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 for the nine months ended 31 December 2020

Year to date (YTD): Group highlights for the nine months ended 31 December 2020

- Resilient YTD Group revenue up 0.9% year on year to R32 432 million (prior YTD: R32 128 million), driven by a strong growth of 40.7% in mobile service revenue
- Robust YTD earnings before interest, tax, depreciation and amortisation (EBITDA) growth up 8.5% year on year to R8 641 million (prior YTD: R7 966 million), underpinned by ongoing sustainable cost management
- YTD capital expenditure (capex) at R5 125 million (prior YTD: R5 515 million), accelerated capital investment in the third quarter
- YTD free cash flow (FCF) of R2 825 million (excluding the once-off payment of voluntary severance packages (VSP) and voluntary early retirement packages (VERP) of R1 254 million) generated despite an accelerated capex programme in the third quarter.

Statement from the Group Chief Executive Officer: Sipho Maseko

Telkom today published its market update for the nine months ended 31 December 2020. The Group delivered a solid set of results where growth was challenging due to COVID-19 and the strained South African economy. This was driven by robust mobile growth, solid sustainable cost management and strong free cash flow generation.

“Telkom’s broadband led strategy and the decision to invest in infrastructure ahead of demand enabled us to meet the surge in demand for broadband services.” says Sipho Maseko, Telkom Group Chief Executive Officer. “These results also reflect the success of our financial strategic objectives which include building financial resilience through sustainable cost management, cash preservation and disciplined capital allocation as we weather the impact of COVID-19 in our businesses.” Maseko concluded.

Group performance remains resilient in the face of the pandemic

The trends that were demonstrated by Telkom business units in the first half of the year continued in the third quarter of the year. YTD Group revenue was resilient increasing by 0.9% year on year, despite 26.2% decline in YTD fixed voice and interconnection revenue. The YTD Group revenue growth compares favourably to the decline of 0.4% reported in the first half of the year as we saw a slight recovery in the South African economy in the third quarter, due to the country moving to level one of the national lockdown.

- **The Consumer business** continues to be the driver of growth, where the **Mobile business** sustained its growth trajectory with YTD mobile service revenue growing by 40.7% compared to the prior period to R12 582 million (prior YTD: R8 945 million). This was supported by 25.9% growth in active subscribers to 14.9 million and 23.9% increase in blended average revenue per user (ARPU) to R108. The postpaid market remains challenging in terms of new connections due to consumers being under pressure. However, we saw a strong growth in postpaid YTD ARPU of 15.6% to R212. The prepaid market remains the driver of new connections, prepaid customers grew by 30.8% to 12.3 million. The mobile broadband strategy continues to pay off. YTD mobile data revenue grew by 46.2% to R9 058 million (prior YTD: R6 197 million) driven by strong growth in mobile traffic of 64.4% and 27.0% growth in mobile broadband customers to more than 10.0 million. This was enabled by a 9.7% increase in network rollout to 6 135 sites.

- **BCX** performance remains under pressure with the overall market environment challenging albeit with some economic recovery with YTD revenue down 9% to R11 859 million (prior YTD: R13 034 million). The YTD decline in revenue is lower than the revenue decline reported in the first half of the year as we saw a slight recovery in the South African economy in the third quarter. COVID-19 is an ongoing risk and management is driving initiatives to mitigate the risk. Management maintains an annuity revenue mix of between 70-75% which has cushioned our revenue decline during the pandemic. To mitigate the impact of revenue decline in profitability, BCX focused on driving cost efficiencies. The cost efficiencies resulted in improved YTD EBITDA compared to the first half of the year.
- The pressure in the **Openserve** performance trends witnessed in the first half of the year continued in the third quarter of the year with YTD revenue down 12% to R10 233 million (prior YTD: R11 626 million). While we saw an increased need for data in the period, fixed voice usage continued to decline, therefore Openserve performance remains under pressure. The investment in the network has enabled it to carry increased traffic of 28% across its fixed line network. We saw an increase in demand for fixed connectivity resulting in an improved FTTH connectivity to 56.7% compared to 46.6% in the prior period. Whilst we were faced with supply chain challenges resulting from international lockdown in the third quarter, we have continued to drive the expansion of our fibre footprint as evidenced by more than 25 000 new homes passed with fibre in the period.
- **Gyro masts and towers** sustained its growth trajectory with YTD revenue up 6.2% to R931 million (prior YTD: R876 million) as it commercialises its portfolio and is on track to achieve its target tower build plan and increase the number of tenants, as reported in the first half of the year. Management remains cognisant of the COVID-19 environment on its property development activities which are at the advanced stages of development planning. There remains the flexibility of revising the development opportunities or extending project commencement timelines. The environment has presented us with the opportunity to further rationalise on property operating costs and consolidate office space as employees work from home.

Sustainable cost management underpins strong growth in Group EBITDA

Group EBITDA increased by 8.5% with the margin expanding to 26.6% (prior YTD 24.8%). This was mainly driven by the benefit of the phase one restructuring programme of approximately R710 million realised to date. Overall operating expenditure costs (opex) continue to decline compared to the previous year, exceeding management's target of containing opex growth below inflation. The ongoing optimisation of the cost to serve remains a key lever to Group profitability. Mobile cost to serve was optimised despite an increase in the postpaid activities in the third quarter, YTD mobile EBITDA grew by 105.8% to R4 127 million (prior YTD: R2 005 million) with an EBITDA margin of 27.7%.

In the third quarter, we completed phase one of the restructuring programme and commenced the second phase with BCX. The restructuring cost incurred in the third quarter was approximately R200 million. Excluding the impact of the restructuring cost, YTD EBITDA grew 10.9% to R8 837 million when compared to the prior period.

Strong liquidity to fund capital investment

YTD capex of R5 125 million was invested in the growth areas such as the mobile business and fibre. Management remains disciplined in capital allocation while investing in the business for growth. Notwithstanding the accelerated capex, Telkom liquidity remains healthy with a stable balance sheet. In the first nine months, Telkom Group generated YTD FCF of approximately R1 571 million, a significant improvement from the R211 million reported in the first half of the year. Excluding the year to date VSP/VERP payment of R1 254 million, Telkom generated YTD FCF of R2 825 million.

Unlock value for shareholders

Management remains firmly on course with the value unlock strategy having recently concluded a successful market sounding exercise to gauge interest on Gyro Masts and Towers. 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 reinvest in the business.

Regulatory environment

Telkom is ready to participate in the spectrum auction and supports the urgent release of high demand spectrum. However, Telkom remains concerned about the non-availability of spectrum in the 700 MHz and 800 MHz bands for commercial use and the general construct of the licensing dispensation. The television broadcasters still occupy 700 MHz and 800 MHz bands and to date, there is no definitive timeline on when they will be migrated. Insofar as the design of the licensing process is concerned, Telkom is concerned that it disregards the prevailing structural competition challenges that beset the mobile sector.

The above information is reported after applying IFRS16 and has not been reviewed or reported on by Telkom's independent external auditors. The market update reflects Group performance for the current financial nine-month period to 31 December 2020 compared to the previous year nine months to 31 December 2019 (prior YTD).

Operational data

	YTD 9 months to 31 Dec 2020	YTD 9 months to 31 Dec 2019	Growth % (year on year)
Broadband subscribers	**10 673 916**	**8 657 932**	**23.3**
Fixed broadband subscribers	617 047	738 840	(16.0)
Mobile broadband subscribers	10 056 869	7 919 091	27.0
Active mobile subscribers	**14 931 670**	**11 863 061**	**25.9**
Prepaid subscribers	12 354 754	9 445 088	30.8
Postpaid subscribers	2 576 916	2 417 973	6.6
Mobile blended ARPU (rand)	**107.80**	**87.02**	**23.9**
Prepaid ARPU	79.51	63.39	25.4
Postpaid ARPU	211.75	183.13	15.6
Traffic			
Fixed broadband (petabytes)	1 071	836	28.1
Mobile broadband (petabytes)	707	430	64.4
Total fixed-line traffic (millions of minutes)	3 517	4 757	(26.1)
Network			
Ports activated via MSAN access	1 498 000	1 512 000	(0.9)
Homes passed	483 977	454 212	6.6
Active fibre connectivity rate (%)	56.7	46.6	10.1
Mobile sites integrated	6 135	5 591	9.7

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8 February 2021

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