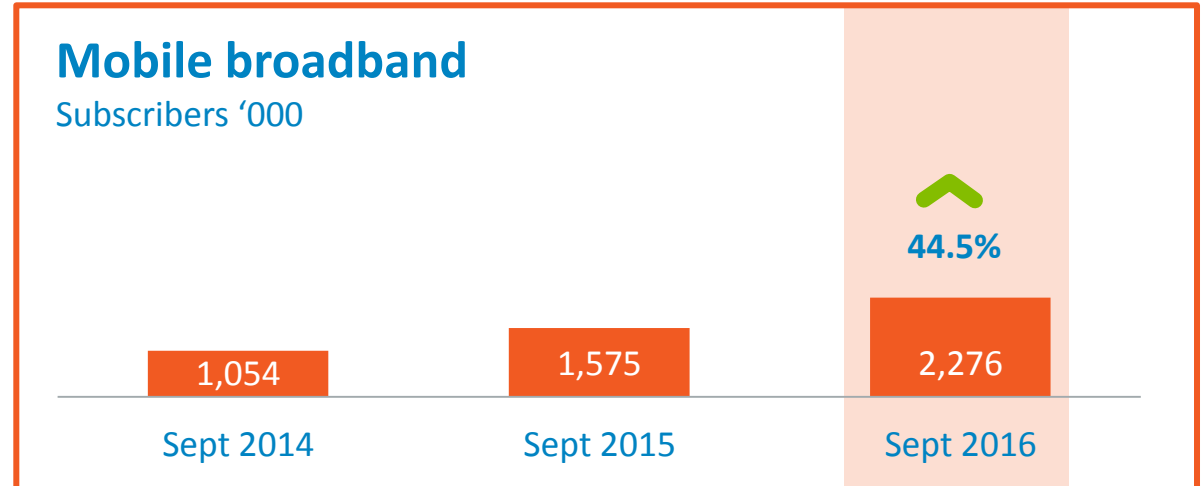
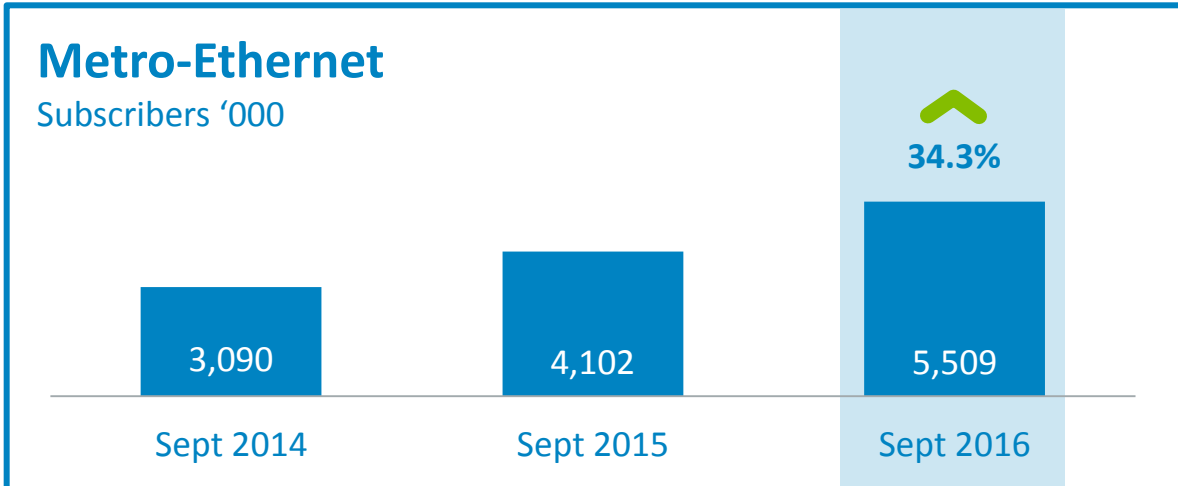


Retaining traditional revenue while focusing on growth

Rm



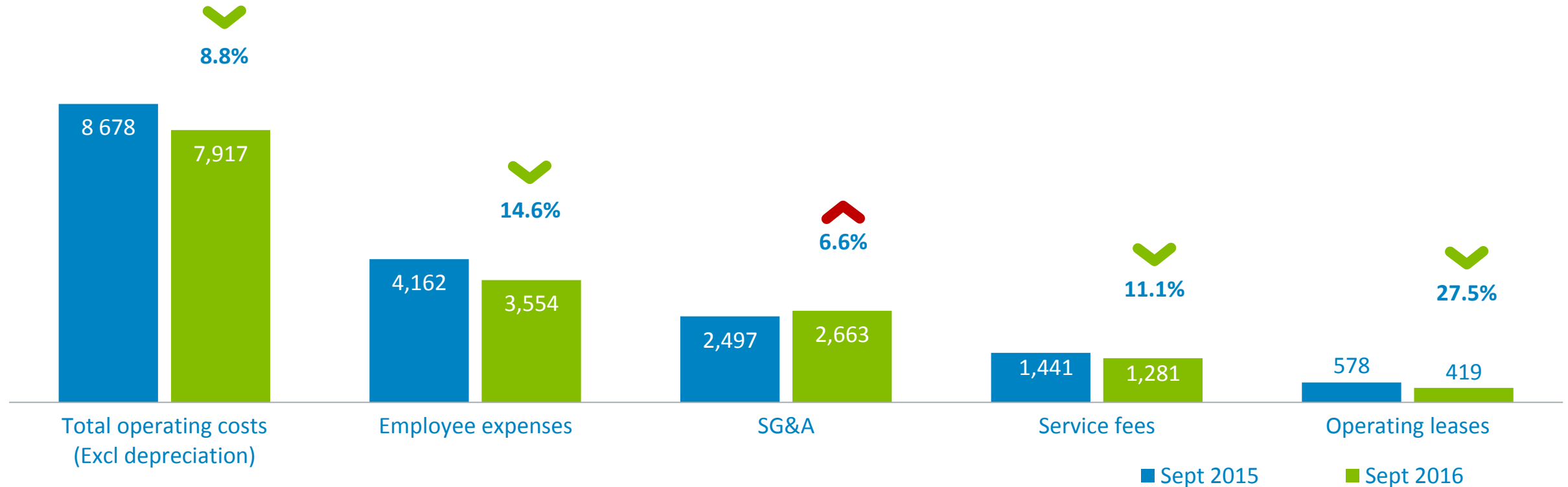
Growth in subscriber and data volumes



Reduction in operating cost (Telkom Company only)

R761 million year on year reduction

Rm



Increased capital expenditure in priority areas

	Sept 2016	Sept 2015	%	
Fibre	929	343	170.8	↑
Mobile	758	201	277.1	↑
OSS/BSS programme	325	162	100.6	↑
Network rehabilitation/sustainment	192	167	15.0	↑
Service on demand	658	707	(6.9)	↓
Core network growth	392	87	350.6	↑

Strong cash position – Platform to enable growth

	Sept 2016	Sept 2015	%	
Cash sources				
Opening cash balance	2 542	3 642	(30.2)	▼
Cash flow from operating activities	3 266	2 029	61.0	▲
Significant cash applications				
Dividend paid	(1 447)	(1 329)	(8.9)	▲
BCX acquisition	-	(2 654)	-	
Cash paid on capital expenditure	(3 547)	(2 048)	(73.2)	▲
Cash at the end of the period	1 821	700	160.1	▲
Discretionary investments	2 496	2 400	4.0	▲

Guidance

	F2017 guidance	H1 F2017 (A)		F2018 guidance
Net revenue	Modest growth	+3.3%	✓	Modest growth
EBITDA margin	23% - 25%	26.1%	✓	23% - 25%
Capex to revenue	15% - 18%	18.0%	✓	14% - 17%
Net debt to EBITDA	≤ 1	0.3	✓	≤ 1
Mobile EBITDA breakeven	Achieved	R214 million	✓	N/A

Dividend policy: Annual dividend of 60 percent of headline earnings. Interim dividend of 40 percent of interim headline earnings. Interim dividend 131 cents per share.



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Conclusion

Integration of Telkom Enterprise with BCX

PEOPLE



- Led by Isaac Mophatlane
- New Exco
- One sales force team

RESOURCES



- Data Centres managed by BCX
- Group IT services to be managed by BCX
- Central Treasury function

PRODUCT OFFERING



- Offer end to end solutions
- Converged products and services
- Go to market strategy

Focus strategic areas

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



- Modernise the network
- Commercialise the network
- Grow broadband penetration
- Service delivery transformation

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- Cloud Computing
- Unified Communications and Collaboration
- Converged Connectivity and Mobility
- Security
- Internet of Things
- Big data analytics



- Expanding Omni-Channel offerings
- Establish E-Commerce market place
- Expand partnership to OTT

In closing



Processes



Culture



Technology



Finance

A woman with a large afro hairstyle and a young girl are looking at a laptop screen together. The woman is smiling and pointing at the screen, while the girl looks on with interest. They are both wearing light-colored, textured sweaters. The background is softly blurred, suggesting an indoor setting with warm lighting.

Thank you

Questions?

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Telkom