Telkom SA Limited

Re-charting the way forward for Telkom

Group Annual Results
for the year ended
31 March 2012

"A tough year of working for our future"

"Telkom faces many challenges at the moment but we will stay calm, determined and focused on delivering on the promise of our business and strategy going forward."

"Group financial results for the year under review reflect our challenges but we took a number of significant steps towards securing a successful future for Telkom and we began casting the foundation that will allow the Group to compete well and build value in the future."

Nombulelo Moholi

A tough year: But working towards clear priorities

The focus of my first year has been to:

- Craft a strategy that focuses on the Group's core competency, its role in society & the growth opportunities of the future

- Build a competent & stable management team

- Reduce the error rate that plagued Telkom in recent years

- Build a trust relationship with the labour unions & staff

- Improve our execution capability for the benefit of our customers

- Exit Multi-Links

"We are committed to a journey of significant & deliberate steps to build value for all our stakeholders"

Financial results reflect our challenges

- Operating revenue of **R33.1bn**   (0.7%)   ~

- Operating expenses of **R31.3bn**   6.1%   ✖

- EBITDA (excl. mobile) **R10.7bn**   2.4%   ✔

- EBITDA (incl. mobile) **R8.5bn**   (8.8%)   ✖

- Headline profit for the year **R1,658m**   (32.8%)   ✖

- Profit after tax for the year **R179m**   (93.0%)   ✖

Performance in perspective

	2011	2012	%
Profit after tax	2,571	**179**	(93.0)
Taxation	979	**595**	39.2
Other finance charges	1,068	**580**	45.7
Multi-Links foreign exchange loss recognised	-	**1,292**	-
Investment income	(213)	**(238)**	11.7
Depreciation, amortisation & write-offs	4,924	**5,569**	(13.1)
Impairment of iWayAfrica	41	**569**	(1,287.8)
Mobile EBITDA loss	1,117	**2,189**	(95.9)
Traditional Telkom Group EBITDA	**10,487**	**10,735**	**2.4**

Telkom faces challenges …

- Declining voice revenue

- Asymmetry in termination rates

- Legacy regulatory obligations

- Allocation of spectrum

- Extensive capital investment required to renew & expand network

- Highly competitive fixed & mobile market

- Full impact of self-provisioning not visible in results yet

… but its opportunities remain significant

- Growth prospects of data communication

- Affordable smart phones changes the game

- Superior quality of fixed-line broadband

- Fixed Mobile Convergence (FMC) leadership up for grabs

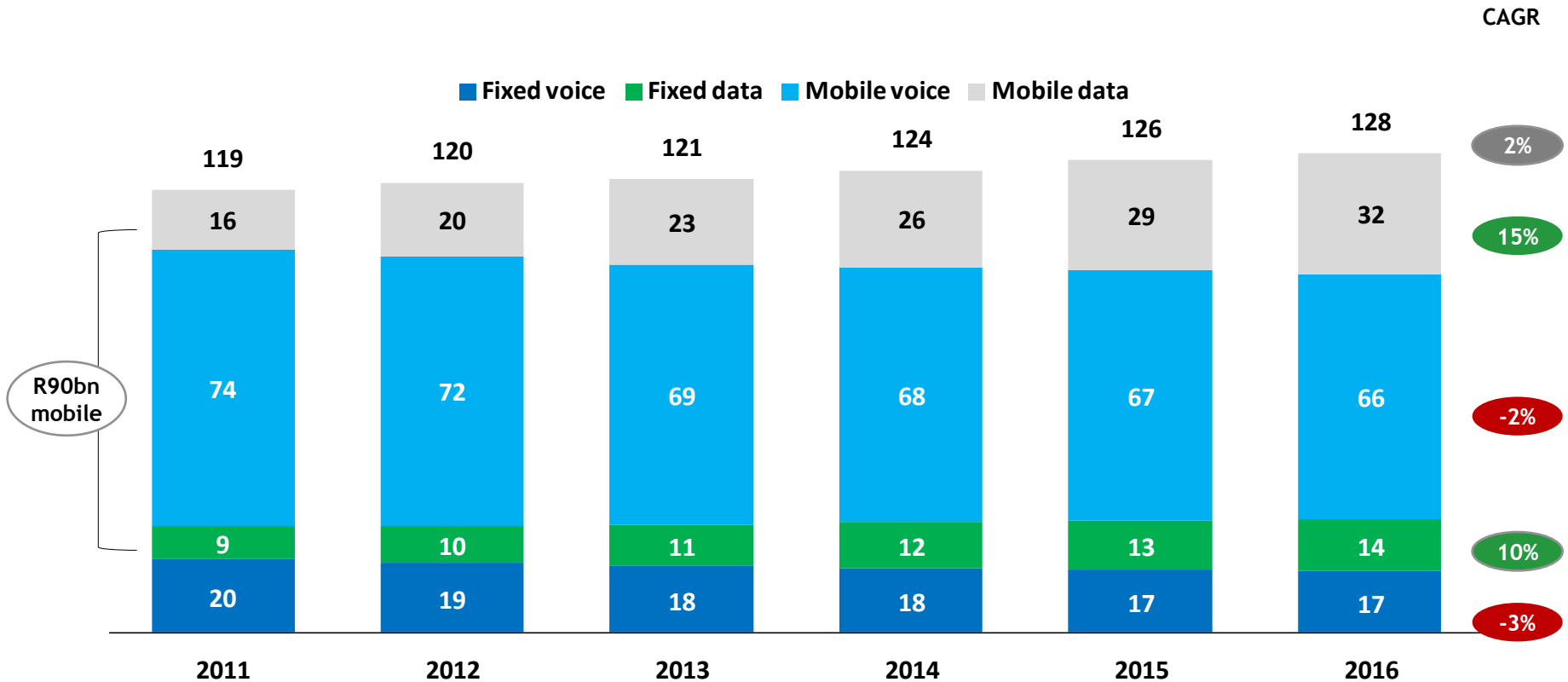- Information & Communication Technology (ICT) in the enterprise environment

Market is being driven by data

The market is dominated by mobile & mobile data is the high growth area

RSA telecommunications market forecast
(Rbn)

CAGR

■ Fixed voice ■ Fixed data ■ Mobile voice ■ Mobile data

	2011	2012	2013	2014	2015	2016	CAGR
Total	119	120	121	124	126	128	
Mobile data	16	20	23	26	29	32	2% / 15%
Mobile voice	74	72	69	68	67	66	-2%
Fixed data	9	10	11	12	13	14	10%
Fixed voice	20	19	18	18	17	17	-3%

R90bn mobile

Mobile data is the growth engine of the market, forecast to grow at 15% CAGR vs. 1% for total fixed

Source: Pyramid, WCIS, operators, Delta Partners' analysis

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Our strategy going forward is clear and focused

Lead in:

- Data & broadband

- FMC

- 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
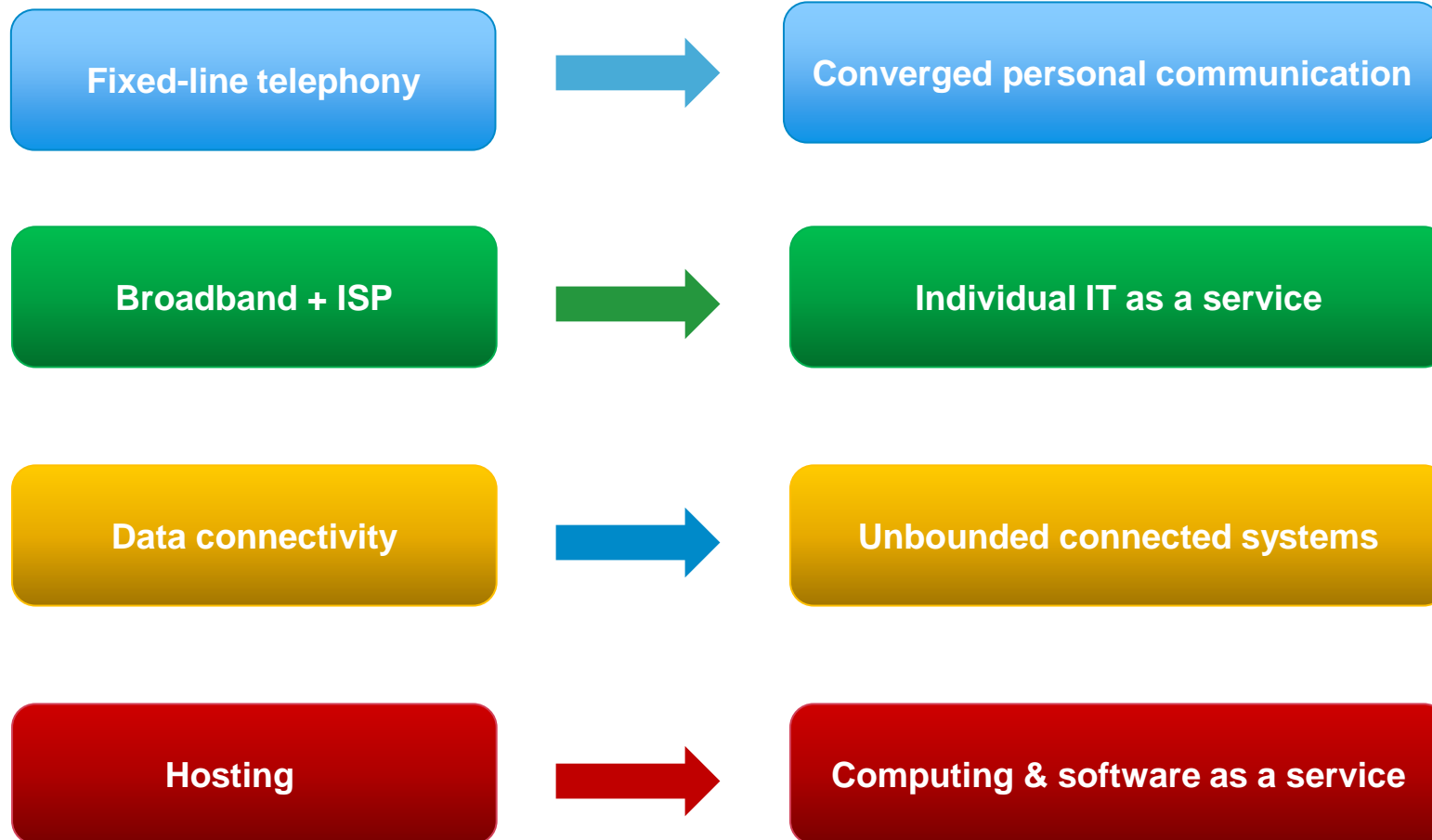
- Enhance operational efficiency

Our strategy demands and drives improved execution

Operational & managerial priorities

- Complete transformation to an **IP enabled network**

- Build a differentiated **mobile data network**

- Optimise **capital structure**

- Inculcate a **fit for purpose** mindset across the group

Strong execution in data capabilities and expand product delivery

| Fixed-line telephony | → | Converged personal communication |

| Broadband + ISP | → | Individual IT as a service |

| Data connectivity | → | Unbounded connected systems |

| Hosting | → | Computing & software as a service |

Overall service review FY12 highlights

- **98.7%** of Business customer SLAs met or exceeded

- **99.2%** on time delivery on large customer project implementation

- **11.2%** improvement on Consumer broadband delivery

- **14%** improvement in Enterprise/Wholesale broadband delivery

- Top 2 box scores for Quality to Corporates **57%** to **60%**

- Top 2 box scores for Quality to Wholesale **51%** to **58%**

Business review – Telkom Business: Data driven and building on strengths

Highlights

- Successfully defended our number 1 position in business market

- Closed number of strategic growth deals including Old Mutual, Nedbank, Dept. of Communications & Standard Bank

- Succeeding with fixed-to-mobile win-back initiatives

- Launched Telkom Business Mobile & TBIZ uncapped offering

- Advanced FMC & Unified Communications capability

- Improvement in Telkom Business brand & reputation

- Delivered 12% year-on-year revenue growth in Cybernest, our data centre offering

Telkom Business deliverables

Commitment for FY13

- **Launch productised cloud services**
  Supplement existing, bespoke services with initial tranche of productised cloud-based services primarily aimed at the SMB segment including Hosted Exchange; Backup-as-a-Service; Payroll-as-a-Service & CRM-as-a-Service

- **Launch pre-packaged & tailor-made FMC bundles**
  Launch fixed-mobile bundles. Allow customers to choose between basic, advanced, premium or customised converged voice & data deals with compelling value proposition

- **Re-positioning our fibre portfolio**
  Make it easier & cheaper for our customers to access fibre services to satisfy their ever increasing demand for bandwidth

Data drives our Consumer strategy

Product offering: media rich content & services

- Targeted double & triple play offerings with on-demand media-rich content & converged services
- VAS & content aggregation

Product offering: technology enablers

- Enable target offering through high speeds & caps
  - Consistently more value (speeds & caps) for same price
  - Uncapped
  - 2Mbps entry level & 40Mbps top level by 2015

Consumer experience & perception

- Consistently best-in-class customer experience
- Establish Telkom as a leader in service innovation
- Simplification & streamlining of product offerings & communication

Go-to-market

- Push & pull channels with aggressive incentives
  - Door-to-door
  - 3rd party retailers
  - Outbound call centre
  - Comprehensive Online portal

SA has low broadband penetration, SA consumers demand for data accelerating, SA government has broadband penetration priority

Consumer focus is on broadband & improved customer service

Business review – Consumer: Steps towards a data driven future

Highlights

- Realised broadband subscriber growth of 10% year-on-year

- Launched first FMC bundle in the form of Telkom-Mix

- Retained 68% of customers that took on the free 3-month broadband trial

- Launched uncapped broadband customer value propositions

- Launched a hybrid voice product

- Rationalisation of payphones to optimise cost

Consumer deliverables

Commitment for FY13

- **Rationalise & simplify fixed voice portfolio**
  New & improved simplified voice portfolio in market

- **Improve entry level broadband product proposition**
  Increase basic broadband offering speed from 384kbps to 1Mbps

- **Launch new FMC & content services for broadband**
  Improved ISP & content services

- **Increase retail footprint**
  50% more physical distribution

- **Improve customer service & experience**
  Improved self service capability & interface

Telkom Mobile strategy: Leapfrog to data leadership, disrupt voice

- Strong **data** focus

- **Accelerated network** deployment

- **Mass** devices bundled with highly competitive **data offerings**

- **Data offerings** to include disruptive voice packages

Business review – Mobile: Investing for a data driven market

- Launched highly competitive & leading data offerings – 3Gig, 120Gig & 10Gig midnight surfer

- Progress in own network build-out – end May: 1,849 base stations built with 1,316 sites live

- 51% of voice subscribers active on our **own** network – end May

- 85% of data subscribers active on our **own** network

Telkom Mobile deliverables
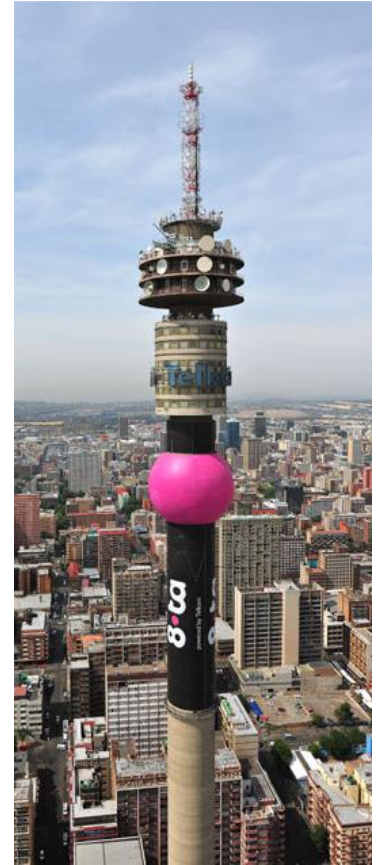
Commitment for FY13

Build a data network
Data leadership through data network coverage, capacity expansion & advanced technologies

Increase distribution through direct channels
Increase direct channel footprint up to three fold by end of year & develop effective channel mix capacity for main target segments

Loss control while preparing debut to data market
Re-engineering business processes & control costs that do not contribute to profitability

Network transformation is the foundation for Telkom's future

- Consolidating our position as **wholesaler of choice** leveraging the strongest fibre network in South Africa

- Aggressively drive **network & IT transformation** to enhance customer service & operational efficiency

  - **Revamp access** – leverage FTTx to support super fast high quality broadband

  - **Enhance aggregation** – enable superior browsing experience & fibre pre provisioning

  - **Evolve core** – build one network, migrate legacy voice & support FMC

  - **Overhaul Operating & Business Support Systems (OSS/BSS)** – one information technology supporting FMC & agility

One network, all IP

Business review – Wholesale & Networks: Building a high quality data centric network

Highlights

- Significant traction achieved with the commercially-led network transformation programme:
    - Revamp Access Network: First MSAN commissioned into operation & services working. On track for pilot commencement
    - Enhance Aggregation Network: changed our processes to enable ease & ready access to 16,500 Fibre Distribution Points
    - Overhaul OSS/BSS: commenced with 3 of the 5 foundation building blocks, about to commence with the remaining 2
    - Aggressive rollout to follow
- Actively managing demand increase (data traffic quadrupled in the last 2 years)
- Landed WACS & ready for commercial operation
- Reduced IP connect fees by 30%
- New all-IP satellite Hub commissioned – low cost access solution established
- Improvement in assurance & fulfilment service levels

Wholesale and Networks deliverables

Commitment for FY13

- **Enable the network to support higher entry level fixed-line broadband access speeds**
First step: Upgrade entry level ADSL speed from 384kbps to 1024kbps & 1Mbps to 2Mbps

- **Establish & complete the pilot footprint for our new high-speed broadband network**
Build an enablement platform for the successful roll-out of our next generation broadband network, complete initial pilot roll-out exchange areas

- **Install 90% of all new ADSL orders within 7 working days**
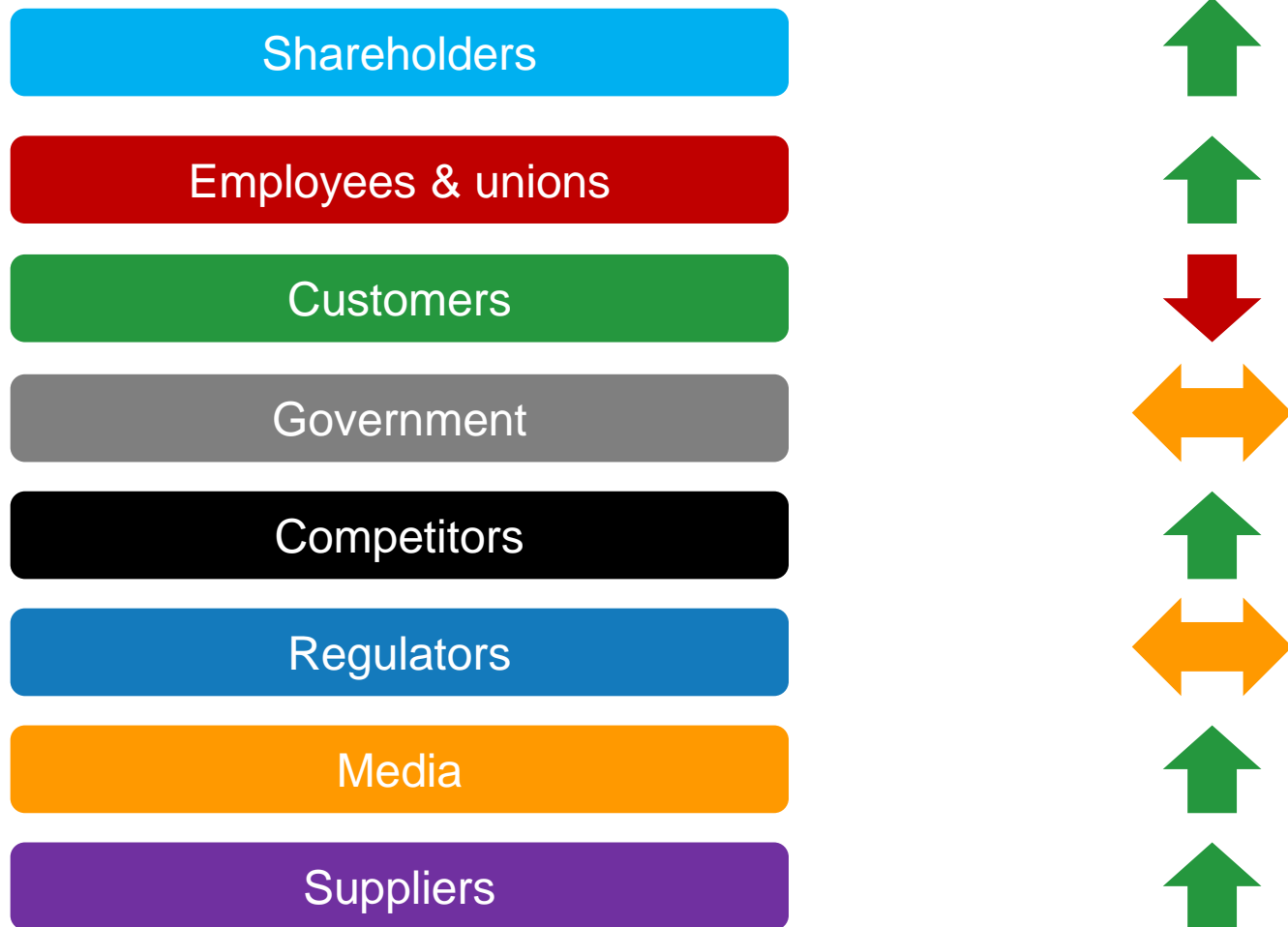Subject to the availability of infrastructure & customer readiness

- **Commence enablement of FMC in network & IP systems**
Optimise efficiency, automation of processes & improve quality of FMC services

Working to balance and align our interests with stakeholders

Reputation score 2011/12

Stakeholder	Trend
Shareholders	⬆ (green)
Employees & unions	⬆ (green)
Customers	⬇ (red)
Government	⬌ (orange)
Competitors	⬆ (green)
Regulators	⬌ (orange)
Media	⬆ (green)
Suppliers	⬆ (green)

Creating value for stakeholders will take time….

- For shareholders: a commitment to long term shareholder return

- We expect to face continued difficulties & our performance may get worse before it gets better

- Acceptable financial performance will be driven by the successful execution of our strategy over the coming 2/3 years – and productive collaboration with our stakeholders

… and we will report against clear & consistent goals going forward

Financial overview

Jacques Schindehütte

Financial results reflect our challenges

- Operating revenue of **R33.1bn**   (0.7%)   ~

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- EBITDA (excl. mobile) **R10.7bn**   2.4%   ✔

- EBITDA (incl. mobile) **R8.5bn**   (8.8%)   ✖

- Headline profit for the year **R1,658m**   (32.8%)   ✖

- Profit after tax for the year **R179m**   (93.0%)   ✖

- HEPS for the year **324.7 cents**   (33.0%)   ✖
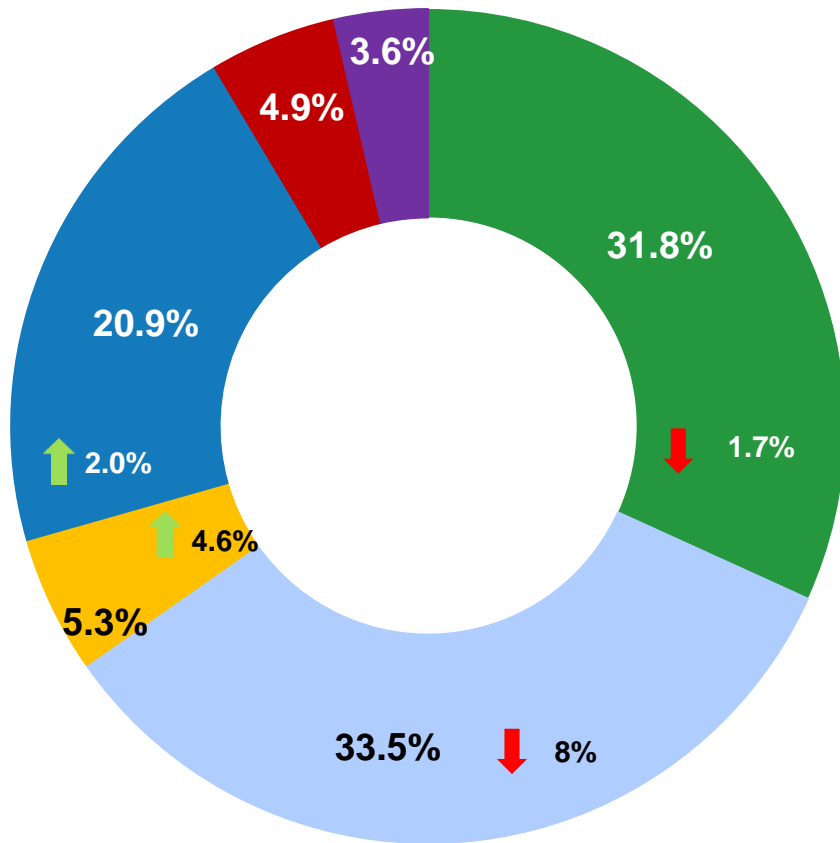
The numbers tell a concerning tale

- Mobile substitution erodes voice revenue

- The drive to convert voice revenue to annuity income must intensify

- Data usage grows strongly while prices decrease in equal measures

- Increase in leased line revenue belies the risks

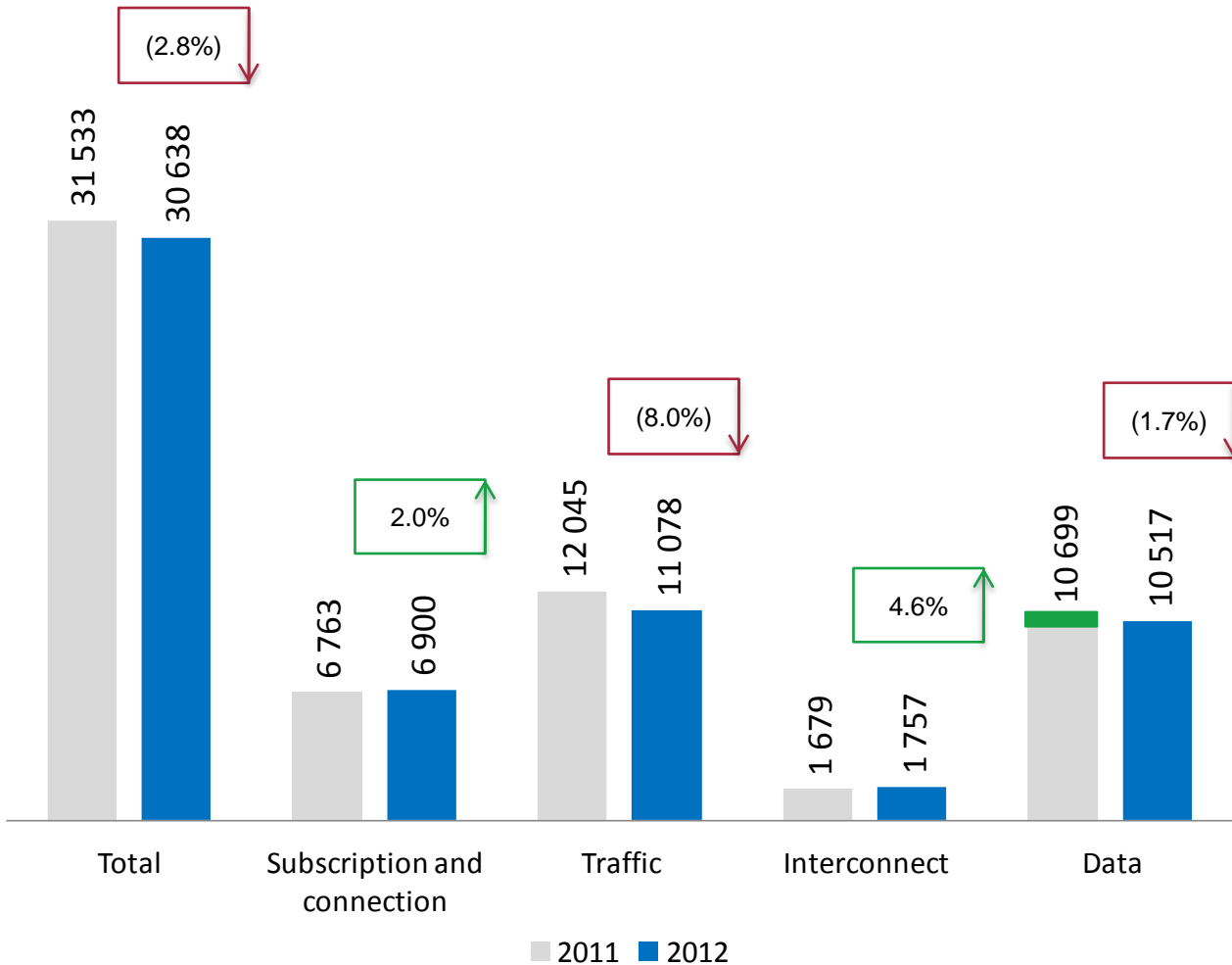- Broadband & FMC hold the keys to revenue growth

Data access drives data demand

Data: R10,517m – 31.8% (2011: 32.1%)

Mobile: R1,200m – 3.6% (2011:0.2%)

Subsidiaries & other: R1,628m – 4.9% (2011: 6.2%)

Voice: R11,078m – 33.5% (2011: 36.2%)

Interconnect: R1,757m – 5.3% (2011: 5.0%)

Subscriptions: R6,900m – 20.9% (2011: 20.3%)

Year on year revenue increase

Year on year revenue decline

Mobile substitution erodes voice revenues

	Total	Subscription and connection	Traffic	Interconnect	Data
2011	31 533	6 763	12 045	1 679	10 699
2012	30 638	6 900	11 078	1 757	10 517
% change	(2.8%)	2.0%	(8.0%)	4.6%	(1.7%)

■ 2011 ■ 2012
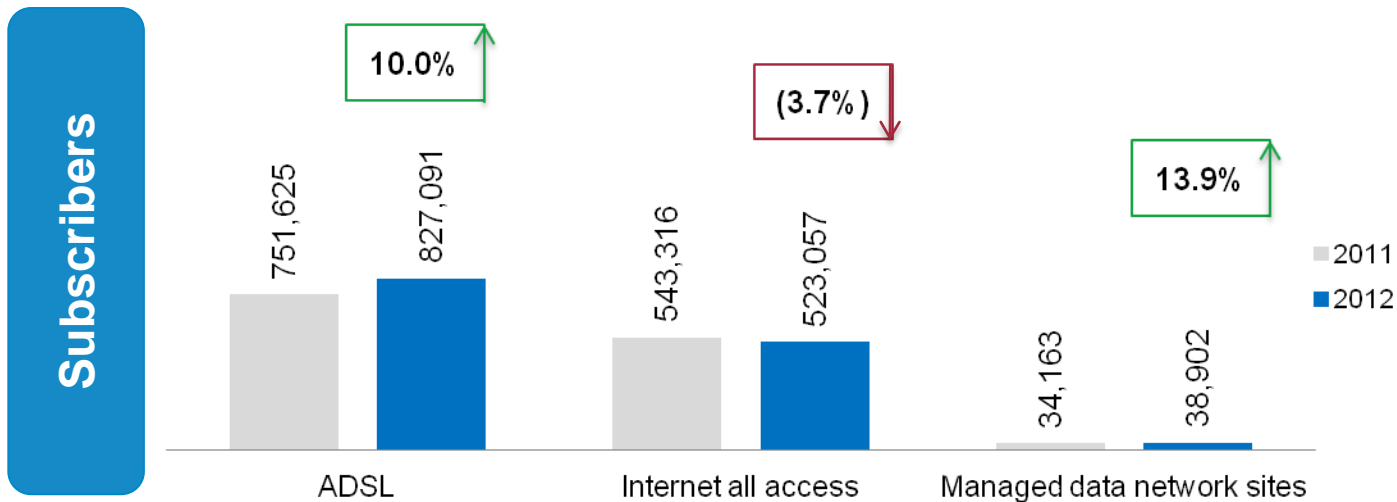
▬ Reflects the R350m FIFA revenue included in the prior year. Excluding the FIFA revenue data revenue grew 1.6%

The drive to convert voice revenue to annuity income must intensify
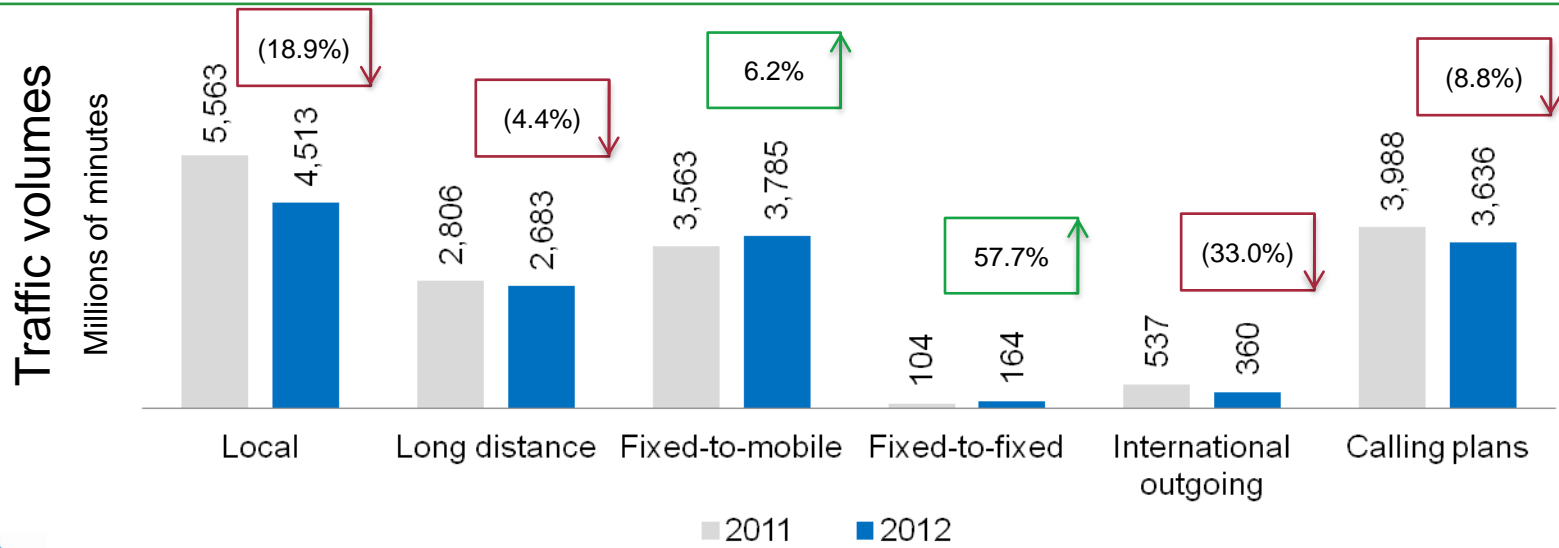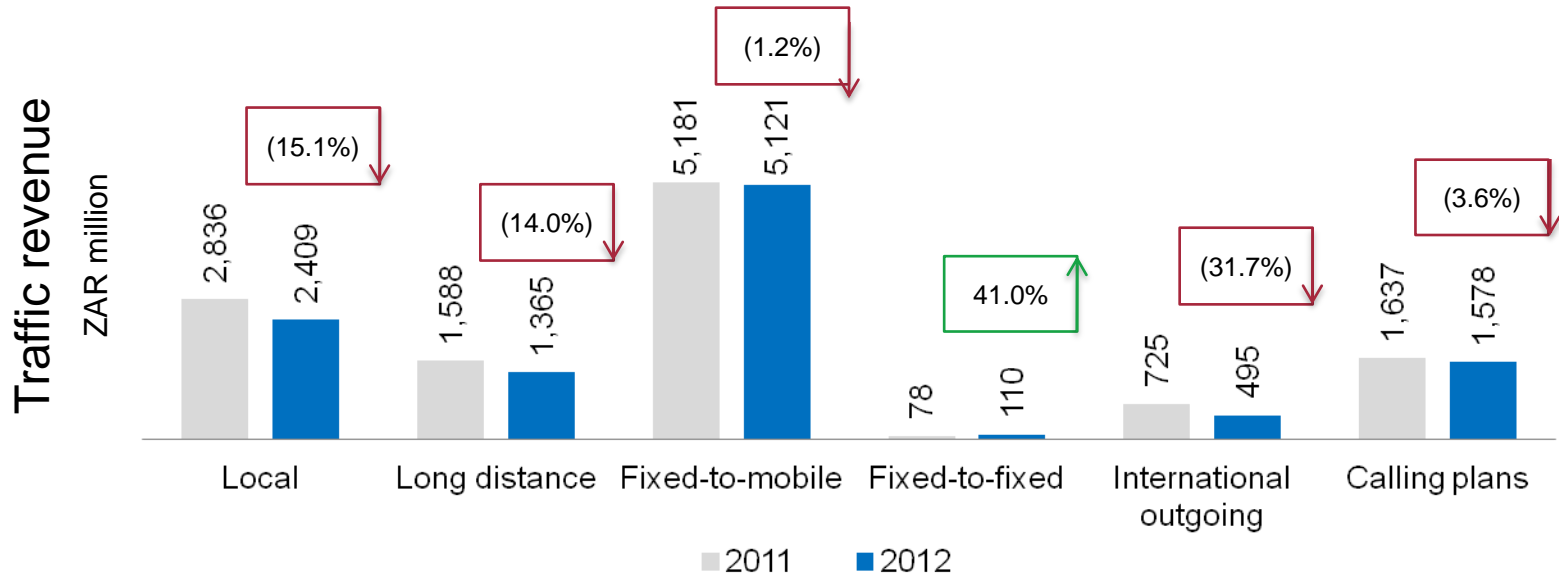
Data usage grows strongly while prices decrease in equal measure

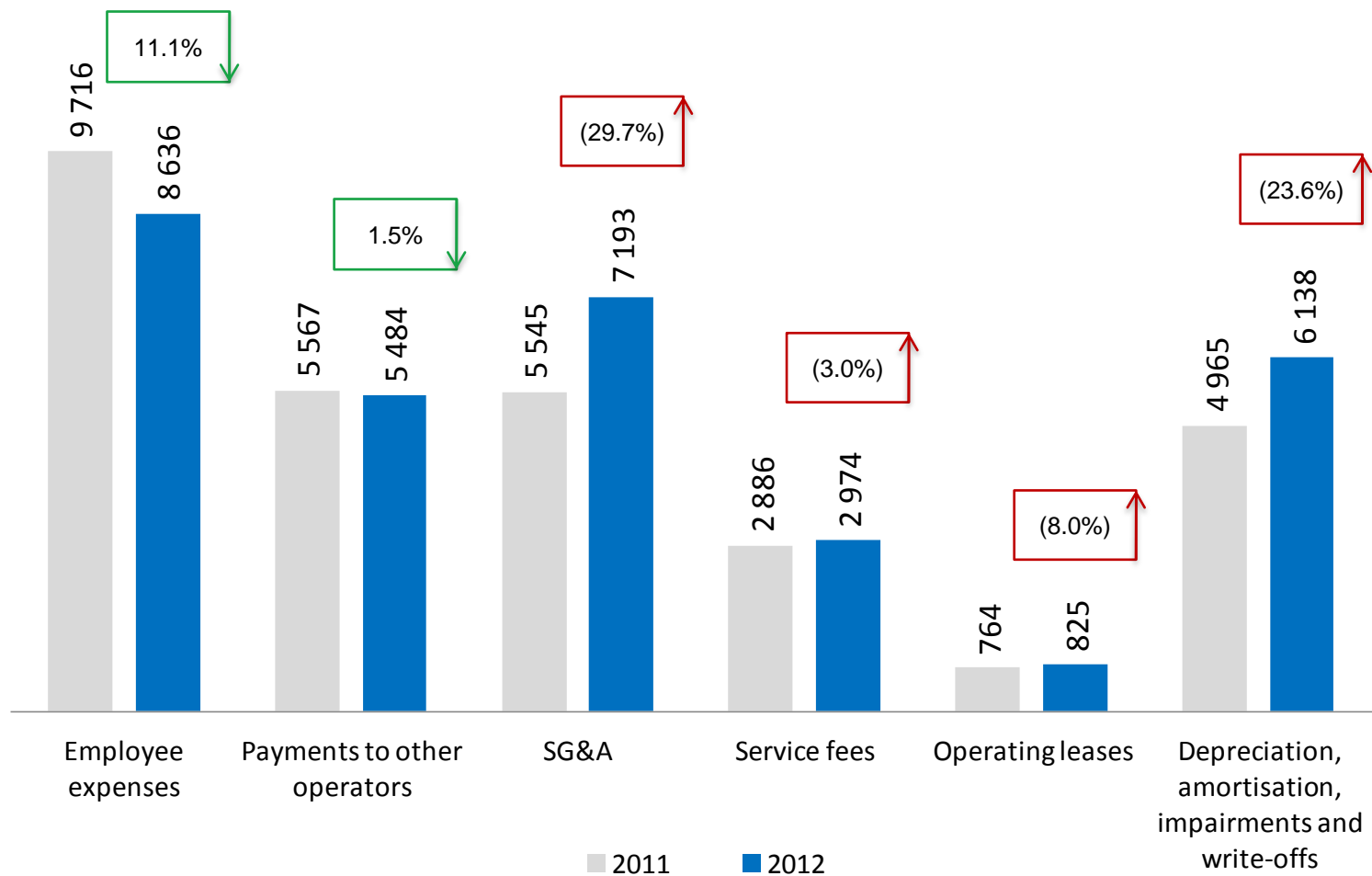| ZAR million	2011	**2012**	%
Data connectivity	5,325	**5,365**	0.8
Leased line facilities	2,182	**2,310**	5.9
Internet access & related services	1,814	**1,689**	(6.9)
Managed data network services	1,243	**1,101**	(11.4)
Multi-media services	135	**52**	(61.5)
	10,699	**10,517**	(1.7)

Cost reduction will shape profitability

- Working with labour towards retraining a fit for purpose productive workforce

- Enhancing execution capability

- Leverage external expertise to improve efficiencies

- New technology reducing maintenance & utility cost

- Property optimisation can reduce cost & augment cash flow

- Addressing legacy regulatory obligations

Incentivise employees to help transform the business

	Employee expenses	Payments to other operators	SG&A	Service fees	Operating leases	Depreciation, amortisation, impairments and write-offs
2011	9 716	5 567	5 545	2 886	764	4 965
2012	8 636	5 484	7 193	2 974	825	6 138
Change	11.1%	1.5%	(29.7%)	(3.0%)	(8.0%)	(23.6%)

# Cash flow and debt to fund FMC and data leadership drive

- Build a differentiated data capability (R18bn – R21bn total capital expenditure over the next 3 years)

- Crucial to control mobile start-up EBITDA drag

- Funded by existing surplus cash reserves (R2bn)

- Strong fixed-line cash generation

- Earn the trust of capital market

- Increase gearing to moderate level (net debt to EBITDA of 1.4 times)

Thank you.

Additional information
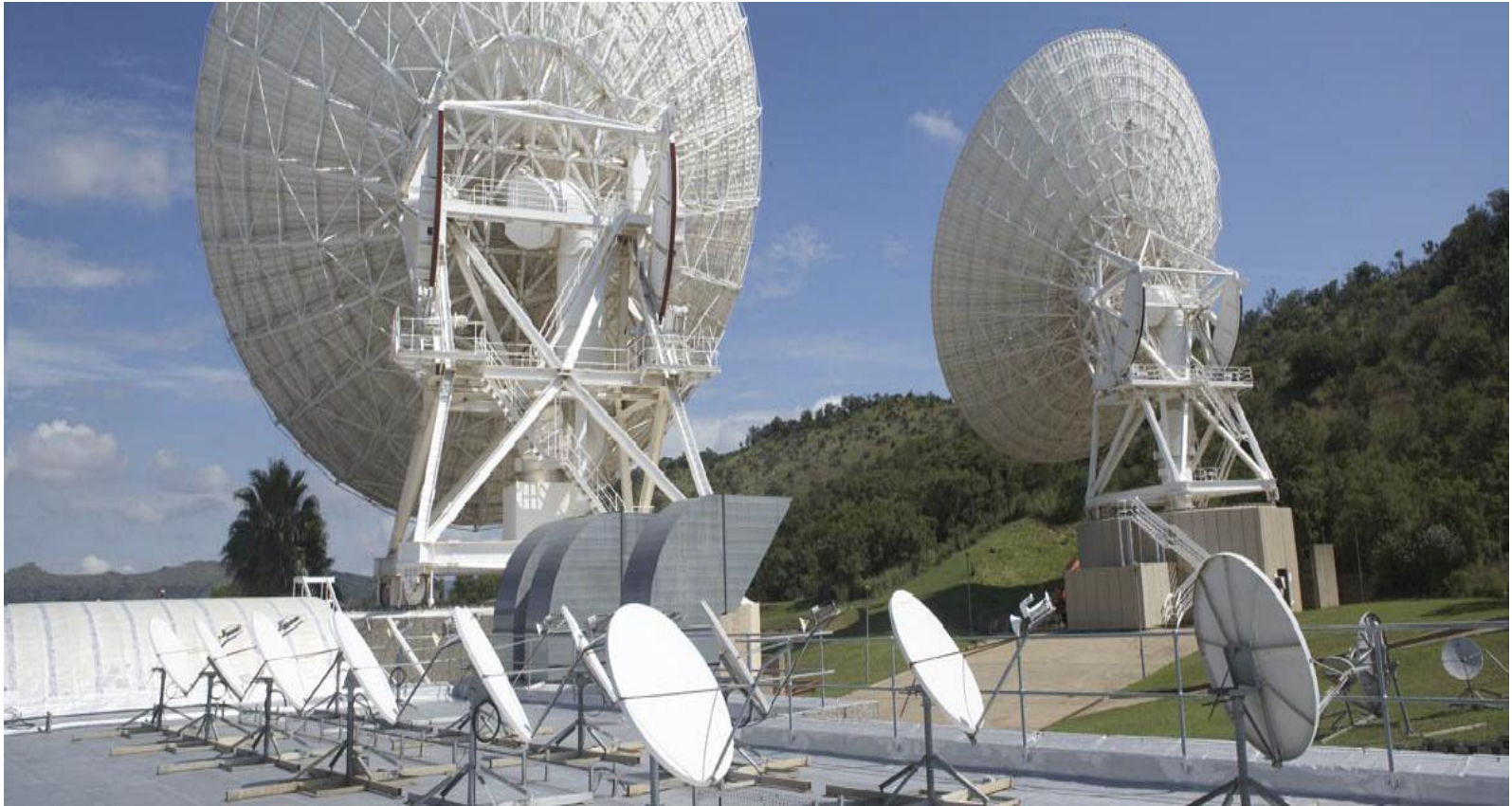
Group debt comparison

ZAR million	2011	**2012**	Movement
TL12	1,059	**1,060**	1
TL15	1,159	**1,159**	-
TL20	1,431	**1,495**	64
Syndicated loan	3,271	**1,995**	(1,276)
Foreign loans	520	**624**	104
Finance leases	904	**846**	(58)
Telkom Company	8,344	**7,178**	(1,166)
Subsidiaries	11	**7**	(4)
Group debt	8,355	**7,186**	(1,169)
Net debt	4,907	**3,933**	(974)

Debt maturity as at 31 March 2012

ZAR million	2012
Maturing in FY13	
TL12 (April 2012)	1,060
Foreign loans	148
Maturing in FY14	
Syndicated loan (December 2013)	2,000
Foreign loans	141
Maturing in FY15	
Foreign loans	141
Maturing after FY15	
TL15 (April 2015)	1,160
TL20 (February 2020)	2,500
Foreign loans (between 2015-2025)	240

Group capital expenditure

ZAR million	2011	2012	%
Access network	255	**323**	26.7
Legacy	161	**209**	29.8
Next generation network	917	**1,263**	37.7
Fiber	369	**359**	(2.7)
International	357	**224**	(37.3)
Information operations	71	**14**	(80.3)
Customer premises equipment	214	**242**	13.1
Facilities	276	**332**	20.3
Other	215	**185**	(14.0)
Fixed-line	2,835	**3,151**	11.2
Mobile	1,475	**1,372**	(7.0)
Other International	11	**8**	(27.3)
Other South Africa	220	**252**	14.5
Group capital expenditure	4,541	**4,783**	5.3

Forward looking statement

Special note regarding forward-looking statements

Many of the statements included in this presentation, as well as oral statements that may be made by us or by officers, directors or employees acting on behalf of us, constitute or are based on forward looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our mobile and other strategies, future financial position and plans, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward looking statements. Forward looking statements can generally be identified by the use of terminology such as "may", "will", "should", "expect", "envisage", "intend", "plan", "project", "estimate", "anticipate", "believe", "hope", "can", "is designed to" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward looking. These forward looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward looking statements. Among the factors that could cause our actual results or outcomes to differ materially from our expectations including but not limited to those risks identified in Telkom's most recent annual report which are available on Telkom's website at www.telkom.co.za/ir.

We caution you not to place undue reliance on these forward looking statements. All written and oral forward looking statements attributable to us, or persons acting on our behalf, are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this document, either to conform them to actual results or to changes in our expectations.