

Telkom SA SOC Limited  
 (Registration Number 1991/005476/30)  
 JSE share code: TKG  
 JSE bond code: BITEL  
 ISIN: ZAE000044897 ('Telkom' or the 'company')

TELKOM SA SOC LIMITED  
 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

Salient features

Telkom's performance was driven by strong growth in the mobile business.

(Reported numbers)

Group operating revenue	EBITDA	BEPS	HEPS	Capex
Up 4.7%	Up 12.4%	Down 34.5%	Down 36.1%	Up 29.4%
R21.5bn	R5.6bn	176.8c	183.4c	R4.2bn
				capex to
				revenue ratio
				19.7%

(IAS 17 basis)\*

EBITDA	BEPS	HEPS
Down 4.3%	Down 39.7%	Down 40.7%
R5.0bn	187.7c	194.3c

Telkom delivered a solid revenue performance, increasing by 4.7 percent to R21.5 billion, despite the weak economic environment where South Africa escaped a technical recession in the first half of the year. Performance was driven by strong growth in the mobile business and masts and towers in Gyro.

Mobile service revenue continues to be the main driver of revenue growth increasing by 56.6 percent to R5 602 million. This was supported by a significant increase in customer base. Our mobile business remains the fastest growing business in the market with market share gains underpinned by our affordable broadband-led propositions, which resonate with our customers.

Our strategy to separate the real estate property portfolio to increase management focus yielded good results. Gyro contributed positively to the group through a 11.7 percent growth in masts and towers revenue.

Despite the pressure from Enterprise customers deferring spend, IT revenue from BCX was flat compared to prior year.

Changing technology remains a key challenge in our business. Our strategy to accelerate the upgrade of customers to next-generation technologies led to a 19.1 percent decline in fixed voice and interconnection revenue across the group. Despite this, Openserve's and BCX's overall revenue decline was contained at 8.5 percent and 3.3 percent respectively, due to growth generated by next-generation revenue.

Our capital investment of R4.2 billion continues to underpin our growth, with a capital expenditure (capex) to revenue ratio of 19.7 percent invested in our key growth areas - mobile and fibre. More than 50 percent of the capital investment was in the mobile business, increasing by 66.1 percent to R2.2 billion when compared to the prior period, to support growth in the mobile business and to prepare for the accelerated upgrade of customers to LTE and fibre. In the period, we increased our coverage by increasing our mobile base stations integrated by 24.9 percent to 5 476 and implemented our new roaming agreement to supplement our own network.

Our sustainable cost management programme delivered positive results. Underlying group operating expenses were flat\* compared to the prior period in an increasing inflation environment. This was pronounced in the BCX environment, where EBITDA grew more than 22.6\* percent on a standalone basis following an organisational restructuring in the prior year. Despite the benefits of the cost management programme, overall group EBITDA was down 4.3\* percent. This was impacted by the costs associated with the growth in mobile business, including a one-off cost relating to utilising two roaming partners in the first half of the year. We remain focused on operational efficiencies while our revenues evolve, and we manage the impact of inflation in our expenses.

Group HEPS mainly impacted by finance charges and fair value movements

Reported HEPS decreased 36.1\* percent to 183.4 cents per share, mainly due to lower profit before tax. On a IAS 17 basis and excluding the VERP and VSP cost in the prior period, HEPS decreased 40.7\* percent to 194.3\* cents and BEPS decreased 39.7\* percent to 187.7\* cents, impacted by lower profit before tax. The lower profit is mainly attributable to a significant increase in net finance charges and fair value movements of 87.0\* percent relating to the increase in the finance charges, cost of hedging increase as a result of the increase in the forward exchange contracts (FEC) order book, and foreign exchange and fair value movements.

Group capital investment for future growth

The accelerated investment was to support growth in the mobile business and to prepare for the accelerated upgrade of customers to LTE and fibre. The investment in fibre to the home (FTTH) was rationalised as we focus on areas showing a propensity for higher connectivity rates. Our FTTH connectivity rate improved to 42.6 percent, the highest connectivity rate in the market\*\*. We increased our investment in the packet optical transport network, which will future-proof the core network. This

is the foundation for software-defined networks and network function virtualisation capability.

#### Strong balance sheet to fund future growth

On a IAS 17 basis Telkom's net debt to EBITDA (annualised) is 1.2\* times. Net debt excluding the impact of IFRS 16 increased to R11 775\* million (FY2019: R8 813 million). Group cash balances declined to R1 002 million (FY2019: R1 428 million), mainly due to higher capex to fund the mobile infrastructure rollout, which has supported the mobile revenue growth.

The growth in borrowings is in line with our strategy to fund capex through long-term debt as the group moves to an optimal capital structure.

	Reported IFRS 16 Sep 2019 Rm	IAS 17* Sep 2019 Rm	Mar 2019 Rm	Variance %
Balance sheet				
Bank and cash balances	1 002	1 002	1 428	(29.8)
Current borrowings	(4 979)	(3 991)	(5 401)	(26.1)
Non-current borrowings	(11 836)	(8 786)	(4 840)	(81.5)
Net debt	(15 813)	(11 775)	(8 813)	33.6
Net debt to EBITDA (times)	1.4	1.2	0.8	0.4

#### Free cash flow impacted by capex

Adjusted free cash flow weakened to negative R1 267 million (H1 FY2019: positive R138 million) due to a R1 billion increase in cash paid for capex, a 30.9 percent growth compared to the prior period.

#### Outlook

We believe that the economy will remain tough and the consumer will remain under pressure.

Our sustainable cost management has started to deliver positive results to our operating expenses. We expect savings to come through in the second half of the year, which will improve EBITDA relative to H1.

We are implementing various initiatives to release cash to improve the working capital cycle. These initiatives include supply chain financing, handsets receivables financing and a programme for disposal of non-core assets. We expect to realise tangible benefits from these initiatives before the end of the guidance period.

Our capital investment strategy has enabled us to compete effectively, deliver current growth levels and broadband leadership. We intend to continue the strategic rollout of our network. Given our increasing capital requirements, we will rigorously implement the capital allocation framework which will prioritise our capital investment program to ensure the long-term sustainability of our business.

Our net debt to EBITDA ratio has increased to 1.4 times which is above our medium-term guidance due to the adoption of IFRS 16 and the funding of the mobile infrastructure rollout which has supported mobile revenue growth. We have accordingly updated our net debt to EBITDA ratio guidance to 1.5 times over the guidance period.

The capital requirement for a sustainable business is likely to impact the current dividend policy. In considering the dividend policy we will prioritise our capital investment program, maintain an investment grade credit rating and consider our cash position. Long term shareholder value remains a key priority in our capital allocation framework and we aim to deliver improved total shareholder return.

The information contained in this outlook statement has not been reviewed or reported on by Telkom's auditors.

#### Declaration of dividend

Our policy is to pay an annual dividend of 60 percent of headline earnings with an interim dividend of 40 percent of interim headline earnings.

In line with our dividend policy, the board declared an interim gross ordinary dividend number 25 of 71.52636 cents per share.

The declared dividend is payable on Monday, 2 December 2019 to shareholders recorded in the register of the company at close of business on Friday, 29 November 2019. The dividend will be subject to a local dividend withholding tax rate of 20 percent, which will result in a net final dividend of 57.22109 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary dividend will be paid out of available cash balances.

The number of ordinary shares in issue at date of this declaration is 511 140 239. Telkom SA SOC Ltd's tax reference number is 9/414/001/710.

#### Salient dates regarding the ordinary interim dividend

Declaration date	Tuesday, 12 November 2019
Last date to trade cum dividend	Tuesday, 26 November 2019
Shares trade ex-dividend	Wednesday, 27 November 2019
Record date	Friday, 29 November 2019
Payment date	Monday, 2 December 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 November 2019 and Friday, 29 November 2019, both days inclusive.

On Monday, 2 December 2019, dividends due to holders of certificated securities on the South African register will be transferred electronically to shareholders' bank accounts.

Dividends in respect of dematerialised shareholders will be credited to shareholders' accounts with their relevant central securities depository participant or broker.

Sello Moloko  
Chairman

Sipho Maseko  
Group chief executive officer

Tsholofelo Molefe  
Group chief financial officer

#### Pro forma financial information

The adjustments below reconciles the impact of the adoption of IFRS 16 for the six months ended 30 September 2019. IFRS 16 presents the September 2019 financial information as included in the reviewed condensed consolidated interim financial statements.

#### September 2019

Extract of the condensed consolidated interim statement of profit or loss

	Reported		IAS 17*	Pro forma
	IFRS 16			
	Sep	IFRS 16	Sep	Sep
	2019	impact	2019	2018
	Rm	Rm	Rm	Rm
Operating leases	226	564	790	680
EBITDA	5 604	(564)	5 040	5 267
Depreciation, amortisation, impairments and write-offs	3 412	(456)	2 956	2 791
Operating profit	2 192	(108)	2 084	2 476
Finance charges	1 002	(183)	819	438
Profit before taxation	1 243	75	1 318	2 148
Taxation	358	21	379	561
Profit for the period	885	54	939	1 587
BEPS (cents)	176.8		187.7	311.0
HEPS (cents)	183.4		194.3	327.8
Interim dividend (cents)	71.5		71.5	112.1

#### Net debt to EBITDA

	IFRS 16		IAS 17*	
	Sep		Sep	Sep
	2019	IFRS 16	2019	2019
	Rm	Rm	Rm	Rm
Non-current assets	43 467	(3 944)	39 523	37 961
Non-current liabilities	13 225	(3 050)	10 175	6 740
Current liabilities	16 544	(988)	15 556	16 436
Net debt	15 813	(4 038)	11 775	8 813
Net debt to EBITDA (times)	1.4		1.2	0.8

#### September 2018

Extract of the condensed consolidated interim statement of profit and loss

	Reported	Pro forma*	Pro forma*
	Sep	Pro forma*	Sep
	2018	adjustment	2018
	Rm	Rm	Rm
Employee expenses	5 443	(282)	5 161
EBITDA	4 985	282	5 267
Operating profit	2 194	282	2 476
Taxation	481	80	561
Profit for the period	1 385	202	1 587
BEPS (cents)	270.1		311.0
HEPS (cents)	287.0		327.8

Unless otherwise stated all commentary, messaging and indicators in this announcement for the period ended 30 September 2019 are presented on a IAS 17 basis for comparable purposes. The comparative period excludes VERP and VSP costs of R282 million and the related tax impact of R80 million. During the year we restated the prior period revenue by R336 million to exclude Smart Office Connection (SOX). This revenue adjustment led to a restatement of the prior period number from R20 847 million to R20 511 million.

\* Information for the current period and restated as well as pro forma information for comparable purposes as defined on pages 4 and 5 in the long-form interim financial results announcement.

\*\* Source: Africa Analysis - FTTH Market June 2019.

Pro forma financial information:

Certain information presented in this results announcement has been prepared excluding the impact of the adoption of International Financial Reporting Standard (IFRS) 16 in the current period and voluntary early retirements package (VERP) and voluntary severance package (VSP) costs ("the pro forma adjustments") in the comparative period. This constitutes pro forma financial information to the extent that it is not extracted from the segment disclosure included in the reviewed condensed consolidated financial statements for the six months ended 30 September 2019. This pro forma financial information has been presented to eliminate the impact of the pro forma adjustments from the consolidated financial results for the six-month period ended 30 September 2019 to achieve a comparable period-on-period analysis and show the underlying performance of the business. The pro forma adjustments have been determined in terms of the group accounting policies disclosed in the consolidated financial statements for the six-month period ended 30 September 2019, except for the changes in accounting policies as a result of the adoption of the accounting pronouncements effective 1 January 2019 and the JSE Listings Requirements.

Further information: The short-form interim financial results announcement and pro forma financial information is the responsibility of the board of directors of Telkom. It is only a summary of the information contained in the long-form interim financial results announcement and does not contain full or complete details.

Due to its nature, the pro forma financial information is for illustrative purposes only and may not fairly present Telkom's financial position, changes in equity, results of operations or cash flows.

Any investment decisions should be based on the long-form interim financial results announcement published on the JSE's website on Tuesday, 12 November 2019 and also available on Telkom's website at [www.telkom.co.za/ir](http://www.telkom.co.za/ir).

The long-form interim financial results announcement is available on the company's website at: <https://www.telkom.co.za/ir/financial/financial-results-2020.shtml> and on the JSE's website at: <https://senspdf.jse.co.za/documents/2019/jse/isse/tkg/tkgir2019.pdf>

The long-form interim financial results announcement is furthermore available for inspection at the company's registered address and the offices of the JSE sponsor (Nedbank CIB) during office hours at no charge to shareholders.

Transfer secretaries are Computershare and they are contactable on +27 (11) 370 5000.

[www.telkom.co.za](http://www.telkom.co.za)