Telkom SA SOC Limited
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("Telkom" or the "Group")

Trading update for the quarter ended 31 December 2023

Q3 FY2024 HIGHLIGHTS

- **Group revenue up 2.0%** to R11 304 million
- **Group EBITDA stable** at R2 477 million
- Telkom Consumer growth driven by compelling value propositions
    - Mobile revenue up 4.8% to R5 957 million
        - **Mobile service revenue up 7.1%**
    - Mobile EBITDA up 3.5% to R1 195 million
- Openserve **fixed data next generation revenue growth at 6.2%**
    - EBITDA up 7.0% to R1 014 million
    - Market-leading fibre-to-the-home ("FTTH") connectivity rate of 47.9%
- BCX revenue marginally down at 0.7%
    - **IT business revenue up 13.1%** to R2 120 million
- Swiftnet **revenue up 4.7%** from additional tenancies on masts & towers portfolio
    - Healthy EBITDA margin of 73.9%

Group Chief Executive Officer – Serame Taukobong commented: Telkom made good progress in the third quarter of the 2024 financial year ("the quarter") as it positions itself as the leading infrastructure company at the heart of South Africa's digital future.

Group performance for the quarter was pleasing against a strong comparative quarter and Telkom managed to grow the top line as compelling value propositions drove next generation ("NGN") revenue growth and operating earnings, thereby affirming our data-led strategy. Our cost-reduction initiatives also contributed to improved operating EBITDA as they partially offset inflationary increases, increased bad debt provisions and the added cost of loadshedding. Telkom Consumer and Openserve made impressive progress and advanced operating earnings by 20.6% and 7.0% respectively.

Overall Group EBITDA was stable, despite the impact of continuing inflationary pressures on retail consumers and enterprises against a backdrop of muted economic growth in South Africa. Telkom remains committed to meet its medium-term guidance for the 2024 financial year with a continued focus on cash generation and stringent capital allocation with expected capital expenditure for the year better than indicated guidance.

We continued prioritising our strategic imperative to unlock value through the proposed disposal of Swiftnet, the masts & towers business. Substantial progress was made on meeting the remaining agreed milestones under the exclusivity arrangement including, the parties significantly progressing their negotiations to agree transaction agreements. We remain committed to progressing this transaction to enhance shareholder value and focus management on core business competencies, while retaining use of the infrastructure.

OPERATIONAL REVIEW

NGN driving revenue growth, cost reduction initiatives partially offset inflationary pressures

Group revenue increased by 2.0% to R11 304 million driven by compelling **data-connectivity propositions** from our mobile and fixed networks. Higher recharges by prepaid Mobile subscribers, ongoing rollout of fibre network to homes and enterprises by Openserve drove revenue growth, supported by Swiftnet's commercialisation of the masts and towers portfolio. Enterprises' demand for hardware and software remained healthy and grew in double digits at BCX, but overall revenues were impacted by the continued decline in traditional voice and data revenues, as customers migrate to NGN products.

The continued uptake of our NGN products by retail and enterprise customers **grew both active mobile and fixed subscribers.** This, along with double digit increases in data consumption, bode well for the **Group NGN revenue**, which **grew by 5.1%** offsetting traditional revenue declines. NGN revenues advanced by R440 million, while traditional revenues retracted R219 million, leading to group revenue growth of R221 million for the quarter.

- Mobile subscribers grew by 6.4% to 19.7 million while mobile data traffic increased by 19.7% to 370 petabytes. Also noteworthy is the advancement of mobile broadband subscribers by 10.9% to 12.7 million indicating growing smartphone users, essential in driving strong data consumption trends. **Mobile data revenue grew by 11.5%** as a result, supported by higher prepaid recharges along with price increases.
- FTTH connections increased by 20.8%, to 567 350 homes with fixed data traffic up 24.4% to 612 petabytes. Openserve's **NGN data revenue increased by 6.2%** across all segments (FTTH, enterprise and carrier).

Group EBITDA was **stable** at R2 477 million supported by revenue growth and cost reductions from the organisational restructuring effected in Q1 FY2024. However, the resulting EBITDA margin at 21.9% decreased, largely affected by product mix at BCX, higher expected credit losses on trade receivables as retail and enterprises customers remained under pressure from the weak macroeconomic environment, as well as loadshedding-related costs. While loadshedding days reduced to 63 days from 89 days year-on-year ("y-o-y"), the cost of loadshedding remains in the operating cost base.

We have worked relentlessly at **mitigating the risk and impact of loadshedding** on our operations and capital expenditure investments made in alternative energy sources (including solar power and lithium-ion batteries) to improve our mobile and fibre networks' resilience yielded results. Diesel consumption and related costs at Openserve have decreased and network availability for our mobile network availability improved to 94% from 89%.

Telkom Consumer growth led by 11.5% mobile data growth

The trajectory of our course remains steadfast, owing primarily to the performance exhibited by our Mobile business and fibre offerings**. Telkom Consumer** recorded a 2.5% expansion in revenue, reaching R6 875 million. This upswing is predominantly ascribed to the performance of the mobile business and the strategic expansion of our fibre services. Notably, our fibre subscriber base saw an increase of 12.2% year-on-year.

Mobile revenue achieved a **4.8% increase** to R5 957 million. This increase stems primarily from our commitment to innovative and compelling value propositions, thereby effectively stimulating data consumption. The significant contributor was **mobile service revenue**, which experienced a **7.1% growth** to R4 926 million. Notably, consumers exhibited an inclination toward seeking value through our exclusive prepaid pricing platform, Mo'Nice, which contributed 43.7% of recharge revenue.

The Mobile expansion emanated predominantly from the augmentation of our customer base, registering an upswing of 6.4% to 19.7 million, characterised by a blended ARPU of R86 (Q3 FY2023: R87). Our post-paid customer base was relatively flat at 2.9 million, recording an ARPU of R182 (Q3 FY2023: R204), having held steady around this mark for the last 3 quarters. The pre-paid base grew by 7.5%, reaching 16.8 million at an ARPU of R66 (Q3 FY2023: R64).

In line with our strategic imperative to expand data services, we persisted in addressing the evolving demands of our customers. An increase of 19.7% in mobile data traffic, totaling 370 petabytes, underscored our commitment to this objective. This growth was further reinforced by a 10.9% rise in mobile broadband subscribers, now totaling 12.7 million and constituting 64.6% of the total mobile subscriber base. Consequently, **mobile data revenue** grew robustly, registering a **growth of 11.5%** to R3 689 million.

Our financial performance underscores our resilience in navigating both revenue growth and prudent cost management strategies in the face of economic challenges. **Telkom Consumer's EBITDA** increased by 20.6% to R983 million, driven by revenue expansion and a judicious commitment to cost containment. **Mobile EBITDA** demonstrated a 3.5% growth and reached R1 195 million. This increase can be seen despite the heightened provision for bad debts, reflecting the ongoing financial challenges faced by consumers, and the adverse impact on profitability due to escalating load shedding costs (R115 million).

The deliberate foray into non-connectivity revenue stands as a successful strategic initiative, effectively diversifying our service portfolio. This approach aligns with our commitment to addressing the evolving needs of our customers through innovative solutions that extend beyond conventional connectivity services. The expansion of our non-connectivity services was evident as its revenue increased by 20% to reach R360 million. Central to propelling this growth is our airtime advance product, which now stands at approximately R1 102 million, constituting 32% of our overall recharges.

The adequate allocation of capital expenditure facilitated the expansion of capacity and coverage within our network, spanning a total of 7 721 base stations. This signifies a 3.5% escalation in the count of base stations, underscoring our steadfast commitment to both expand and fortify the infrastructure of our mobile network. This strategic investment reflects our dedication to advancing the capabilities and reach of our network, reinforcing our vision of connecting people to a better life.

Openserve sustains NGN growth trajectory

Openserve continued to experience growth across its NGN products and services. **Fixed data NGN revenue increased by 6.2%** for the quarter, underpinned by growth in enterprise services (up 12.5%), broadband services (up 10.0%) and carrier services (up 1.7%). As Openserve continued driving product and channel diversification, the increase in its NGN portfolio for the quarter further increased the contribution to 75.2% of its total revenue for the year to date.

Aligned to its strategic imperative of creating a pervasive network, Openserve increased its access network which saw the number of homes passed increase 16.0% to 1 185 623 homes. Its drive to provide fibre connectivity to all South Africans, coupled with executing on its connect-led strategy, resulted in 20.8% increase in the number of homes connected to 567 350, while maintaining its market leading connectivity rate of 47.9%. While Openserve saw a decrease in xDSL services to approximately 82 000, its focused execution in modernising its network through fibre deployment, resulted in an overall broadband growth of 6.6% to over 670 000 connections. As demand for connectivity and consumption increased, Openserve's fixed data traffic grew by 24.4% to 612 petabytes for the quarter. While the next generation services continued to grow, the accelerated decline in total fixed voice revenue of 25.4% negatively impacted on the overall revenue resulting in a decline of 3.1% for the quarter to R3 120 million as anticipated.

Executing on its strategies of building a resilient network while driving a superior experience in every interaction, Openserve continued to innovate, digitalise, and improve its processes to achieve an improved interaction Net Promoter Score of 71. In addition, Openserve continued to diversify its energy mix, with the expansion in battery distribution, an increase in the number of solar deployments, and an improved diesel delivery model, resulting in a decrease of 41.7% in diesel spend to R89 million, with the reduced load shedding supporting this decline for the quarter. The energy mix efforts resulted in a continued availability of the core network at 99.99%.

These operational improvements coupled with the benefits derived from other cost efficiency initiatives such as headcount and exchange portfolio optimisation, resulted in an EBITDA increase of 7.0% to R1 014 million and an increase of 3.1 ppts in the EBITDA margin to 32.5% for the quarter.

Openserve's focus remains in creating a sustainable business that is underpinned by a clear strategic roadmap and is confident of its ability to execute on its strategy that is centered on creating a positive impact on customer experience by investing across its network and key enabling capabilities.

BCX maintains topline amid challenging trading environment

Revenue declined marginally with 0.7% against the prior quarter, to R3 482 million. The majority of the Converged Communications decline was offset with growth in IT as we continued to drive growth in this portfolio.

The **IT business** grew revenue by double-digits of 13.1% to R2 120 million largely driven by the continued over-performance of the software and hardware business, that saw growth of 34.2% supported by the improved order fulfilment due to the easing of the global chipset shortage. While the low-margin hardware and software business sustains revenue, it is done so strategically to allow BCX to gain access to a wider client base and facilitate expansion into high-margin IT services in order to improve the product mix. The business also benefitted from strengthened cloud offerings and solutions due to the acquisition of Dotcom.

The **Converged Communications** business revenue declined by 16.4% to R1 362 million, impacted by declines in traditional fixed voice and data, due to ongoing migrations to next generation products and churn of subscriptions. Data connectivity revenue has reached an inflection point with 78.2% of revenue comprising of next generation revenue.

EBITDA declined by 27.0% to R322 million due to the impact of higher revenue growth from low-margin hardware and software business, the converged communications legacy declines, as well as higher impairments of receivables due to slow collections, particularly in the public sector. These were partially offset by cost reductions emanating from the staff restructuring initiative, as well as cost containment efforts in the business. EBITDA margin contracted by 3.4 ppts resulting in a margin of 9.2% for the quarter.

Swiftnet continued to commercialise and expand, with solid earnings growth at strong margins

The tower build program remained steadily on track with 9 towers and 4 In-Building Solutions sites being constructed during the quarter. The build pace increased in view of the demand that materialised during the quarter.

Total revenue increased by 4.7% to R333 million, with revenue from the growing customers increasing by 16.3% to R257 million underpinned by escalations, new tenancies, 5G expansion and antennae upgrades, reflecting our customers' focus on network improvement and modernisation.

Total EBITDA increased by 11.3% to R246 million, resultant from the optimisation of tower operating costs. Swiftnet continued to operate at a strong EBITDA margin of 73.9%, a 4.4 ppts improvement y-o-y.

The first phase rollout of Power-as-a-Service was initiated, with sites expected to be completed and operational before the end of the current financial year. This program supports our customer plans of ensuring power security and resilience, and in turn will be a new revenue stream for Swiftnet.

RENEWAL OF CAUTIONARY FOR THE PROPOSED DISPOSAL OF SWIFTNET

The board of directors of Telkom ("Board") remains committed to the value unlock strategy premised on Telkom's market capitalisation not representing the intrinsic value of its underlying assets. As previously communicated, a multi-party disposal process commenced in late 2022 following the Board's approval to affirm and realise the value of Swiftnet through an outright disposal of the masts and towers business to enhance shareholder value and focus on core business competencies. By August 2023, two bidders were selected to progress with negotiations. The disposal process further advanced in late 2023 and Telkom entered an exclusivity period with a preferred bidder as indicated in the cautionary announcements published on 21 November 2023 and 8 January 2024.

With reference to the renewal of cautionary announcement released on SENS today, 19 February 2024, shareholders are hereby further informed that substantial progress has been made on meeting the remaining agreed milestones under the exclusivity arrangement including that, the parties have significantly progressed their negotiations to agree transaction agreements.

The proposed transaction is classified as a Category 1 transaction and is subject to shareholder and regulatory approvals. As such, shareholders are required to continue exercising caution when dealing in Telkom securities, until a further announcement is made. In this regard, Telkom expects to be able to make a more detailed announcement on or before it is required to update this cautionary announcement in accordance with the JSE Listings Requirements.

REGULATORY AND LEGAL UPDATE

Review of call termination rates by ICASA ongoing

ICASA began its review of call termination rates in May 2021 and commenced with its cost modelling exercise on 26 May 2023. The purpose of the exercise was to determine the appropriate mobile and fixed call termination rates. ICASA published the results of its cost modelling exercise for comment on 12 December 2023. ICASA is currently reviewing the comments received by it, including those submitted by Telkom, and is expected to publish the Draft Regulations on mobile and fixed call termination rates by 15 March 2024.

Radio Frequency Spectrum – all auction payments settled

The Minister of Communications and Digital Technologies ("the Minister") declared 31 July 2023 as the final analogue television switch-off date in the frequency bands above 694 MHz. The switch-off process was finally concluded by 30 September 2023. The sub 1 GHz spectrum obtained in the auction process which took place in March 2022 is now available nationally for deployment of mobile systems. Telkom obtained 2x10 MHz in the 800 MHz, which has already been deployed. Telkom paid its final auction fee of R972 million to ICASA on 29 December 2023.

ICASA has also started the process of licensing additional high demand spectrum and has indicated that it aims to conclude this process by 31 March 2024. However, to date, the consultations (e.g. competition assessment) pertaining to this licensing process have not yet commenced, which means that it is unlikely that ICASA will complete the licensing process by this date.

Electronic Communication Amendment Bill

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, competition and facilities access. Telkom submitted a comprehensive response to the Bill by the due date of 31 August 2023. Engagements with the Minister on the Bill are ongoing.

SIU matter – Proclamation set aside being appealed

On 19 July 2023, the Pretoria High Court handed down judgment setting aside Presidential Proclamation 49 of 2022 (“the Proclamation”). 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. On 11 December 2023, the High Court granted both the President and the SIU leave to appeal to the Supreme Court of Appeal. The matter is currently pending before the Supreme Court of Appeal.

The quarterly information contained in this trading update has not been reviewed or reported on by Telkom’s external auditor. All numbers and percentage growth rates refer to the quarter ended 31 December 2023 compared to the quarter ended 31 December 2022, unless otherwise stated.

Centurion
19 February 2024

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 external auditors.

(R'm)	**Q3 FY2024**	**Q2 FY2024**	**Q1 FY2024**	**Q4 FY2023**	**Q3 FY2023**
	December 2023	**September 2023**	**June 2023**	**March 2023**	**December 2022**
Group revenue	11 304	11 048	10 730	11 018	11 083
- NGN	9 100	8 597	8 637	9 024	8 660
- Traditional & other	2 204	2 451	2 093	1 994	2 423
Group EBITDA - reported (total operations)	2 477	2 766	2 259	1 052	2 484
Group EBITDA - normalised (total operations)	2 477	2 766	2 259	2 117	2 484
Group EBITDA margin - reported (total operations) %	21.9%	25.0%	21.1%	9.5%	22.4%
Group EBITDA margin - normalised (total operations) %	21.9%	25.0%	21.1%	19.2%	22.4%
Group capex	1 196	1 990	1 153	2 055	1 657
Revenue breakdown					
Fixed	**3 324**	**3 398**	**3 389**	**3 728**	**3 565**
Voice and subscription	**724**	**796**	**846**	**880**	**978**
Usage	274	303	324	451	279
Subscriptions	450	493	522	429	699
Interconnection	**63**	**61**	**58**	**69**	**66**
Fixed-line domestic	35	34	36	37	38
Fixed-line international	28	27	22	32	28
Data	**2 078**	**2 060**	**2 062**	**2 012**	**2 036**
Data connectivity	1 602	1 583	1 576	1 533	1 520
Internet access and related services	358	356	359	350	377
Managed data network services	117	121	126	128	138
Multimedia services	1	0	1	1	1
Customer premises equipment sales and rentals	**279**	**306**	**259**	**601**	**362**
Sales	83	91	67	408	185
Rentals	196	215	192	193	177
Insurance service revenue	**74**	**73**	**62**	**61**	**52**

Other revenue	**106**	**102**	**102**	**105**	**71**
Mobile	**5 957**	**5 587**	**5 448**	**5 327**	**5 685**
Mobile voice and subscriptions	1 092	1 038	1 044	1 032	1 143
Mobile interconnection	145	119	128	106	146
Mobile data	3 689	3 575	3 389	3 300	3 309
Mobile handset and equipment	960	765	804	801	1 007
Significant financing component	71	90	83	88	80
Information technology	**1 786**	**1 815**	**1 654**	**1 665**	**1 587**
Information technology service solutions	710	724	680	533	696
Application solutions	225	224	236	226	254
IT hardware and software	812	821	695	875	588
Industrial technologies	25	24	30	13	40
Significant financing component	14	22	13	18	9
Other	**237**	**248**	**239**	**298**	**246**
Yep	46	58	44	116	72
Gyro	191	190	195	182	174
Total	**11 304**	**11 048**	**10 730**	**11 018**	**11 083**

Quarterly information (Business unit stand-alone view)

(R'm)	**Q3 FY2024**	**Q2 FY2024**	**Q1 FY2024**	**Q4 FY2023**	**Q3 FY2023**
Revenue	**December 2023**	**September 2023**	**June 2023**	**March 2023**	**December 2022**
Telkom Consumer	6 875	6 560	6 424	6 360	6 709
BCX	3 482	3 544	3 499	3 750	3 506
Openserve	3 120	3 130	3 131	3 243	3 220
Swiftnet	333	326	326	326	318
EBITDA					
Telkom Consumer	983	1 042	955	735	815
BCX	322	458	275	524	441
Openserve	1 014	1 114	876	860	948
Swiftnet	246	254	234	217	221
EBITDA margin (%)					
Telkom Consumer	14.3%	15.9%	14.9%	11.6%	12.1%
BCX	9.2%	12.9%	7.9%	14.0%	12.6%
Openserve	32.5%	35.6%	28.0%	26.5%	29.4%
Swiftnet	73.9%	77.9%	71.8%	66.6%	69.5%

Mobile service revenue (external)	4 926	4 732	4 561	4 438	4 598
Mobile EBITDA margin	20.0%	23.5%	20.8%	24.9%	20.0%

Quarterly operational information

	Q3 FY2024	Q2 FY2024	Q1 FY2024	Q4 FY2023	Q3 FY2023
	December 2023	**September 2023**	**June 2023**	**March 2023**	**December 2022**
Broadband subscribers	**13 300 371**	**12 749 692**	**12 255 546**	**12 200 850**	**12 054 013**
Fixed broadband subscribers	556 965	554 809	555 170	567 289	567 294
Mobile broadband subscribers	12 743 406	12 194 883	11 700 376	11 633 561	11 486 719
Active mobile subscribers	**19 737 370**	**18 286 160**	**18 505 103**	**18 262 331**	**18 554 558**
Pre-paid subscribers	16 793 495	15 320 566	15 538 892	15 301 339	15 624 214
Post-paid subscribers	2 943 875	2 965 594	2 966 211	2 960 992	2 930 344
Mobile blended ARPU (rand)	**85.60**	**84.59**	**83.12**	**86.43**	**87.24**
Pre-paid ARPU	65.90	64.40	62.60	63.74	64.16
Post-paid ARPU	181.75	182.41	182.66	200.69	203.73
Traffic					
Fixed broadband (petabytes)	612	569	512	484	492
Mobile broadband (petabytes)	370	347	329	308	309
Total fixed-line traffic (millions of minutes)	1 001	1 033	1 060	1 161	1 202
Network					
Homes passed with fibre	1 185 623	1 158 761	1 107 794	1 040 565	1 022 011
Homes connected with fibre	567 350	542 598	515 201	492 812	469 556
Fibre connectivity rate (%)	47.9%	46.8%	46.5%	47.4%	45.9%
Mobile sites integrated	7 721	7 684	7 644	7 546	7 463

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.