Telkom SA Limited Group Interim Results Presentation

For the six months ended 30 September 2011

Maximising the capabilities *of fixed and mobile technologies and select* value-added IT services

Overview

Nombulelo Moholi

Maximising the capabilities *of fixed and mobile technologies and select* value-added IT services

Special note regarding forward looking statement

Many of the statements included in this document, 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.

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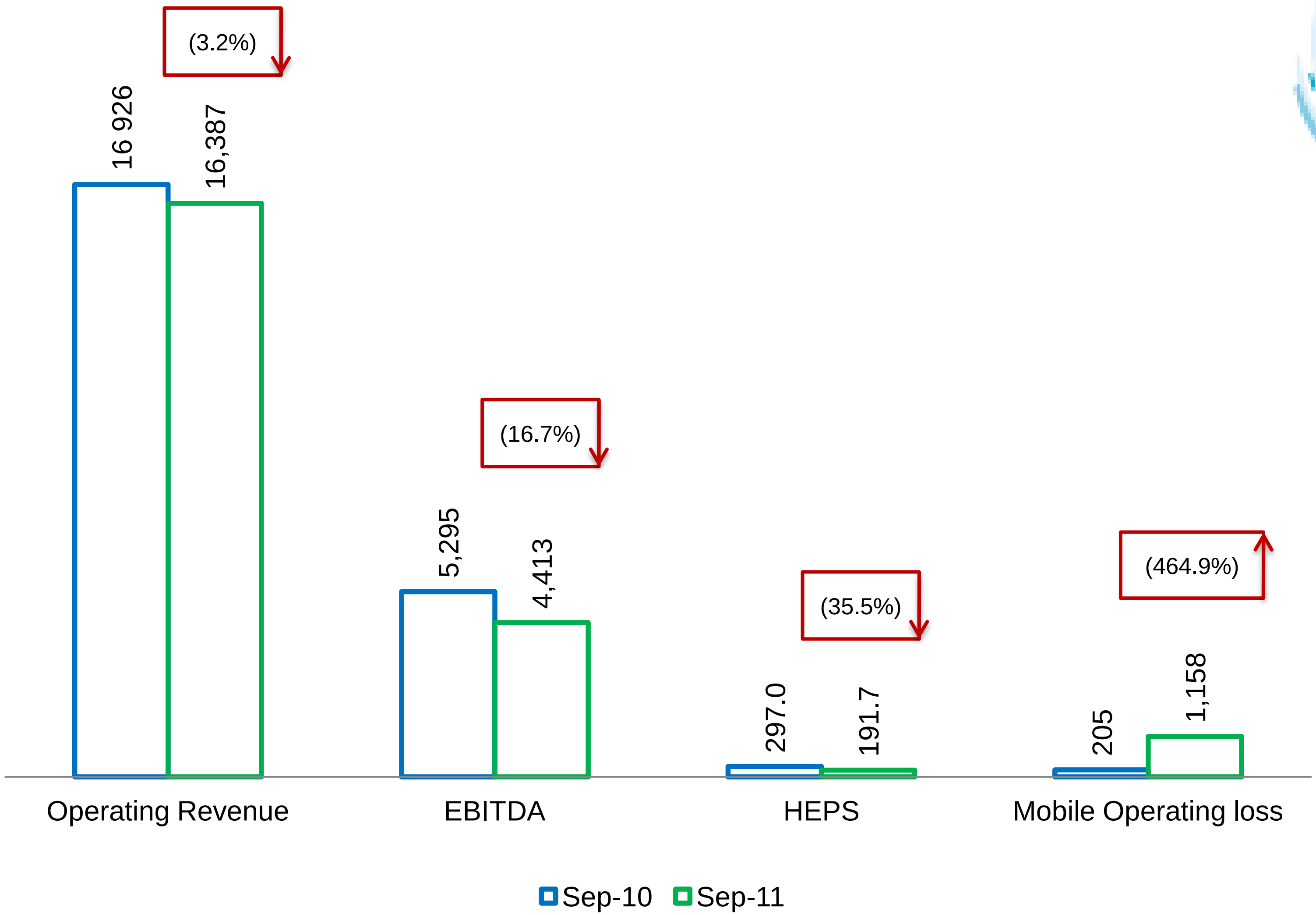
Overview

- Business under pressure
  - Voice continues to decline
  - data flat to down
- Fixed-line containing costs and increasing EBITDA margin from 37.5% to 39.1%
- Mobile products positively received but revenue behind budget
- Network transformation gathering steam
- Business - building on convergence and new data
- Consumer – aggressive push into broadband
- Multi-Links – exit completed on 3 October 2011

Drive execution of aggressive broadband push, full convergence and entry into select value-added ICT services

Group financial features – continuing operations



Business and ICT strategy

- Fixed line voice under pressure – mobile substitution, termination rate cuts, competition and VoIP
- Data revenue growth slowing – customers more cost conscious, cheaper technology
- Need to provide enhanced value proposition through ICT services and higher bandwidths
- Maximise performance of existing products
- Accelerate fixed-mobile convergence
- Enter fast growing adjacencies in ICT services
- Aggressively up-sell broadband
- Grow share of VPNs – medium business
- Grow ADSL in Small Medium Business segment

Business and ICT strategy

Four product journeys to create the future

Fixed line technology → **Converged personal communication**

- Managed Unified Communications (UC)
- Fixed Mobile Convergence (FMC)
- SIP Trunking
- Hosted Communication Services
- Integrated Billing

Broadband + ISP → **Personal IT as a service**

- Virtual desktop computing and support
- Software as a service
- Security services
- Storage and archiving
- Integrated billing

Data connectivity → **Unbounded connected systems**

- Integrated Network Management
- Embedded Network services
- On demand services
- Single end-to-end NW, hybrid access
- Content aware NW services
- Flexible billing

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

- Software as a service
- Hosting as a service
- Infrastructure as a service
- Outsourcing
- Flexible billing

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Super fast ADSL with high value applications

Business & ICT Strategy

- Based on accessibility, growth potential and strategic fit, we will pursue ICT in four core areas –
  - Unified communication
  - Cloud services (IaaS and SaaS)
  - LAN management
  - IS Outsourcing
- ICT is biggest growth sector in SA over next 5 years
- Considering ICT acquisitions

Consumer strategy

Product offering: media rich content & services

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

Product offering: technology enablers

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

Consumer experience & perception

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

Go-to-market

- Push and 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 and improved customer service

Telkom Mobile – 8ta

Successes to date

- Asymmetrical termination rate
- Over 1 million RICAed subscribers
- Strong performance of post-paid
- Disruptive data offerings – very well received
- Successful launch of Telkom Business Mobile

Aspirations

- Achieve 12% - 15% revenue market share by FY2016/17
- Competitive advantage through leveraging fixed line
- Capitalise on high churn rate in pre-paid
- Leverage multi-sim and M-2-M applications

Telkom Mobile - 8·ta

Challenges to date:

- Below target performance on pre-paid
- Difficult to communicate **8·ta** innovation and value given competitor noise
- Lengthy negotiation to secure distribution channels
- Slower network rollout, delays in tower sharing agreements
- Complex IT projects leading to delays of product launch
- Limited HR resources – training of call centre staff, TDS and distribution channel agents

Telkom Mobile – 8ta

Short term plans:

- Improve distribution through innovation and negotiation
- Ramp up marketing and improve communication
- Aggressively pursue network roll-out
- Leverage fixed customer base
- Integrate sales force with Consumer and Enterprise units

New opportunities:

- Lead mobile value play
- Lead innovation through content and product features
- Accelerate convergence

Telkom Mobile – 8ta

Total RICAed subscribers – **2,203,419**

	Subscribers		ARPU		MOU	
	11-Mar	11-Sep	11-Mar	11-Sep	11-Mar	11-Sep
Pre-paid - active	440,775	882,888	15.86	20.47	10	21
Post-paid - active	32,829	257,407	238.57	286.09	235	109
Total Blended - active	**473 604**	**1 140 289**	**22.6**	**63.32**	**19**	**36**

- Revenue - R301 million
- EBITDA - (R1,083 million)
- Market share -1.9%
- Expected EBITDA loss for our mobile segment for FY12 - (approximately R2.2 billion after eliminations and R2.5 billion before eliminations)

Network transformation


- Competition, changing customer needs and end-of-life technologies make network transformation an imperative
- Creating one all IP network for fixed and mobile convergence and super-fast, quality broadband
  - Revamp access – enable fast broadband, leverage FTTx
  - Enhance aggregation – cost efficient, super-fast transmission
  - Migrate voice to data – address cost base & competition
  - Evolve core – enable multiple address technology – convergence
  - Overhaul OSS/BSS - provide next generation customer service
  - Enable innovation – core service delivery supportive of new business models

One network, all IP

Strategic priorities

Over the next 5 years we aim to become

- An established mobile operator with 12% to 15% revenue market share
- No. 1 provider of fixed and converged communication and network service to the business market
- No. 2 player in Cloud services to business market
- Broadband provider of choice

Critical enablers:

- Upgrade of network
- Improved customer service

KT Corporation transaction

Strategic benefits

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- De-risk the execution of current business plan and accelerate key strategic projects
- Enable growth in broadband penetration
- Transform business capability and improve operational processes
- Reduce operating cost and capex spend
- Enable the transfer of skills and experience to deliver projects effectively
- Expand value chain proposition to customers

KT

- Creates a building block to developing a footprint into Africa
- Further diversifies and globalises the business
- Value unlock through applying global best practice in the execution of Telkom corporate strategy and the transformation of Telkom into a competitive next generation operator

KT Leadership

History

- Established (1981)
- Launched the first satellite (1995)
- Established Mobile subsidiary (1996)
- Fully Privatised (2002)
- Launched 3G Service (2007)
- Launched IPTV (2008)
- Merged mobile subsidiary (2009)

Innovative changes

- Fixed Mobile Convergence
  - Merger with the mobile subsidiary
  - One integrated service brand
  - N-screen services
- New era of smart devices
  - Introduction of iPhone for the first time in South Korea to boost the mobile data market
  - Smart Belt with neighbour countries
- Performance in the global market
  - Attraction of S Corp's Cloud Data Centre in South Korea
  - Successful overseas operations (i.e. H Corp., the Russian subsidiary)

Through innovative changes KT has been the leader in the development of the information and communication business

Expected broader benefits to South Africa

- Revitalisation of key national strategic asset
- Increasing ICT industry competitiveness
- National broadband implementation plan
- Skills development and skills transfer
- Enhanced positioning of SA as investment destination
- Social agenda boost
- e-Education

The proposed transaction will assist in building an innovative and globally competitive ICT industry to accelerate the development and prosperity of all South Africans

Why this deal makes sense

- Both Companies share a similar history
  - KT is 10 years ahead in dealing with the challenges that Telkom currently faces
- The countries have faced similar economic and social challenges
  - South Korea has made substantial progress on enhancing economic wealth, education and access to the world through the internet
- There is a good culture fit
- Telkom and KT are committed to enhancing South Africa's national agenda

Financial overview

Jacques Schindehütte

Creating the platform to maximise the capabilities of Data, Fixed and Mobile technologies

Salient features

- Headline earnings of 191.7 cents per share 35.5% ↓
- Return on assets of 7.4% 56.7% ↓
- Capex to revenue of 11.0% 7.6% ↓
- Fixed-line operating expenses of R11.7bn 3.9% ↓
- Net debt to EBITDA remaining at 0.5x
- Free cash flow of R1.5bn

Group statement of comprehensive income

ZAR million	Sept 10	**Sept 11**	%
Operating revenue	16,926	**16,387**	(3.2)
Other income	183	**218**	19.1
Operating expenses	14,213	**15,382**	(8.2)
Operating profit	2,896	**1,223**	(57.8)
Investment income	133	**111**	(16.5)
Finance charges and fair value movements	649	**264**	59.3
Taxation	830	**568**	31.6
Profit from continuing operations	1,550	**502**	(67.6)
EBITDA	5,295	**4,413**	(16.7)
EBITDA margin (%)	31.3	**26.9**	(14.1)
Basic earnings per share (cents)	291.5	**85.2**	(70.8)
Headline earnings per share (cents)	**297.0**	**191.7**	**(35.5)**

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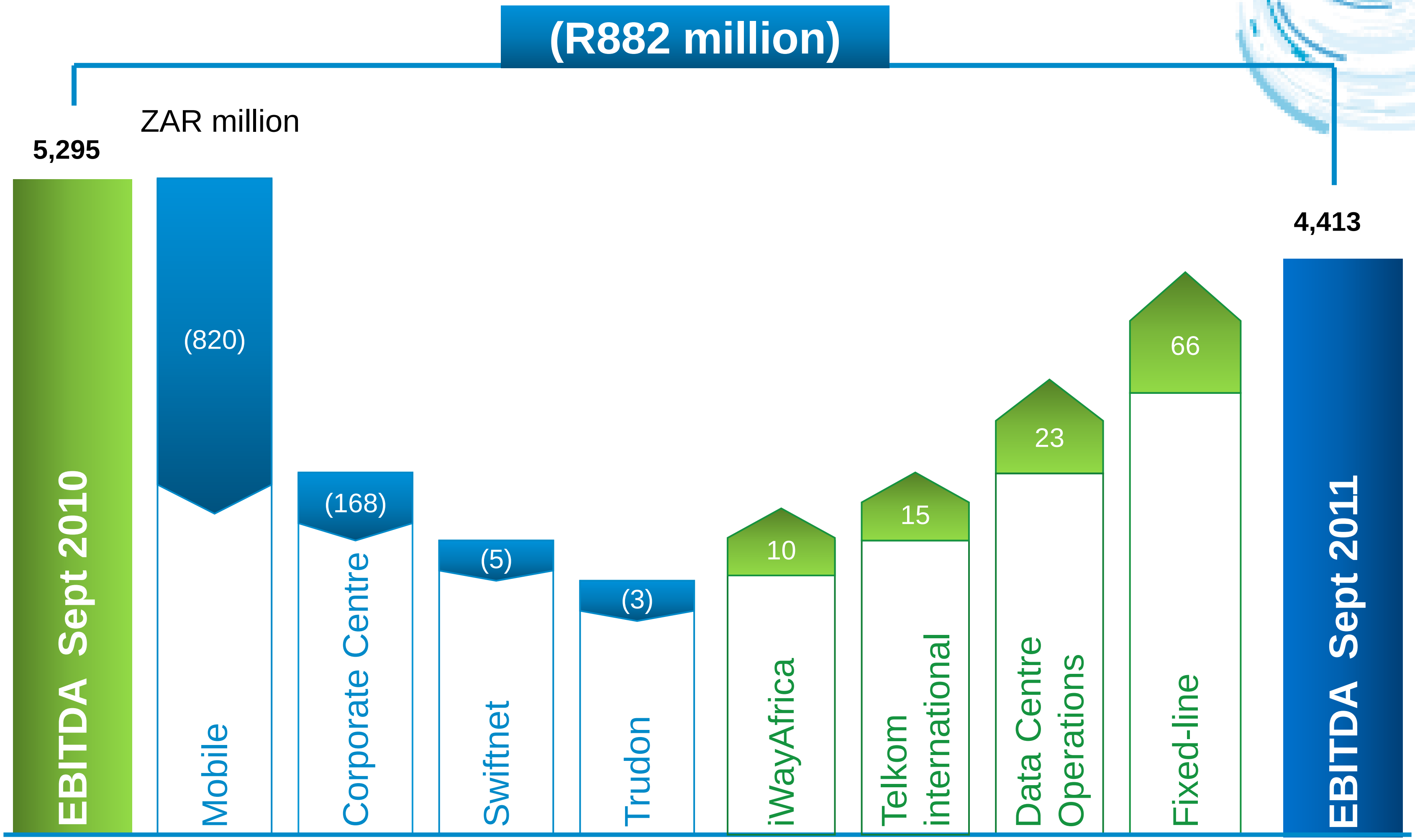
EBITDA contributors

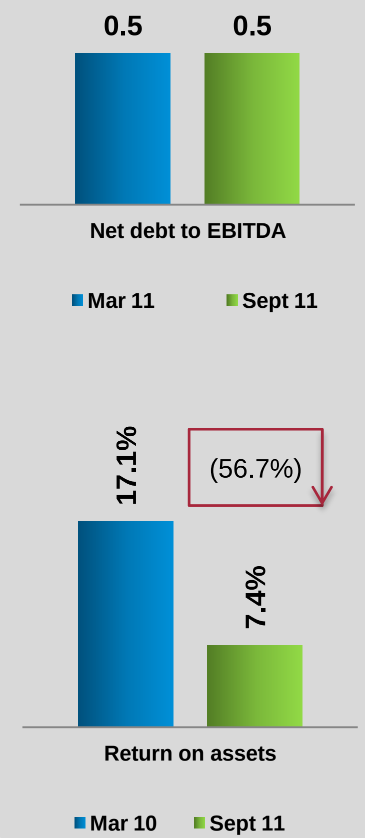


Finance charges and fair value movements

ZAR million	Sept 10	**Sept 11**	%
Finance charges on interest-bearing debt	504	**379**	24.8
Local debt	563	**445**	21.0
Foreign debt	3	**1**	66.7
Less: Finance charges capitalised	(62)	**(67)**	8.1
Foreign exchange gains and losses and fair value movement	145	**(115)**	179.3
Foreign exchange (gains)/losses	55	**115**	(109.1)
Fair value adjustments on derivative instruments	90	**(230)**	155.6
Total	649	**264**	59.3

Group statement of financial position

ZAR million	Mar 11	**Sept 11**	%
Non-current assets	43,943	**42,409**	(3.5)
Current assets	10,315	**9,713**	(5.8)
Assets of disposal group held for sale	89	**333**	274.2
Total assets	54,347	**52,455**	(3.5)
Total equity	30,022	**29,566**	(1.5)
Non-current liabilities	14,974	**12,840**	(14.3)
Current liabilities	8,899	**9,654**	8.5
Liabilities of disposal group held for sale	452	**395**	(12.6)
Total equity and liabilities	54,347	**52,455**	(3.5)
Net debt	4,907	**4,605**	(6.2)

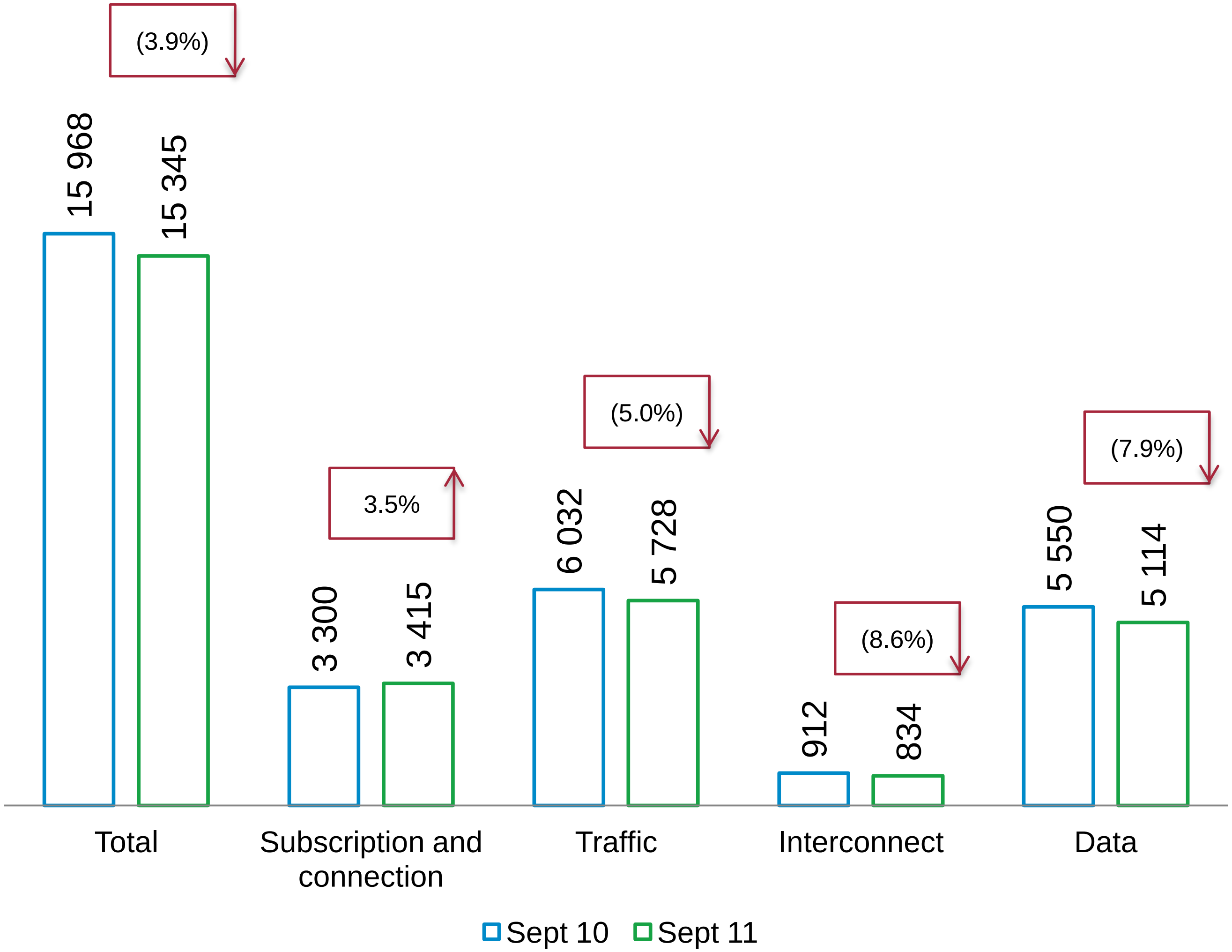


Group free cash flow

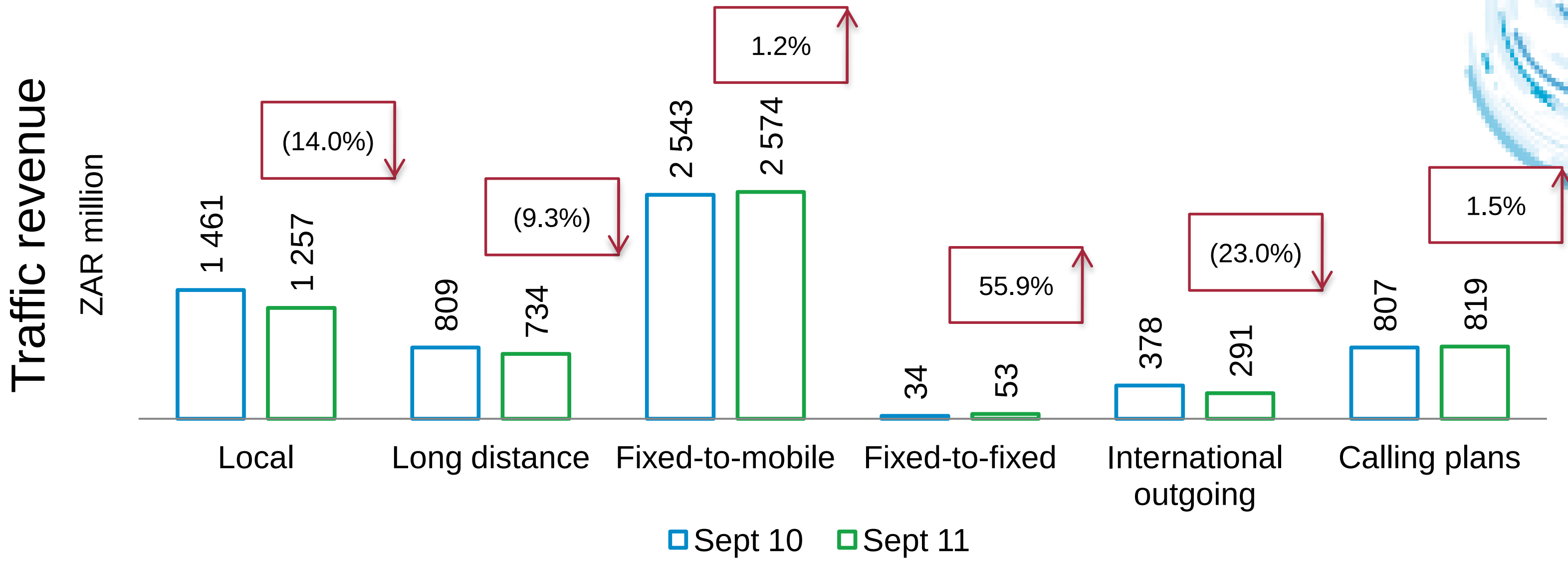
ZAR million		Sept 10	**Sept 11**	%
Cash generated from operations		1,883	**2,964**	57.4
Add back:	Multi-Links operating cash flows	406	**75**	(81.5)
Less:	Cash flows from investing activities	(2,102)	**(1,609)**	(23.5)
Add back:	Multi-Links cash flows from investing activities	173	**21**	(87.9)
Free cash flow		360[1]	**1,451**	303.1

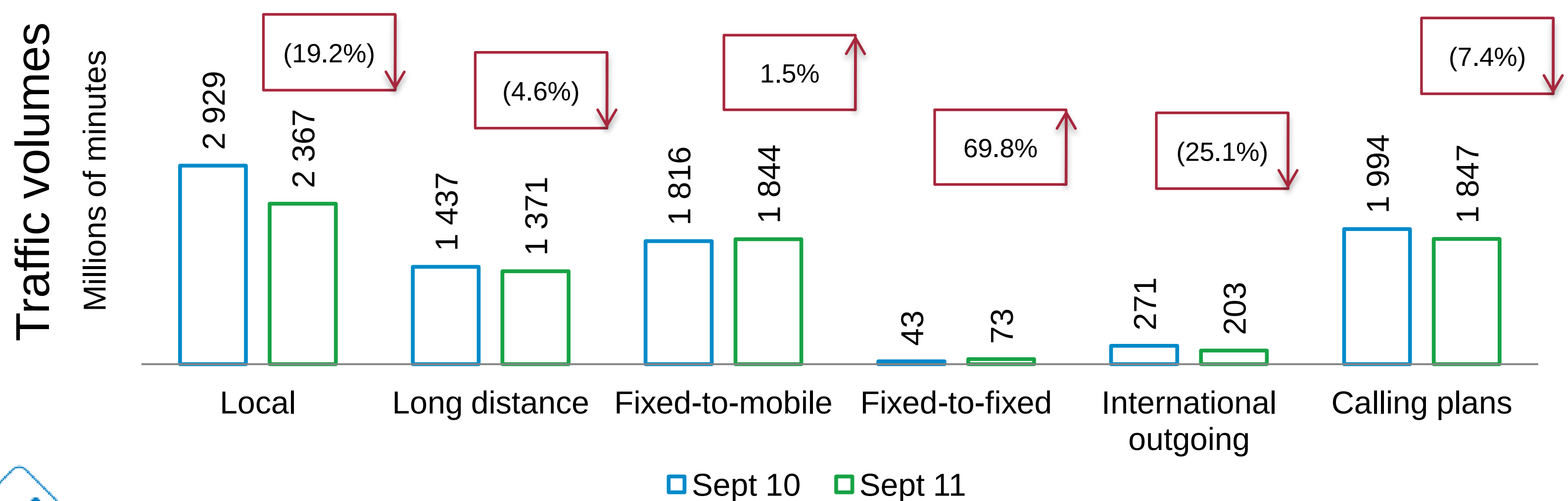
[1] Includes the R608 million payment to Telcordia, R90 million STC on special dividend and R144 million employee reduction expenses

Fixed-line revenue

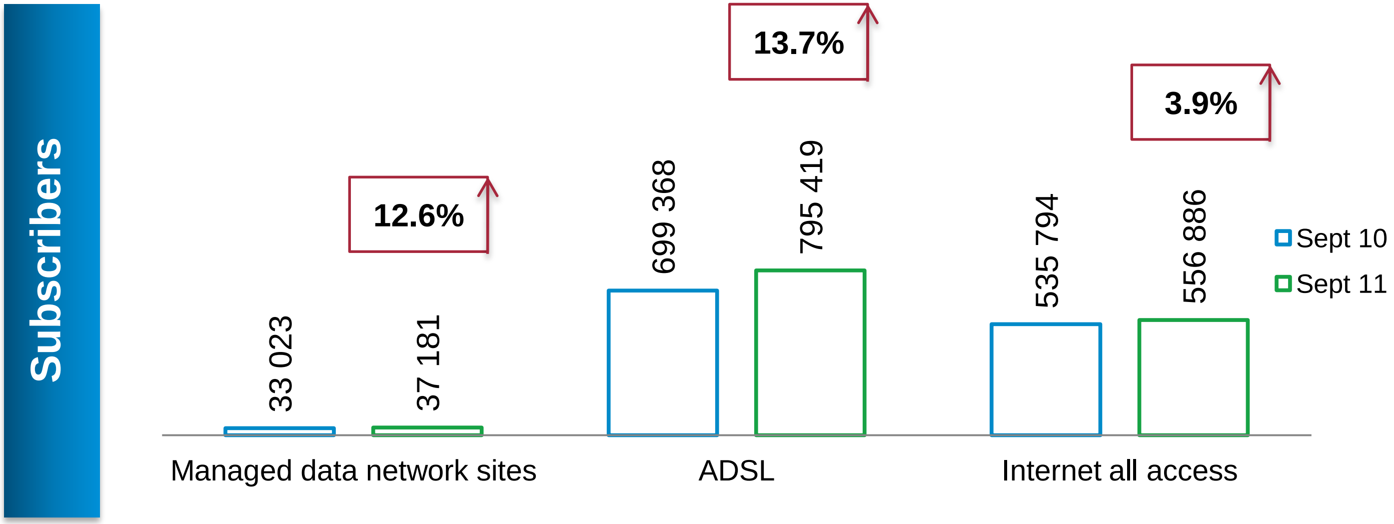


Fixed-line traffic revenue



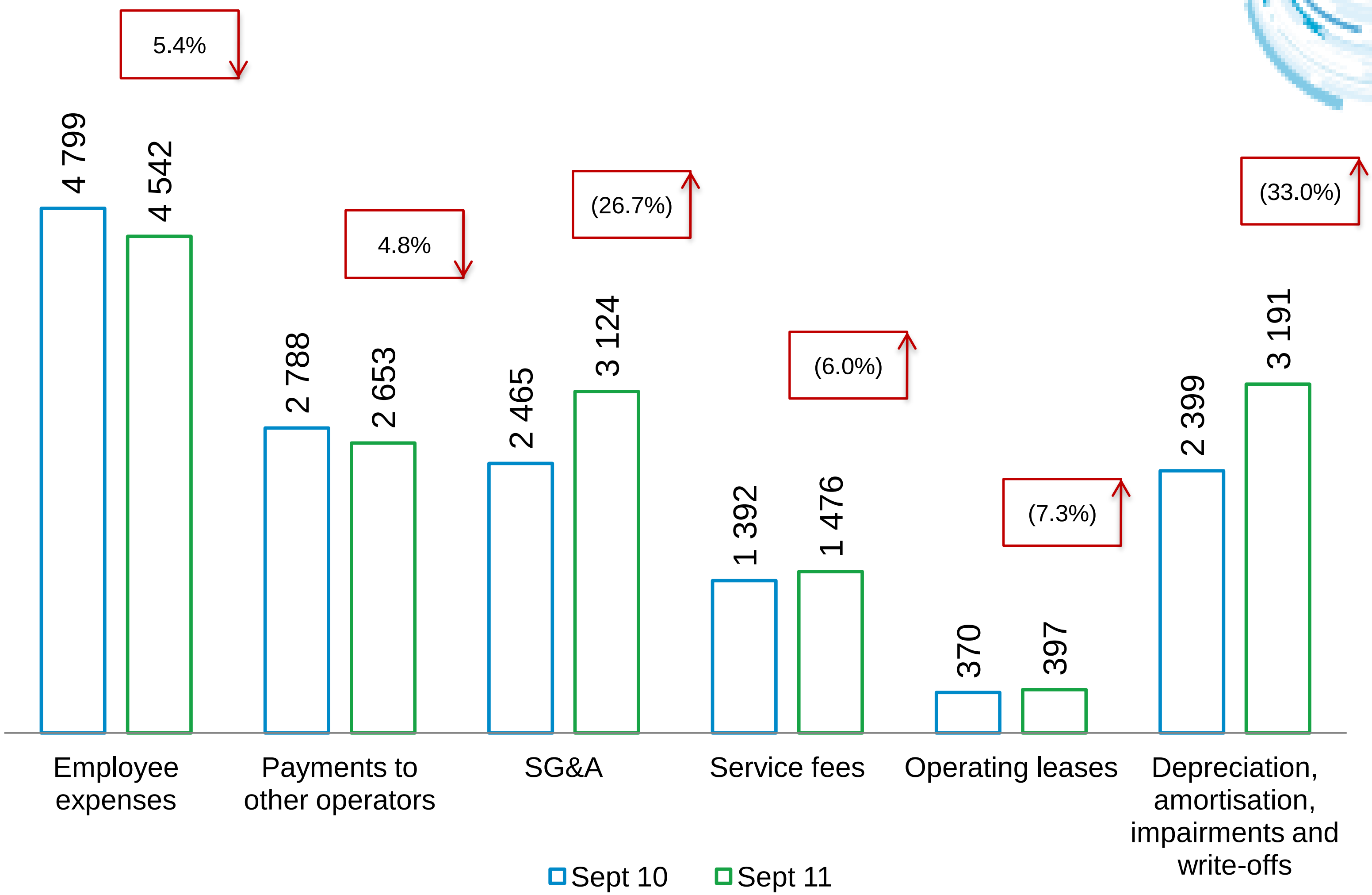


Data revenue



ZAR million	Sept 10	**Sept 11**	%
Data connectivity	2,707	**2,670**	(1.4)
Leased line facilities	1,116	**1,069**	(4.2)
Internet access and related services	986	**806**	(18.3)
Managed data network services	641	**545**	(15.0)
Multi-media services	100	**24**	(76.0)
	5,550	**5,114**	(7.9)

Group operating expenses



Group operating expense drivers

Category	Segment	Driver
Employee expenses	Fixed-line	Lower headcount and savings due to voluntary severance packages offered in prior year
	Fixed-line	Expected return on plan assets of the Telkom Retirement Fund higher than interest cost
	Mobile	Higher 8·ta headcount
Payments to other operators	Fixed-line	Decrease in mobile and fixed-line termination rates
	Fixed-line	Lower traffic volumes
	Mobile	Inclusion of 8·ta costs
Selling, general and administrative expenses	Mobile	Inclusion of 8·ta costs
	Fixed-line	Lower bad debts
	Fixed-line	Lower cost of sales
Service fees	Other South African	Consulting fees paid mainly for the sale of Multi-Links
Depreciation, amortisation, impairments & write-offs	Other International	Goodwill impairment of iWayAfrica
	Fixed-line	Review of the useful lives of assets
		Write off of performance and service management project

Group capital expenditure

ZAR million	Sept 10	**Sept 11**	%
Access network	148	**125**	(15.5)
Legacy	67	**88**	31.3
Next generation network	356	**386**	8.4
Fiber	159	**151**	(5.0)
International	199	**110**	(44.7)
Information operations	50	**5**	(90.0)
Customer premises equipment	106	**122**	15.1
Facilities	129	**80**	(38.5)
Other	75	**84**	12.0
Fixed-line	1,289	**1,152**	(10.7)
Mobile	614	**558**	(9.1)
Other International	13	**4**	(69.2)
Other South Africa	91	**91**	-
Group capital expenditure	2,007	**1,805**	(10.1)

Group debt comparison

ZAR million	Mar 11	**Sept 11**	Movement
TL12	1,059	**1,060**	1
TL15	1,159	**1,159**	-
TL20	1,431	**1,460**	29
Commercial paper	-	**99**	99
Syndicated loan	3,271	**1,993**	(1,278)
Foreign loans	520	**614**	94
Finance leases	904	**877**	(27)
Telkom Company	8,344	**7,262**	(1,082)
Subsidiaries	11	**8**	(3)
Group debt	8,355	**7,270**	(1,085)
Net debt	4,907	**4,605**	(302)

Debt maturity as at 30 September 2011

ZAR million	Sept 11 Maturities	
	Current	Targeted
Maturing in the 2011 calendar year		
Commercial paper bill	100	100
Maturing in the 2012 calendar year		
TL12 bond	1,060	1,060
Foreign loans	134	134
Maturing in the 2013 calendar year		
Syndicated loan	2,000	2,000
Foreign loans	124	124
Maturing in the 2014 calendar year		
Foreign loans	125	125
Maturing after 2014		
TL15 (maturing in 2015)	1,160	1,160
TL20 (maturing in 2020)	2,500	2,500
Foreign loans (maturing between 2015-2025)	283	283

Guidance

Capex to revenue

Expected to range between 15% and 20% of revenue

Net debt to EBITDA

Targeted ceiling is aimed at 1.4x