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Telkom's investment strategy bears fruit in challenging operating environment

Key salient features:

- Group operating revenue up 5.2% to R20.8 billion
- EBITDA excluding VERP and VSP costs up 2.9% to R5.3 billion with EBITDA margin of 25.5%.
- Capex down 17.6% to R3.3 billion with capital to revenue of 15.7%
- Free cash flow up 118.6% to R179 million
- HEPS including VERP and VSP costs down 3.3% to 288.0 cents.
- Interim dividend down 5.1% to 112 cents from 118 cents

Telkom SA SOC Limited today published its interim results for the six months ended 30 September 2018, buoyed by a 53.8% increase in mobile service revenue which pushed group revenue to R20 847 million. The interim results were adjusted to exclude the impact of voluntary early retirement packages and voluntary severance packages of R282 million and the related tax impact of R80 million.

Telkom CEO Sipho Maseko stated: "Our ongoing capital investment in key growth areas underpinned our revenue growth and will help ensure Telkom's continued profitability and offset a decline in traditional revenue. Our results attest to the success of our investment strategy and come despite a challenging operating environment."

Group EBITDA grew 2.9%, benefiting from the growth in revenue and containment of operating costs below inflation.

Reported Headline earnings per share (HEPS) decreased 3.3% to 288.0 cents per share mainly due to the voluntary severance and early retirement package cost in the current period of R288 million and the related tax impact of R80 million. The underlying performance also improved.

Adjusted HEPS, excluding the impact of the voluntary severance and early retirement package costs, increased 10.3% to 328.6 cents. Basic earnings per share (BEPS) increased 1.8% to 316.6 cents, benefiting from EBITDA growth.

For the six months to 30 September, the mobile business saw strong customer growth of 50.0 percent to 6.5 million which resulted in increased service revenue. The accelerated performance continues to be underpinned by increased capital expenditure, increased store footprint and our popular data-led and broadband product positions.

Telkom reported capital investment of R3.3 billion with capex to revenue of 15.7 percent. Mobile and fibre remain capex focus areas with impressive returns in mobile service revenues. The business expects capex to revenue ratio to be in line with its guidance by the end of the year as they continue to invest in their new revenue streams which are now driving growth in an evolving technology where traditional revenue is dwindling.

Free cash flow recovered from negative R963 million in the prior year to positive R179 million. The improvement was mainly due to an 18.9 percent decrease in cash paid for capital expenditure and a 13.0 percent increase in cash generated from operations before dividend paid.

Openserve revenue increased 0.9 percent to R8 665 million, underpinned by the success of the commercialisation strategy. This was mainly driven by the growth in fibre to business connections of 59.5 percent.

BCX continues to be challenged by the weak economy as it serves all sectors of the economy. Its revenue declined 4.3 percent to R10 222 million due to the country's negative GDP growth and the decline in voice revenue. To address this Telkom has devised a strategy to manage the decline in the voice revenue, while focusing on profitability in information technology services and growth in data revenue.

Gyro, Telkom's property management business, continues to establish a solid foundation for revenue opportunities and asset value enhancement for the tower and property portfolios. During the period under review the external tower and masts revenue grew 21.7 percent to R314 million from the 1300 co-located towers. To take advantage of even more external revenue opportunities, Gyro is removing redundant equipment from 1380 co-located towers and have identified 650 sites for new tower construction.

Yellow Pages has continued its transformation journey towards a digitalised business. Central to this has been the establishment of work streams that look at implementing an agile and cost-efficient operating model.

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