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

("Telkom" or "the Group")

Trading Statement

Shareholders are advised that Telkom is currently finalising its annual results for the year ended 31 March 2020 ("FY2020" or "the current year"), which will be released on the Stock Exchange News Service ("SENS") of the JSE Limited ("JSE") on 22 June 2020.

In accordance with paragraph 3.4(b) of the Listings Requirements of the JSE Limited ("JSE"), shareholders are advised that reported group headline earnings per share (HEPS) is expected to decrease by between 65% to 70%, while reported group basic earnings per share (BEPS) is expected to decrease by between 75% to 80% compared to the corresponding period in the prior year. This is mainly attributable to once-off costs in the current year, relating to the restructuring program of R1 186 million and the additional impairment of trade receivables and contract assets due to COVID-19 of R626 million. The once-off items are not deductible for taxation purposes in the current year and have consequently resulted in a reduction in Group profit before tax and a significant increase in the effective tax rate to 37.6%.

COVID-19 impacted the last two weeks of FY2020. In line with the JSE and SAICA guidance, COVID 19 has been concluded as an adjusting post balance sheet event for companies with a year end of 31 March 2020. International Financial Reporting Standard (IFRS 9) requires that the impairment of trade receivables and contract assets be based on expected credit loss principles. This requires that we take a forward-looking view of macro-economic impact on debtors' behaviour.

The negative impact of COVID-19 on the SA economy is expected to put further pressure on consumers with studies predicting that a number of customers are likely to default on their obligations as they fall due. As a result, Telkom took a prudent approach in line with the SAICA guidance by estimating an increase in customer default rates for our customer base, and this has been incorporated in the calculation of the Group's expected credit losses. As a result, the Group recognised a total provision of R1 140 million, of which R626 million is an additional impairment of trade receivables and contract assets due to the expected impact of COVID-19. The additional impairment is significantly impacted by the forward-looking assumptions used in calculating the expected credit losses to cater for the depressed economy. Notwithstanding the expected economic challenges, the Group has not seen a deterioration in its debtors' book performance from March 2020 to May 2020.

<u>Underlying performance – excluding the impact of once-off costs</u>

Underlying performance excluding once off costs relating to voluntary severance packages ("VSP") and voluntary early retirement packages ("VERP") and the additional provision relating to the impairment of trade receivables and accounts receivables results in HEPS being expected to decrease by 30% to 35% and BEPS being expected to decrease by 35% to 40% compared to the year ended 31 March 2019 ("the prior year"). This is mainly attributable to lower EBITDA due to the impact of fixed voice on Group EBITDA, the increase in finance charges and fair value movements.

- Lower normalised EBITDA due to the impact of fixed voice on Group EBITDA

The biggest challenge for the year was the impact of the fixed voice revenue decline on Group EBITDA. The decline in fixed voice revenue of approximately 22% was offset by the growth of more than 50% in mobile service revenue in FY2020. From a cost perspective, management contained Group operating expenses below inflation and optimised direct costs relating to mobile business. However, the extent of the decline in fixed voice on Group EBITDA was not offset as it has a higher margin than the mobile business, resulting in normalised Group EBITDA (on a pro forma IAS17 basis and excluding the once off adjustments) declining by 7-10% from R11 309 million reported in the prior year.

- Increase in finance charges and fair value movements

On an IFRS16 basis, finance charges and fair value movement increased 90.4% compared to the prior year. On a pro forma IAS 17 basis, finance charges and fair value movement increased by 51.5% from R947 million reported in the prior year relating to:

- finance charges, primarily due to an increase in net borrowings for the year of R1.8 billion and the interest cost related to the outstanding tax liability. However, these costs were mitigated by the repayment of debt of R1.2 billion from cash reserves; and
- forex and fair value movements, largely due to increased cost of hedging and the impact of the reduction in the repo rate on the Interest Rate Swaps (IRS) book. The fair value movement on the IRS book was contained by a reduction in the ratio of fixed debt to floating rate debt.

Notwithstanding the increase in net borrowings, maintaining a flexible balance sheet remains critical. During the year, we strengthened our balance sheet by repaying R1.2 billion and refinanced debt at a competitive market interest rate. We have extended the maturity profile of our debt to reduce the refinancing risk of the debt book.

Telkom has also improved its liquidity position to R4.7 billion and undrawn committed facilities of R5.5 billion. On an underlying basis, our gearing improved compared to the first half of the year. Excluding financial leases and once-off items mentioned above, our net debt to EBITDA is 0.7x FY2020. On an IFRS 16 basis, net debt to EBITDA is 1.3x. The improved gearing was as a result of the liquidation of the short-term investment of R1.5 billion and a significant improvement of R1.2 billion in our free cash flow compared to the prior year.

The following table, on an IFRS 16 basis, includes reported and normalised earnings (which exclude the VSP and VERP of R1 186 million and the related tax impact of R332 million, as well as the additional impairment of trade receivables and contract assets of R626 million and related tax impact of R175 million. The prior year normalised earnings include R728 million and the related tax impact of R215 million relating to VSP/VERP. Normalised earnings are prepared on a pro-forma basis, are the responsibility of the directors, have been prepared for illustrative purposes only and due to their nature, may not fairly represent Telkom's earnings.

	31 March 2019 As previously reported (cents)	**31 March 2020**		
		Expected ranges	**Movement (cents)**	**Expected earnings**
BEPS				
Reported	561.9	75-80% lower	421 to 449 cps lower	140.9 to 112.9 cps
Normalised	665.1	35-40% lower	233 to 266 cps lower	432.1 to 399.1 cps
HEPS				

Reported	619.2	65-70% lower	402 to 433 cps lower	186.2 to 217.2 cps
Normalised	722.4	30-35% lower	217 to 253 cps lower	505.4 to 469.4 cps

The difference between BEPS and HEPS recorded in FY2020 is the impairment of assets and profit or loss on sale of assets.

The above information has not been reviewed nor reported on by Telkom's independent external auditors. The Group's results for the year ended 31 March 2020 will be released on SENS on 22 June 2020 with a presentation in Centurion on the same day.

The presentation will be available for all stakeholders on the Group's website, www.telkom.co.za/ir

Centurion
15 June 2020

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