Telkom SA SOC Limited

Group Interim Results

For the six months ended 30 September 2016
Contents

1. Introduction
2. Business performance
3. Financial overview
4. Conclusion

Telkom
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
2

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.*

- **Operating revenue up**: 20.6%
- **Mobile service revenue up**: 36.7%
- **EBITDA Margin**: 26.1%
- **HEPS up**: 19.7%*
- **EBITDA up**: 4.6%*
- **Interim Dividend of**: 131 cps
SA’s leading and largest broadband and data provider

We provide a diverse wholesale product portfolio over our high quality open access network.

Openserve’s brand positioning is about connections. Connecting technologies, businesses, people and the world around us.

Our key differentiator is the scale, high quality of our open access network and the products and services we provide on it.

We believe in a market that encourages fair competition which is why we are committed to delivering consistent and equitable service to all our clients including Telkom Retail.
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 Cabinet**: >1.8 m homes passed
- **Fibre to the Business**: 42,176 end points terminating
- **Fibre to the Base Stations**: ~5,600 base stations
Improved network consumption

Fixed line broadband¹

<table>
<thead>
<tr>
<th>TB</th>
<th>H1 2015</th>
<th>H1 2016</th>
<th>H1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>160,196</td>
<td>214,557</td>
<td>296,452</td>
</tr>
</tbody>
</table>

+38.2%

¹ Access links
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

**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

Source: Pink Elephant - 2014
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

- 32% growth in Metro-Ethernet revenue
- 27% IT Business service revenue
- 420% growth in Unified Communications revenue
Consumer
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**

- **H1 2015**: -385 Rm
- **H1 2016**: 214 Rm
- **H1 2017**: 0 Rm

**Mobile service revenue**

- **H1 2015**: 830 R’000
- **H1 2016**: 1,166 R’000
- **H1 2017**: 1,594 R’000

**Mobile customer growth**

- **H1 2015**: 1,595 ‘000
- **H1 2016**: 1,576 ‘000
- **H1 2017**: 2,237 ‘000

+37%
Broadband strategy underpins solid performance

Mobile broadband revenue

<table>
<thead>
<tr>
<th></th>
<th>H1 2015</th>
<th>H1 2016</th>
<th>H1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>R’000</td>
<td>422</td>
<td>711</td>
<td>1,018</td>
</tr>
</tbody>
</table>

Mobile broadband customers

<table>
<thead>
<tr>
<th></th>
<th>H1 2015</th>
<th>H1 2016</th>
<th>H1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>’000</td>
<td>343</td>
<td>458</td>
<td>670</td>
</tr>
</tbody>
</table>

+44%  

Mobile broadband strategy underpins solid performance.
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
Financial overview
Developments in the first half of FY2017

Mobile

Mobile EBITDA profitability

BCX

BCX inclusion for six months

Capex deployment

185% growth in capex deployment to priority areas

Dividend policy and interim dividend

Interim dividend

Telkom H1 17 | 15 November 2016
### Normalised earnings

<table>
<thead>
<tr>
<th></th>
<th>Sept 2016</th>
<th>Sept 2015</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>1 821</td>
<td>606</td>
<td>200.5</td>
</tr>
<tr>
<td>VERP/VSP cost</td>
<td>-</td>
<td>1 523</td>
<td>-</td>
</tr>
<tr>
<td>Tax on VERP/VSP cost</td>
<td>-</td>
<td>(446)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Normalised profit for the period</strong></td>
<td>1 821</td>
<td>1 683</td>
<td>8.2</td>
</tr>
<tr>
<td>Normalised headline earnings per share</td>
<td>336.0</td>
<td>280.6</td>
<td>19.7</td>
</tr>
</tbody>
</table>
## Key financial indicators

<table>
<thead>
<tr>
<th></th>
<th>Sept 2016</th>
<th>Sept 2015</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>20 237</td>
<td>16 782</td>
<td>20.6</td>
</tr>
<tr>
<td>Net revenue</td>
<td>13 849</td>
<td>13 404</td>
<td>3.3</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>8 978</td>
<td>8 929</td>
<td>(0.5)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>5 272</td>
<td>5 040</td>
<td>4.6</td>
</tr>
<tr>
<td>Capital investments</td>
<td>3 639</td>
<td>2 335</td>
<td>55.8</td>
</tr>
<tr>
<td>Normalised free cash flow</td>
<td>241</td>
<td>1 445</td>
<td>(83.3)</td>
</tr>
</tbody>
</table>
## Quality of earnings

<table>
<thead>
<tr>
<th></th>
<th>Sept 2016</th>
<th>Sept 2015</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>1 821</td>
<td>606</td>
<td>200.5</td>
</tr>
<tr>
<td>Gain from property, plant and equipment</td>
<td>(143)</td>
<td>(282)</td>
<td>49.3</td>
</tr>
<tr>
<td>Severance package cost</td>
<td>-</td>
<td>1 523</td>
<td>-</td>
</tr>
<tr>
<td>(Profit)/Loss of the sinking fund</td>
<td>(90)</td>
<td>60</td>
<td>(250.0)</td>
</tr>
<tr>
<td>Tax on VERP/VSPs</td>
<td>-</td>
<td>(446)</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted profit for the period</td>
<td>1 588</td>
<td>1 461</td>
<td>8.7</td>
</tr>
</tbody>
</table>
EBITDA

Transformation initiatives bearing fruit

Normalised EBITDA movement

Rm

<table>
<thead>
<tr>
<th>Sept 2015 EBITDA</th>
<th>SG&amp;A</th>
<th>Other income</th>
<th>Net revenue</th>
<th>Employee expenses</th>
<th>Operating leases</th>
<th>Service fees</th>
<th>Sept 2016 EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 040</td>
<td>(349)</td>
<td>(164)</td>
<td>445</td>
<td>119</td>
<td>115</td>
<td>66</td>
<td>5 272</td>
</tr>
</tbody>
</table>

*Company reduction of R608 million

Telkom H1 17  | 15 November 2016
27
Growth in strategic focus areas

Net revenue movement

Rm

<table>
<thead>
<tr>
<th>Sept 2015 Net revenue</th>
<th>Voice and inter-connection</th>
<th>Trudon</th>
<th>Other</th>
<th>BCX</th>
<th>Mobile</th>
<th>Cost of sales</th>
<th>PTO</th>
<th>Data</th>
<th>CPE</th>
<th>Sept 2016 Net revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>13,404</td>
<td>(332)</td>
<td>(73)</td>
<td>(41)</td>
<td>320</td>
<td>255</td>
<td>96</td>
<td>86</td>
<td>85</td>
<td>49</td>
<td>13,849</td>
</tr>
<tr>
<td>R445 m 3.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Retaining traditional revenue while focusing on growth

<table>
<thead>
<tr>
<th>Service</th>
<th>2015</th>
<th>2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed voice and subscriptions</td>
<td>7 829</td>
<td>7 440</td>
<td>5.0%</td>
</tr>
<tr>
<td>Data</td>
<td>5 012</td>
<td>5 097</td>
<td>1.7%</td>
</tr>
<tr>
<td>Mobile service revenue</td>
<td>1 166</td>
<td>1 594</td>
<td>36.7%</td>
</tr>
<tr>
<td>BCX</td>
<td>489</td>
<td>3,617</td>
<td>639.7%</td>
</tr>
</tbody>
</table>
Growth in subscriber and data volumes

**Metro-Ethernet**
Subscribers ‘000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro-Ethernet</td>
<td>3,090</td>
<td>4,102</td>
<td>5,509</td>
</tr>
</tbody>
</table>

**Mobile broadband**
Subscribers ‘000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile broadband</td>
<td>1,054</td>
<td>1,575</td>
<td>2,276</td>
</tr>
</tbody>
</table>

**Broadband traffic volumes**
(Tbytes)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadband traffic volumes</td>
<td>160,196</td>
<td>214,557</td>
<td>296,452</td>
</tr>
</tbody>
</table>

**Mobile data traffic volumes**
(Tbytes)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile data traffic volumes</td>
<td>9,705</td>
<td>14,930</td>
<td>35,044</td>
</tr>
</tbody>
</table>

**Growth rates**

- Metro-Ethernet: 34.3%
- Mobile broadband: 44.5%
- Broadband traffic volumes: 38.2%
- Mobile data traffic volumes: 134.7%
Reduction in operating cost (Telkom Company only)

R761 million year on year reduction

Rm

- Total operating costs (Excl depreciation): R8,678 million (2015) vs R7,917 million (2016), a decrease of 8.8%
- Employee expenses: R4,162 million (2015) vs R3,554 million (2016), a decrease of 14.6%
- SG&A: R2,497 million (2015) vs R2,663 million (2016), an increase of 6.6%
- Service fees: R1,441 million (2015) vs R1,281 million (2016), a decrease of 11.1%
- Operating leases: R578 million (2015) vs R419 million (2016), a decrease of 27.5%

Reduction in operating costs (Telkom Company only): R761 million year on year reduction.
Increased capital expenditure in priority areas

<table>
<thead>
<tr>
<th>Area</th>
<th>Sept 2016</th>
<th>Sept 2015</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibre</td>
<td>929</td>
<td>343</td>
<td>170.8</td>
</tr>
<tr>
<td>Mobile</td>
<td>758</td>
<td>201</td>
<td>277.1</td>
</tr>
<tr>
<td>OSS/BSS programme</td>
<td>325</td>
<td>162</td>
<td>100.6</td>
</tr>
<tr>
<td>Network rehabilitation/sustainment</td>
<td>192</td>
<td>167</td>
<td>15.0</td>
</tr>
<tr>
<td>Service on demand</td>
<td>658</td>
<td>707</td>
<td>(6.9)</td>
</tr>
<tr>
<td>Core network growth</td>
<td>392</td>
<td>87</td>
<td>350.6</td>
</tr>
</tbody>
</table>
## Strong cash position – Platform to enable growth

<table>
<thead>
<tr>
<th>Cash sources</th>
<th>Sept 2016</th>
<th>Sept 2015</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening cash balance</td>
<td>2 542</td>
<td>3 642</td>
<td>(30.2)</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>3 266</td>
<td>2 029</td>
<td>61.0</td>
</tr>
</tbody>
</table>

### Significant cash applications

<table>
<thead>
<tr>
<th></th>
<th>Sept 2016</th>
<th>Sept 2015</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend paid</td>
<td>(1 447)</td>
<td>(1 329)</td>
<td>(8.9)</td>
</tr>
<tr>
<td>BCX acquisition</td>
<td>-</td>
<td>(2 654)</td>
<td>-</td>
</tr>
<tr>
<td>Cash paid on capital expenditure</td>
<td>(3 547)</td>
<td>(2 048)</td>
<td>(73.2)</td>
</tr>
</tbody>
</table>

| Cash at the end of the period   | 1 821     | 700       | 160.1 |

| Discretionary investments       | 2 496     | 2 400     | 4.0  |
## Guidance

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

**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.
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

- 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

- 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
Thank you
Questions?
telkomir@telkom.co.za