

Telkom SA SOC Limited
Registration number 1991/005476/30)
JSE share code: TKG
JSE bond code: BITEL
ISIN: ZAE000044897
("Telkom" or "the Group")

Market update: Covid-19 impact on Telkom operations

The impact of Covid-19 and the national lockdown have dominated the first half of the year and we saw the country facing macro-economic challenges. The Covid-19 pandemic represents the largest economic shock the world economy has witnessed in decades, causing a collapse in global activity with South African GDP declining by 16% in the second quarter of the year. Telco services were an essential service during the national lockdown therefore the telco industry demonstrated resilience during this time.

Telkom business units were impacted in different ways by the Covid-19 pandemic in the first half of the year. The consumer business benefitted from the increased demand from people working from home and online schooling, while BCX and Small Medium Business (SMB) were negatively impacted by the national lockdown as Corporate customers were under severe financial pressure. Overall, the Group revenue showed resilience in the face of this pandemic.

- The Consumer segment performed very well despite the national lockdown negatively impacting the distribution channels. The mobile business sustained its growth trajectory into the first half of the year. Mobile data which contributes approximately 70% of the mobile business was the main driver of growth driven by strong growth in mobile traffic. The mobile business continued to gain market share from its peers both from a customer and revenue perspective to become the third largest mobile telecom in South Africa in a period of ten years of establishment.
- BCX and SMB were negatively impacted by the national lockdown as customers were under severe financial pressure. Migration to work from home negatively impacted the Enterprise fixed business as the usage was diverted to mobile connectivity leading to a significant decline in fixed voice revenue. Enterprise customers reduced IT spend in the first half of the year and postponed some of their capital investment projects as a response to the heightened uncertain environment caused by Covid-19.
- The significant investments we have made in modernizing the network including fiber backhaul, have enabled Openserve to carry increased traffic across its network and created a resilient ecosystem to support increased data demand witnessed during the Covid-19 pandemic. The lockdown has reemphasized the need for reliable fixed broadband connectivity. With more families working, studying and consuming multiple services from home, Openserve saw an increase in demand for fixed connectivity resulting in an improved fiber to the home connectivity rate. Similar trends were seen across Openserve Pure connect product portfolio which takes advantage of existing broadband infrastructure and supports the increased demand for data connectivity. However, the lockdown had a negative impact on enterprise fixed voice volumes and impacted Openserve negatively.
- From a Gyro Masts and Towers perspective, we continued to commercialise our current tower portfolio in the period.

During this difficult time, management relentlessly focused on its sustainable cost management programme to protect Group EBITDA and margin. The benefits of the restructuring programme were realised in line with management expectations. Mobile cost to serve was optimised further impacting mobile profitability positively. Despite a significant decline in Group fixed voice revenue with higher margin, Group EBITDA and margin are broadly maintained.

Notwithstanding the challenging trading environment, Telkom liquidity remains resilient with a stable balance sheet. No debt has been raised since 30 March 2020. Management remains confident with cash release initiatives target of R700 million to R1 billion for the year as it continues with its working capital optimisation. Management continued to be disciplined in capital allocation, capex rollout was slowed as a result of the national lockdown.

Management remains committed in the value unlock strategy. Unlocking value from our portfolio of businesses is a key component of our capital allocation framework and will afford management flexibility to rebase the balance sheet and fund any strategic projects.

Shareholders are advised that Telkom entered into a payment plan with South African Revenue Services (SARS) to pay the outstanding liability (including interest) of R870 million, payable over a period up to 31 March 2021. This will be funded out of our monthly cash flows.

The above information has not been reviewed nor reported on by Telkom's independent external auditors.

This announcement does not constitute a trading statement. The overall impact of the interim results financial performance on the earnings per share ("EPS") and headline earnings per share ("HEPS") will be communicated on or about 10 November 2020.

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18 September 2020

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