



Telkom

Telkom SA SOC Limited

# Group Interim Results

for the six months ended  
30 September 2017

*Tomorrow starts today*

# Business performance



## Challenging operating environment

### Macro-economic conditions

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Limited GDP growth

Consumers under pressure

Low business confidence

### Competitive environment

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Consolidation in the market

Pricing pressures

Increasing OTT players

### Regulatory landscape

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Cost to communicate

ICT policy & spectrum uncertainty

## Resilient business performance



Operating  
revenue

**R20.1 bn**



EBITDA  
margin

**25.9%**



Headline earnings  
per share

**303.9c**



Capex to  
revenue

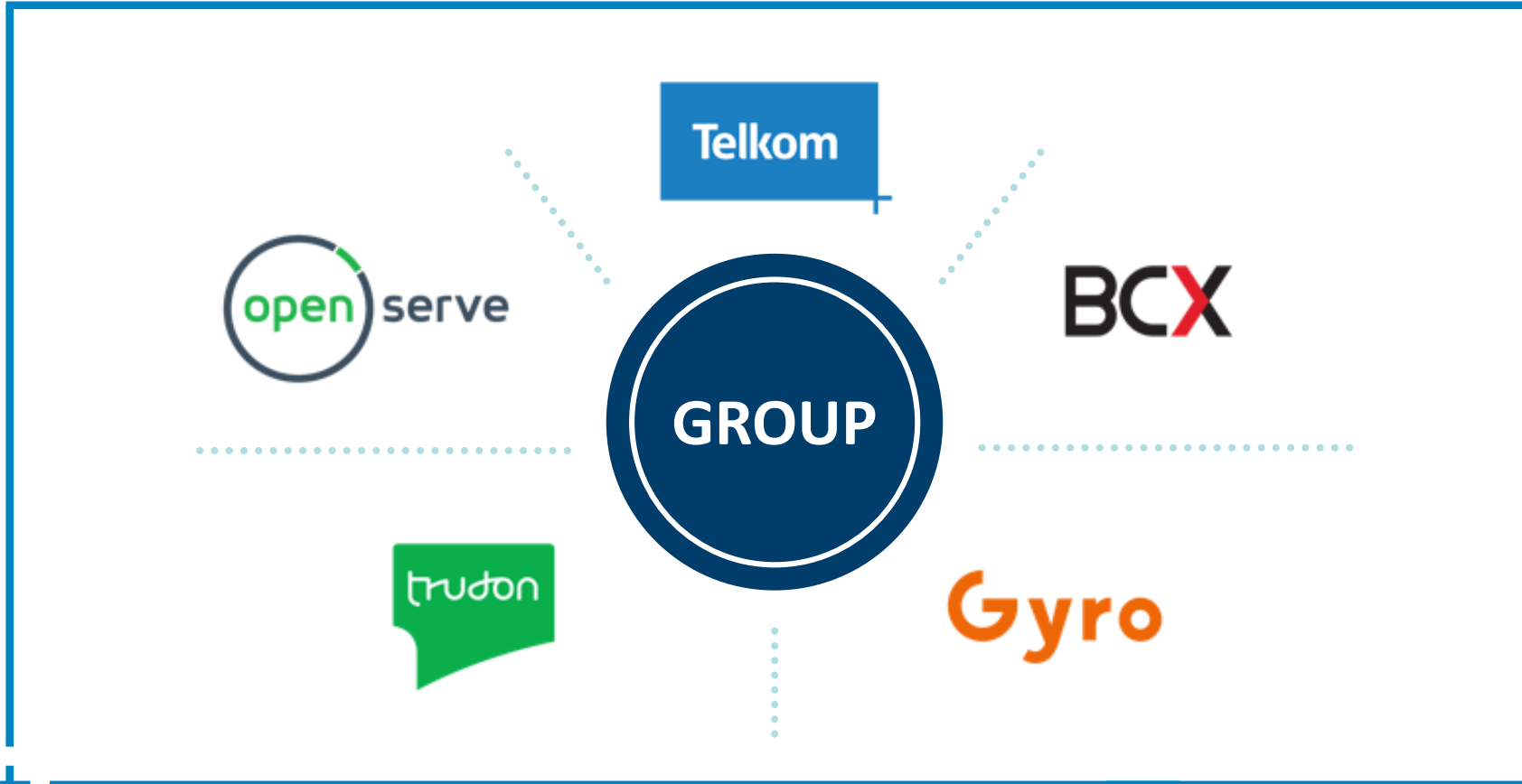
**19.8%**



Interim  
dividend of

**118.1c**

## Gearing for growth



## Key focus areas

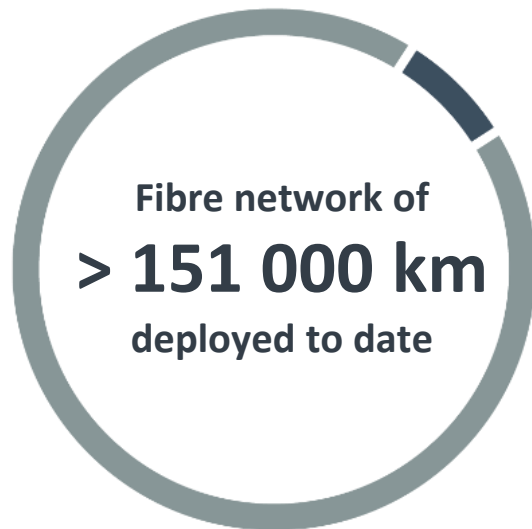
Modernise the network

Commercialise the network

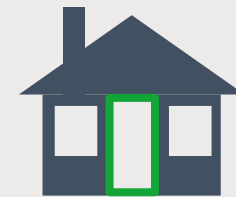
Transforming service delivery



## Modernise the network - Fibre



Passed over **2.4 million** premises



Fibre to the home

**300 506**

**107.9%**

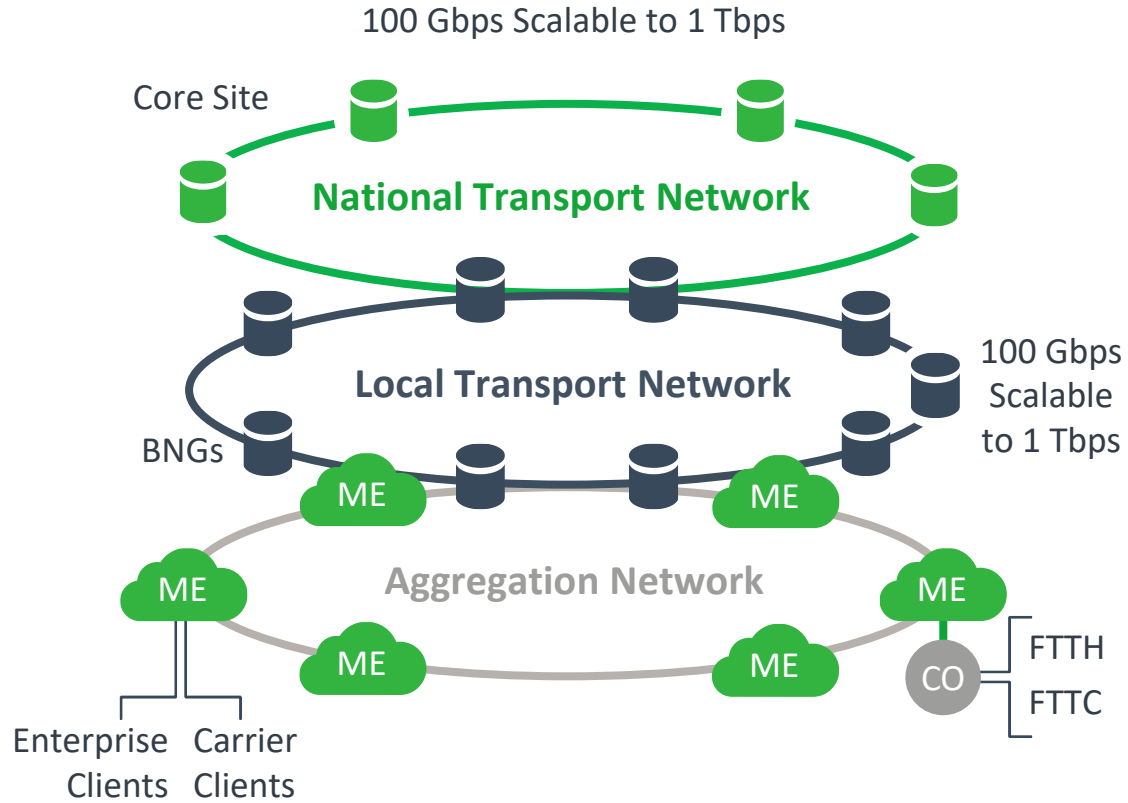


Fibre to the cabinet

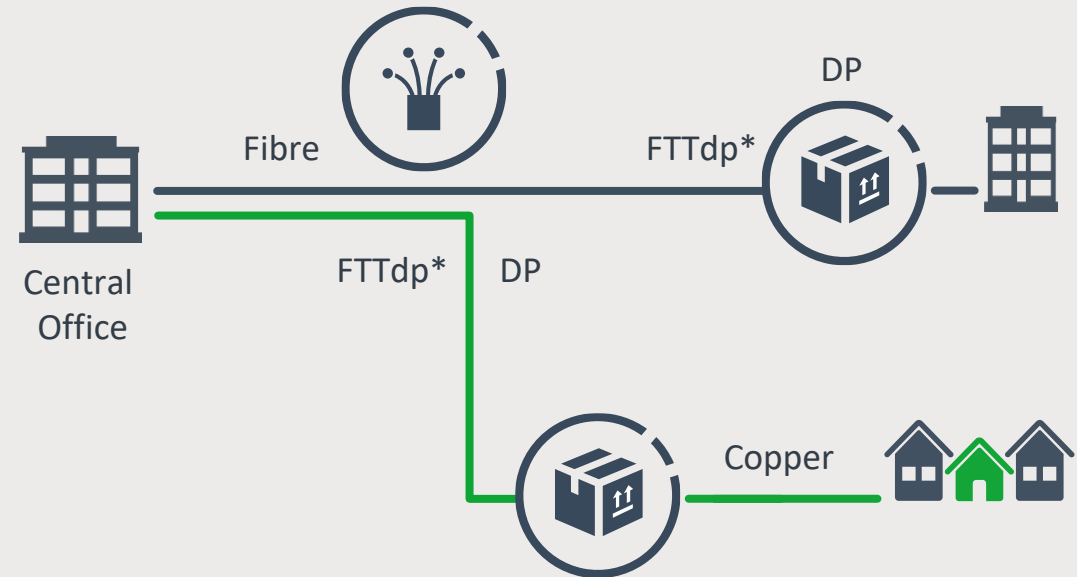
**2 123 523**

**16.2%**

# Modernise the network - POTN



# G.Fast



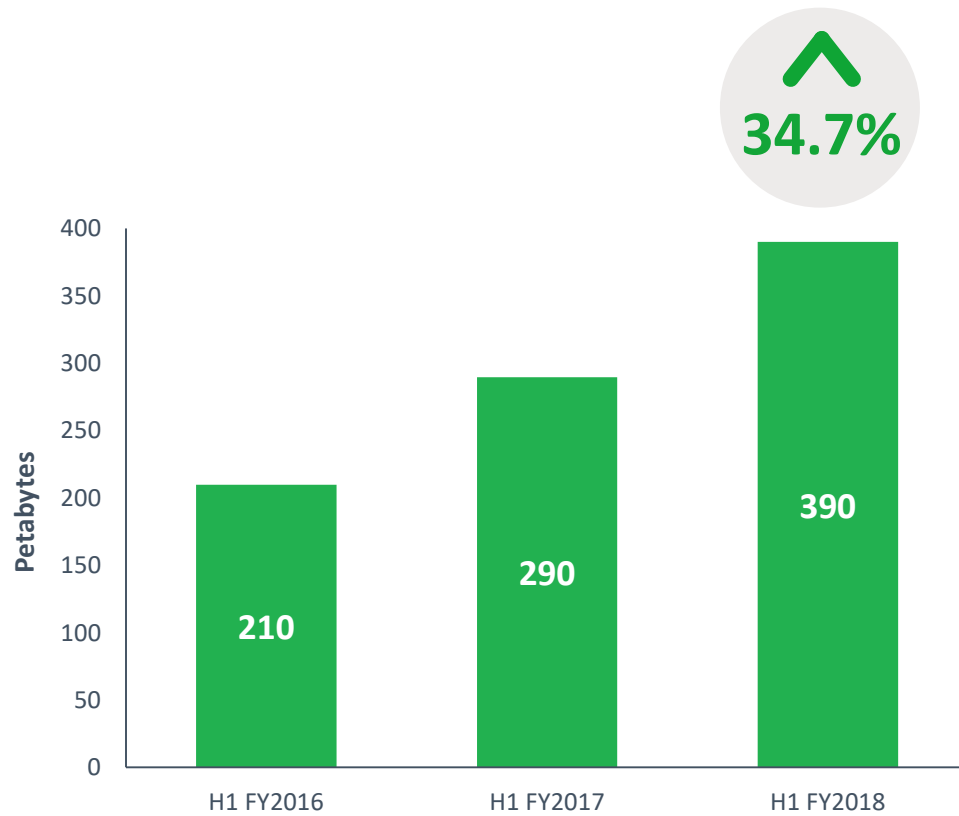
\*Fibre to the distribution point





## Commercialise the network

Fixed line broadband data consumption<sup>1</sup>



1. Access links



Fibre to the business

**68 330**

end points terminating

62.0%



Fibre to the base stations

**6 183**

base stations

10.3%



Homes connected

**73 710**

connectivity rate of

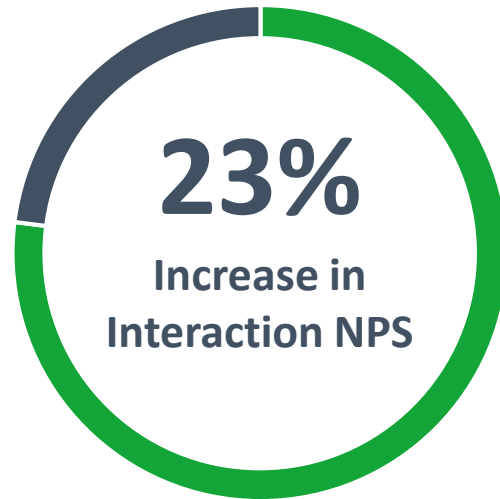
**24.5%**

## Enhanced customer experience



Improved customer feedback on each interaction

Improved dispatch methodology through fault correlation



Improved Performance Pays outs

Digital ready Technicians

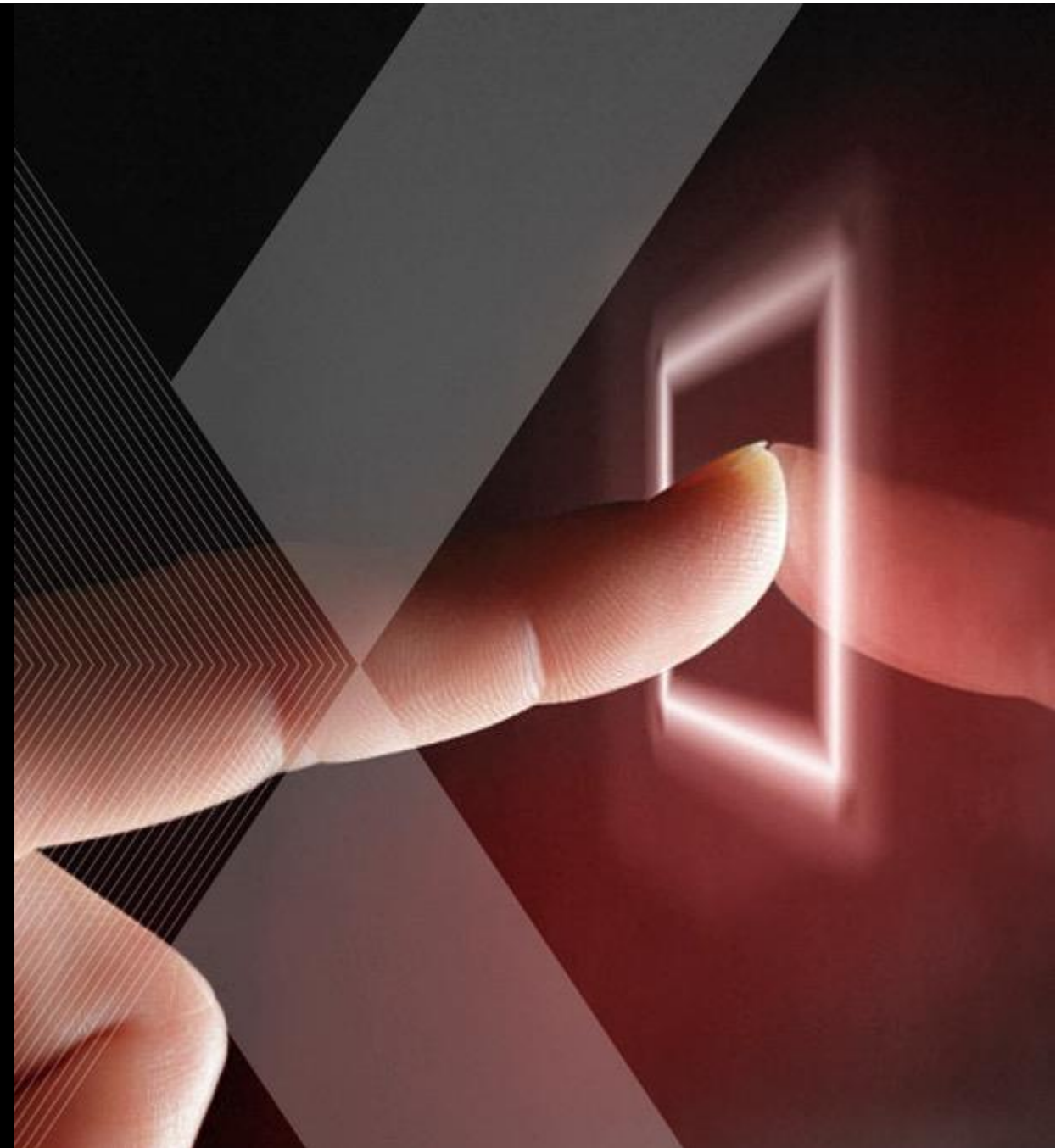
Improved good jobs resulting in first time right





## Key focus areas

Unified communications  
Cloud computing  
Big data analytics  
Industrial IoT (IIoT)  
Cyber Security



## Remarkable capabilities



### Scale presence

- Unrivalled, converged data, voice and technology solutions, delivered across every part of South Africa



### Centres of Excellence

- Over 2 000 software engineers and developers
- Access to a compute, store, retrieve model hosted in 17 km<sup>2</sup> of datacentres



### Unified Communications

- Unique capabilities give BCX the ability to drive a range of Unified Communications Solutions (UCS)

## Progress against key focus areas



### Cloud Computing

- Virtustream offering live
- SAP HEC “Ready to Deliver” Certification achieved
- Commodity Cloud offering available on BCXCloud.com
- Launched Free Educational portal



### Big Data Analytics

- The BCX Insights team has expanded
- Multiple engagements across all sectors
- A proprietary ‘Data as a Service’ platform created
- Explore Data Science Academy



### Unified Communications



### Industrial IoT

- Delivering a wide range of industry leading IoT solutions
- Over 100,000 devices and sensors being managed across multiple technologies and platforms
- Strong growth prospects for devices



### Security

- A new cyber security capability is being built with market launch in 2018
- Planning for a new Security Operations Centre to go live in 2018
- Building a generation of smart “digital warriors”

## With customers at the heart of solutions



### Customer Relationship Management



- Specialist 'vertical' customer engagement teams for all major sectors



- P&L and Service Delivery accountability with customer engagement teams



# Telkom

*Consumer*

## **Key focus areas**

Mobile growth

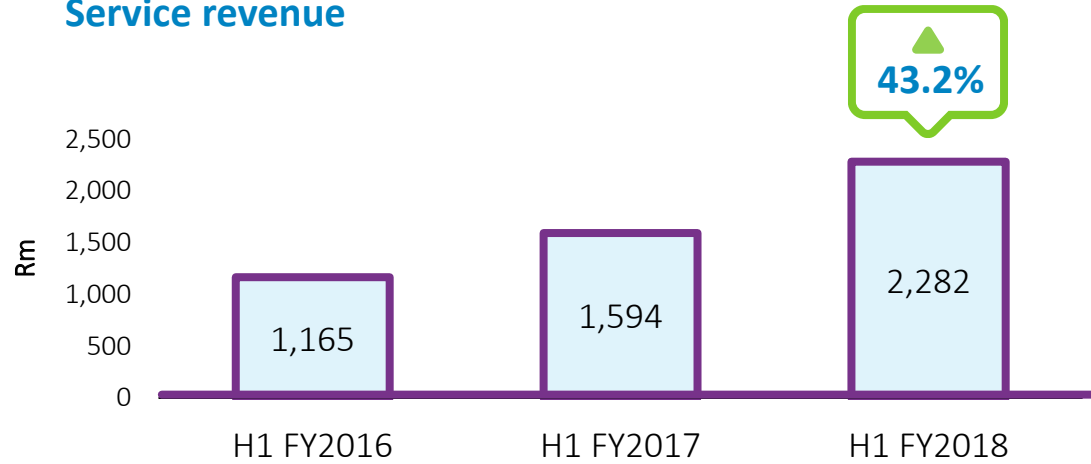
High speed broadband growth

Content and VAS

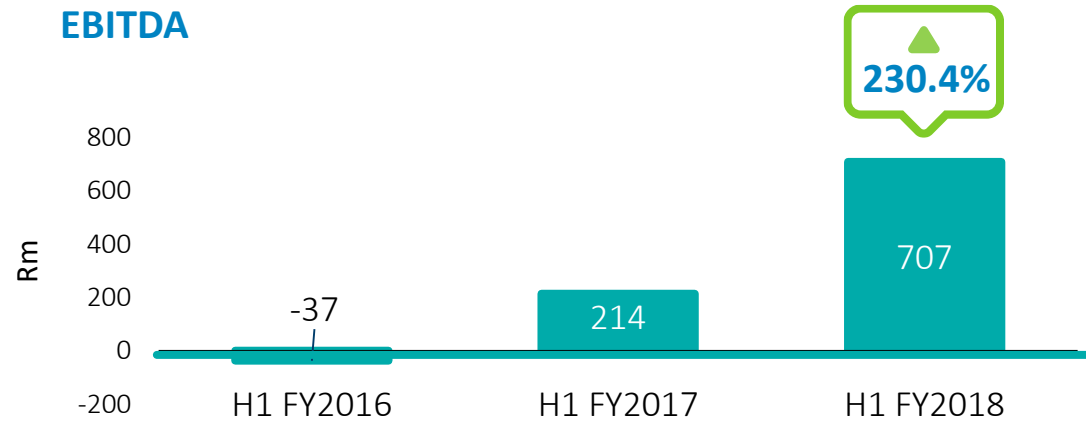


## Solid execution by mobile business

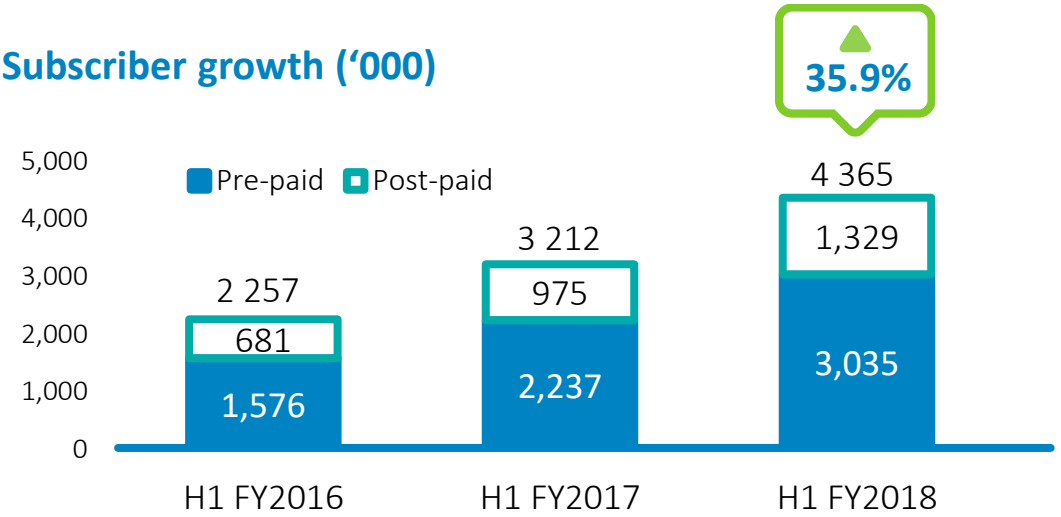
### Service revenue



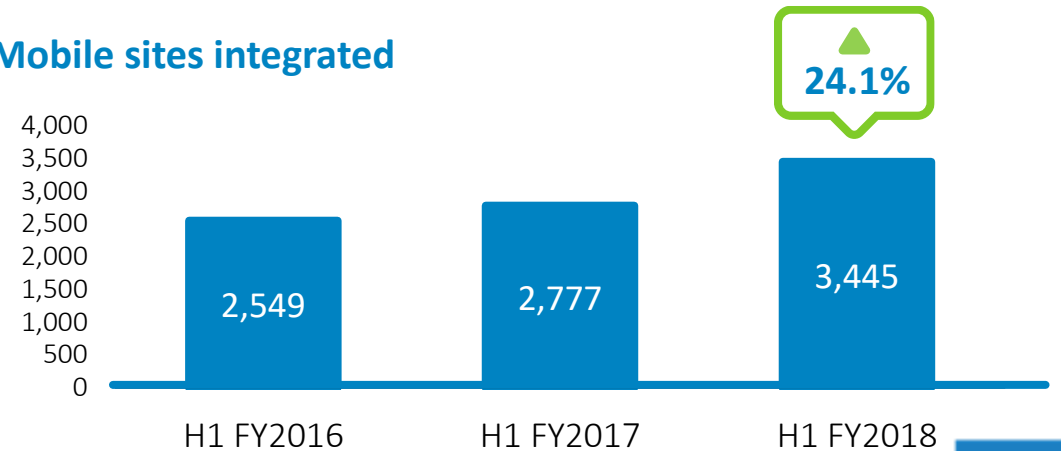
### EBITDA



### Subscriber growth ('000)



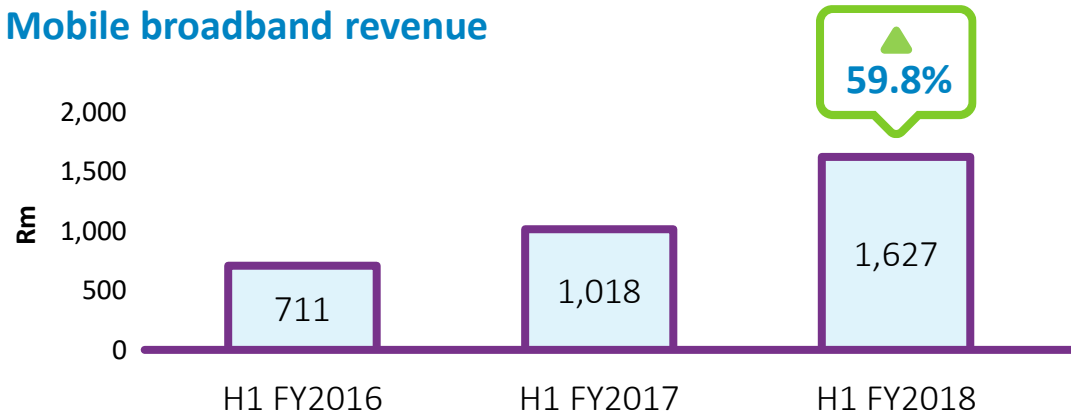
### Mobile sites integrated



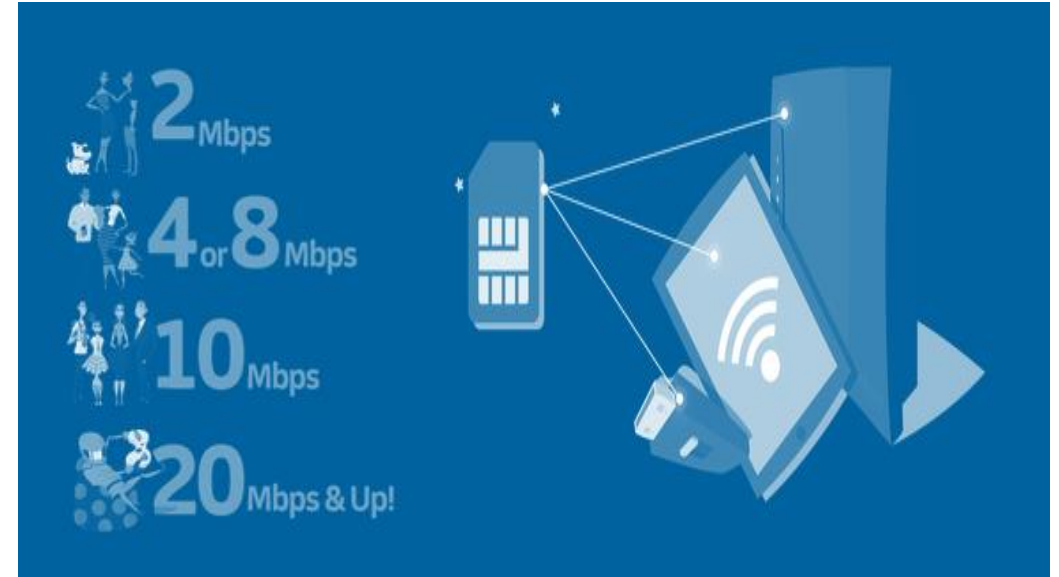
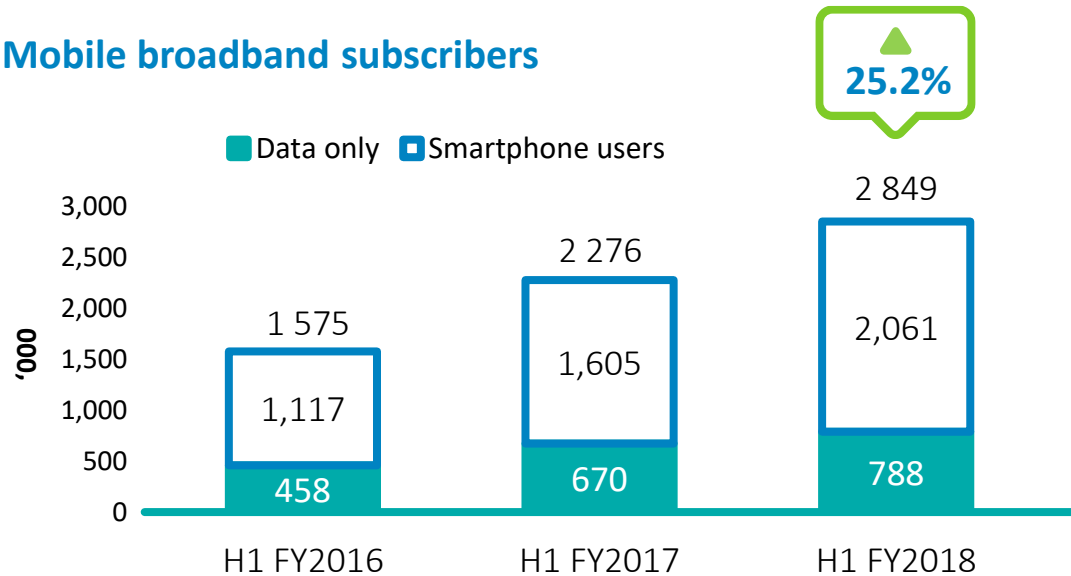


## Broadband strategy paying off

### Mobile broadband revenue



### Mobile broadband subscribers



### Home Unlimited Uncapped

- Increase in new-to-franchise customers
- Customers migrating from capped to uncapped products and higher speeds
- Churn stabilisation
- Increase in ARPU

## Content contributes to broadband growth



- LIT Music and Video – geared towards higher ARPU mobile subscribers



- LIT Streaming underpinned by Google Android Streaming Box - geared to high-speed fixed broadband subscribers



Based on month to month basis

- # of professional league gamers on the platform **increased 4x** in the past six months
- Over **150** online gaming competitions on a monthly basis playing on

**Telkom  
Broadband  
Network**

- Partnerships with SuperSport, Logitech and Orlando Pirates
- Partnerships to create VS Gaming Hubs



## Ongoing improvement to customer experience

### Systems improvements

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- Online self-help for fixed and mobile
- **50%** less clicks and screen movements
- V-docs paperless application

### Store initiatives

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- Queue management system implemented
- Customer call back support implemented in top **30** stores

### Call centres initiatives

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- Improved first time resolutions
- Mobile up from **78%** to **81%**
- Fixed up from **56%** to **63%**
- **10%** reduction in call volumes

## Customer experience initiatives bearing fruits



- **Telkom Mobile** moved from 3<sup>rd</sup> position to **2nd position**
- **Telkom ISP** moved up two positions to **3rd position**

# Africa Com

## Best innovation in the Broadcast Broadband Connection



- Telkom Mobile moved from the 5th position to **3rd position**

## MYBROADBAND

TRUSTED IN TECH

- Best Mobile Broadband Provider of the year in the **best value for money**



## Key focus areas

Commercialise the property portfolio

Extract value from excess building capacity

Smart building solutions

## Who is Gyro



### Mast & Towers

- **6 500** towers across South Africa
- Co-location leases on existing towers and newly built towers



### Property Management Services

- **>1 400** properties under management
- Integrated Property Management Solution (iCRES)
- Real-estate asset, facilities and lease management



### Property Development

- **20** million square metres of land
- **39** Telkom properties for potential development
- To form partnerships with property developers



## Progress against key focus areas



### Commercialisation of properties

- Increased **tenancy ratio** on existing towers by **5%**
- External towers monthly revenue increased **16%\***
- Engaged with market to identify development partners
- **Concepts finalised** for first developments



### Extract value from excess building capacity

- Implementing marketing plan across **22** identified sites
- Principles and processes implemented so partial space can be developed for 3rd party usage
- Approved pipeline of non strategic properties ready to be put on the market for sale



### Enable smart building solution

- Identified electricity usage with the purpose of reducing the consumption
- Ongoing initiatives to improve efficiencies



## Key focus areas

Establish e-commerce marketplaces

Expanding Omni-channel offerings

Expand partnership to OTT





## Establish e-commerce marketplaces



- **300%** growth in traffic
- **276 300** transactions generated over the past 6 months
- **220%** increase in unique users
- Over **3.1 million** page views



- Over **10 000** downloads
- Bookings, quotes and invoicing functionality launched

## Omni-channel



**141 439**

quotes sent to  
business

**7 776**

appointments sent  
to business

## OTT partnership



**8%**

Growth in  
Google revenue



**1 890**

Active Webcards



Analytics  
product  
launched



**5 000**

Active  
customers

# Human and social capital



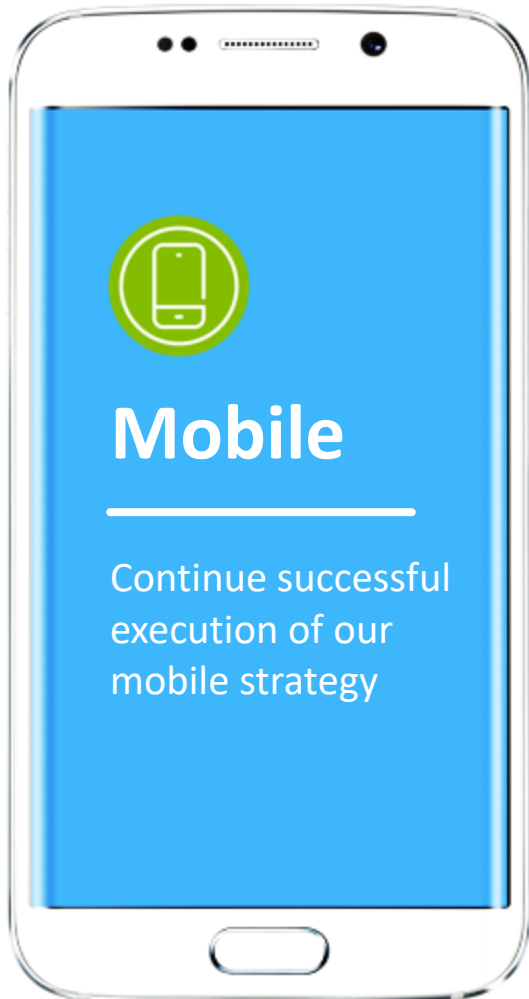
## Empowering youth through education, digital skills and entrepreneurship

<b>R278 million</b> invested into FutureMakers	<b>&gt;R130 million</b> Allocated to Education	<b>WeThinkCode</b> 2 year training course
<b>+2 500</b> small business benefitted from FutureMakers	<b>10 700</b> learners benefitted from supplementary teaching	<b>Data Science Academy</b>
<b>IFT</b> 41 companies employed 430 ex Telkom technicians and 285 unemployed youth	<b>4 240</b> teachers trained in ICT	<b>SpliceWorks</b> 200 digital architecture

# Financial overview



## Overview



### Revenue pressures

Revenues under pressure due to a tough economic environment and increased competition



### Cost efficiencies


Continue with our Multi year cost efficiencies programme and reviewing our business portfolios



### Prioritised capex deployment

Reprioritised all capital investments with focus on diversifying our revenue base and ensure long term sustainability

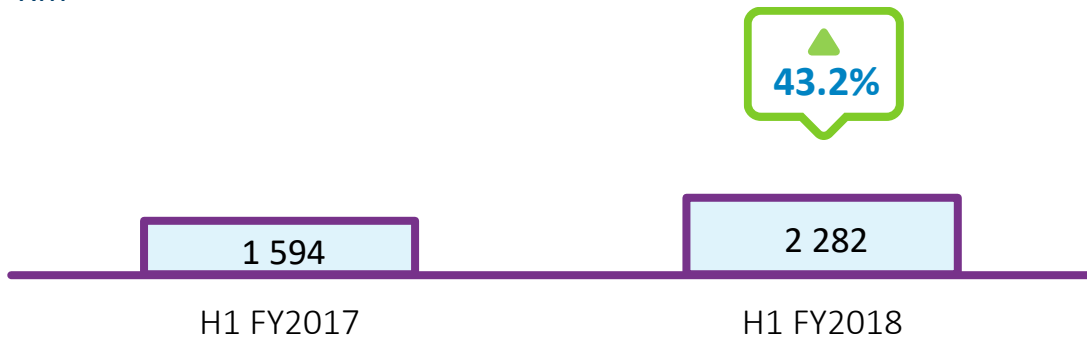
## Key financial indicators

	H1 FY2018	H1 FY2017	%
 <b>Operating revenue</b>	20 109	20 237	(0.6)
Net revenue	15 791	15 928	(0.9)
Operating expenses (excl. depreciation)	10 819	11 028	1.9
EBITDA	5 201	5 301	(1.9)
Capital investments	3 974	3 639	9.2
Cash generated from operations	3 928	4 099	(4.2)
Headline earnings per share (cents)	303.9	328.2	(7.4)

## Impressive growth of future revenue

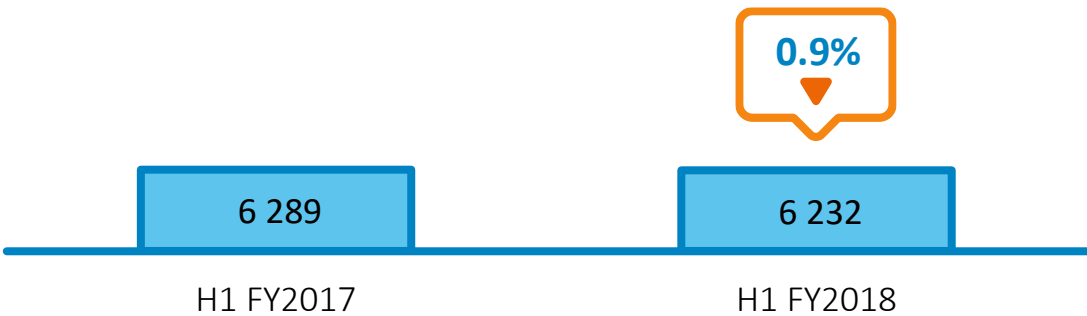
### Mobile service revenue

Rm



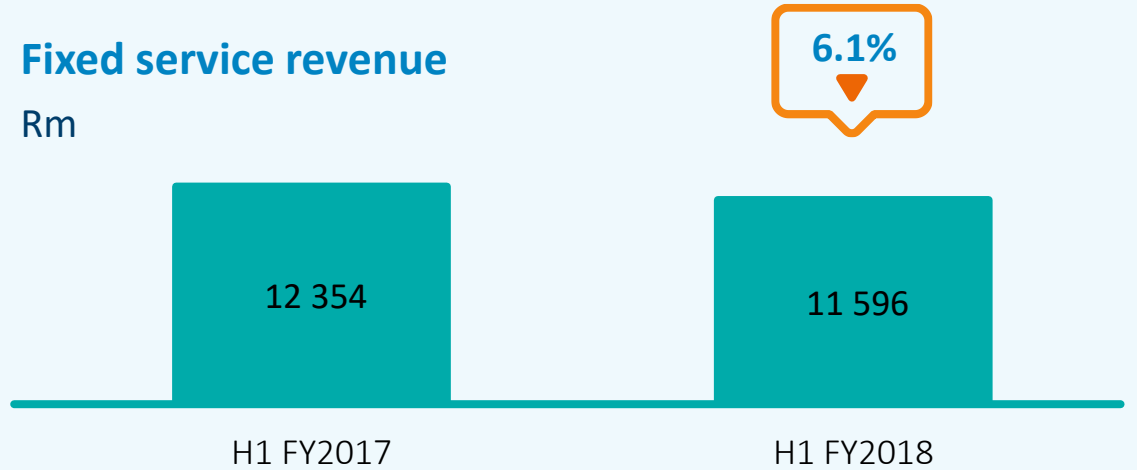
### Information technology and other

Rm



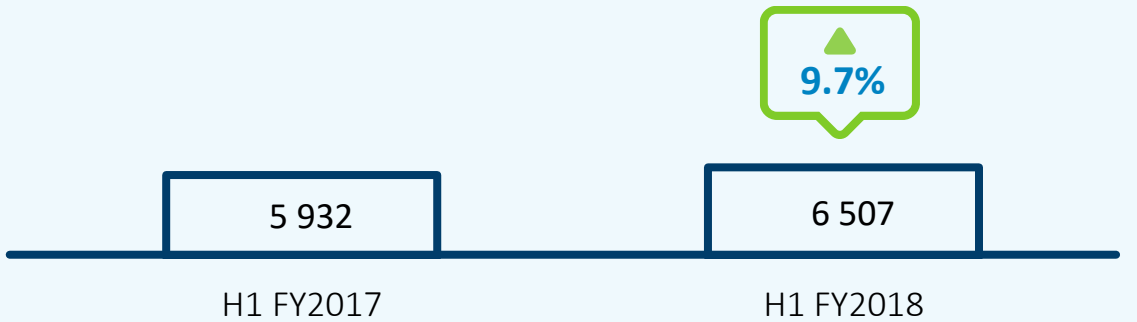
### Fixed service revenue

Rm



### Data revenue

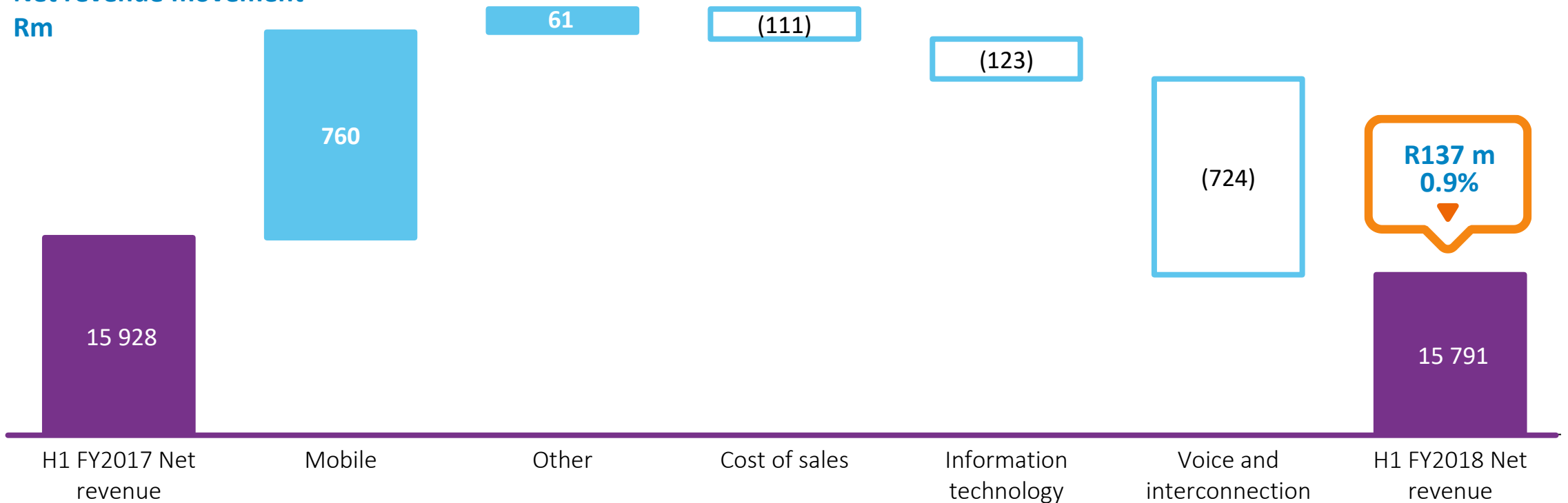
Rm





## Success of mobile strategy

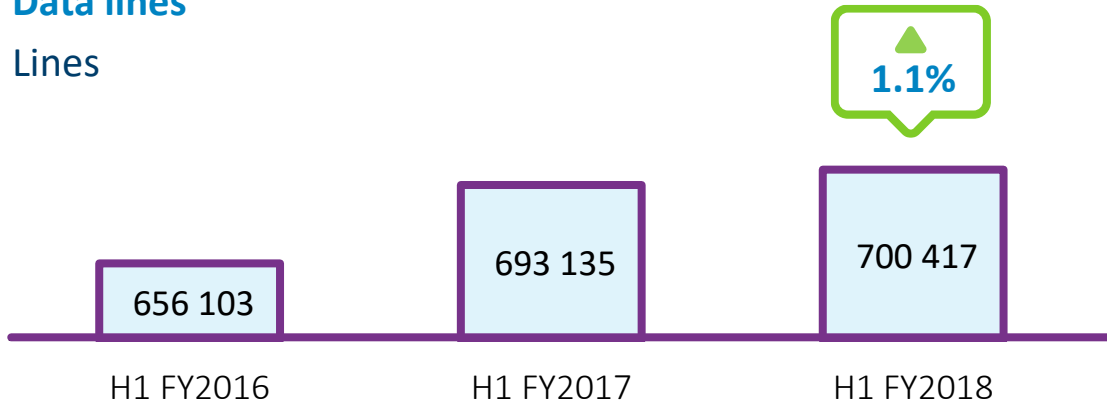
### Net revenue movement Rm



## Growth in priority areas

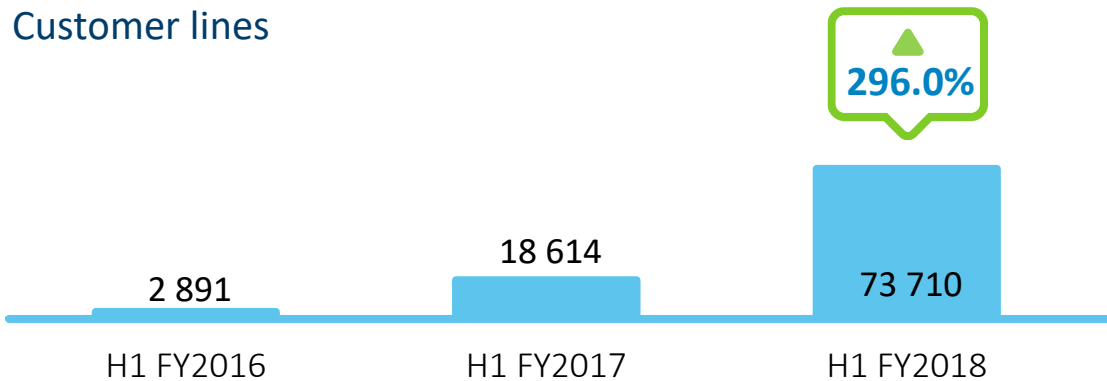
### Data lines

Lines



### Fibre

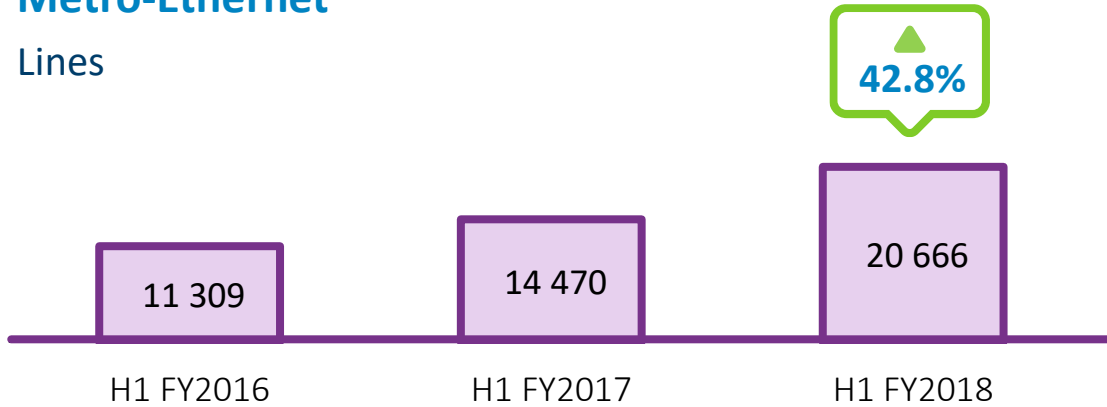
Customer lines



## Growth in priority areas (continued)

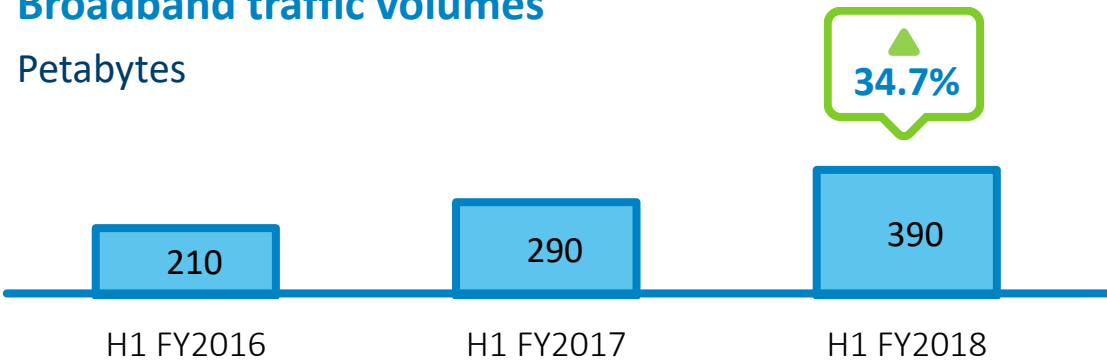
### Metro-Ethernet

Lines



### Broadband traffic volumes

Petabytes



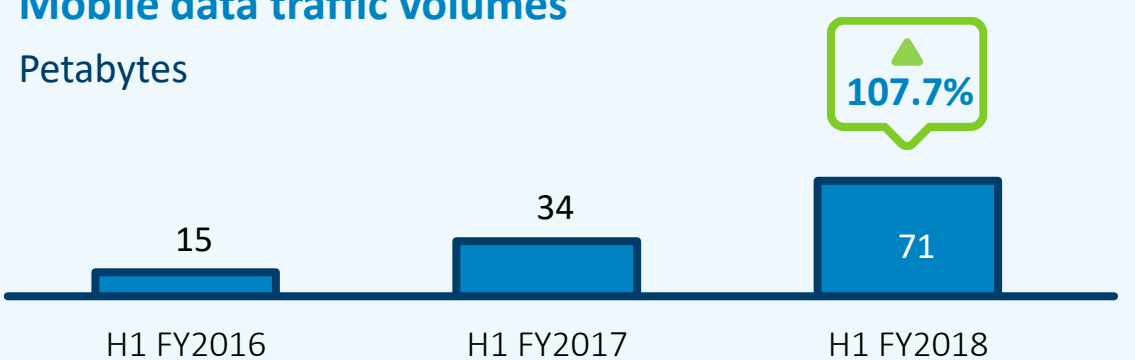
### Mobile broadband

Subscribers '000



### Mobile data traffic volumes

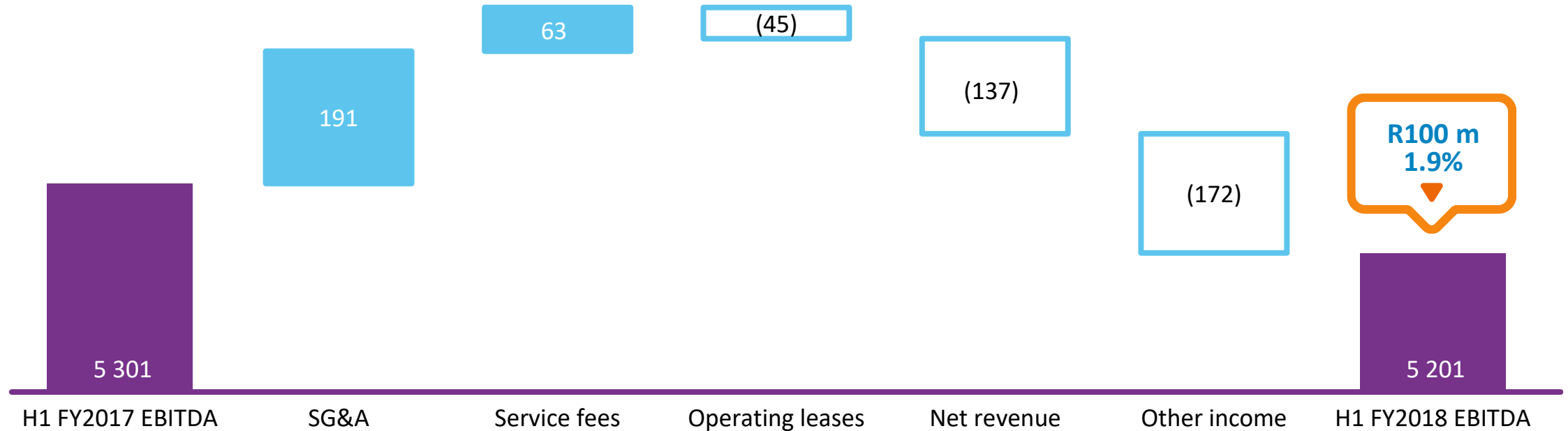
Petabytes



## Cost efficiencies yielding results

### EBITDA movement

Rm



## Efficient deployment of capital



	H1 FY2018	H1 FY2017	%
Fibre	1 177	929	26.7
Mobile	1 185	758	56.3
OSS/BSS programme	213	325	(34.5)
Network rehabilitation/sustainment	145	192	(24.5)
Service on demand	622	658	(5.5)
Core network	295	392	(24.7)

## Strong cash position – Platform to support growth

	H1 FY2018	H1 FY2017	%
<b>Cash sources</b>			
Opening cash balance	1 519	2 542	(40.2)
Cash flow from operating activities	3 011	3 266	(7.8)
Net loans raised	2 436	-	100.0
<b>Significant cash applications</b>			
Cash paid on capital expenditure	(3 974)	(3 547)	(12.0)
Dividend paid	(1 494)	(1 447)	(3.2)
<b>Cash at the end of the period</b>	<b>1 343</b>	<b>1 821</b>	<b>(26.2)</b>
<b>Discretionary investments</b>	<b>2 634</b>	<b>2 496</b>	<b>5.5</b>

## Guidance



	FY2018 guidance	H1 FY2018 Actual		FY2018 Revised guidance
Operating revenue	Mid-single digits	(0.6%)	✗	Flat
EBITDA margin	23% - 25%	25.9%	✓	23% - 25%
Capex to revenue	17% - 20%	19.8%	✓	17% - 20%
Net debt to EBITDA	≤ 1	0.7	✓	≤ 1

Interim dividend of 118 cents per share

# Outlook





## Response to challenges



### Macro economic conditions

- Weak economic environment
  - Currency volatility
  - Consumer under pressure
- 
- Exercise discipline on costs
  - Hedge foreign currency exposure at inception
  - Offer value for money products – uncapped and unlimited



### Competitive landscape

- Pricing pressures
  - Increasing OTT players
- 
- Innovative value for money offerings and using price as a weapon to gain market share
  - Partnerships with OTT players i.e. content offerings



### Regulatory environment

- Cost to communicate
  - Spectrum and ICT policy uncertainty
- 
- Hybrid - to bid in an event of desired spectrum auction and ensure WOAN construct is favourable
  - Actively participating in the enquires by CC and ICASA while voluntarily bringing down prices

## Prioritising strategic initiatives



### Business portfolio review

- **BCX** initiated in the period under review
  - identify core and non-core assets
  - classification of certain BCX investment in associates and joint ventures held for sale



### Legacy review

- **Openserve** review network technology for
  - upgrading and decommissioning
  - using alternate technology



### Product portfolio review

- **Consumer** review product portfolio
  - discontinuing legacy products
  - focus on new product suite i.e. FreeMe, Unlimited Homes and Smart broadband

## Strategic focus areas for each business unit



- Modernise the network
- Commercialise the network
- Transforming service delivery



- Mobile growth through data-led propositions
- High speed broadband
- Content and VAS



- Unified communications
- Cloud computing
- Big data analytics
- Industrial IOT
- Cyber Security



- Expanding Omni-channel offerings
- Establish eCommerce marketplace
- Expand partnership to OTT



- Commercialise the property portfolio
- Extract value from excess building capacity
- Enable smart building solutions



Telkom

Thank you  
Questions

*Tomorrow starts today*

