

Telkom

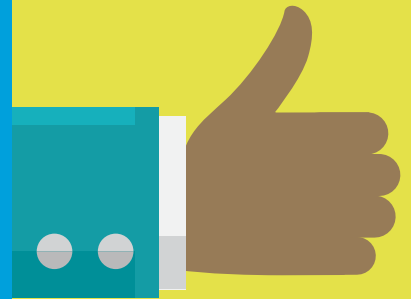
Group Interim Results for the six months ended

30 September 2014



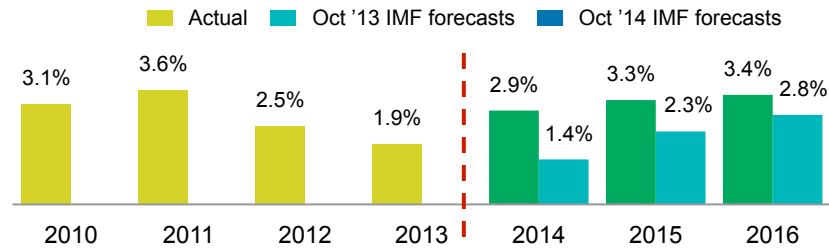
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Overview

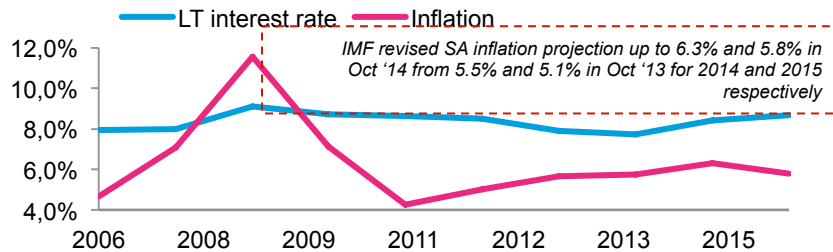


Overview of the environment

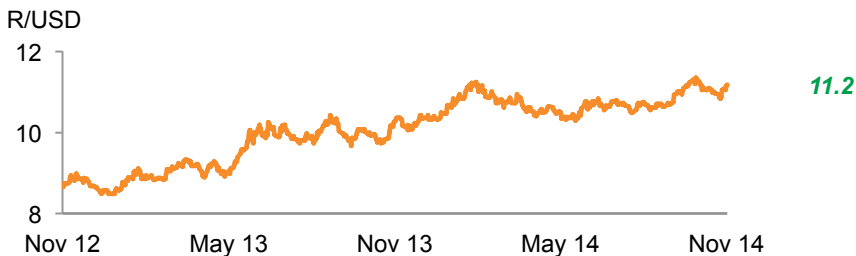
Real GDP growth



Long-term interest rate and inflation evolution



ZAR/USD exchange rate evolution



Commentary

- **Household spending is under pressure** from rising interest rates, lacklustre job market, labour issues and poor credit environment
 - Potential tax changes in 2015 may put further pressure on the consumer
- Telecoms **industry remains very competitive**; as a result, margins are under strain
- **Dominance of OTT players** who are building their own networks
- **Consolidation**: operators are now integrating vertically, either organically or through acquisitions
- Overall, **digital convergence underpins most telecom players' efforts**, with competitors vying to create a sustainable quad-play platform

Our strategy focusses our response

PURPOSE

Our vision is tied to a national vision

Seamlessly connecting South Africans to a better life

OUTCOME

... leading to sustainability...

...as the leading provider of converged ICT solutions

Optimising shareholder value

Stabilise revenue to return to growth.
Grow EBITDA margin 26% - 27% in FY 2015; and 27% - 28% in FY 2016
Strengthen free cash flow
Normalise capex to revenue in line with benchmark and peers at 14 - 17%

STRATEGY

...by putting the customer first

Centre of the digital home and lifestyle

Lead in business, enterprise and Government

Pre-eminent in wholesale

ENABLERS

Enabled by...

People and organisational capabilities

An invincible network

The right technologies and solutions

A competitive cost base and efficiency

A sustainable regulatory stance

Partnerships in non-core activities that build our converged proposition

Our performance in the first half

HEPS

261.7cps
+14.9%*

EBITDA

R4.4 bn
+12.1%*

Net revenue

R13.3 bn
+1.6%*

Operating expenses

R9.2 bn
-2.4%*

Free cash flow generated, strong at
R1.7 billion

BEPS excluding once-off items increased
82.7% to 263.2 cps



**Excluding VSP/VERP expenses and the PRML curtailment gain in the prior year.*

Remained stable in a weak economic environment

- Fixed-line revenues remain under pressure – 3.8% decline
- Pressure in fixed-voice and wholesale data
- Multi-year cost reduction programme gained traction
- Mobile produced improved results for the half year
- MTN and BCX transactions still under review by the regulators
- Proactive engagement with Government and regulator



Maintaining revenues and controlling costs

- Operating costs decreased 8.3% in real terms
- Consolidating the business and improving efficiencies
- Key initiatives include:
 - Staff efficiency programme
 - Less vehicles leased and fewer kilometres travelled
 - Lower marketing spend
 - Lower security cost
- Going forward we will also address:
 - Office consolidation; the further sale of non-core property; and post-retirement medical aid liability for pensioners



A key revenue driver going forward will be the ability to excel in customer experience

We are tackling three drivers of customer advocacy



Value proposition

Am I getting good value for money?



Use experience

Can I use the services for what I need without disruption?



Service experience

When I need to interact with Telkom, is it easy and convenient for me?

Addressing the critical issues our customers are telling us need to be fixed

Explore and buy



- Redesign store experience
- Rebuild online presence
- Upgrade contact centre skills

Get started



- Improve the on-boarding experience
- Quicker service installation

Fix fault/ Get help



- Revamped self-service options (multiple channels)
- Better fault diagnostic tools
- Shorter fault restoration times

Use



- Invest in ISP network capacity
- Communicate often and clearly
- Manage high users
- Remove network bottlenecks

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Retail



Operational and commercial traction in Consumer

- Consolidated the fixed-line and mobile consumer businesses
- Rationalised our product offering
- Our *Summer of Wow* campaign is our first truly converged offer
- Market leading product offering
 - First SA operator to offer LTEA and FTTH
 - Completely unlimited package rated best mobile package*
- Building one brand and identity



*Tarifica study, which ranks the top 10 contracts and a perfect 100 is assigned to the very top contract.

Consumer: Improvements across unit led by mobile

- Mobile EBITDA improved by 50.7%
 - Grew external service revenue by 48.0%
 - 22% increase in ARPU
- Active mobile subscribers have breached the two million mark
- Residential DSL subscribers increased 8%
- Extracting efficiencies through consolidation
- Customers acknowledge improvements:
 - MyBroadband: Fixed and mobile broadband provider of choice
 - Best compliments to complaints ratio in the industry in the HelloPeter telecommunications league table
 - Improved Ask Afrika Orange Index rating



Leading provider of communications services in business

- Exclusive provider of communication services to three big banks
- Leading provider of services in the retail and public sector
- Good growth in Telkom Business mobile subscriber base to 102 474 subscribers
- Increased economic and competitive pressure, e.g. OTT players
- Solutions focused deals key to building good pipeline



Telkom Business positioned for further strength

- New industry vertical sales focus to offer unique solutions to our customers
- Good Managed Data Network Services growth
 - Growth of 14% in revenues and 4.7% in sites in a saturated market
- Migrating customers from legacy to future-fit products on track
 - IT Business Service revenue up 23%
 - Metro-ethernet revenues up 40%
- Increased Internet access and related revenue by 6.7%



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Wholesale and Networks



Best-in-class consolidated network offering

INTEGRATED BROADBAND PLAN

Fibre



- Premium speed
- Uncapped data
- Multiple users
- Services and content
- Superior reliability

→ Offer best-in-class speed, reliability and experience to the most content-savvy and demanding customers

VDSL/ADSL



- High consistent speed
- Uncapped data
- Multiple users
- Services and content

→ Satisfy growing high-speed and high-capacity needs in dense demand areas with existing DSL network

LTE



- High speed
- High mobility

→ Connect lower demand areas where fixed-line is not feasible

→ Satisfy growing demand for nomadic or secondary devices

Satellite



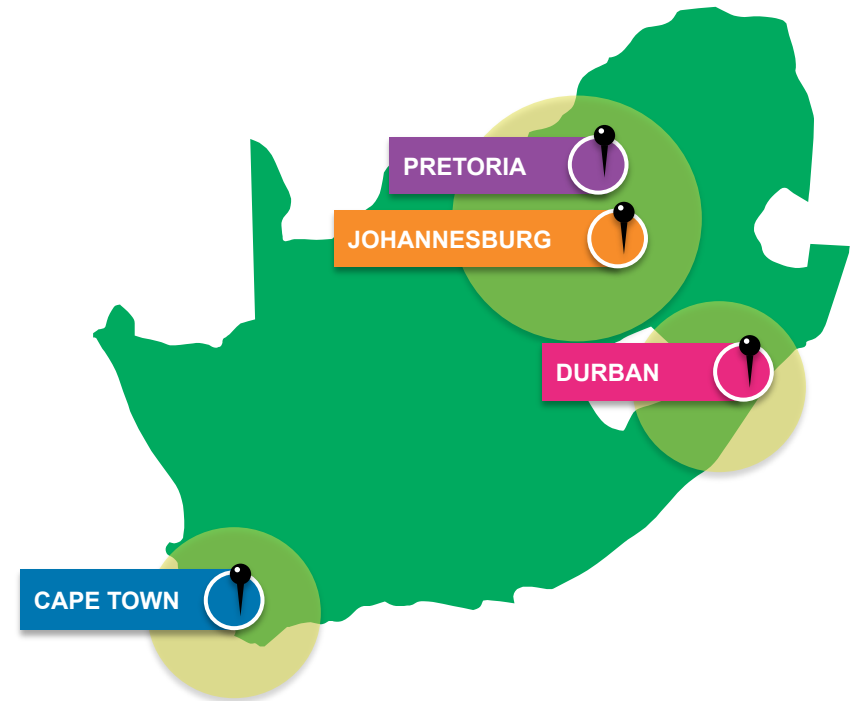
- Average speed
- High availability
- 100% coverage

→ Connect rural where fixed-line and LTE is not feasible

Telkom is uniquely positioned to efficiently deploy the right technology at the right place to the widest number of potential customers

Customer-led high speed broadband offering

- FTTH: Wholesale open access Fibre Broadband product commercial launch on 1 December 2014 – first fibres lit and presence in 23 suburbs
- Reduced our 20 Mbps and 40 Mbps pricing
- Launched LTE Advance – targeted at 50 areas



696 392
active
ports¹

712 819
homes
passed¹

1 275
LTE sites
integrated¹

3 704
WiFi
hotspots¹

¹As at 30 September 2014

Optimising our network for better efficiency

- IP connect revenue grew by 4%
- Leased line revenue decreased by 21.3%
- Improved Metro Ethernet installations by 77%
- Decommissioning legacy technology
- Increasing traffic volumes and demand, but with downward pressure on prices
- Balancing routine work and preventative maintenance to ensure optimal service delivery



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Financial overview



H1 2015 financial highlights

- Stabilised revenue amid challenging conditions
- EBITDA increased 12.1% – Margin of 27.7%
- HEPS (excluding once off items) increased 14.9% to 261.7 cents
- Reduced operating cost by 2.4%
 - Lower employee and marketing cost, decrease in the number of vehicles
- Mobile data revenue growth of 39.3%
 - Post-paid data subscribers grew 134.2%
 - Increased service and subscription revenue by 48.0%
- Decrease EBITDA loss in the mobile division by 50.7%
- Focussed and disciplined capital allocation – commercially focussed
- Strong cash flows:
 - Free cash flow generated remains strong at R1.7bn
 - Group net debt decreased 74.1% from March 2014 to R545 million



Interim results

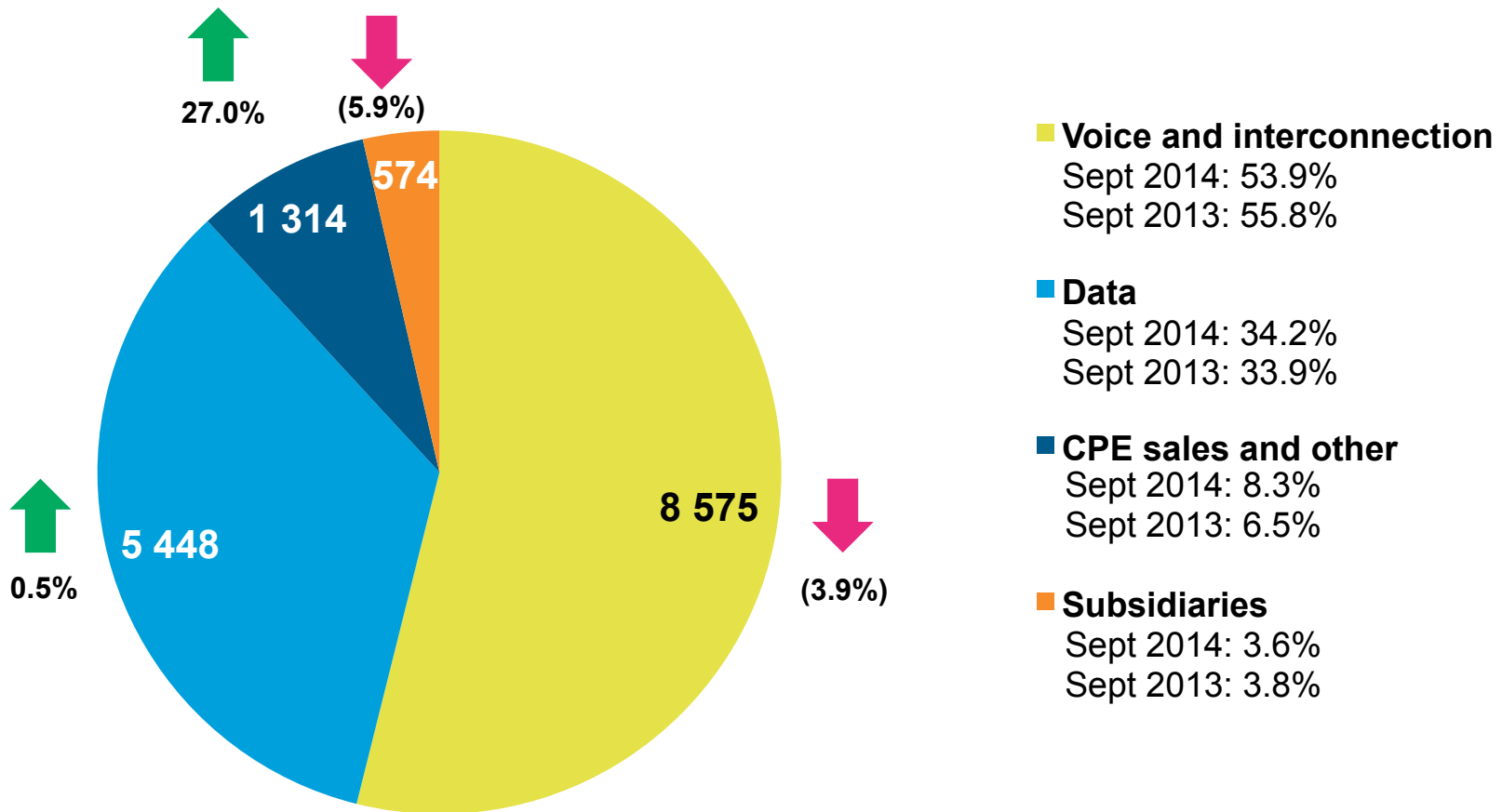
	Sept 2014 Rm	Sept 2013 Rm	%
Operating revenue	15 911	15 989	(0.5)
Net revenue	13 299	13 087	1.6
Operating expenses	9 168	9 389	(2.4)
EBITDA	4 403	3 927	12.1
Depreciation and impairments	2 489	3 091	19.5
Capital investments	1 815	3 171	(42.8)
Free cash flow	1 699	33	5 048.5
Headline earnings per share (cps)	261.7	227.8	14.9

Quality of earnings

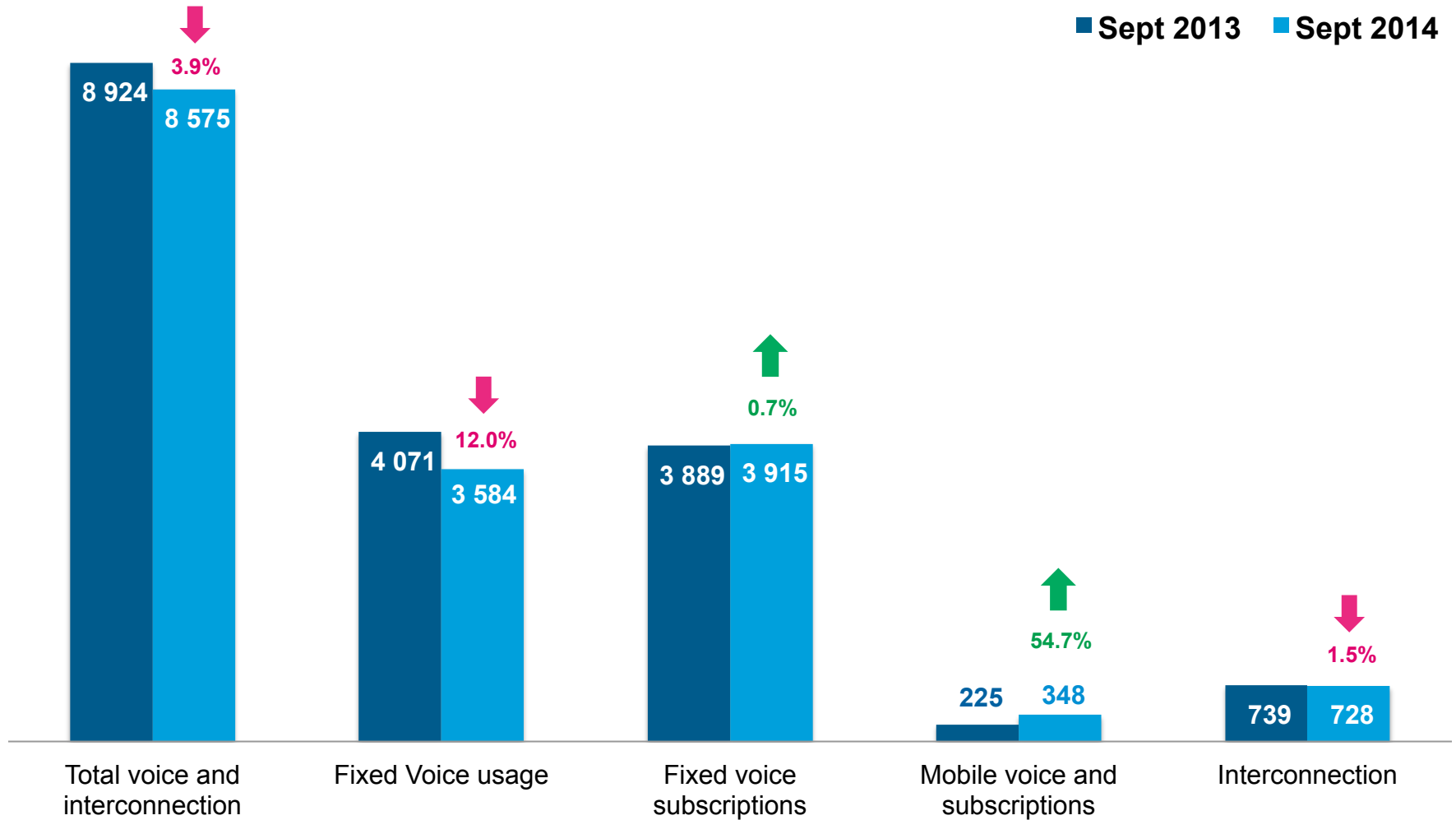
	Sept 2014 Rm	Sept 2013 Rm	%
Profit for the year	1 156	2 964	(61.0)
Net FTR/MTR impact	(321)	(115)	(179.1)
Gain on sale of assets	(53)	(7)	(657.1)
Severance package costs	325	-	-
Asset write offs and impairments	42	449	(9.7)
Profit of the sinking fund	(132)	(195)	32.3
Curtailment gain on PRMA	-	(2 173)	-
Tax adjustment	2	17	(88.2)
Adjusted profit for the year	1 019	940	8.4
Headline earnings per share (cents)	190.6	173.3	10.0

Higher mobile data and CPE revenues

Group operating revenue (Rm)

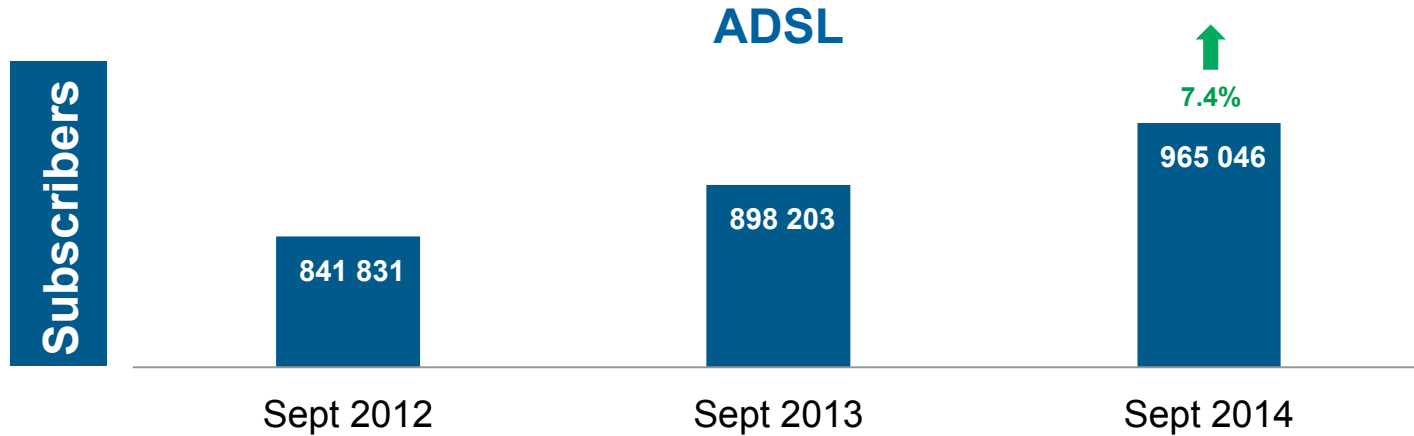


Voice usage remains under pressure

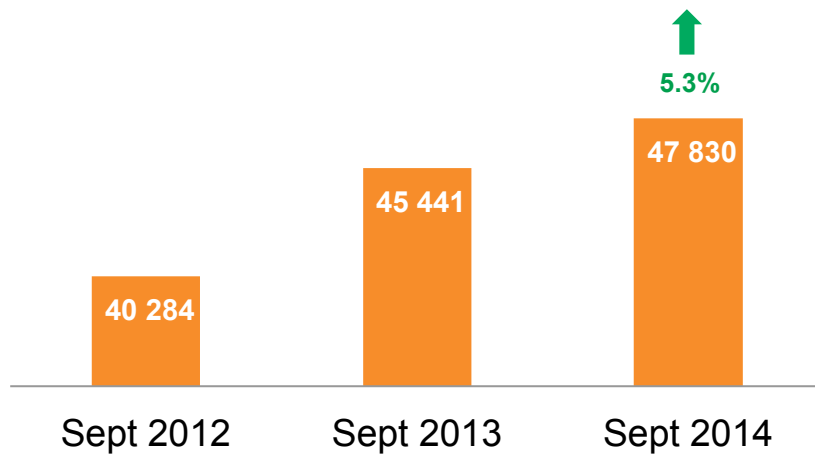


Rm

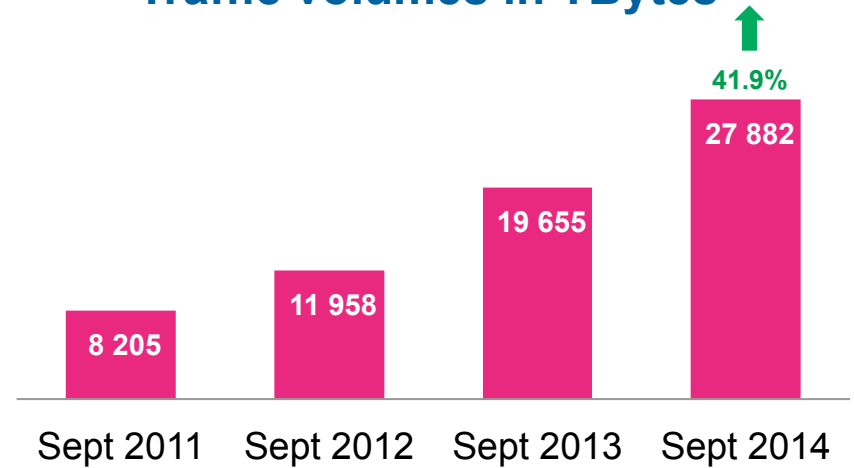
Data volumes show steady growth



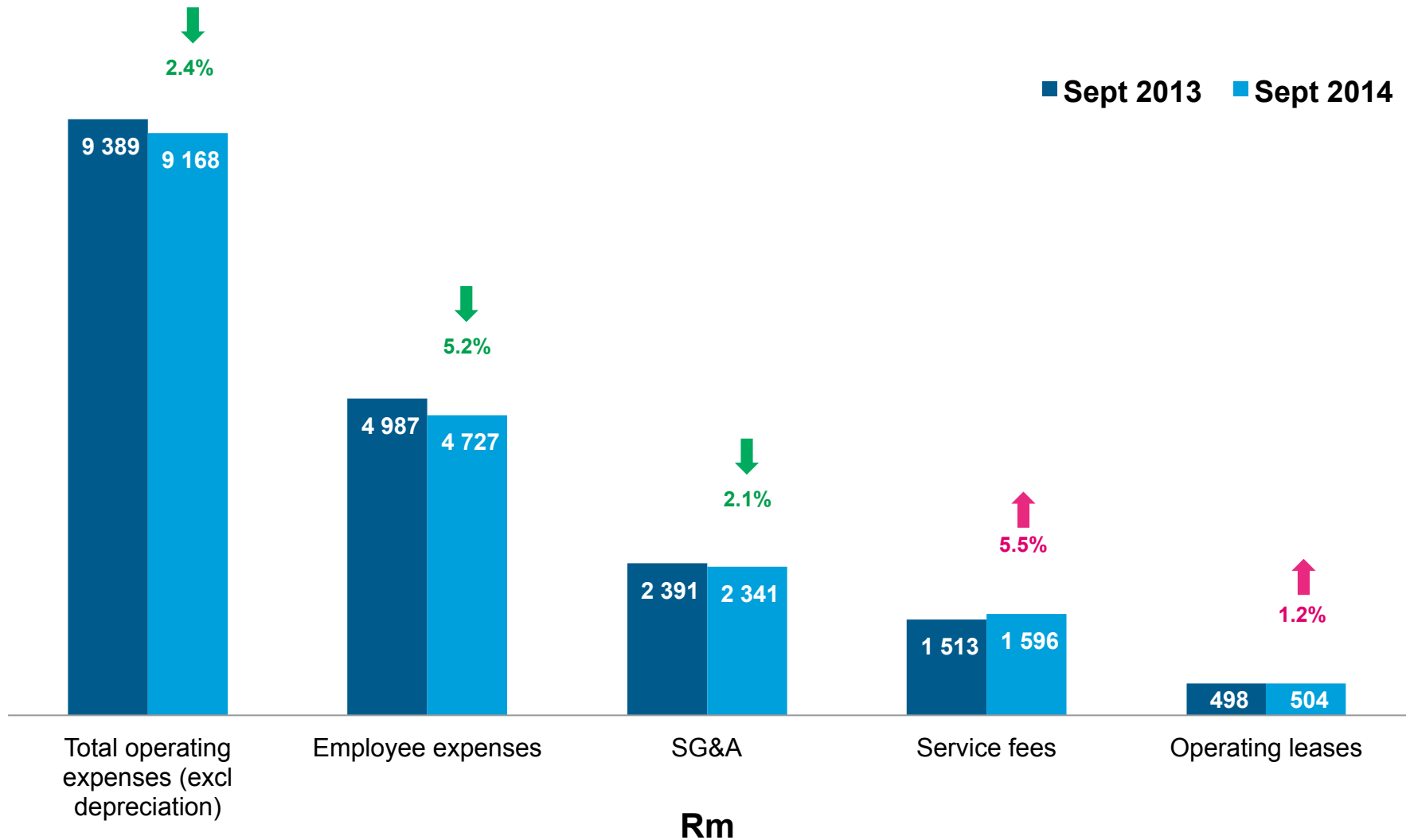
Managed data network sites



Traffic volumes in TBytes



Cost initiatives gaining momentum



Capital expenditure

	Sept 2014 Rm	Sept 2013 Rm	%
Total capital expenditure	1 815	3 171	42.8
Group capital expenditure excluding mobile	1 651	2 356	29.9
Converting access network in IP (NGN)	561	999	43.8
Maintaining/enhancing existing telecoms and IT networks	1 090	1 357	19.7
Mobile	164	815	79.9

Measured and rigorous approach focussing on returns

Normalised cash flow from operations

	Sept 2014 Rm	Sept 2013 Rm	%
Cash flow from operating activities	3 469	3 166	9.6
Competition Commission payments	67	67	-
Package cost paid	86	710	(87.9)
Tax refund received	-	(854)	-
Normalised cash flow from operations	3 622	3 089	17.3
Cash at end of period	3 906	1 190	228.2
Discretionary investments	3 581	3 750	(4.5)

We remain lowly geared with a net debt to EBITDA of 0.1

Financial guidance

The guidance excludes the impact of the successful conclusion of the MTN and BCX transactions

	H1 F2014 A	H1 F2015 A	F2015	F2016
Net Revenue	+0.8%	+1.6%	Stabilise to grow	Stabilise to grow
EBITDA margin	24.6%	25.6%*	26% - 27%	27% - 28%
Capex to revenue	19.8%	11.4%	14% - 17%	14% - 17%
Net debt to EBITDA	0.3	0.1	≤ 1	≤ 1

*Including package cost of R325 million

The above have not been reviewed or reported on by the external auditors of the Company

Our dividend policy going forward

Dividends are considered on an annual basis based on the financial performance of the Group, operating environment, growth opportunities, as well as debt and cash flow levels.

Our intention is to reinstate the dividend in 2015.

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Prospects

Our turnaround strategy is on track

- We are seeing the benefits of discipline in operational and capital expenditure
- Starting to see the traction in addressing customer experience
- Telkom has a unique network and are investing in a targeted rollout of our high speed broadband offering
- The regulator has started correcting market distortions, and there is still room to continue
- High calibre management team is in place and will be constantly strengthened



Near term priorities

Business unit

Key focus area

Consumer

- Accelerate broadband penetration
- Continue mobile improvement
- Enrich content and value-added services
- Exploit convergence opportunities

Business

- Build a solutions-based business through our vertical clusters
- Offering converged solutions
- Consolidate product suite and migrate customers to next generation products and services

Wholesale and networks

- Improve turnaround for new installations
- Reposition wholesale business to achieve access agnostic network
- Increase speeds and capability

De-risking mobile

Telkom Mobile and MTN SA

- The objective is to **enhance our position in the mobile market**, and allow Telkom to compete with much larger and stronger competitors
- **Bilateral roaming agreement** will enable customers of either party to roam on both networks and have full access to capacity and coverage of both networks
- Parties' **independent networks will be configured**, such that use of parties' network assets will provide greater efficiencies, improved quality of service and coverage for customers
- MTN will take over **financial and operational responsibility** for the rollout and operation of Telkom's RAN



Growing Telkom Business beyond connectivity

Telkom and Business Connexion

- Support **growth beyond core business of connectivity** by expanding into ICT services
- Proposed transaction is **funded from our balance sheet** and enables the realisation of **synergies**
- Significant opportunity to increase and **leverage off respective client base**
- Maintain BCX as a **separate operational entity** within Telkom
- Addresses both **revenues** and **costs**
- BCX skills and certifications are aligned to Telkom's strategy for future growth



We are clear what needs to be done

Deliver **superior customer experience**



Disciplined capital allocation with greater emphasis on productivity and returns

Complete corporate transactions – awaiting approval for MTN agreement and BCX



Improve efficiency – address all costs and optimise net asset base

Find revenue growth – to secure future



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Questions

