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

Trading update for the quarter ended 30 June 2023

Q1 FY2024 SALIENT FEATURES

- Group revenue up 3.8% to R10 668 million
- Group EBITDA down 4.2% to R2 235 million
- Telkom Mobile growth driven by value-compelling propositions
  - **Mobile revenue up 5.2%** to R5 448 million
    - Mobile service revenue up 6.5%
    - Mobile data revenue up 9.9%
  - **Mobile data traffic and subscribers up 25.1% and 6.9%** year-on-year (“y-o-y”) to 329 petabytes and 18.5 million subscribers, respectively
  - **Mobile broadband customers up 8.9%** to 11.7 million, comprising an increased 63.2% of active mobile customers
- Openserve – **fixed data new generation revenue growth sustained at 10.6%**
  - **Fixed data traffic up 13.3%** to 512 petabytes
  - **Sustained, leading FTTH connectivity rate of 46.5%**, with number of homes connected up 24.2%
- BCX revenue up 2.9% driven by IT business growth
  - **IT business revenue up 17.5%** to R2 068 million
- Swiftnet commercialised at **healthy margins**
  - Revenue up 1.2%
  - Healthy EBITDA margin of 71.8%

Telkom’s trading update for the quarter ended 30 June 2023 (“Q1 FY2024” or “the quarter”) demonstrates good performance by new generation network (“NGN”) offerings despite challenging economic conditions prevailing in South Africa.

Group Chief Executive Officer – Serame Taukobong comment:

Telkom has started the 2024 financial year with good momentum. Group performance was pleasing in the face of rolling power outages (load shedding), muted economic growth, continuing inflationary pressures on consumers and an intensely competitive landscape.

Our value-driven and data-led strategy paid off as NGN revenues grew. Our subscriber bases continued to grow and with **increased demand for connectivity** we saw strong double-digit growth in data consumption – a testament of our **continued value propositions** from both our Mobile and Fibre businesses. Mobile data revenue grew **9.9%** driving exciting mobile service revenue growth, while fixed data NGN revenue growth in our fibre business advanced **10.6%** contributing to Openserve’s **leadership in providing open access connectivity** across South Africa. Demand for IT hardware and software at BCX was healthy as the fulfilment of orders improved along with new orders. Performance was however impacted by legacy and fixed voice revenue declines caused by ongoing migration to NGN technologies across our businesses, as anticipated.

Group revenue increased by **3.8%** driven by the continued uptake of our NGN products by customers as well as increased data traffic. We focused on offering attractive value propositions to customers in our Mobile business which increased subscribers and data usage, while the focused smart deployment of fibre infrastructure saw Openserve sustain growth in all three NGN customer segments – broadband, carrier and enterprise.

We are pleased that cost savings from our recent labour restructuring process offset the impact of load shedding as planned, but the legacy revenue declines along with higher ECL provisions weighed down on overall Group profitability. The Group will continue improving its cost base to improve profitability in the medium term.

OPERATIONAL REVIEW

Pleasing top line NGN growth, offset by anticipated legacy declines

Group revenue grew by 3.8% to R10 668 million largely driven by pleasing growth in new generation technologies. NGN growth was driven by **increased data traffic** along with good ongoing **growth of active subscribers** in both our mobile and fibre businesses with Mobile service revenue advancing 6.5%. BCX's IT business growth along with Swiftnet's further commercialisation of its portfolio, also supported Group revenue growth.

Group EBITDA declined by 4.2% contracting the EBITDA margin by 1.7 percentage points (ppt) to 21.0%, largely affected by the decline of legacy revenues as well as higher direct and operating costs. The benefit of reduced employee costs following the restructuring exercise, has been partly negated by the additional spend on diesel to mitigate the impact of load shedding, as well as a slight increase in direct costs, which were negatively impacted by the product mix for the quarter. We also experienced an increase in the provision for bad debts, with consumers under increasing strain from the macro-economic environment.

The ongoing instability of electricity supply in South Africa saw accelerated load shedding (stages 4-6) continuing into FY2024, while the comparative period (Q1 FY2023) was largely at stages 1-2. The cost of load shedding has now largely been incorporated in our operating cost base but will continue to impact Group profitability. To this end, Telkom is investing in capital expenditure to improve our mobile and fibre networks' resilience; as well as reduce diesel consumption by installing and upgrading to lithium batteries along with reconfiguring our sites for batteries to become the primary backup system. We are also increasing our solar power footprint at key properties/sites to reduce the impact of power outages caused by load shedding.

Mobile service revenue growth drove Telkom Consumer performance

Telkom Consumer recorded a 1.8% increase in revenue during the quarter, to R6 362 million. The growth can largely be attributed to the mobile business and the expansion of our fibre offerings. We experienced a 12.8% increase in our fibre subscriber base during this period. Our legacy copper-based voice revenues, however, continued their downward trajectory, declining by 24.2%. This decline is a result of our deliberate effort to reduce the risk associated with legacy voice services, which now accounts for only 4.8% of gross revenue.

Mobile revenue advanced by 5.2%, reaching R5 448 million primarily driven by our continued provision of **value-compelling propositions**, which effectively stimulated data consumption. The biggest contributor was Mobile service revenue which increased by 6.5% to R4 561 million y-o-y. Increasingly, consumers sought value on our private pricing platform, Mo'Nice which now accounts for 29.5% of total service revenue.

Growth was strengthened by a y-o-y **subscriber growth** of 6.9%, bringing the total subscribers to 18.5 million with a blended ARPU of R83. Our post-paid ARPU of R183 was derived off a subscriber base growth of 6.6% translating to almost 3.0 million subscribers. A pre-paid ARPU of R63 remains within our target range and pre-paid subscribers continued growing by 6.9% to 15.5 million.

Aligned with our strategic objective of expanding data services, we are continuing to meet the evolving needs of our customer base. We experienced a 25.1% surge in **mobile data traffic** amounting to 329 petabytes. This growth was bolstered by an 8.9% increase in **mobile broadband subscribers**, to 11.7 million (comprising 63.2% of total subscribers). Consequently, our mobile data revenue witnessed a solid growth of 9.9%.

Telkom Consumer EBITDA increased by 10.8% to reach R931 million off solid revenue growth and a prudent cost containment resolve.

Mobile EBITDA, however, declined by R67 million (5.6%) to R1 137 million, attributable to an increase in provisioning for bad debts as consumers continue to take strain and ECLs increased in line with the growth of accounts receivable. Also impacting profitability was an increase in load shedding costs of R54 million.

We are still seeing a robust growth of our non-connectivity services, with revenue increasing by 20% to R354 million. A significant contributor to this growth is our airtime advance product, which accounted for approximately R1 039 million in advanced airtime and now represents 33% of our total recharges. This expansion in non-connectivity revenue reflects our successful efforts to diversify our service offerings and meet the evolving needs of our customers with innovative solutions beyond traditional connectivity services.

Capital expenditure allowed for enhanced capacity and coverage across our network of 7 644 base stations. This represents a 4.0% y-o-y increase in the number of base stations, underscoring our commitment to expand and strengthen our mobile network infrastructure.

Openserve NGN growth offset by continued legacy migrations

Openserve showed growth in the first quarter as it continued accelerating its leadership in providing connectivity across South Africa. **Fixed data NGN revenue** increased by 10.6% underpinned by growth in broadband (up 21.5%), carrier services (up 6.3%) and enterprise services (up 3.3%). The NGN portfolio now comprises 73.7% of total revenue.

The increase in demand for connectivity and consumption continues to reflect on the **fixed data traffic** increase of 13.3% to 512 petabytes. Openserve's connect-led strategy coupled with the smart deployment of fibre infrastructure, enabled the growth of its fibre connected base by 9.9% connections, which include broadband and other value-added services such as voice over internet protocol, intercom and security. The accelerated decline in total fixed voice revenue of 29.0% remains a challenge, which resulted in an overall revenue decline of 2.7% for the quarter to R3 131 million.

Openserve grew its homes passed base by 24.4% y-o-y to 1 107 794 homes. This focused execution, has enabled Openserve to surpass the half a million mark of the number of **homes connected** with fibre, as they rose by 24.2% to 515 201 y-on-y, while maintaining its leading connectivity rate of 46.5%. Its digitally led innovative solutions, as well as connecting its fibre broadband customers with an average of less than 3 days, contributed to an improved *interaction Net Promoter Score* of 70.

While Openserve's redesigned operating model has positively contributed to its EBITDA, ongoing load shedding negatively impacted operating costs with a significant increase of R88 million y-o-y in diesel spend, resulting in a lower EBITDA margin of 28.0% for the quarter, a reduction of 1.9 ppts and an **EBITDA** of R876 million.

Despite sustained levels of loadshedding, Openserve remained steadfast in ensuring a superior customer experience in every interaction and providing a cost-effective high-speed network by maintaining its core **network availability** at 99.99%. To ensure that it continues to maintain high customer experience and availability, Openserve has increased its investment in power resilience by rolling out alternative energy options. The deployment of battery primary backup solutions already yielded cost avoidance of more than R27 million in diesel costs for the quarter. Openserve will continue implementing multiple cost-effective energy solutions as part of its overall Sustainable Energy Strategy to derisk operations.

BCX revenue up driven by growth of IT business

Revenue rose by 2.9% to R3 499 million in the first quarter y-o-y largely driven by the double-digit growth in the IT business, slightly offset by declines in the Converged Communications business. The revenue growth mix was positively skewed towards growth in the local and international software and hardware business.

The **IT business** increased by 17.5% to R2 068 million, attributable to growth in the software and hardware business of 62.9% resulting from fulfilling order backlogs, the easing of global chip shortages as well as successful new business development initiatives. The business also benefitted from strengthened cloud offerings and solutions brought about by the Dotcom acquisition, while IT services declined by 3.4%.

The **Converged Communications** business revenue declined by 12.8% to R1 431 million, impacted by declines in legacy fixed voice and data, due to ongoing migrations to next generation products plus customer churn.

EBITDA declined by 38.2% to R275 million as overall profitability was unfavourably impacted by revenue product mix, which was skewed towards lower margin product business for the quarter as well as higher impairments of receivables plus slow collections, particularly in the public sector, amounting to R164 million. These were partially offset by cost savings largely in employee expenses and third-party costs as the business continues to drive efficiencies. EBITDA margin shrunk by 5.2 ppts in the quarter resulting in a margin of 7.9% for the quarter.

Swiftnet sustains its growth trajectory at healthy margins

Swiftnet continued to commercialise its masts and towers portfolio, with 4 towers and 1 in-building solution site being constructed during the first quarter. Revenue increased by 1.2% to R326 million y-o-y, underpinned by escalations, new tenancies, customers' 5G rollouts and existing tenant installation upgrades. **Revenue** from other customers increased by 11.0% to R249 million. This growth was offset by a combined 20.6% reduction in revenue to R77 million from ongoing terminations by a mobile network operator customer along with Openserve's continued optimisation of legacy-based technologies. We are confident that our customers will continue to improve their tenancies and equipment capacity on our towers during the financial year.

Swiftnet's EBITDA increased by 1.7% to R234 million y-o-y, in line with marginal revenue growth. Swiftnet continues to operate at a strong EBITDA margin of 71.8% translating to a 0.4 ppt improvement.

Following the successful Power-as-a-Service (PaaS) testing in the prior financial year, Swiftnet engaged customers on PaaS commercial terms during the first quarter and are nearing implementation of the first phase of rollout. This value-add offering will provide our customers an alternative source of power security, allowing MNOs to focus on their core business of network expansion and management.

CORPORATE ACTIONS TO REALISE VALUE

Telkom is committed to realising the intrinsic value of underlying businesses that make up the Telkom group. During the previous calendar year, a multi-party sales process commenced following the Board's approval to affirm and realise the value of **Swiftnet** through the disposal of the mast and towers business. Telkom received offers to acquire Swiftnet in its entirety during the last quarter of FY2023. These offers were further refined from shortlisted bidders over recent weeks. Telkom is currently engaged in discussions with two bidders and will provide updates on the outcome of the process in due course.

Following the legal separation of **Openserve** into a stand-alone entity effective 1 September 2022, various initiatives were explored with the goal of realising value from this, deemed to be core, wholly owned Telkom subsidiary. Telkom conducted a market sounding exercise earlier this year to assess the depth of interest in a minority strategic equity stake in Openserve and received credible expressions of interest from a range of local and international parties.

As indicated in our annual results announced on 13 June 2023, Telkom is positioning itself as an infrastructure business ("InfraCo") at its core. Once this transition has been concluded, Telkom will consider its further options to realise value, including in relation to the expressions of interest received for Openserve.

Management is investigating the possible introduction of a strategic equity partner in **BCX** to enhance scale, growth and capabilities in various growth areas including cloud services and cybersecurity. A process is currently underway to assess the market for potential international and/or local partners and to consider available options in this regard.

REGULATORY AND LEGAL MATTERS

Review of call termination rates by ICASA

ICASA began its review of call termination rates in May 2021. Subsequent to publishing its findings on call termination rates on 28 March 2022, ICASA commenced with its cost modelling exercise on 26 May 2023. The cost modelling exercise is being conducted to provide a basis for regulated cost-based termination rates for fixed and mobile voice services. The rationale for cost-based pricing is to promote competition in provision of voice services to the South African population. We await a conclusion to this matter that will ensure pro-competitive market dynamics.

Radio Frequency Spectrum

The Minister of Communications and Digital Technologies confirmed the final analogue television switch-off date in the frequency bands above 694 MHz as 31 July 2023. If successfully implemented, the sub 1 GHz spectrum obtained in the auction in March 2022 will become available nationally from 1 August 2023. Telkom obtained 2x10 MHz in the 800 MHz, which has already been deployed in areas unaffected by television services. ICASA has also started the process for the licensing of additional high demand spectrum and aims to conclude this process by 31 March 2024.

Electronic Communication Amendment Bill published
The Department of Communications and Digital Technologies published the Electronic Communications Amendment Bill, 2022 (the Bill) on 23 June 2023. The Bill deals with several critical issues such as spectrum trading and sharing, roaming, MVNOs, passive infrastructure and facilities access, and competition. Telkom is preparing a comprehensive response to the Bill, for which comments are due by 4 August 2023

SIU matter – Proclamation set aside, costs awarded to Telkom
On 19 July 2023, the Pretoria High Court handed down judgment setting aside Presidential Proclamation 49 of 2022 (the "Proclamation"), gazetted in Regulation Gazette no. 11385 as published in Government Gazette no. 45809 on 25 January 2022. The Proclamation gave the Special Investigative Unit ("SIU") authority to investigate various matters including Telkom's contracting for network and advisory services, and the disposal of former Telkom subsidiaries.

The Pretoria High Court had declared the Proclamation unconstitutional, invalid and of no force or effect and awarded costs to Telkom.

The information contained in this trading update has not been reviewed or reported on by Telkom's independent external auditors. All number and percentages contained in the update reflect Q1 FY2024 compared to the first quarter of the financial year ended 31 March 2023 unless stated otherwise.

Centurion
31 July 2023

Sponsor

Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Quarterly financial information

The financial information in the table below has not been reviewed or reported on by Telkom's joint independent external auditors.

(R'm)	Q1 FY2024	Q4 FY2023	Q3 FY2023	Q2 FY2023	Q1 FY2023
	June 2023	**March 2023**	**December 2022**	**September 2022**	**June 2022**
Group revenue	10 668	10 957	11 031	10 869	10 281
Group EBITDA - reported (statutory)	2 235	1 053	2 492	2 608	2 334
Group EBITDA - normalised	2 235	2 118	2 492	2 608	2 334
Group EBITDA margin - reported (statutory) %	21.0%	9.6%	22.6%	24.0%	22.7%
Group EBITDA margin – normalised %	21.0%	19.3%	22.6%	24.0%	22.7%
Group capex	1 153	2 055	1 657	2 684	1 005
Revenue breakdown					
Fixed	**3 322**	**3 670**	**3 513**	**3 453**	**3 494**
Voice and subscription	**846**	**880**	**978**	**1 054**	**1 092**
Usage	324	451	279	441	453
Subscriptions	522	429	699	613	639
Interconnection	**58**	**69**	**66**	**74**	**72**
Fixed-line domestic	36	37	38	48	46
Fixed-line international	22	32	28	26	26
Data	**2 062**	**2 012**	**2 036**	**1 996**	**1 994**
Data connectivity	1 576	1 533	1 520	1 481	1 489
Internet access and related services	359	350	377	367	357
Managed data network services	126	128	138	148	146
Multimedia services	1	1	1	0	2
Customer premises equipment sales and rentals	**259**	**601**	**362**	**259**	**269**
Sales	67	408	185	96	100
Rentals	192	193	177	163	169
Other revenue	**102**	**108**	**71**	**70**	**67**
Mobile	**5 448**	**5 325**	**5 685**	**5 425**	**5 180**
Mobile voice and subscriptions	1 044	1 032	1 143	1 134	1 079
Mobile interconnection	128	106	146	135	118
Mobile data	3 389	3 299	3 309	3 233	3 084
Mobile handset and equipment	804	801	1 007	844	827
Significant financing component	83	88	80	79	72
Information technology	**1 654**	**1 665**	**1 587**	**1 743**	**1 376**
Information technology service solutions	680	533	696	645	728
Application solutions	236	226	254	246	231
IT hardware and software	695	875	588	828	373

Industrial technologies	30	13	40	14	39
Significant financing component	13	18	9	10	5
Other	**239**	**298**	**246**	**249**	**230**
Yep	44	116	72	58	53
Gyro	195	182	174	191	177
Total	**10 668**	**10 958**	**11 031**	**10 870**	**10 280**

Quarterly information (Business unit stand-alone view)

(R'm)	Q1 FY2024	Q4 FY2023	Q3 FY2023	Q2 FY2023	Q1 FY2023
Revenue	**June 2023**	**March 2023**	**December 2022**	**September 2022**	**June 2022**
Telkom Consumer	6 362	6 299	6 657	6 469	6 248
BCX	3 499	3 750	3 506	3 595	3 401
Openserve	3 131	3 243	3 220	3 217	3 217
Swiftnet	326	326	318	338	322
EBITDA					
Telkom Consumer	931	728	840	893	840
BCX	275	524	441	397	445
Openserve	876	860	948	923	961
Swiftnet	234	217	221	229	230
	1 137	905	1 155	1 208	1 204
EBITDA margin (%)					
Telkom Consumer	14.6	11.6	12.6	13.8	13.4
BCX	7.9	14.0	12.6	11.0	13.1
Openserve	28.0	26.5	29.4	28.7	29.9
Swiftnet	71.8	66.6	69.5	67.8	71.4
Mobile service revenue (external)	4 561	4 438	4 598	4 502	4 281
Mobile EBITDA margin	20.8	24.9	20.0	22.0	23.0

Quarterly operational information

	Q1 FY2024	Q4 FY2023	Q3 FY2023	Q2 FY2023	Q1 FY2023
	June 2023	**March 2023**	**December 2022**	**September 2022**	**June 2022**
Broadband subscribers	**12 255 546**	**12 200 850**	**12 054 013**	**11 596 889**	**11 309 471**
Fixed broadband subscribers	555 170	567 289	567 294	562 080	563 053
Mobile broadband subscribers	11 700 376	11 633 561	11 486 719	11 034 809	10 746 418
Active mobile subscribers	**18 505 103**	**18 262 331**	**18 554 558**	**18 023 524**	**17 317 015**
Pre-paid subscribers	15 538 892	15 301 339	15 624 214	15 161 977	14 534 596
Post-paid subscribers	2 966 211	2 960 992	2 930 344	2 861 547	2 782 419
Mobile blended ARPU (rand)	**83.12**	**86.43**	**87.24**	**87.87**	**88.53**
Pre-paid ARPU	62.60	63.74	64.16	64.47	64.77
Post-paid ARPU	182.66	200.69	203.73	205.92	208.5

Traffic					
Fixed broadband (petabytes)	512	484	492	467	452
Mobile broadband (petabytes)	329	308	309	287	263
Total fixed-line traffic (millions of minutes)	1 060	1 161	1 202	1 358	1 365
Network					
Homes passed with fibre	1 107 794	1 040 565	1 022 011	960 801	890 182
Homes connected with fibre	515 201	492 812	469 556	443 469	414 847
Fibre connectivity rate (%)	46.5	47.4	45.9	46.2	46.3
Mobile sites integrated	7 644	7 546	7 463	7 384	7 350

Forward looking statements

Certain financial information presented in this trading update announcement may constitute forward looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our strategy; future financial position and plans; objectives; capital expenditures (capex); projected costs and anticipated cost savings and financing plans; as well as projected levels of growth in the communications market, are forward-looking statements. Forward-looking statements can generally be identified by terminology such as “may”, “will”, “should”, “expect”, “envisage”, “intend”, “plan”, “project”, “estimate”, “anticipate”, “believe”, “hope”, “can”, “is designed to” or similar phrases. However, the absence of such words does not necessarily mean a statement is not forward looking.

Forward-looking statements involve several known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Factors that could cause our actual results or outcomes to differ materially from our expectations include, but are not limited to, those risks identified in Telkom’s most recent integrated report which is available at https://group.telkom.co.za/ir/index.shtml.

Telkom cautions readers not to place undue reliance on these forward-looking statements. All written and verbal forward-looking statements attributable to Telkom, or persons acting on Telkom’s behalf, are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this document, so that they conform either to the actual results or to changes in our expectations.