

Telkom SA SOC Ltd

Interim Results Presentation

for the six months ended
30 September 2020

2020

Telkom

Operating environment

1

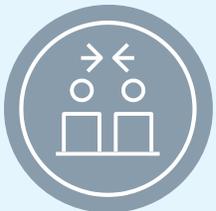
Covid-19 Impact



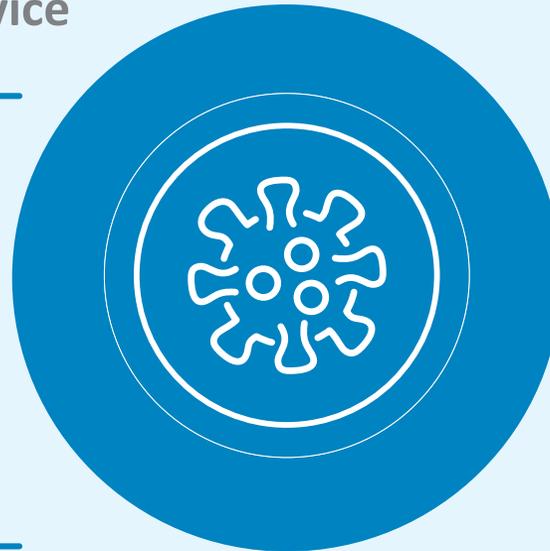
Telkom employees providing essential service



Customers under severe financial pressure

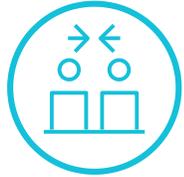


Safeguard health & enable education



A nation in crisis due to the coronavirus

R81 million Covid-19 related spend



Protect health of Telkom employees

- Tested and provided counselling to employees and families through our wellness partner ICAS
- **91.6%** recovery rate
- Approximately **80%** of employees working from home since the beginning of the national lockdown



Support education & healthcare initiatives

- Launched Lightbulb Education & zero rated **~1 000** educational sites
- **>7 000** people have access to tutor & counselling
- Developed track & trace tools with National Institute of Communicable Diseases and Department of Health



Alleviate financial pressure for customers

- Reduced prices, increased speeds & broadband bundle sizes
- Granted payment holidays & extended payment terms during level 4 & 5
- Offered free access to the new Yep! marketplace and desktop applications to SMEs



Supporting a nation through crisis

- Made available our training centre as an additional quarantine site
- Formed a disaster relief fund that supports the Red Cross
- Conveyed the importance of contributing to Covid-19

Business Performance

2

Group financial performance at a glance



**Resilient
topline**



**Improved
profitability**



**Strong cash
generation**

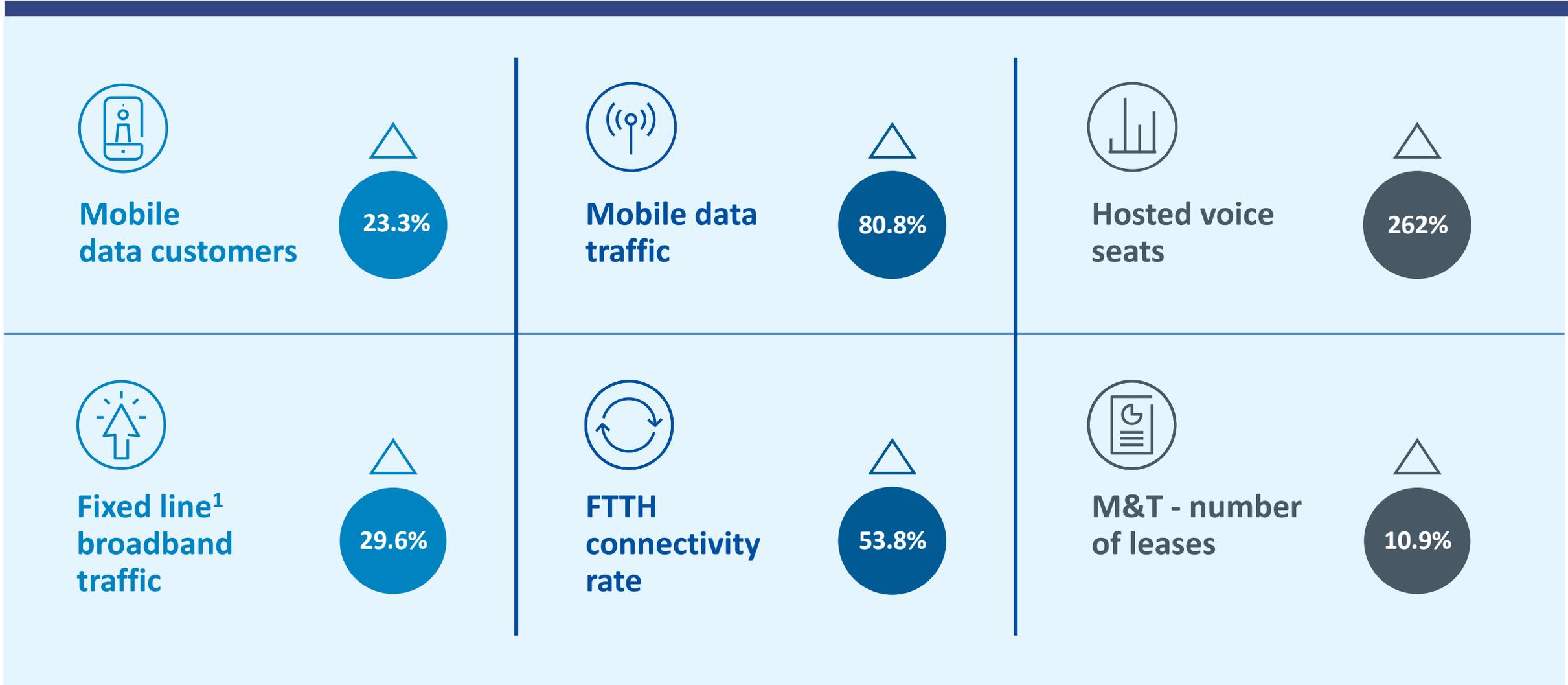


**Strengthened
balance sheet**



**Robust earnings
growth**

Robust operational performance



¹Access links

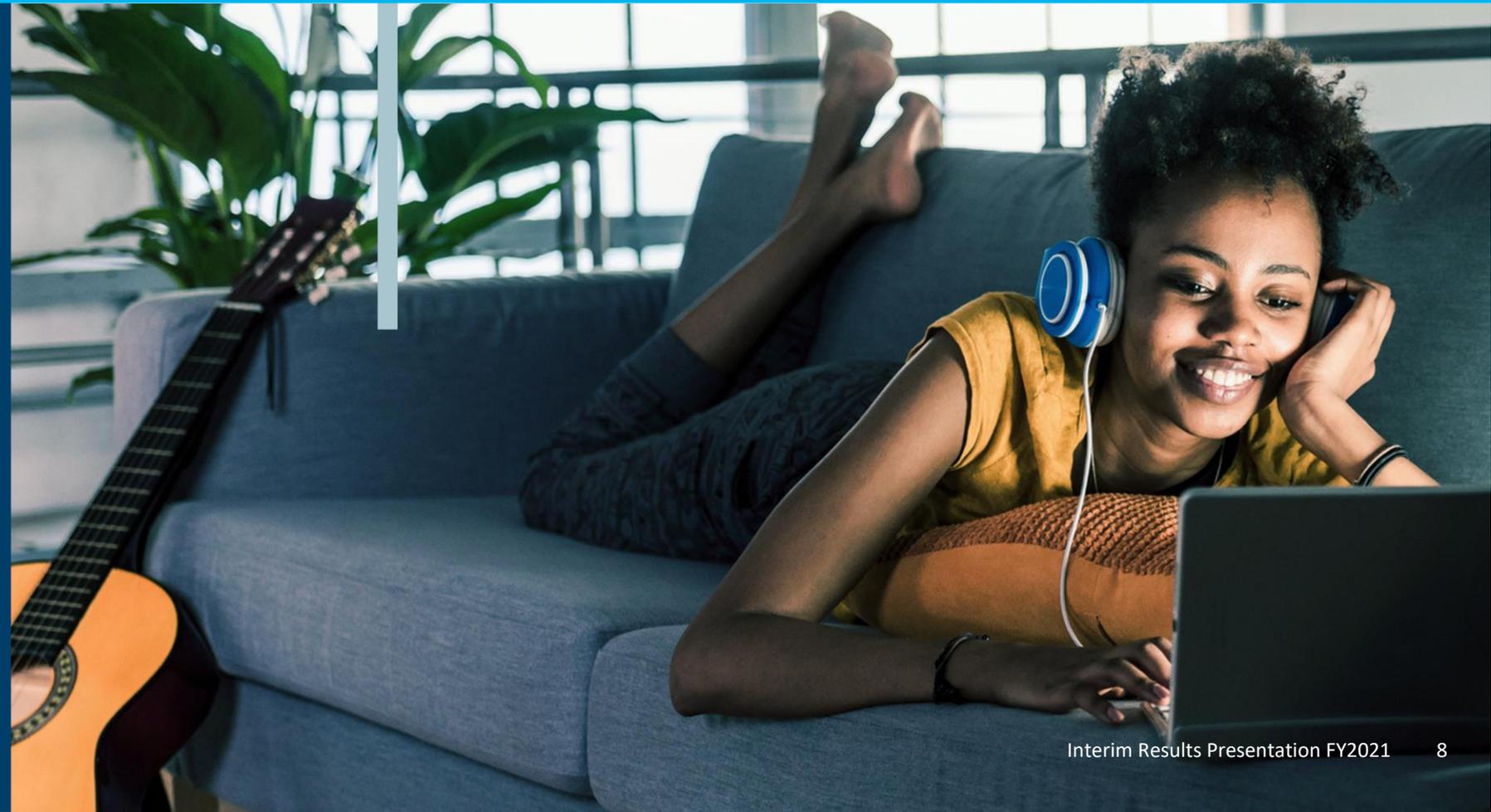
Covid-19 impact

Massive mobile data usage

Strong demand for mobile connectivity

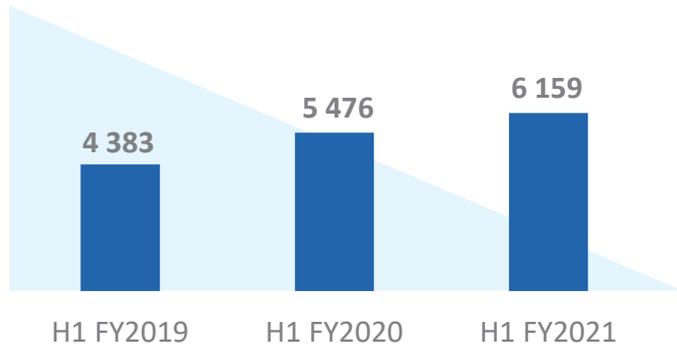
Slower rollout based on lockdown protocols

Telkom
Consumer

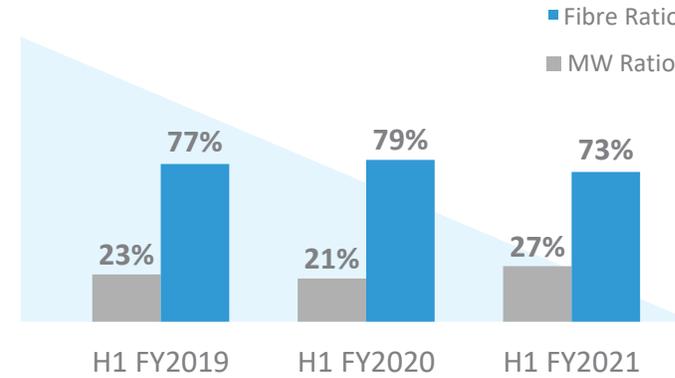


Data-led network strategy

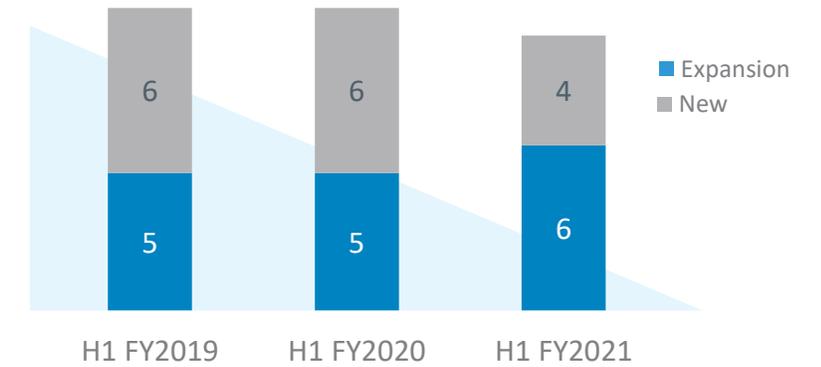
Mobile sites integrated



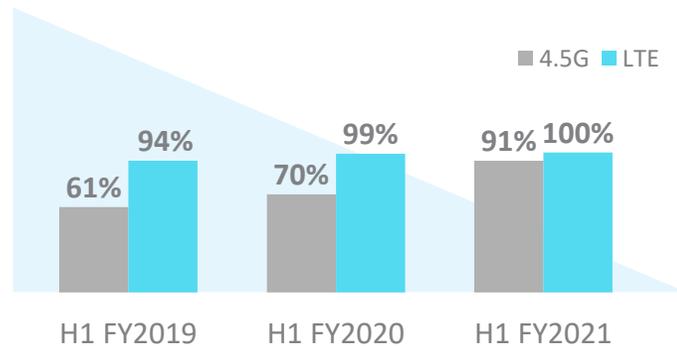
Site Backhaul



Mobile Core Expansion & New Elements



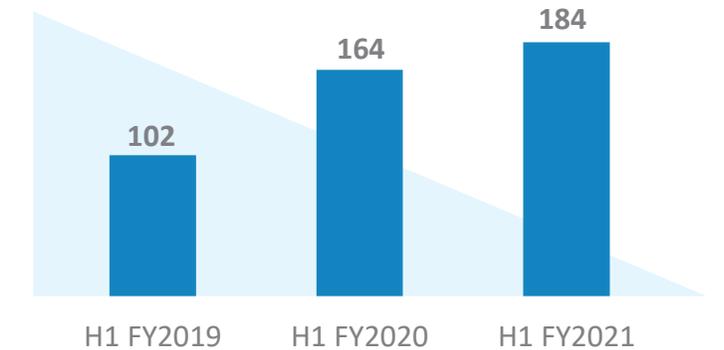
Site Type



Spectrum

Spectrum	Telkom	Temporary
3500Mhz	28Mhz	3500Mhz 12Mhz
2300Mhz	60Mhz	2600Mhz 40Mhz
2100Mhz	30Mhz	800Mhz 20Mhz
1800Mhz	24Mhz	700Mhz 20Mhz
Total	142Mhz	Total 92Mhz

Massive MIMO Upgrades

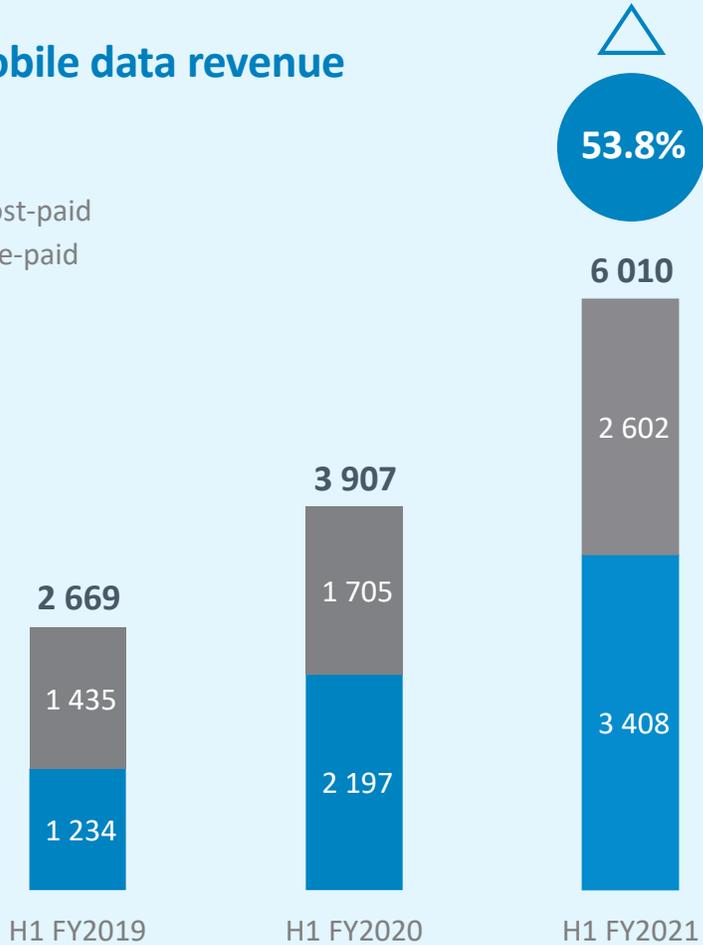


Data delivers aggressive growth

Mobile data revenue

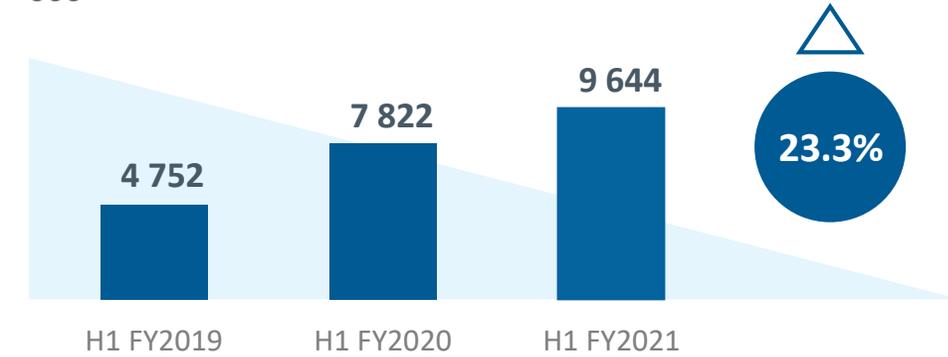
R'm

- Post-paid
- Pre-paid



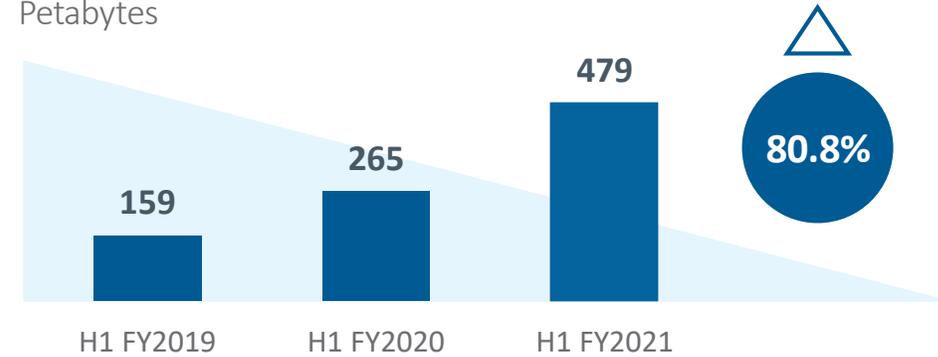
Total Mobile broadband subscribers

'000



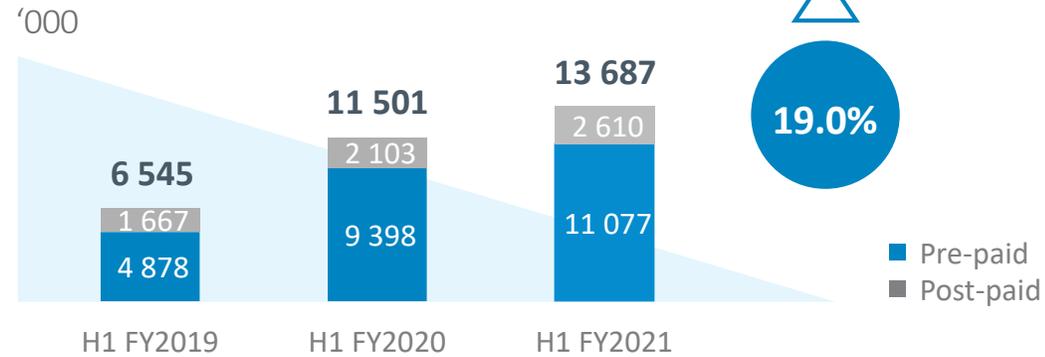
Mobile broadband traffic

Petabytes

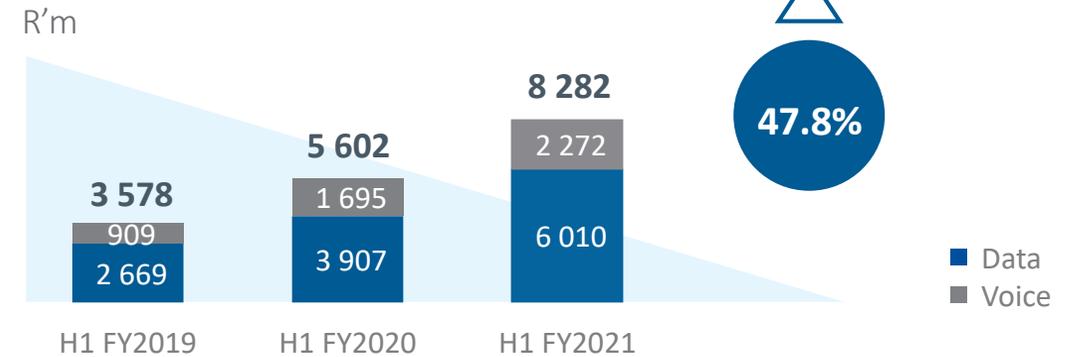


Robust mobile performance

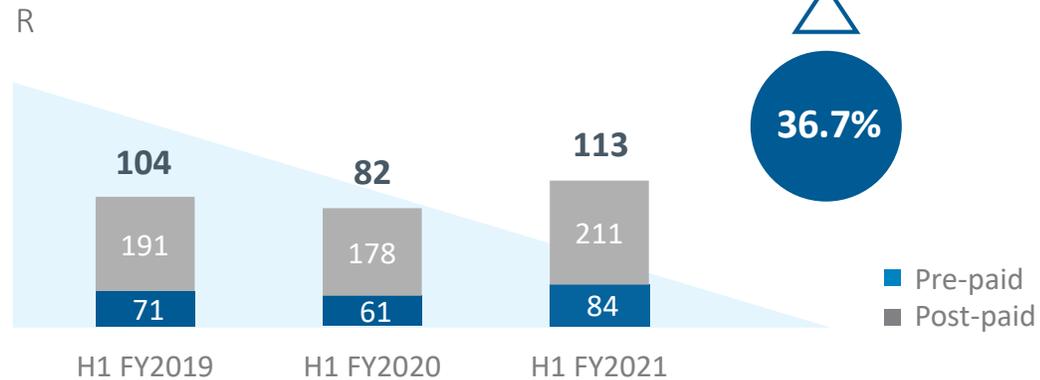
Subscriber growth



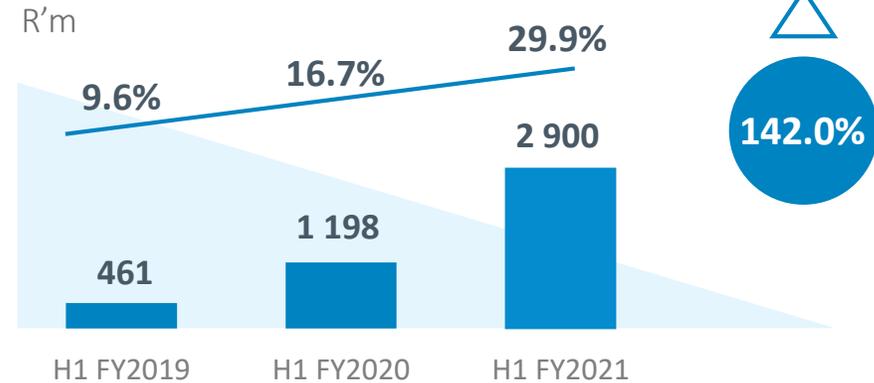
Mobile service revenue



ARPU



EBITDA/margin



Telkom's 10 years of mobile



Commercial



- First to commercialise the **2300 MHz** spectrum in SA



- **Data led network** with **91.0%** of sites on 4.5G



- **Led with data propositions** and disrupted with voice – **70%** of customer base uses data



- **TelkomOne** launched – Partnered with **SABC** to become the **1st official streaming video on-demand service** to host **SABC TV channels and radio**

Performance



- **Clear #3 operator** in South Africa based on service revenue



- **13.7 million customers** with a highest blended **ARPU of R113**



- **Mobile EBITDA margin** of **29.9%**



- **Positive Free Cash Flow and EBIT** in **H1 FY2021**

Covid-19 impact

Large Enterprises affected by the national lockdown
Customers under **severe financial pressure**
Performance impacted because it **correlates economic cycle**

BCX



Commercial response to Covid-19



AIOps
(Artificial Intelligence for IT Operations)
Implemented AIOps for Telkom. It enhances response times to proactively identify potential issues and maintain uptime



Launch of BCX EXA
A new division under BCX's IT Solutions portfolio, with the purpose of advising and co-creating digital transformation solutions with clients



Quick response to the onset of the pandemic
Built a Call Centre on Demand for the NICD within 48 hours



Heeding the call from government
Assisted create Africa's first contact tracing technology – COVIDConnect for Dept of Health



Acceleration of WFH solutions from clients
Work-from-home solutions (including Microsoft Teams voice) became a core requirement for enterprises during lockdown



Biometric Cloud Solution
Development is underway on a biometric cloud solution as well as a BCX health portal and clinic solution.

Data Centres and Cloud Services

Data centres



> 10 Geographically Dispersed Locations

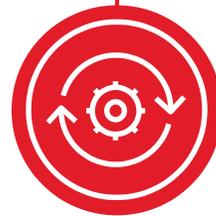
> 12 500 m² + 3 Tier IV DCs

> 99.99% Uptime

> Software defined architecture

> 262% Increase in hosted voice seats

Automated, Modern
and Scalable



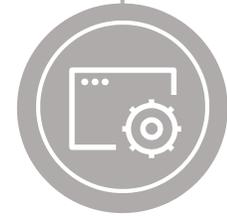
Multiple
Data Centre Pairs

Analytics
Driven Operations



Secure

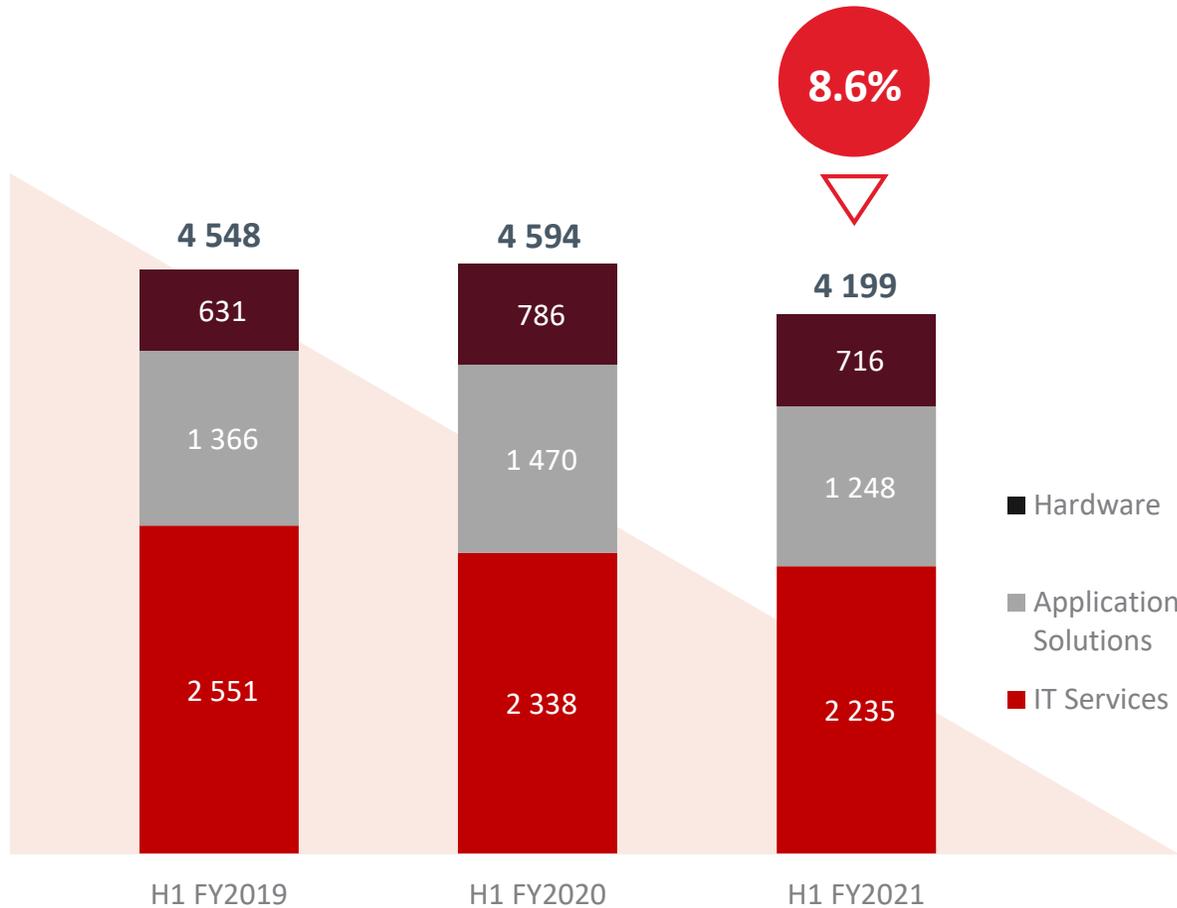
Hybrid
Cloud



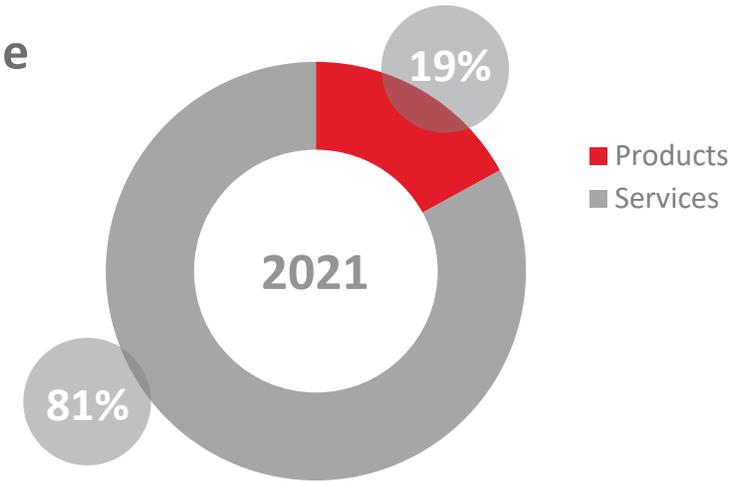
Digital
Platforms

Resilient IT business

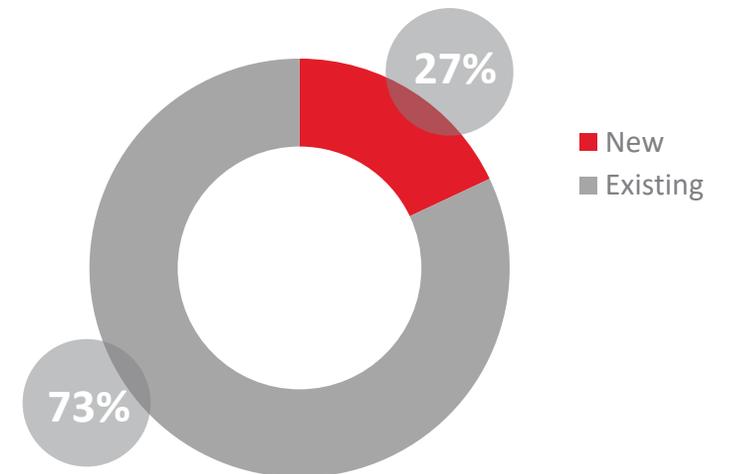
Revenue



Revenue mix

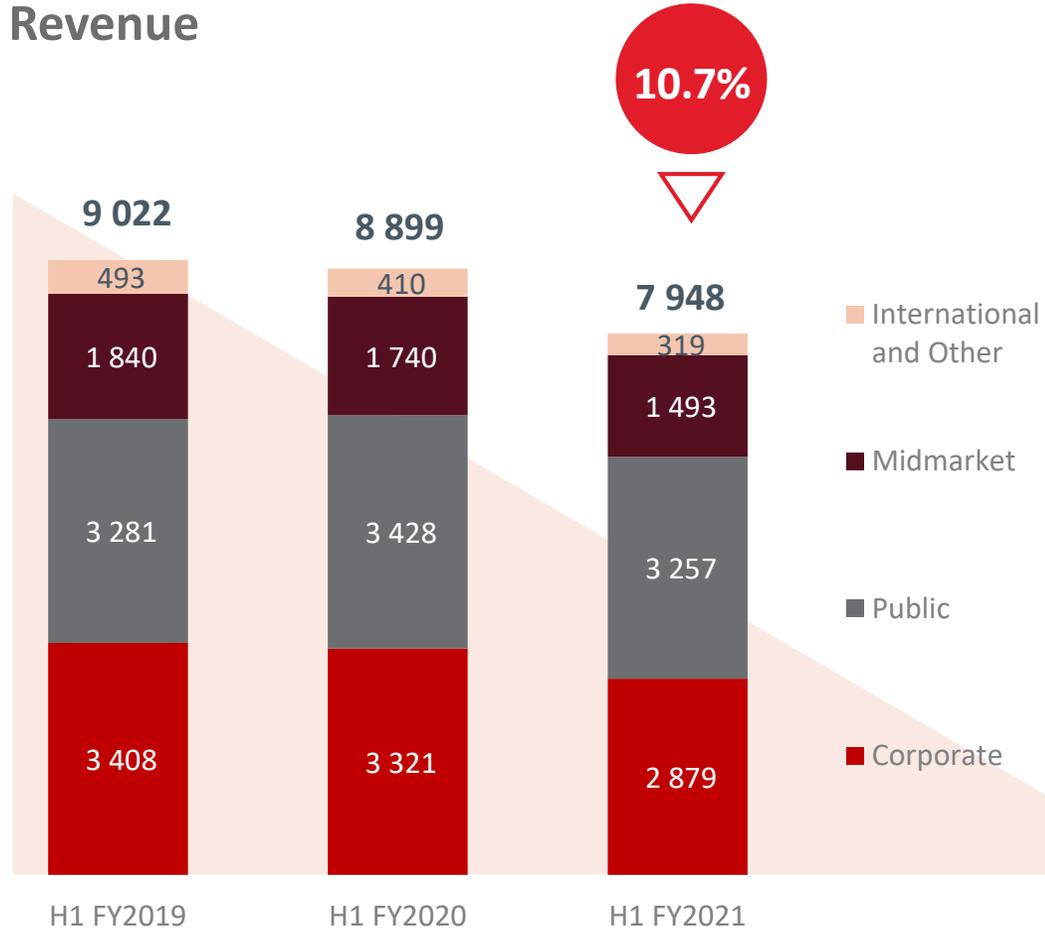


Annuity revenue ratio

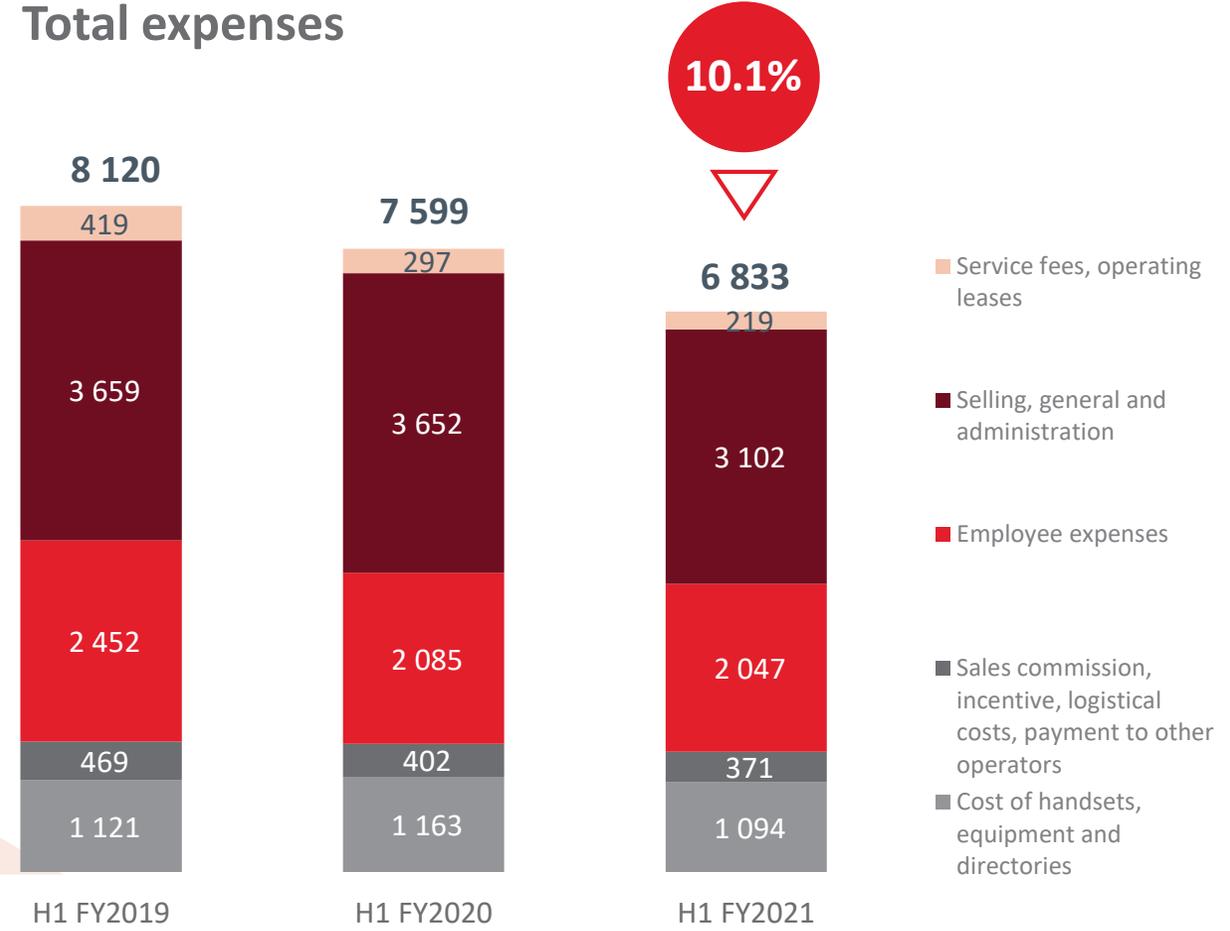


Performance impacted by Covid-19

Revenue



Total expenses

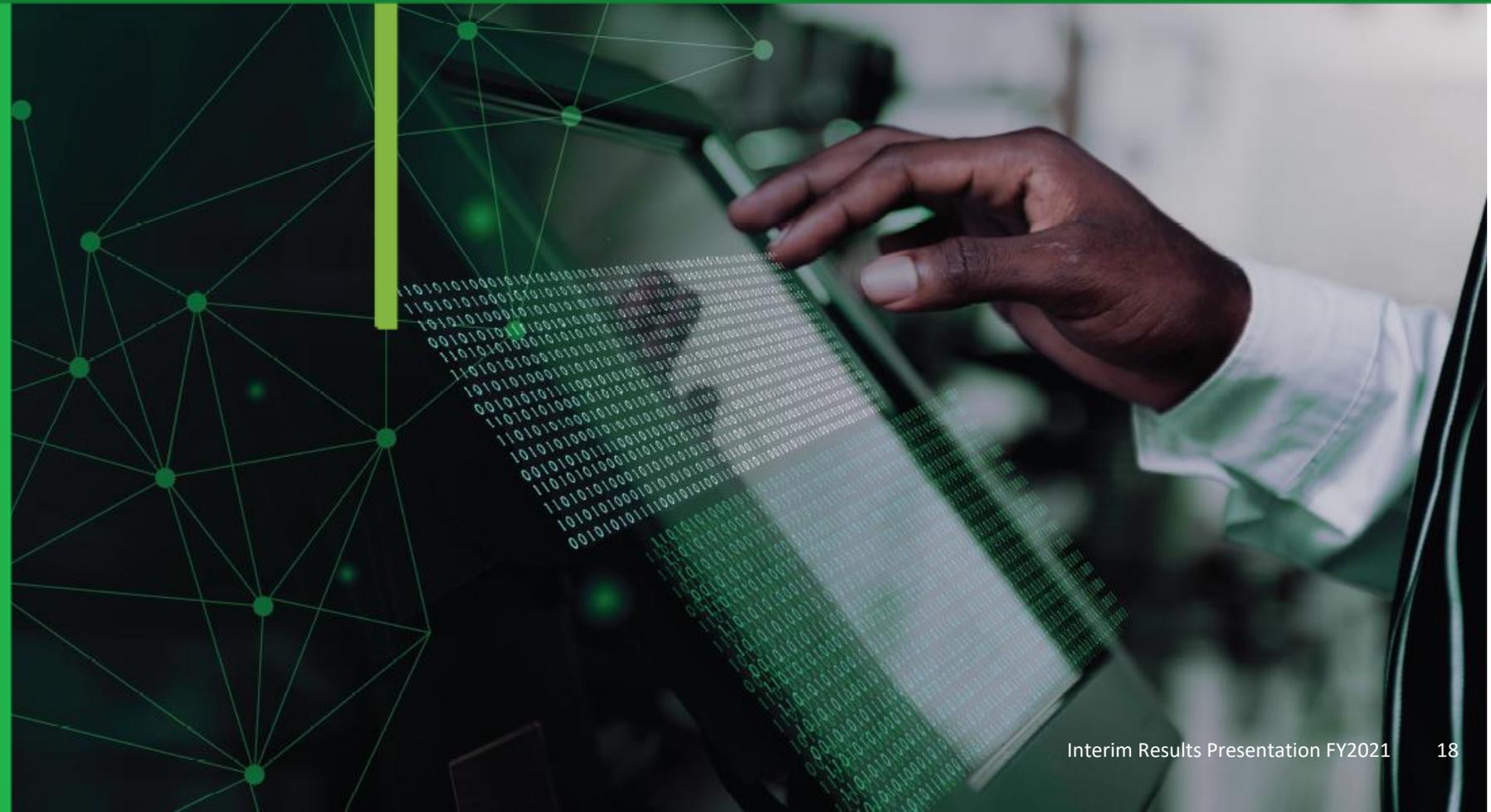


Covid-19 impact

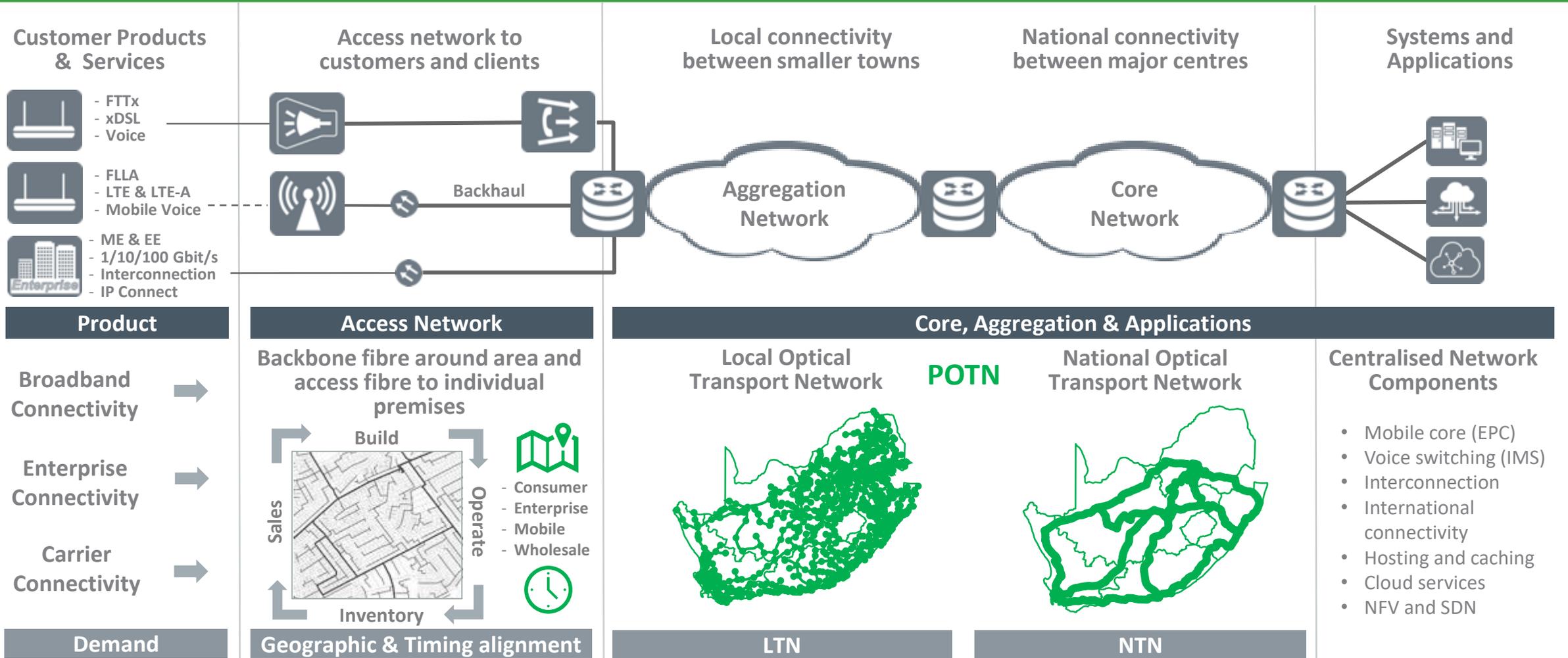
Surge in fixed data consumption

Increased demand to connect to fibre services

Accelerated decline in fixed voice services

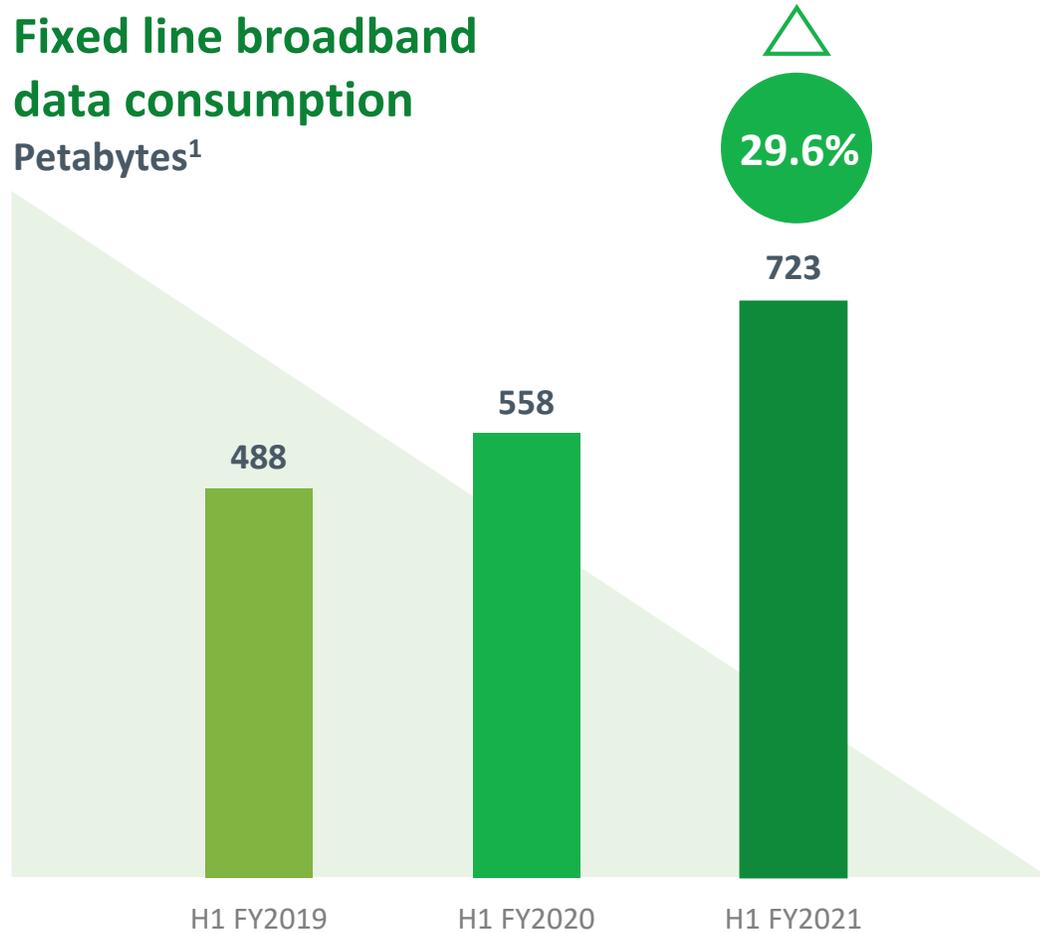


Resilient network

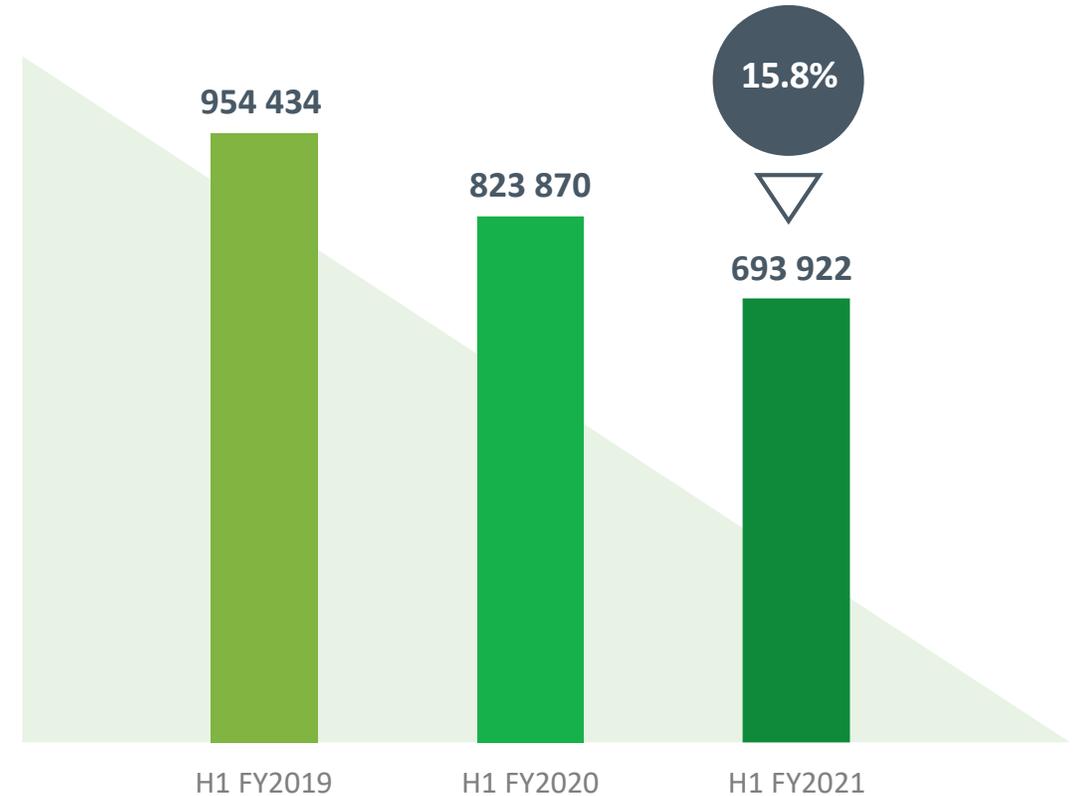


Boost in data consumption

Fixed line broadband data consumption Petabytes¹



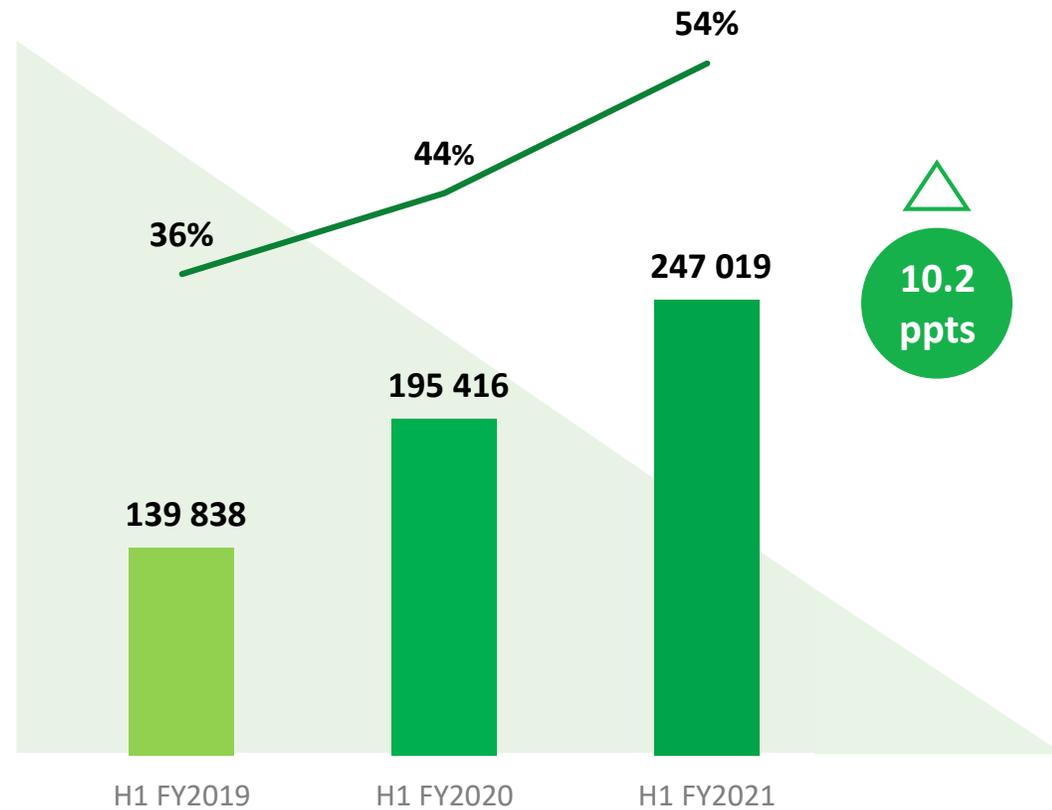
Fixed line Broadband connections Access Connections



¹Access links

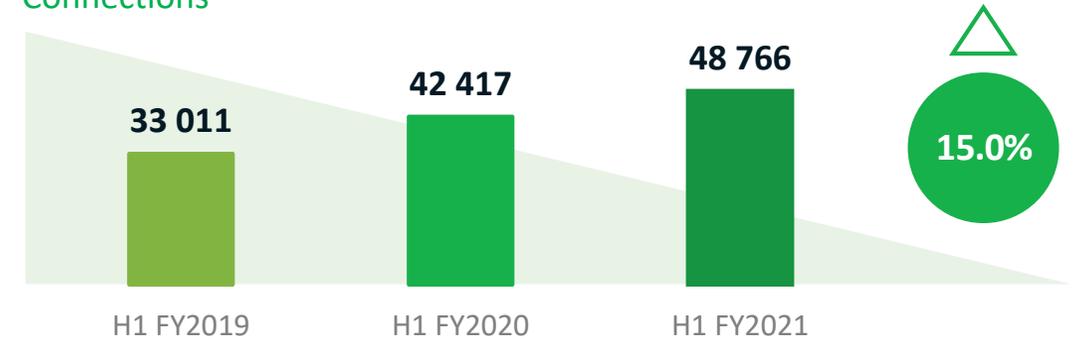
Improved fibre connectivity

Fibre Homes Connected

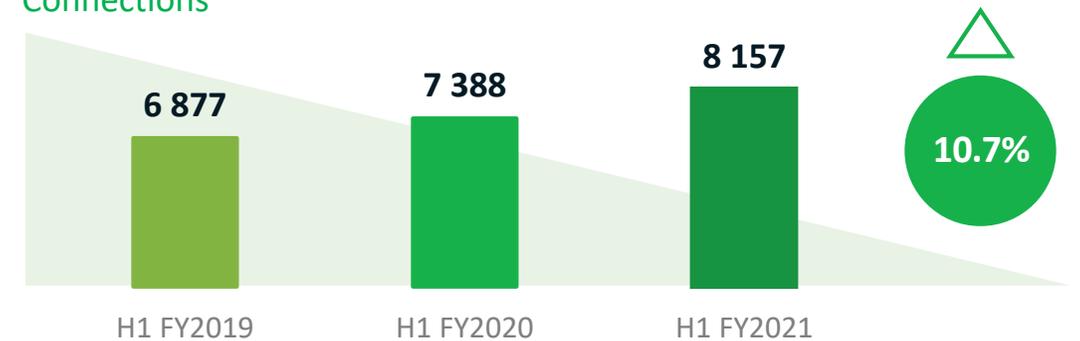


Business connections

Ethernet Business Connections



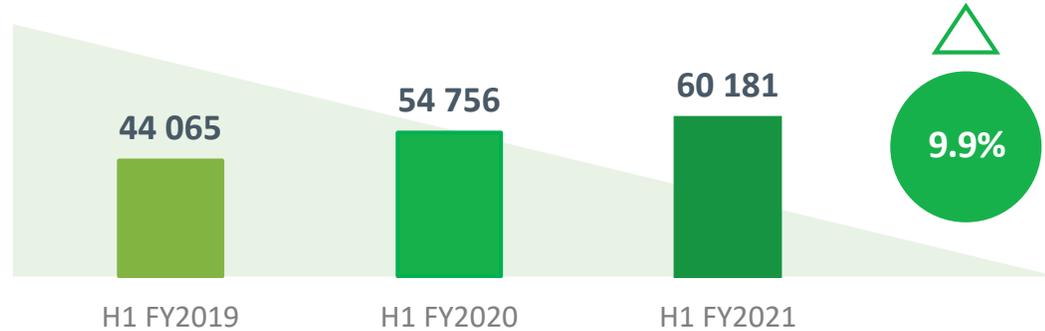
Fibre to Base stations Connections



Data eco-system evolution

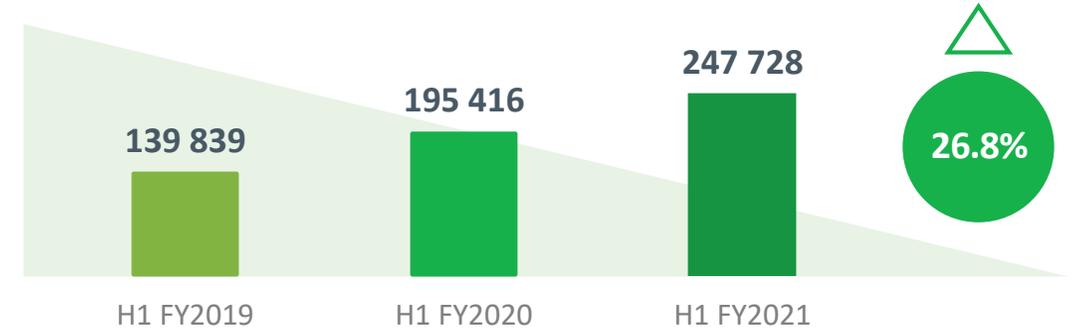
Next generation ethernet technology

Services



Fibre access

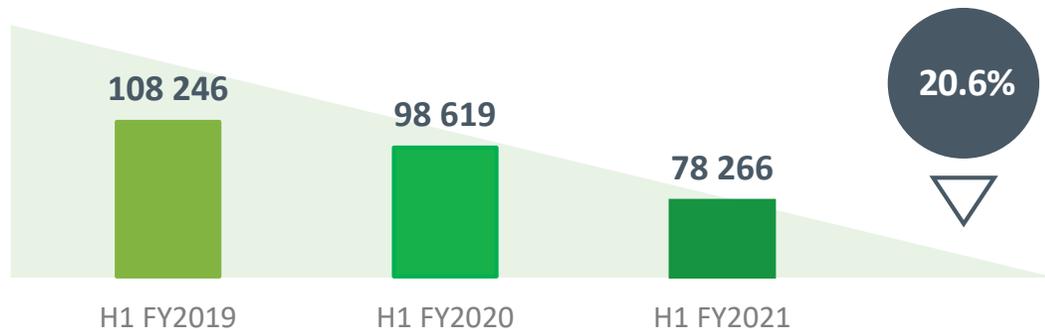
Connections



Data solutions evolution

Legacy technology

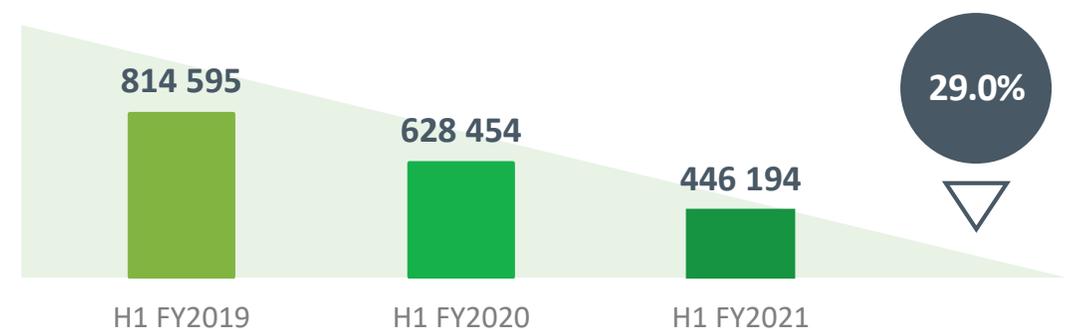
Services



Broadband connection evolution

Copper access¹

Connections



¹Inclusive of DSLAM and MSAN access technologies

Covid-19 impact

Demand for M&T space continued
M&T build plan impacted by the lockdown regulations
Property disposal process delayed

Gyro



Masts & Towers portfolio

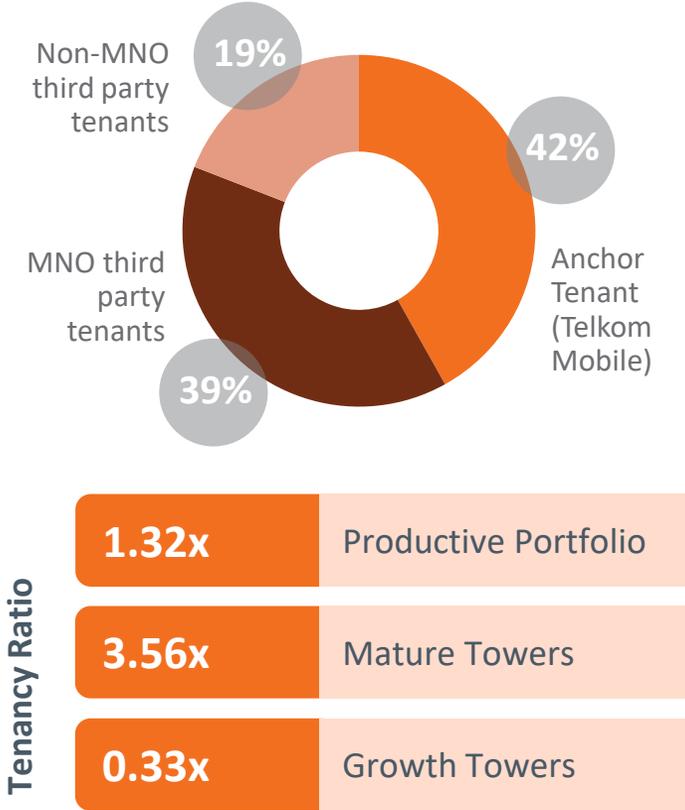
1 Towers



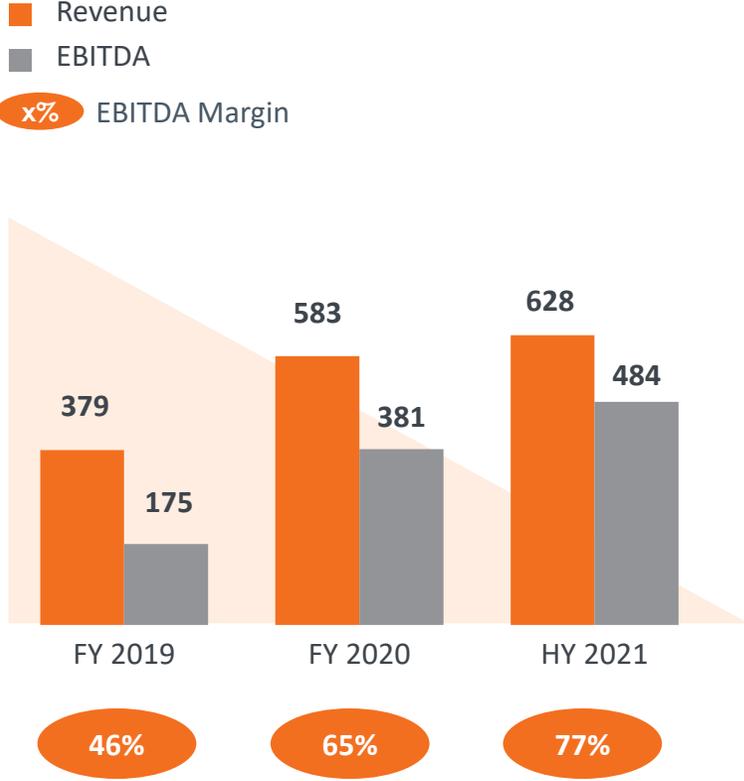
Tower Build Programme



2 Tenants



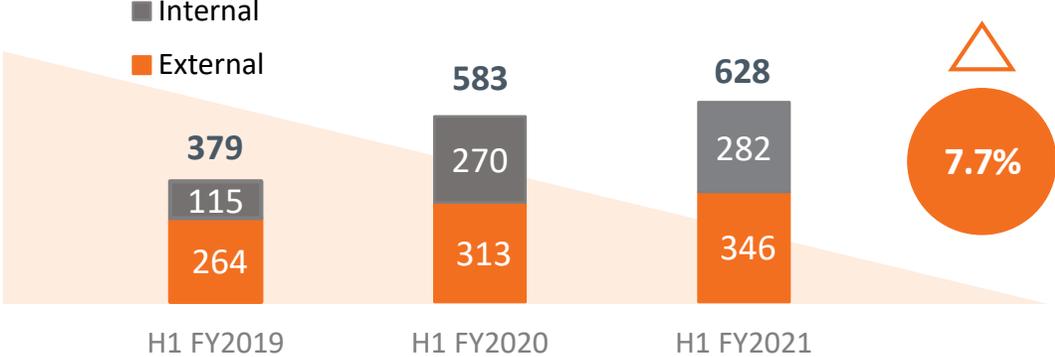
3 Financial performance (R'm)



Strong tenancy growth

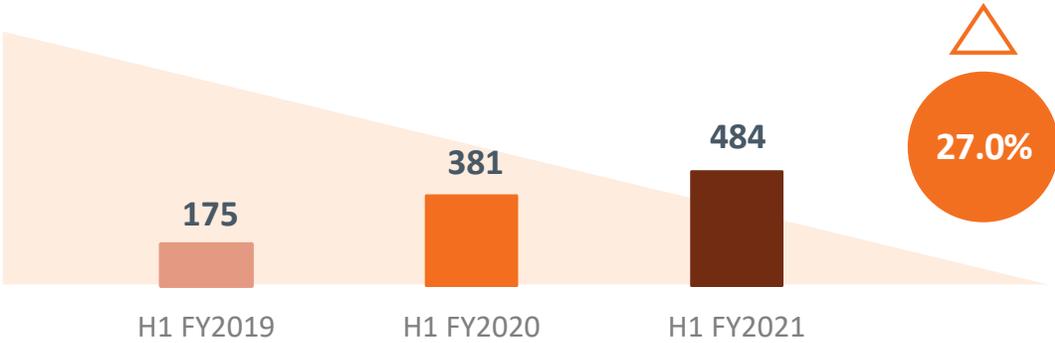
Revenue

R'm



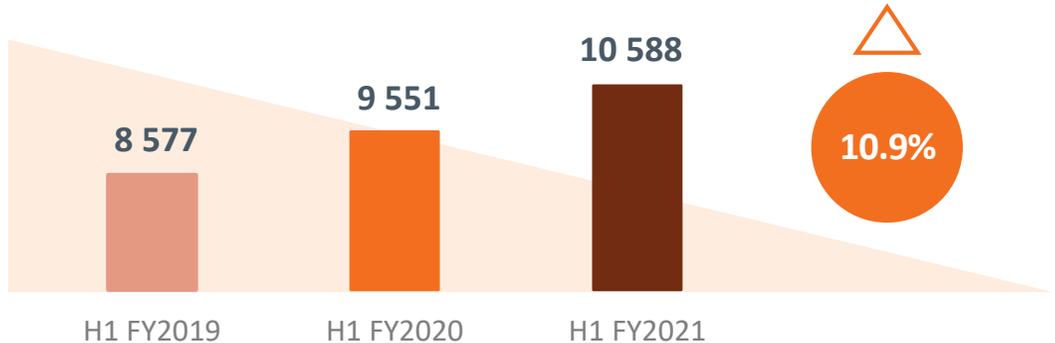
EBITDA

R'm



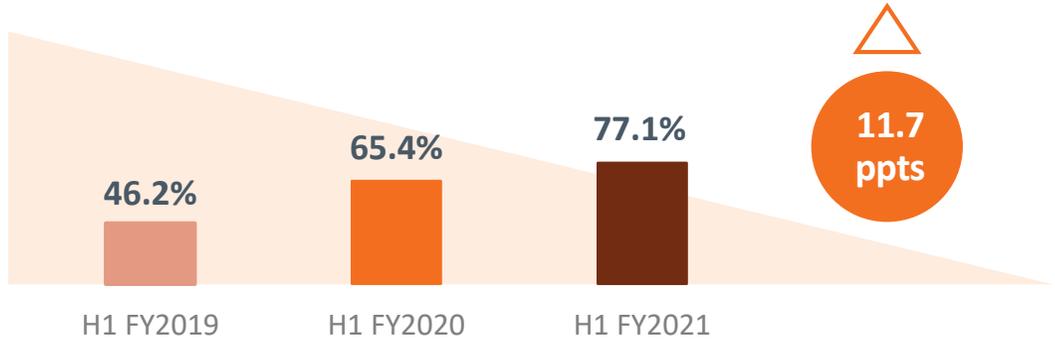
Total tenant growth

Number of leases



EBITDA margin

(%)

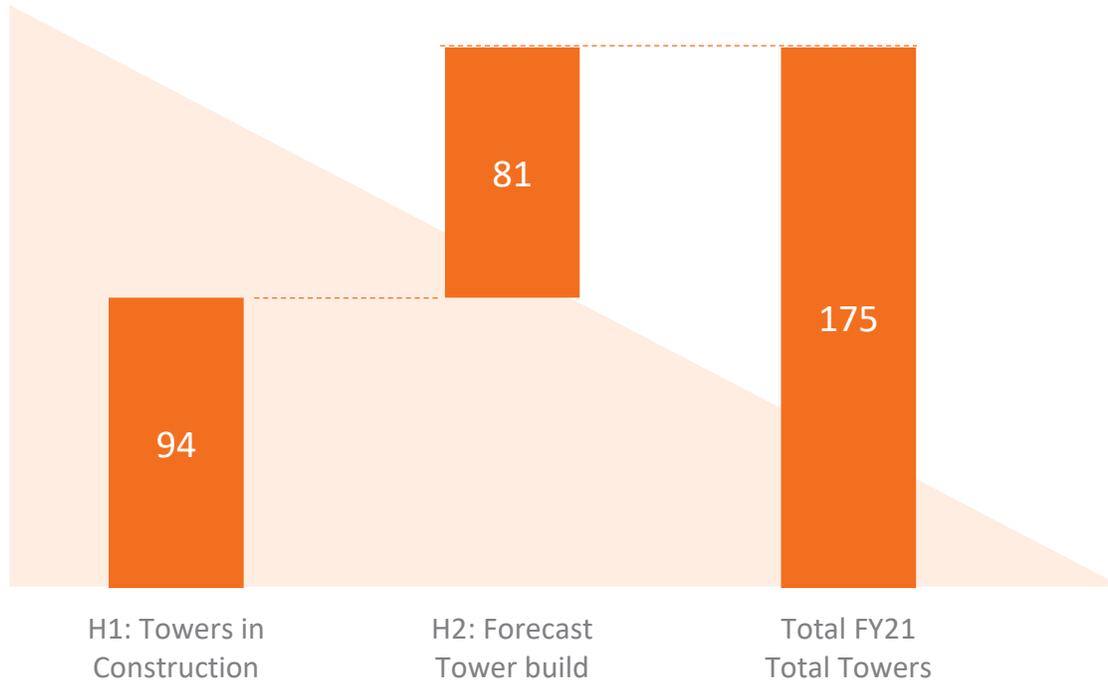


H1 FY2020 numbers have been restated to exclude exchange revenue and the re-classification of utilities recoveries

Increasing tenancy

New Tower Build Programme gaining significant momentum

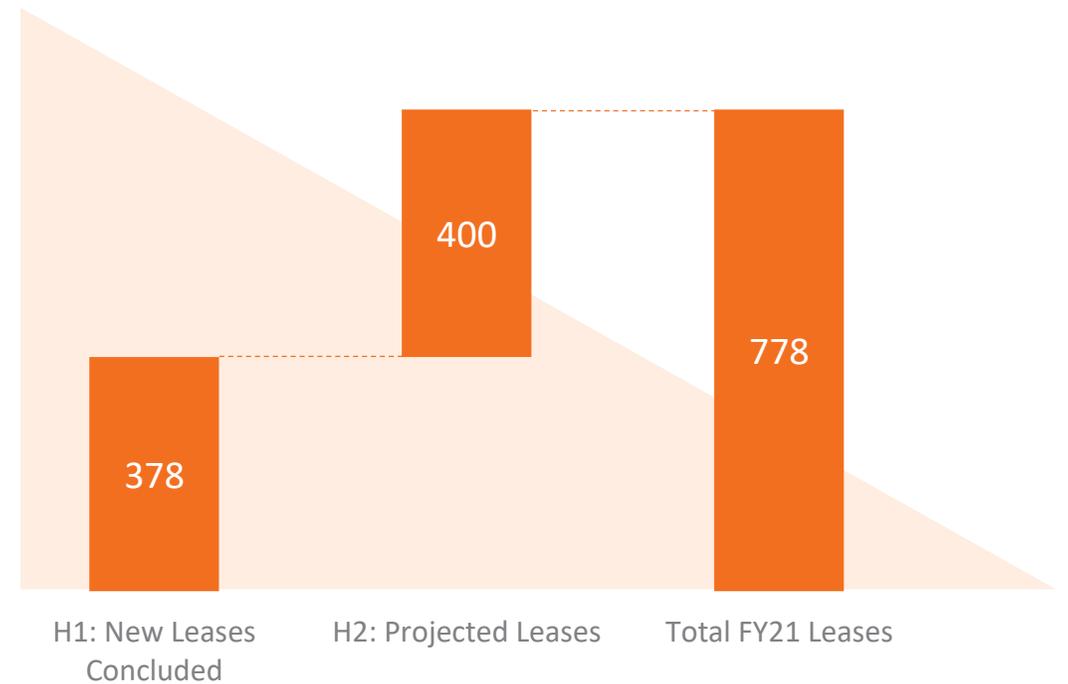
of new towers
(FY2021)



Slow start due to COVID-19 Lockdown regulations in Q1 FY2021, however accelerated pace in Q2 FY2021

Commercialise and increase tenancy on existing towers

of new tenancy leases
(FY2021)



COVID-19 impacted site prioritisation from the MNO's, with more effort spent on capacity rather than new sites

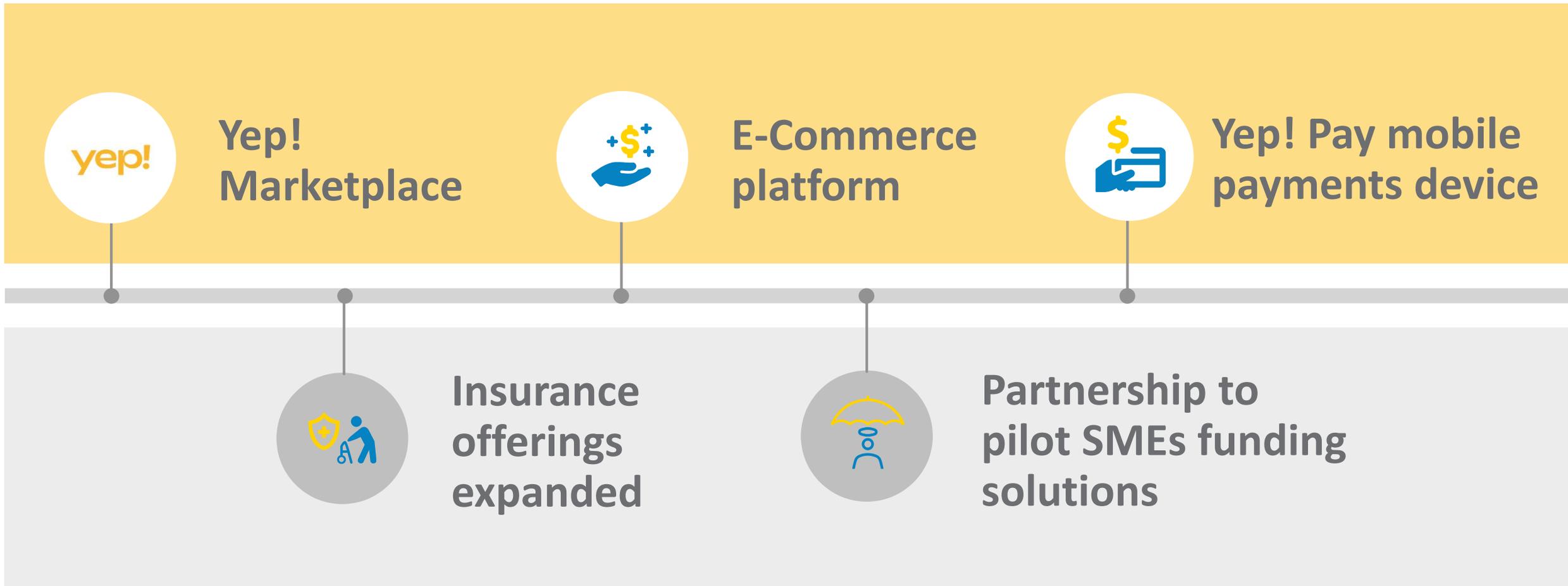
Covid-19 impact

Small and Medium Entities (SMEs) hit hard by Covid-19, unable to trade for 2-3 months
Some SME customers ceased operation

yep!



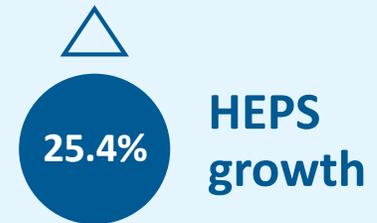
Digital platform ecosystem for SMEs



Financial overview

3

Salient features of financial performance



Strong performance despite COVID-19 headwinds

R'm	Operating revenue	EBITDA	Headline earnings per share (cents)	Capital investments	Free cash flow**
H1 FY2021	21 396	5 908	219.0	2 942	1 343
H1 FY2020*	21 479	5 560	174.6	4 238	(1 267)
Variance (%)	(0.4)	6.3	25.4	(30.6)	206.0

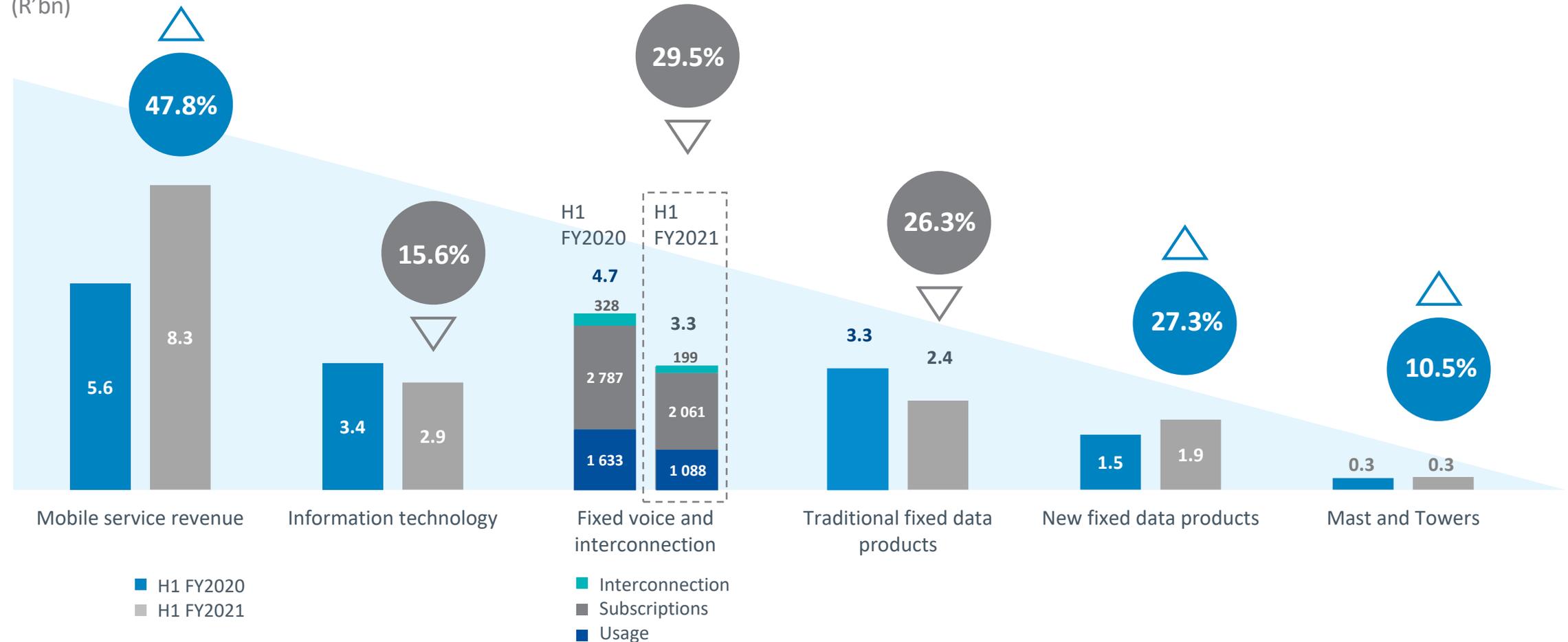
* The prior period numbers have been restated to account for cost of third party services in BCX amounting to R44 million.

** Free cash flow excludes R1 132 million paid for VSP, VERP and section 189 costs during H1 FY2021 and R162 million in the comparative period.

Resilient topline, underpinned by strong mobile growth

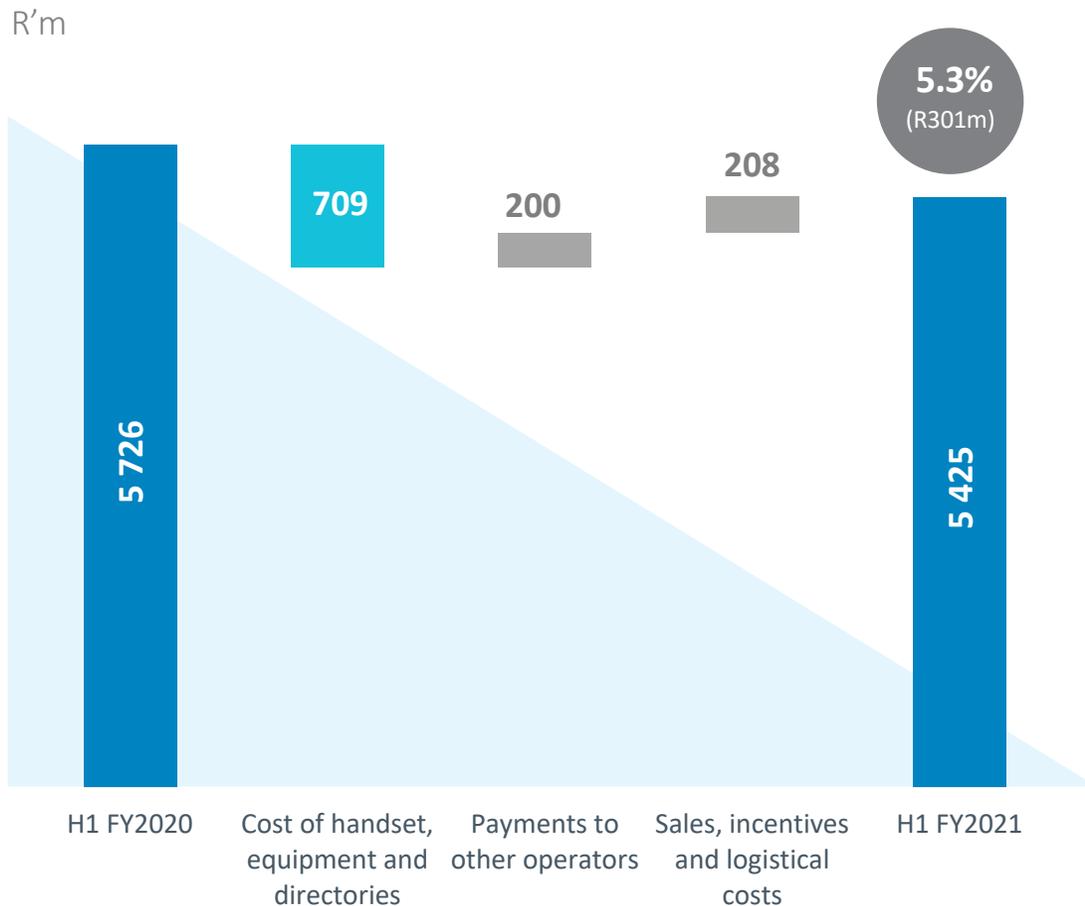
Revenue by stream

(R'bn)

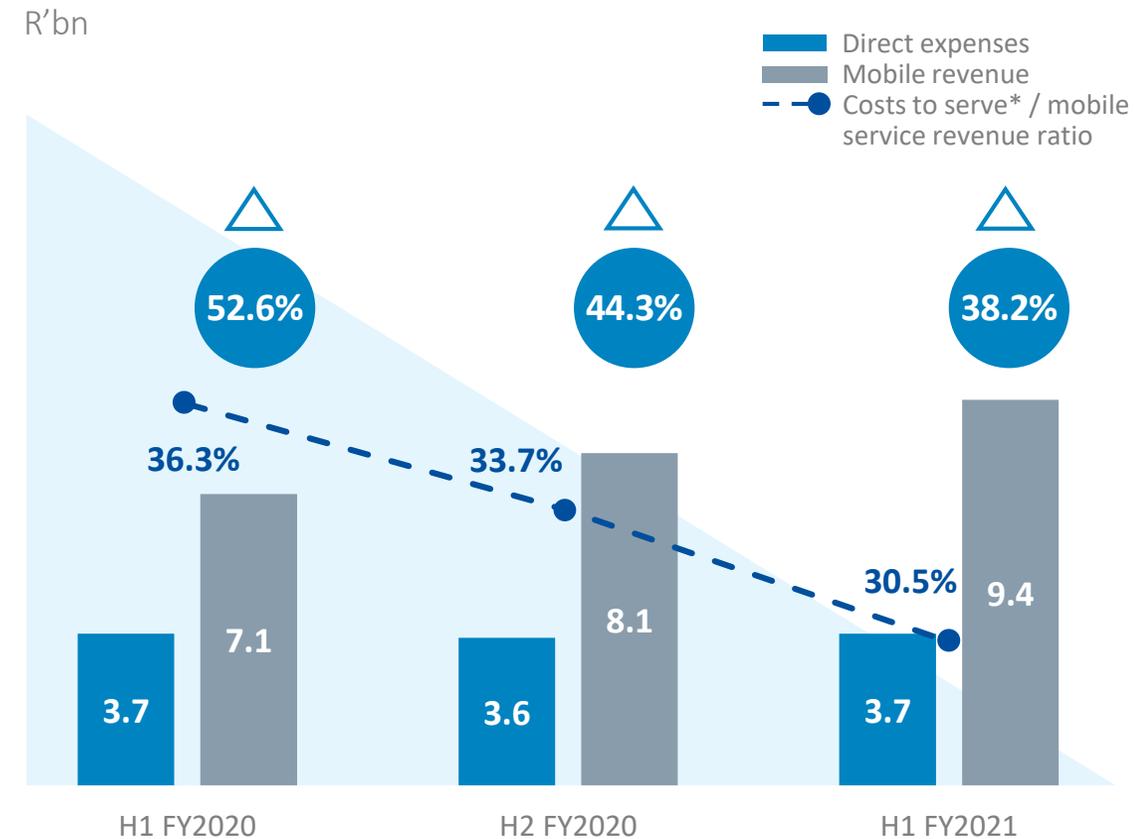


Optimisation of mobile direct costs

Direct expenses decline despite mobile growth



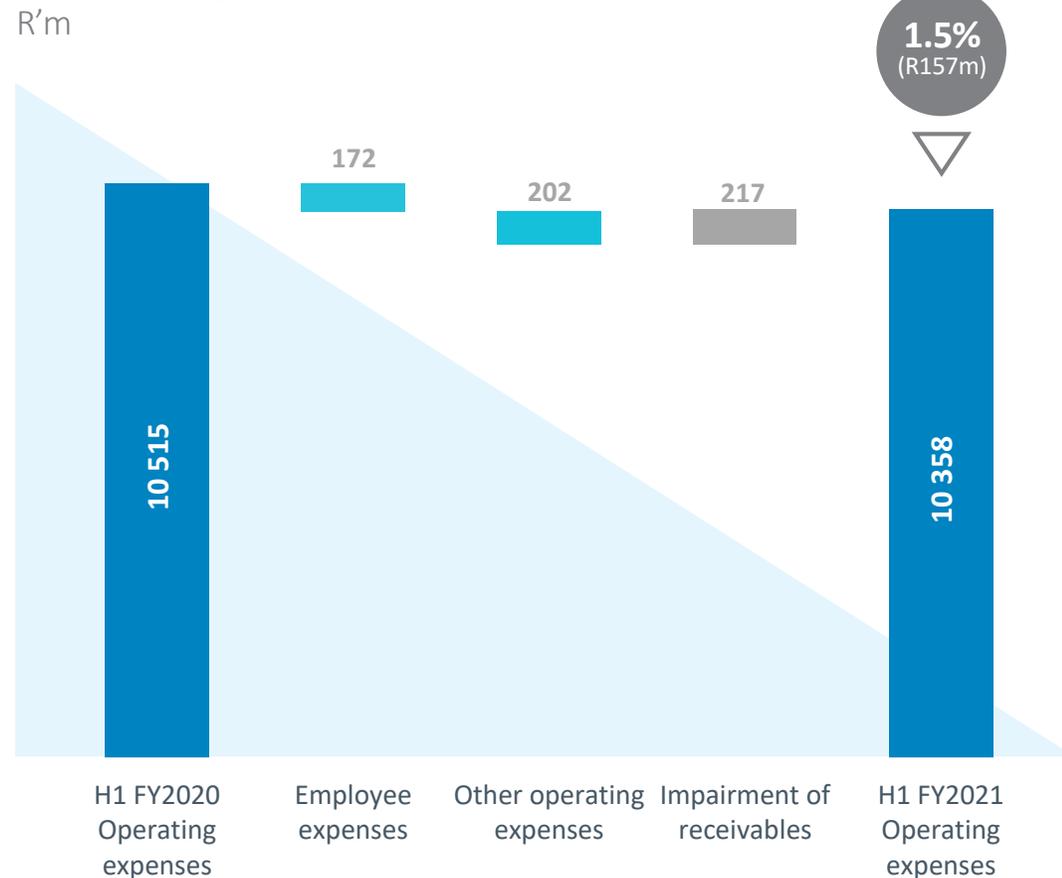
Improved mobile direct expenses to revenue ratio



* Payments to other Operators (PtoO) and sales commission and incentives

Continued focus on operating cost containment

Operating expenses decline



Employee expenses

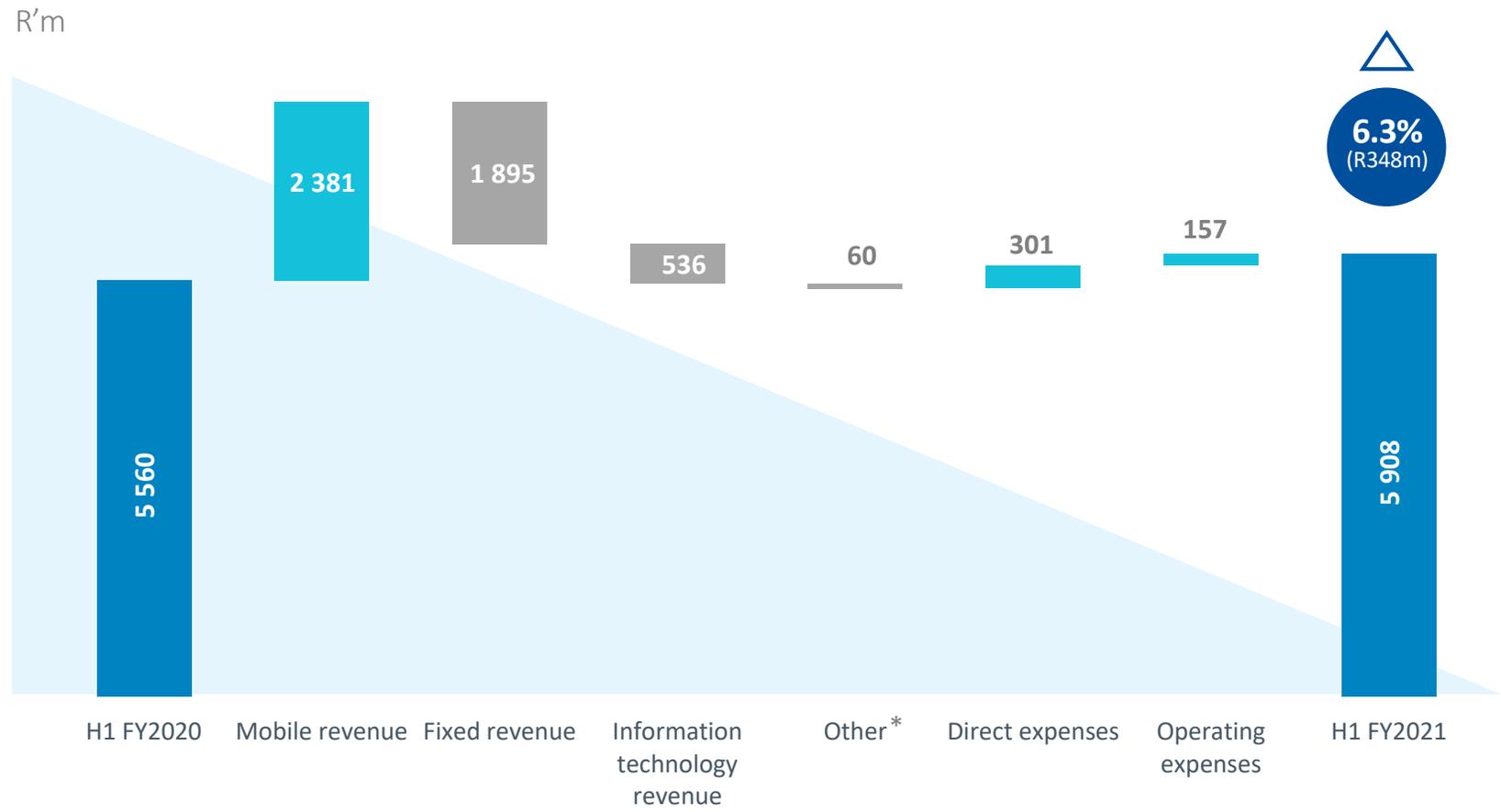
- Restructuring benefits - R443m
- Other employee savings – R93m
- 0% salary increases
- Offset by employee benefit provisions – (R364m)

Other operating expenses

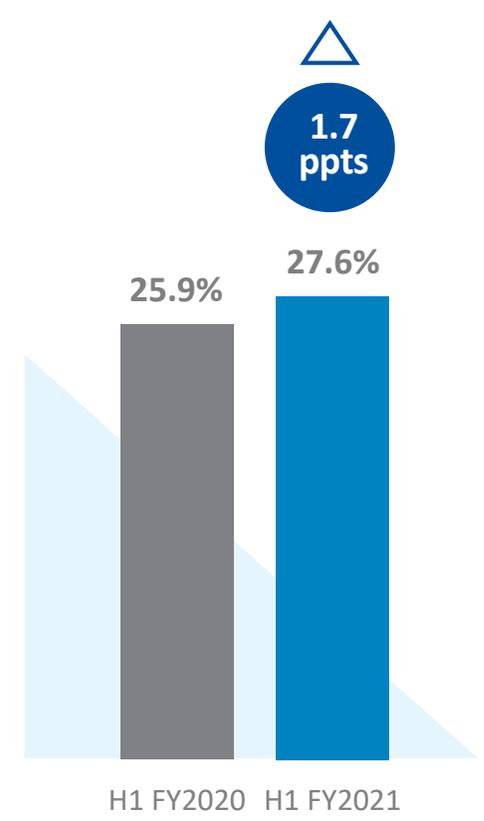
- Property operating cost reduction ~ R60m
- Maintenance savings ~ R40m
- Lower marketing spend ~ R30m
- Savings on other opex ~ R130m
- Offset by COVID-19 related costs – R58m

Impressive EBITDA growth and margin expansion

EBITDA movement



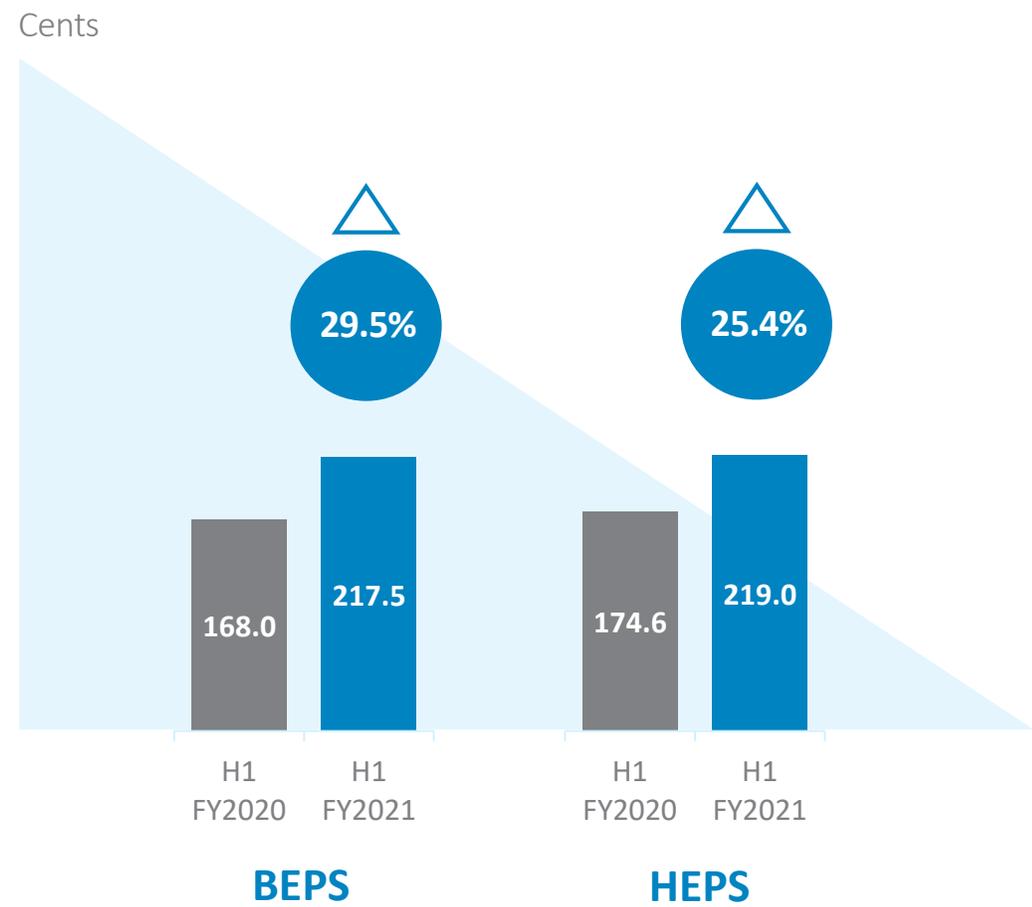
EBITDA margin



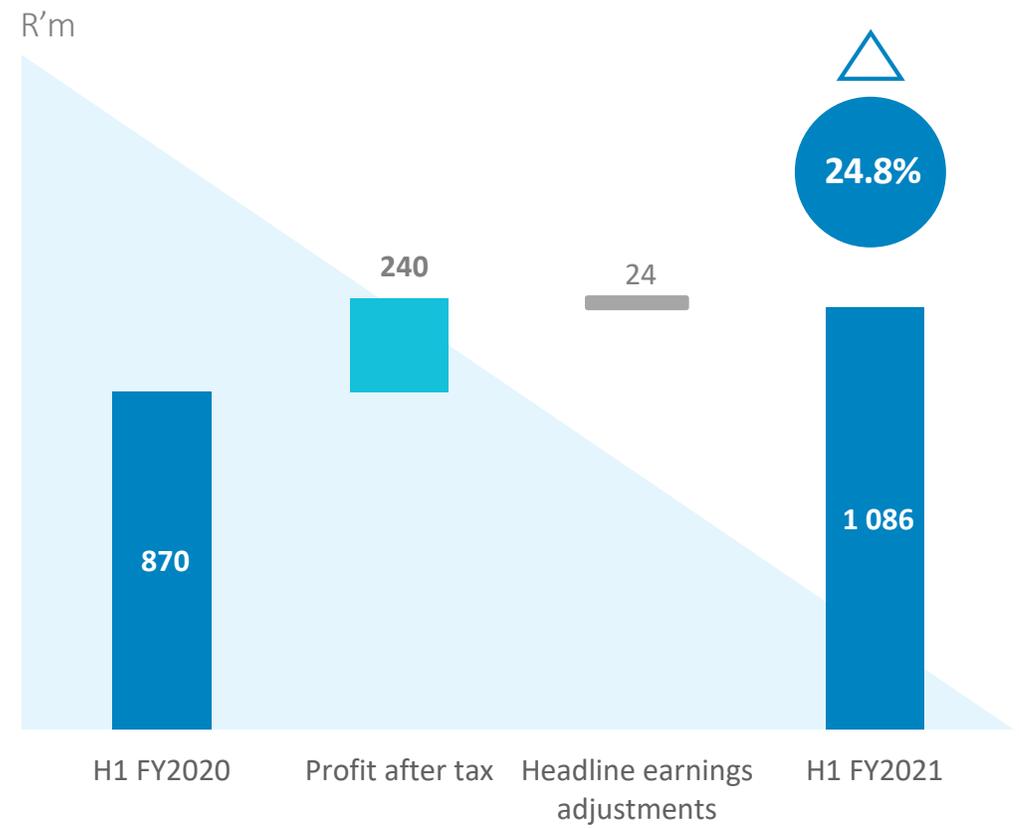
* Includes other revenue, other income and insurance income from cell captive

Double digit earnings growth

BEPS and HEPS improvement

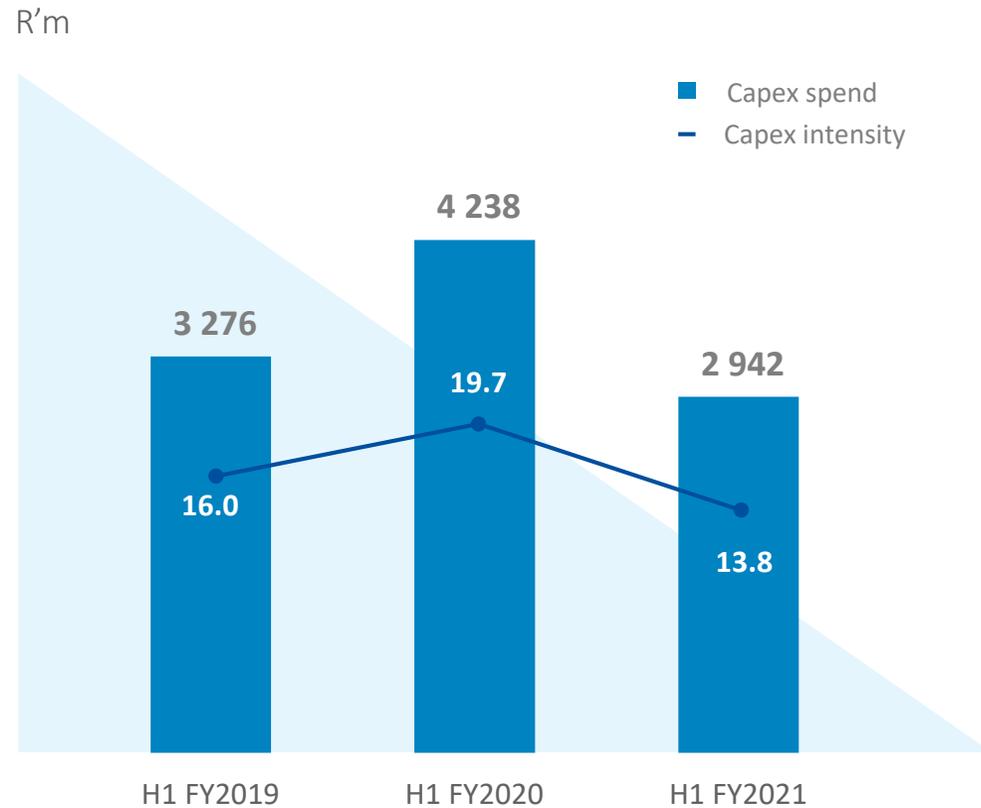


Solid underlying performance

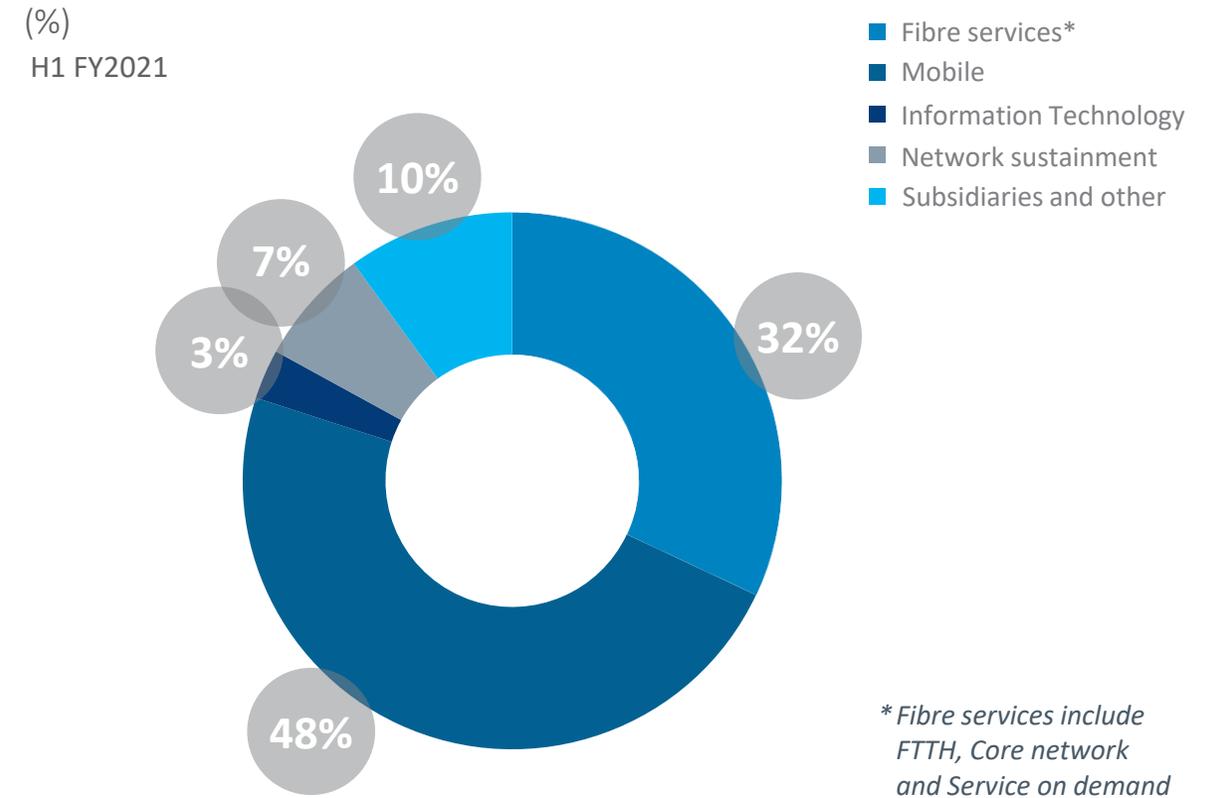


Capital expenditure impacted by the national lockdown

Lockdown impact on capex intensity



Capex investments focused on key growth areas



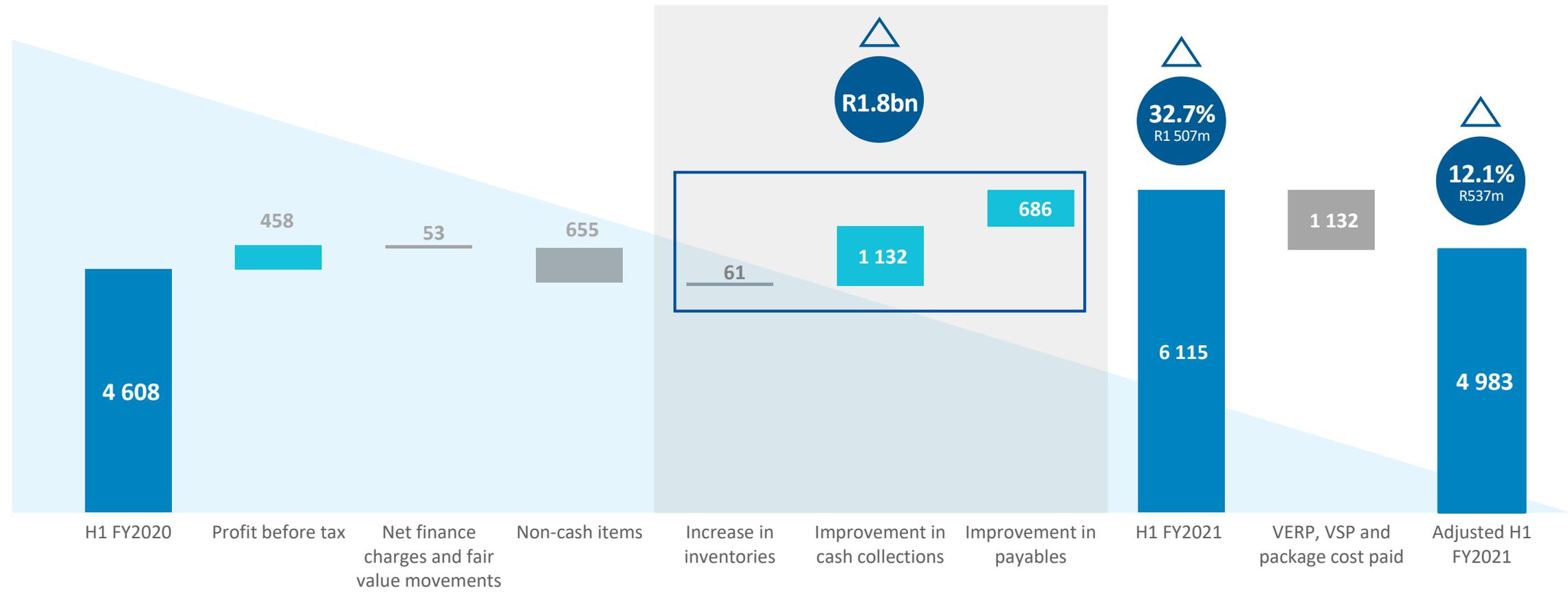
Strong cash flow generation

Free cash flow (FCF) movement R'm	H1 FY2021	H1 FY2020	%
Cash generated from operations excluding VERP, VSP and section 189 package cost payments	6 115	4 608	32.7
Less: VERP, VSP and section 189 package costs paid	(1 132)	(162)	(598.8)
Cash generated from operations	4 983	4 446	12.1
Repayment of lease liability	(431)	(389)	(10.8)
Interest received	171	116	47.4
Finance charges paid	(681)	(646)	(5.4)
Taxation paid	(898)	(753)	(19.3)
Operating free cash flow before capital expenditure	3 144	2 774	13.3
Cash paid for capital expenditure	(2 933)	(4 203)	30.2
Free cash flow	211	(1 429)	114.8
Add back: VERP, VSP and section 189 costs paid	1 132	162	598.8
Adjusted free cash flow	1 343	(1 267)	206.0

Sustained working capital management

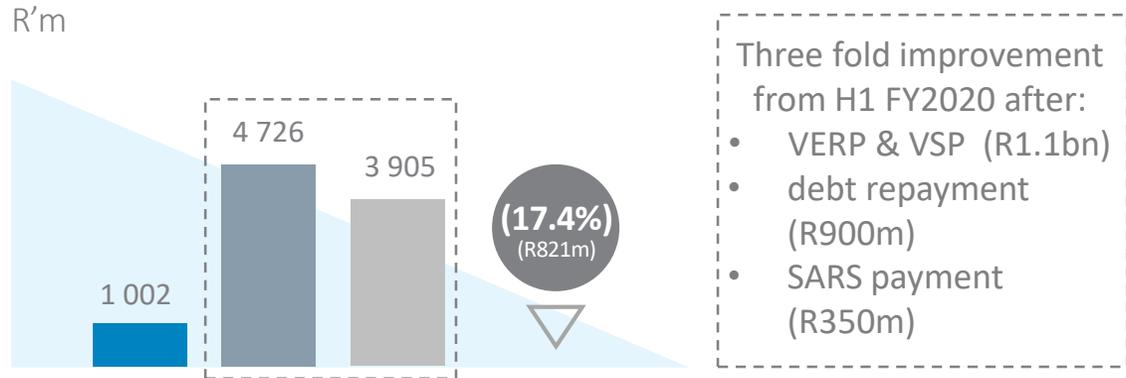
Cash generated from operations movement

R'm

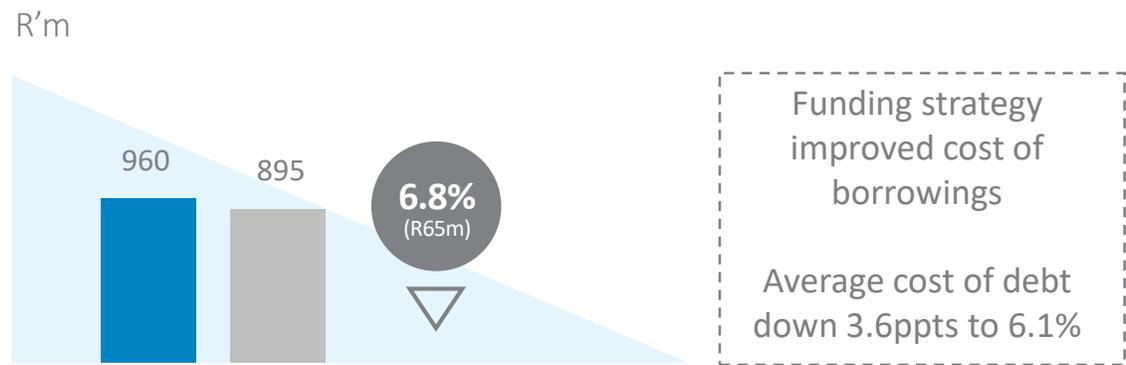


De-risked balance sheet—strong liquidity and debt cut

Cash balances

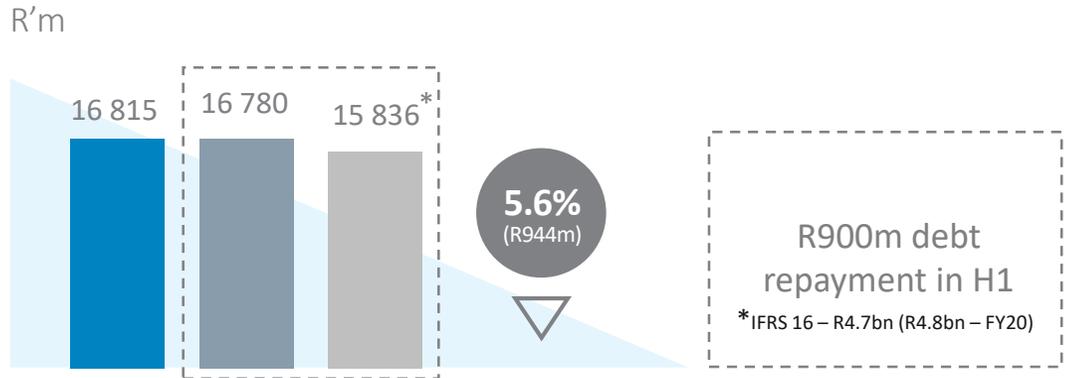


Net finance charges and fair value movements

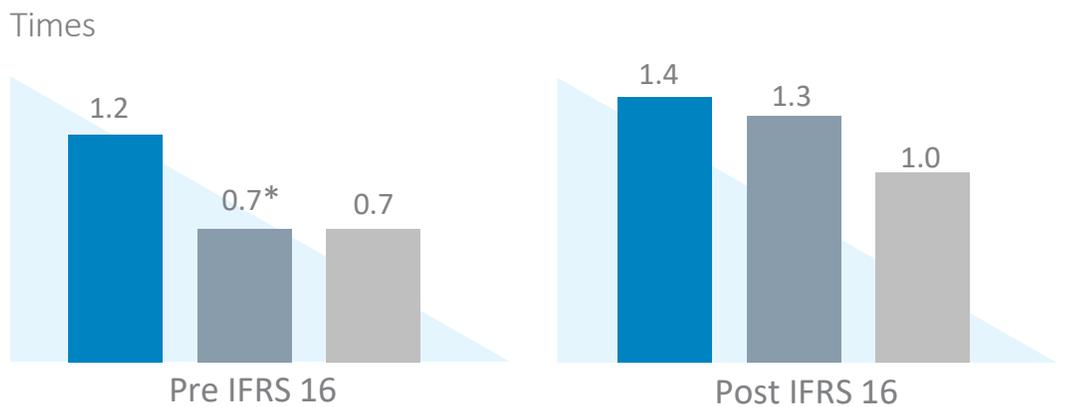


- H1 FY2020
- FY2020
- H1 FY2021

Borrowings (incl IFRS 16)



Net debt to EBITDA



*Excludes VSP/VERP package costs of R1 186 million and the additional provision relating to the impairment of accounts receivable and contract assets as a result of COVID-19 of R626 million.

Outlook

7.2

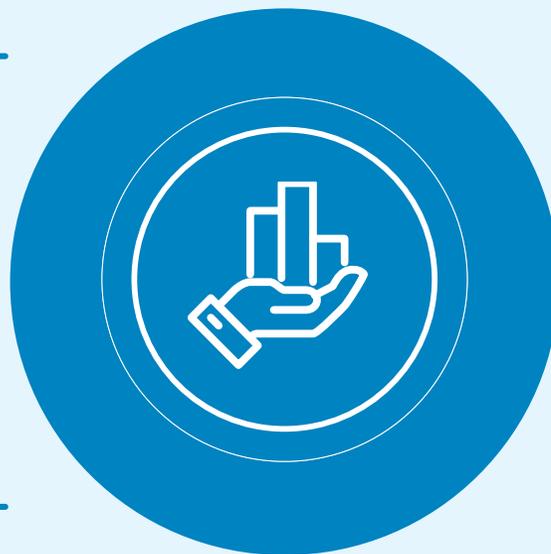
Ongoing focus on building financial resilience



Sustainable cost management



Financial risk management



Cash Preservation



Disciplined capital allocation



Sustainable cost management



**Achieved
H1 FY2021**



H2 Focus



**Target
FY 2021**

Cost management

- Reduction in fixed costs
- Reduce cost to serve/acquire
- Fixed term contracts review
- Third party contracts review
- Optimise network utilisation
- Aggressive rollout of DPS sites
- Various opex initiatives

• Phase 1 restructuring	R0.5bn
• 0% Salary increases	
• Cost to serve reduction	R0.2bn
• Opex initiatives	R0.14bn

Opex growth	1.5% reduction
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Phase 1 benefit	
3 rd party contracts review	R0.7bn – R1bn
Other cost initiatives	

Restructuring (phase 2)*:	Savings in FY2022
- Head Office	
- BU Support functions	
- BCX	

Opex growth	Below inflation
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Savings	R1bn – R2bn
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Opex growth	Below inflation
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* Phase 2 restructuring program for BCX announced on 15 October 2020.

Cash preservation



Achieved
H1 FY2021



H2 Focus



Target
FY 2021

▶ Cash preservation ▶

- Supply chain financing
- Handsets receivables financing
- Disposal of non-core assets
- Working capital improvement
- Improve cash balances

- | | |
|-------------------------------|-------|
| • Supply chain financing | R150m |
| • Working capital improvement | R250m |

Cash Balance	R3.9bn
--------------	--------

- | | |
|--------------------------|-------|
| • Handset receivables | R600m |
| • Supply chain financing | R150m |

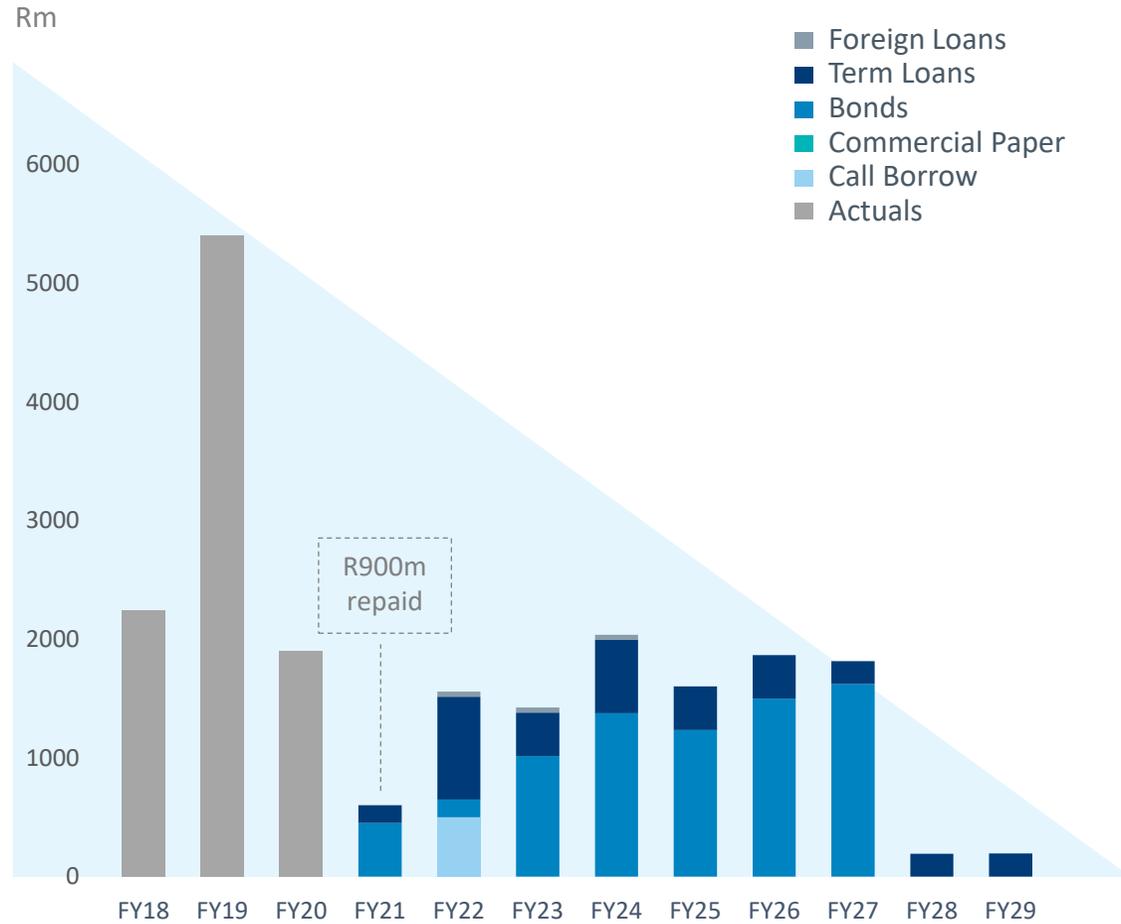
Cash Balance	R3.0bn
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Positive free cashflow	R0.7bn - R1bn target in cash release
------------------------	---

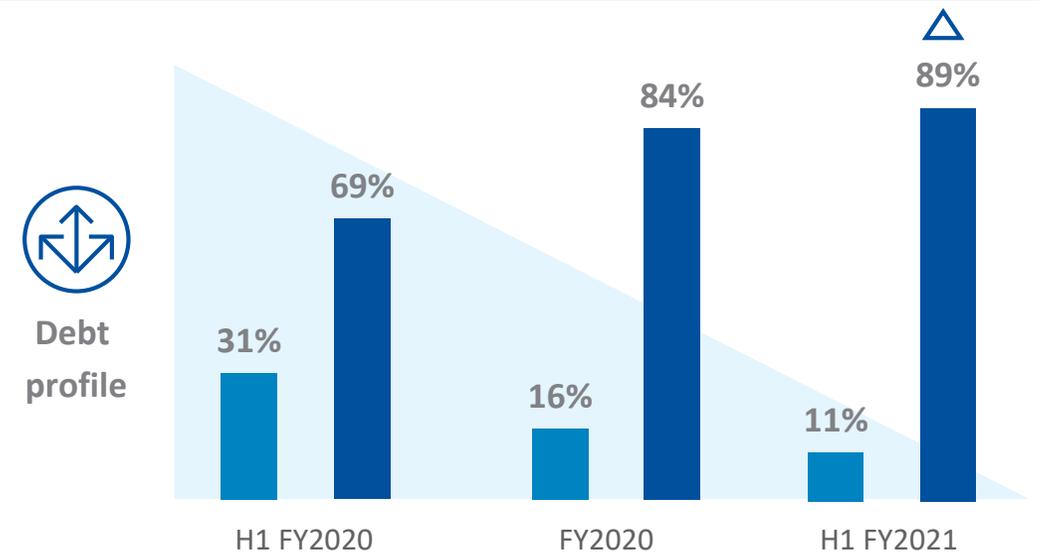
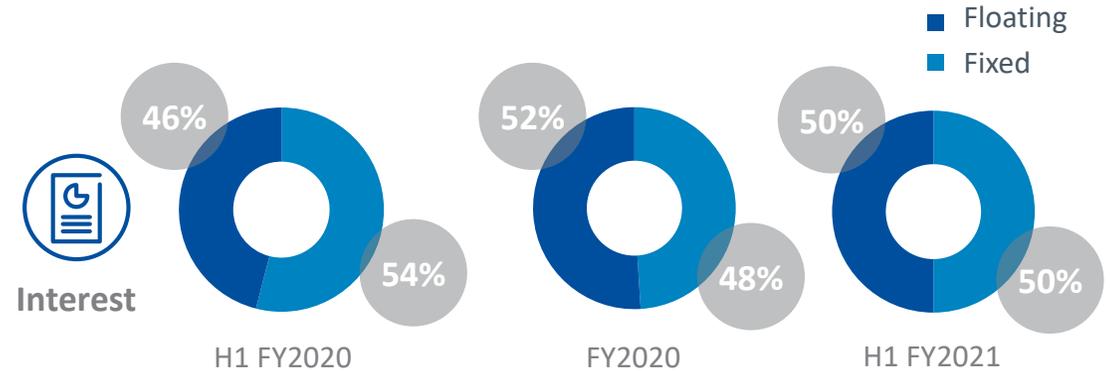
Cash Balance	R3.0bn
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Positive Free cash flow excludes phase two VSP costs and spectrum acquisition costs.

Renewed funding strategy and reduced re-financing risk

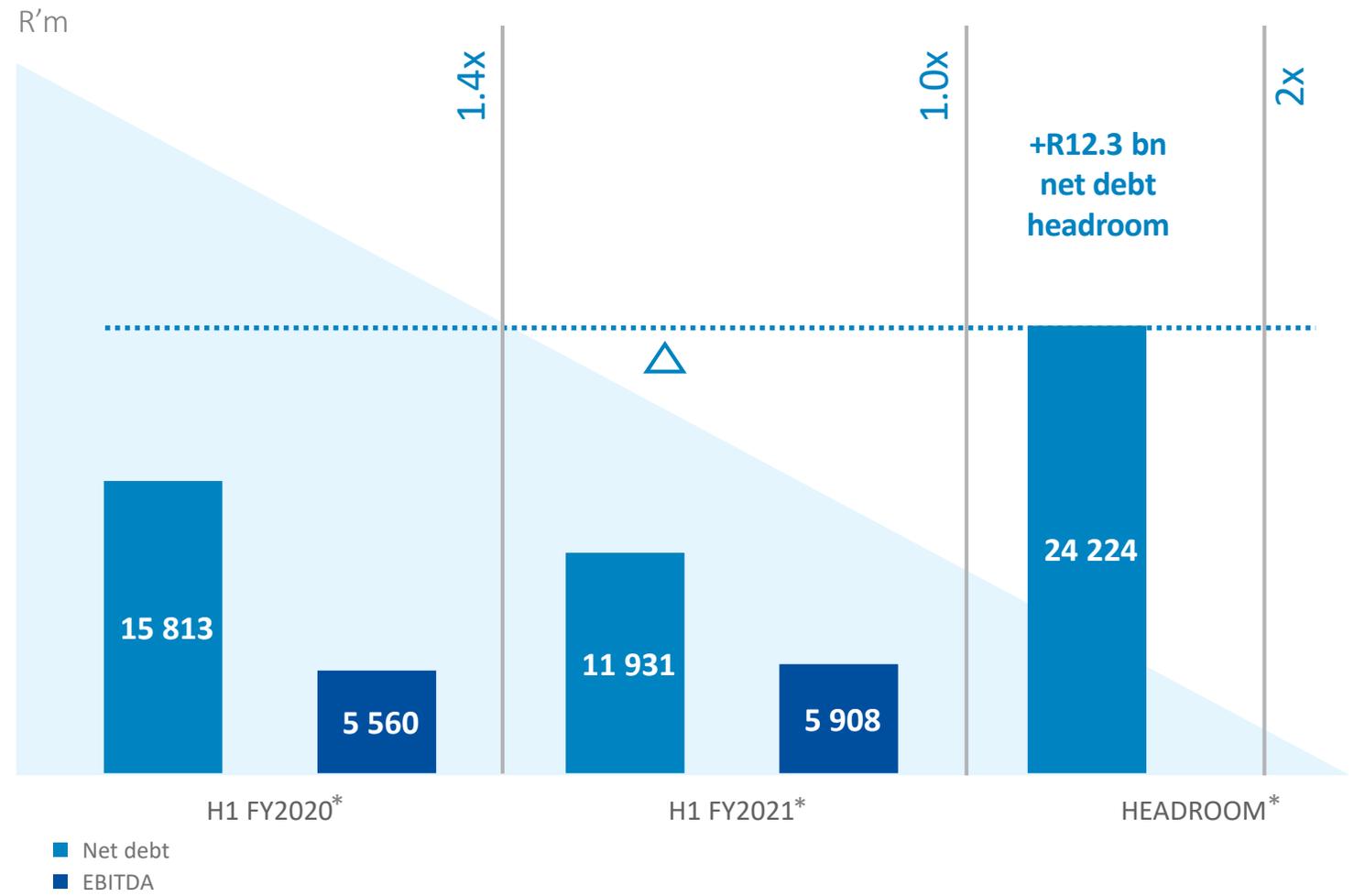


Total gross debt R12.1 billion (FY2019 R10.2 billion)



Long-term debt
Short-term debt

Adequate headroom to support growth



Sufficient headroom for execution of:

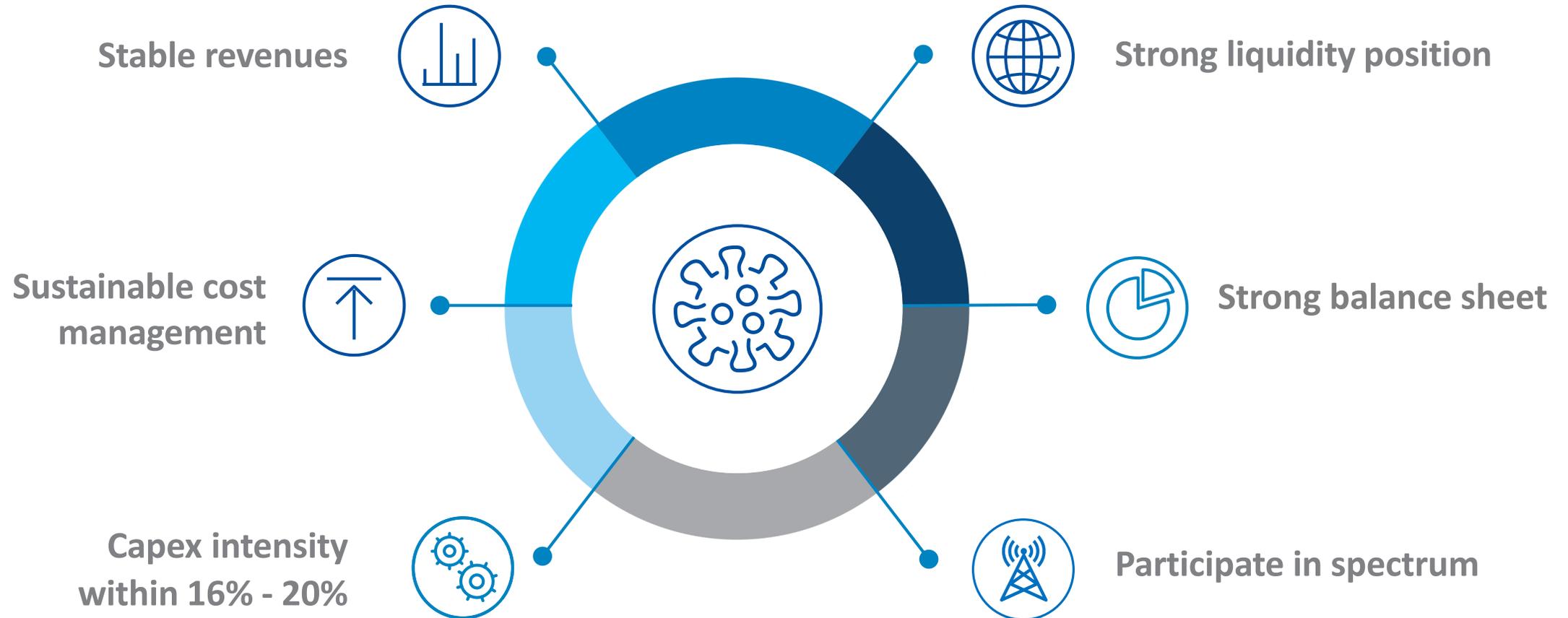
- Spectrum acquisition
- Capex
- Weathering COVID-19 storm

Credit ratings:

- S&P** BB, stable outlook
- Moody's** Ba1, negative outlook

* Based on IFRS 16

Outlook in uncertain economic environment



Spectrum/WOAN licensing

4

Participation not tacit agreement



Not informed by economics and competition

- Disregards the current market structure and competition dynamics
- ITA entrenches the duopoly
- 5 national wholesale operators (including WOAN) unsustainable



Proposed overall spectrum cap flawed

- Spectrum equilibrium will not address market structure
- Spectrum caps emphasise ownership rather than access
- Cap restriction will constrain only credible competitor to duopoly



Auction design flawed

- 700/800 MHz not available nationally
- Sub-optimal 3.5 GHz (5G) outcome; policy pending
- The ambiguous definitions create uncertainty on the meaning of the ITA



Less spectrum to the WOAN

- ITA reserves 80 MHz for WOAN, which is far less than the cap for others (184 MHz)
- No discernible WOAN construct
- Role of the WOAN in the market is ambiguous

Mitigation of risk

Action taken



- Argued that Mobile Broadband Services Inquiry (MBSI) must take into account spectrum arrangements
-



- Outcome of the MBSI must inform the licensing of spectrum
-



- Application to review and set aside the ITAs for its disregard of implication of new spectrum on competition
-



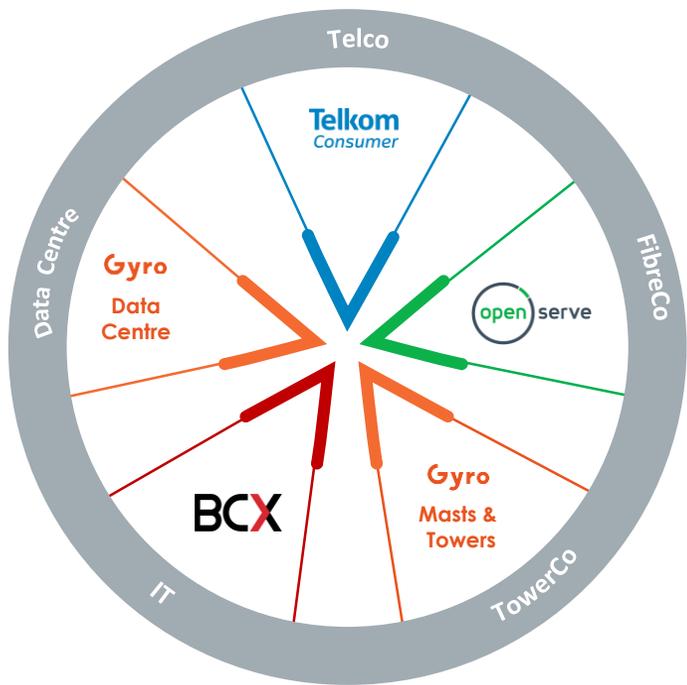
- Approached Competition Tribunal to investigate spectrum arrangements

Value unlock (Infrastructure)

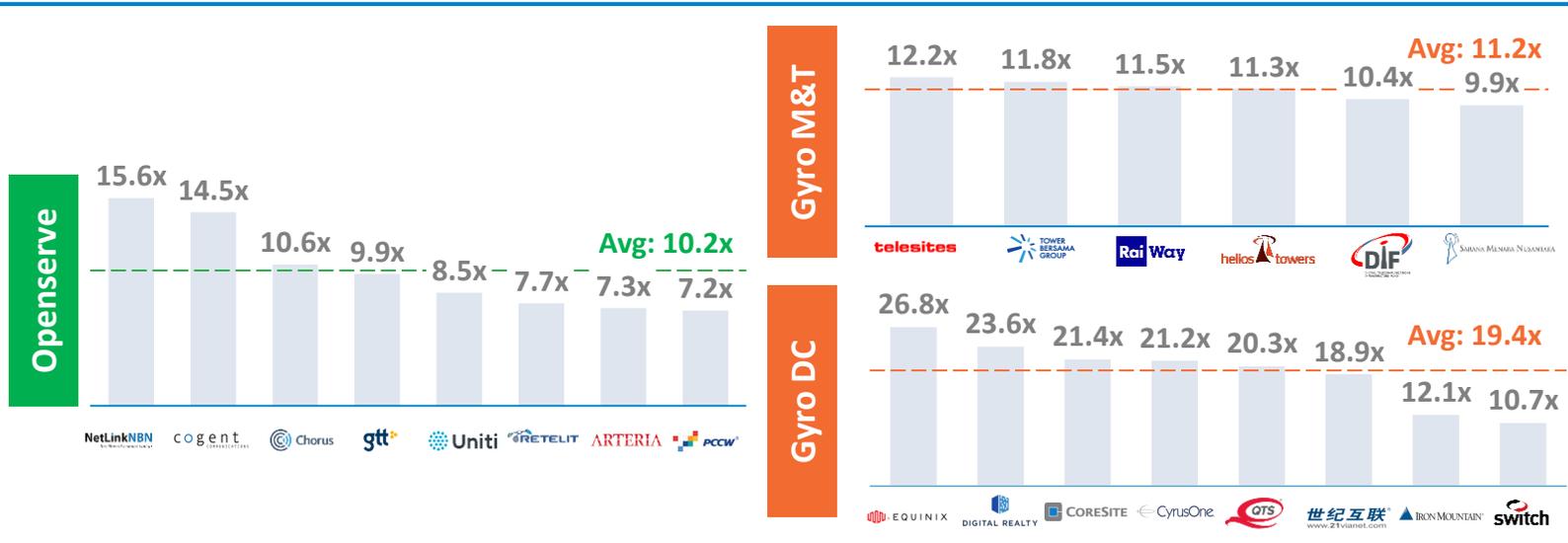
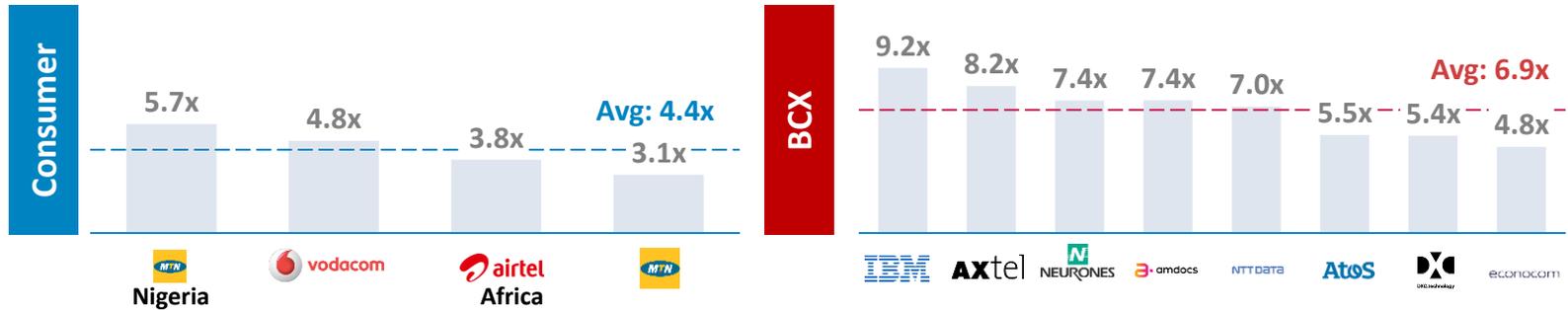
5

Telkom remains undervalued

Telkom's trading at 2-2.5x



EV/EBITDA_{NTM} multiples of comparable companies¹



Notes: ¹As of November 6th 2020

Source: Delta Partners analysis and calculation provided on a non-reliance basis and based on publicly available information extracted from third party sources

Preparation for an external investor on track

Gyro Towers valuation

3,650 commercially viable towers	<ul style="list-style-type: none"> • Current tenancy ratio of 1.4x • Existing tenancies' leases assumed to escalate at their contract terms
New tenants on the 3,650 viable towers	<ul style="list-style-type: none"> • New tenants to be collocated on the commercially viable towers • Tenancy ratio assumed to increase from 1.4x to 2.3x over the next 10 years
ECNS licence	<ul style="list-style-type: none"> • Swiftnet utilises Sec 22 of the ECA to minimise rental payments for ground leases. The licence also allows the provision of network related services
Growth opportunities	<ul style="list-style-type: none"> • Swiftnet is expected to deploy new towers and develop businesses (B2S, small cells and IBS)

Not factored in valuation

2,483 commercially not viable tower portfolio	<ul style="list-style-type: none"> • A portfolio of towers which does not have tenants, located in a low demand area and with unfit physical characteristics • Intrinsic value of the towers is assumed to be zero and hence the portfolio is not accounted for in either business plan or valuation
Spectrum	<ul style="list-style-type: none"> • Swiftnet owns a limited spectrum capacity (0.6 MHz) in the 450 MHz frequency • Too small of a quantity for commercial application, hence not factored in valuation

Source: Gyro, Delta Partners analysis

Data Centre portfolio – 10 data centres

Telkom Group data centres

10 Data Centres

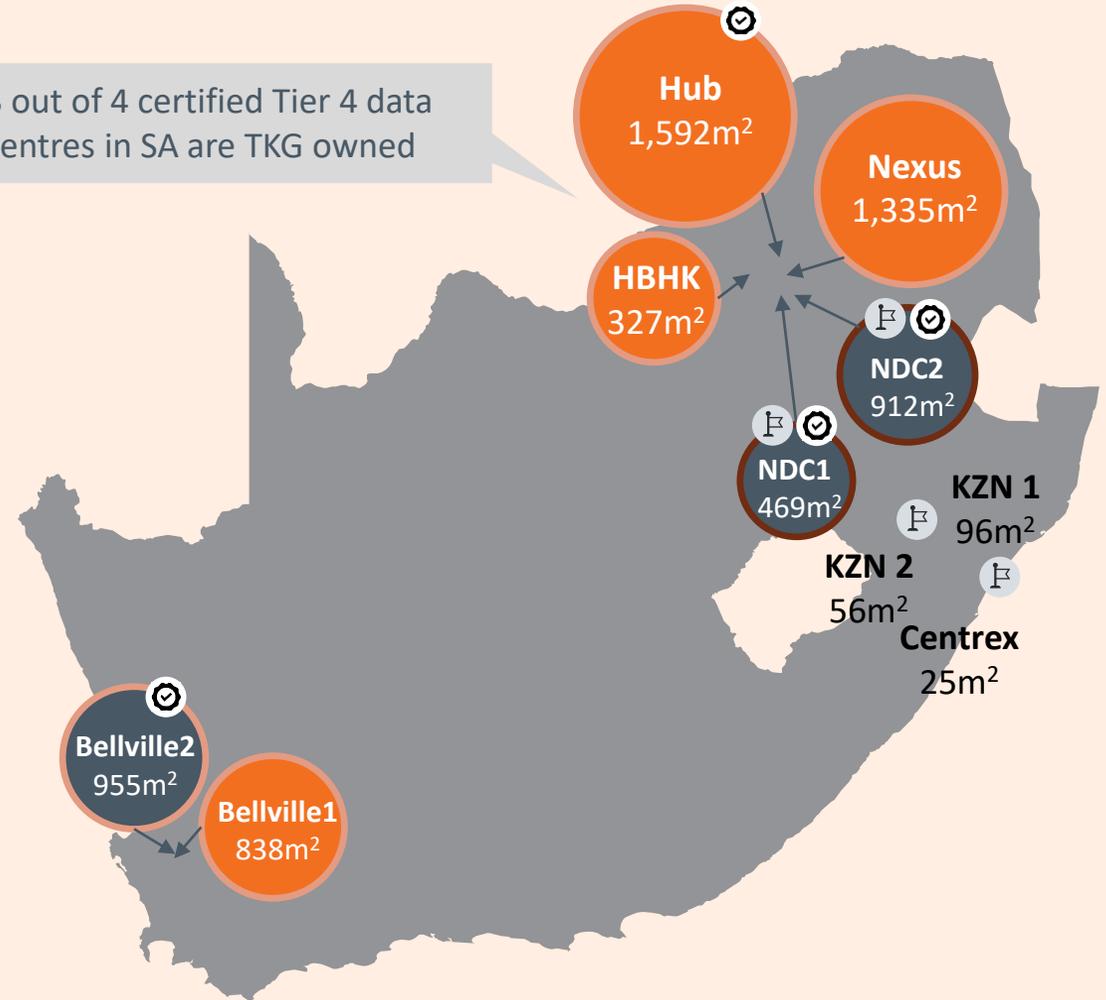
~11MW IT capacity

~6,500m²

- Tier 4
- Tier 3
- Tier 2

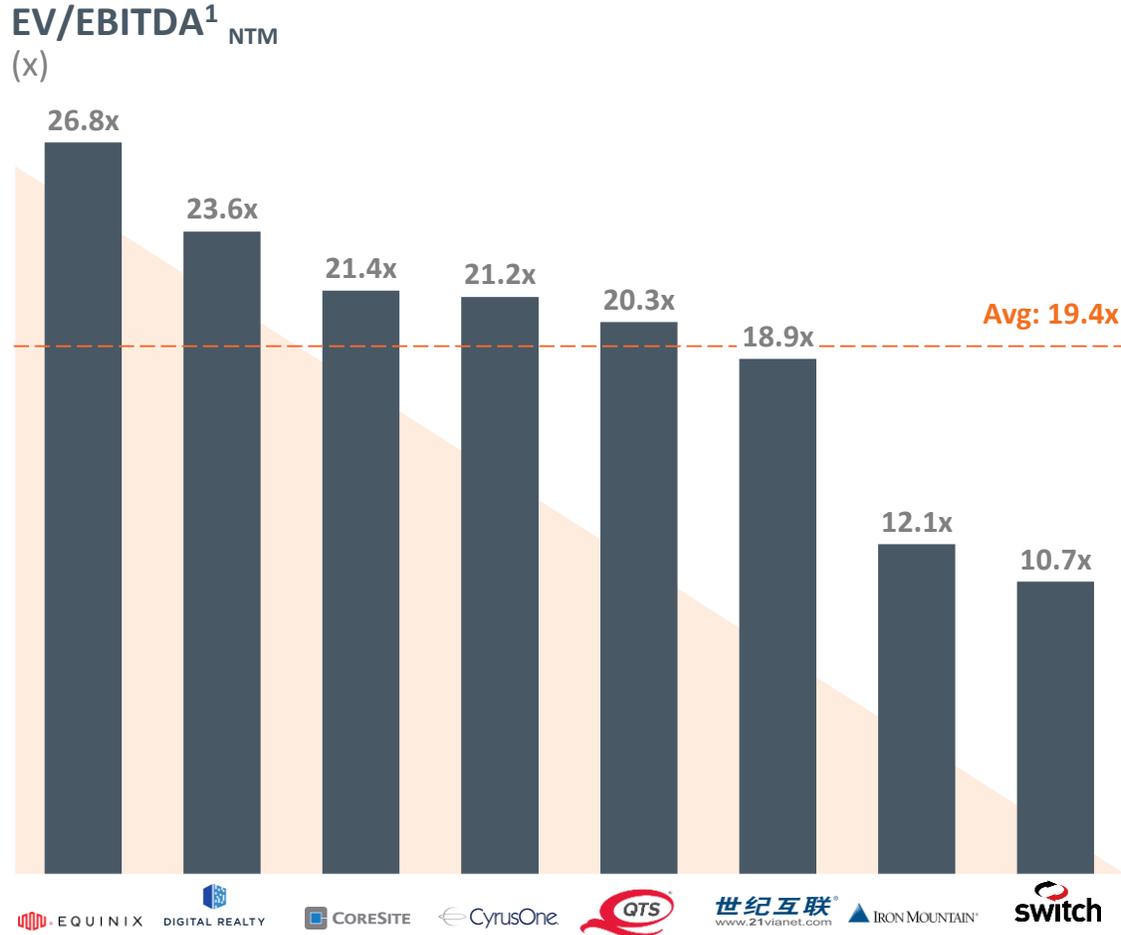
- ⊗ Certified tiering
- ⚡ Carrier¹ neutral
- Equipable floor space

3 out of 4 certified Tier 4 data centres in SA are TKG owned



Notes: ¹Telkom, MTN, Vodacom, Cell C, Infraco Broadband, Liquid Telecom, Dark Fibre Africa. IS soon to be added. Source: Internal data, Delta Partners

Data Centres trading at attractive multiples



Notes: ¹As of November 6th 2020

Source: Delta Partners analysis and calculation provided on a non-reliance basis and based on publicly available information extracted from third party sources

Opportunity

Colocation commercial model



- Allows users to **rent space** (rack space) for a fixed monthly charge
- Users receive a **fixed power supply** at **fixed rates** and increase power consumption at variable rates
- **Inclusive services:** Cooling, Security etc.

Interconnection and Neutrality



- Suppliers and business partners connect directly in the same data centres with one another in a **vendor neutral space**
- A **“network effect”** enables existing customers to capture further benefits

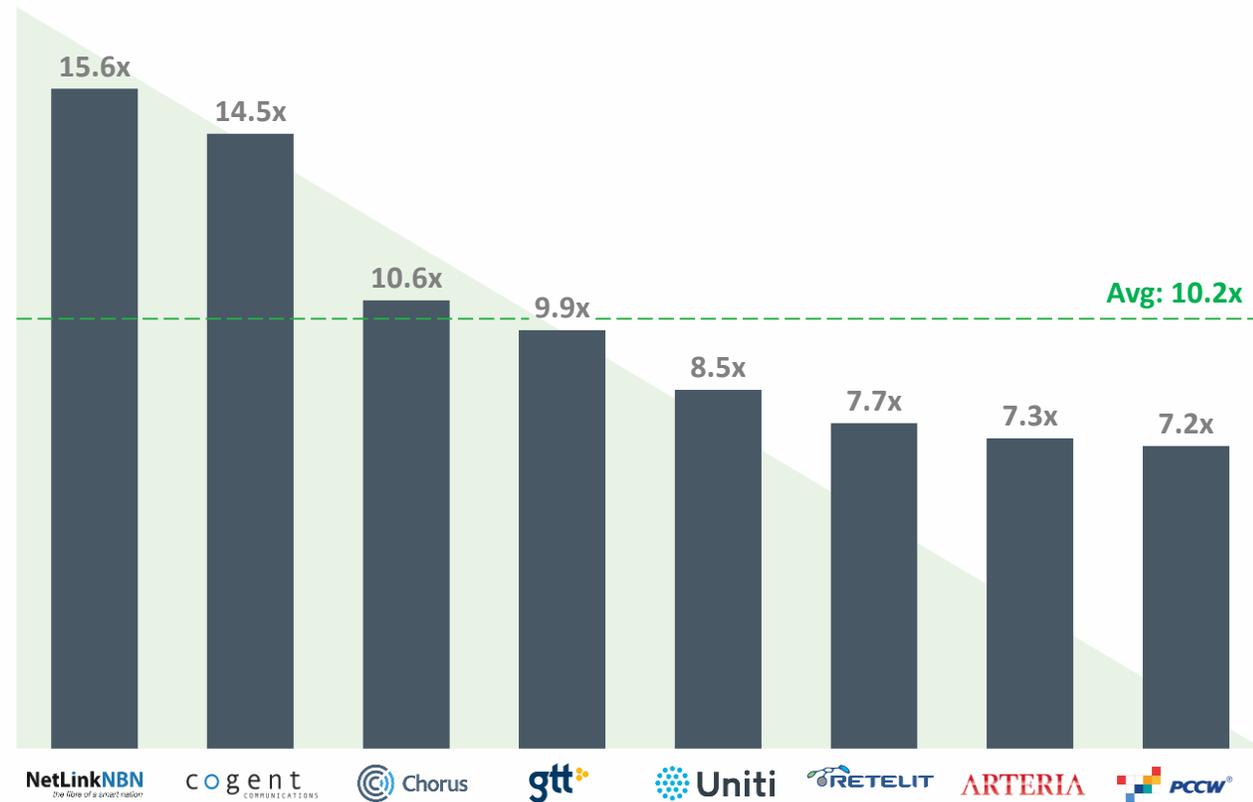
Other drivers



- Other occupancy's drivers:
 - **Internet Exchange Services**
 - **Cloud Exchange Services**
 - **Peering Services**

Fibre and Wholesale business value unlock

EV/EBITDA¹_{NTM}
(x)



Structural separation



Balance sheet split



Asset split



Valuation of Assets

Notes: ¹As of November 6th 2020

Source: Delta Partners analysis and calculation provided on a non-reliance basis and based on publicly available information extracted from third party sources

Telkom SA SOC Ltd

**Thank you
Q&A**