

Telkom SA SOC Limited
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JSE bond code: BITEL
ISIN: ZAE000044897
("Telkom" or "the Group")

Trading update for the quarter ended 31 December 2021 ("Q3 FY2022")

Q3 FY2022: Group salient features

- **Active customer base growth in an intense competitive landscape**
 - Active mobile customers up 10.0% year on year to 16.4 million with a blended ARPU of R91.45, both prepaid and postpaid bases saw an increase in the period under review
 - Prepaid customers grew 12.0% year on year to 13.8 million
 - Postpaid ARPU grew 1.8% year on year to R215 with a marginal increase in postpaid customers to approximately 2.6 million
- **Mobile broadband continues to support growth**
 - Mobile data traffic increased by 7.9% year on year to 246 petabytes, supporting mobile data revenue growth of 2.6% year on year to R3 127 million
 - Mobile broadband customers up 4.0% to 10.5 million, representing 63.6% of active customers
- **Fibre growth trajectory sustained in the period under review**
 - Number of homes passed with fibre grew 65.5% year on year to 801 084
 - Number of homes connected with fibre grew by 38.6% to 358 528 representing FTTH connectivity rate of 44.8%
 - Total fixed traffic increased by approximately 23% to 428 petabytes
- **Sustainable cost management delivers efficiencies despite challenging Group revenue**
 - Group EBITDA up 5.4% to R 2 881 million with EBITDA margin expansion of 1.9 ppts to 26.7%
 - Total expenses down by 4.9% with operating expenses declining by 7.7% while Mobile cost to serve ratio was optimised from 30.9% in the prior year to 26.9%
 - On a normalised basis, Group EBITDA declined 1.4% as cost savings were not sufficient to offset a decline of 2.3% in Group revenue

Statement from the Group Chief Executive Officer: Serame Taukobong

Telkom published its trading update for the third quarter of the year, demonstrating solid performance in the broadband market despite an intense competitive landscape.

"Our Wholesale business, Openserve, continued with its growth trajectory in the fibre market. In line with its strategy to accelerate the FTTH footprint while simultaneously focusing on connecting a home, Openserve grew homes passed with fibre by 65.5% year on year to 801k. While increasing the number of homes connected with fibre by 38.6% year on year, representing a connectivity rate of approximately 44.8%. The lower connectivity rate compared to the prior year reflects the lag between passing and connecting a home. Mobile broadband demand continued to grow from the significantly higher volumes seen in the prior year. Mobile traffic grew 7.9% year on year from a higher base to 246 petabytes, supported by year on year growth of mobile broadband customers. To date, total broadband customers (fixed and mobile) increased by 3.3% year on year to 11 million", says Serame Taukobong, Group Chief Executive Officer.

“Notwithstanding the operational performance, our Group revenue was under pressure in Q3 FY2022. Our Mobile and Masts and Tower businesses continued to grow, sustaining the higher levels demonstrated in Q3 FY2021. However, this was offset by the ongoing challenges in the legacy business and IT business. Noteworthy, despite Group revenue being under pressure, our sustainable cost management continued to deliver efficiencies with operating expenses (“opex”) declining 7.7% year on year, far exceeding management’s target of containing opex growth below inflation”, Taukobong concludes.

Operating review

Sustainable cost management continued to deliver efficiencies despite challenges in revenue

Group EBITDA grew by 5.4% with EBITDA margin expanding by 1.9 ppts to 26.7%. Despite pressure on topline revenue, our sustainable cost management program continued to deliver positive results with total Q3 FY2022 expenses reducing 4.9% compared to Q3 FY2021. Opex reduced 7.7% year on year, far exceeding management’s target of containing opex growth below inflation. Mobile cost to serve ratio reduced from 30.9% in Q3 FY2021 to 26.9% in Q3 FY2022 due to optimised roaming costs as a percentage of revenue, despite growth in traffic. However, on a normalised basis excluding the impact of VSP/VERP, Q3 FY2022 Group EBITDA declined 1.4% compared to Q3 FY2021 as costs savings were not sufficient to offset the decline in Group revenue.

Group revenue for Q3 FY2022 declined by 2.3% year on year to R10 786 million. Q3 FY2022 revenue in the Mobile business and the Masts and Towers business (Swiftnet) grew 4.9% and 4.6% compared to Q3 FY2021. This was offset by the ongoing challenges in the IT business and the legacy fixed business. Our Q3 FY2022 legacy fixed business continues to decline, although the rate of decline has slowed down from double digit decline, we saw in the prior year to 7.1%. In addition, the IT business remains challenged due to the lingering impact of Covid-19 and the global shortage of chips which led to BCX being unable to fulfill backorders for IT hardware in the first nine months of the financial year.

Mobile broadband continues to support growth

The Consumer business revenue was relatively stable and comparable to the quarters reported in this financial year at R6 544 million with a marginal decrease of 0.8% year on year. We continue to aggressively drive technology refresh to newer technologies, such as fibre and LTE as well as the utilisation of nascent 5G technology.

Q3 FY2022 mobile service revenue grew 2.3% year on year to R4 399 million. This was supported by a 10.0% year on year growth in active customers to 16.4 million. Given the challenging macro-economic environment, postpaid consumers are becoming more cost savvy and are continuously searching for ways to manage and reduce their spend, resulting in real growth only emanating from the prepaid market. Despite the challenging environment, our postpaid customer base was relatively flat at 2.6 million, with postpaid ARPU up 1.8% year on year to R215. The prepaid market remains the driver of new connections, prepaid customers grew by 12.0% to 13.8 million. In the third quarter, we recorded 143 634 prepaid net additions. Prepaid ARPU declined by 16.1% to R67 compared to R80 reported in the prior year, as a result of the country slowly normalising following a reduction of Covid-19 restrictions.

Q3 FY2022 mobile data revenue grew by 2.6% to R3 127 million supported by an increase of 7.9% in mobile broadband traffic. Mobile broadband customers grew by 4.0% to 10.5 million, representing 63.6% of our active customer base. Capex investment of R2 018 million for the financial year enabled improved capacity and coverage with 7 082 base stations now integrated, representing a 15.4% year on year increase in base stations.

Q3 FY2022 mobile EBITDA margin improved by 2.9 pts, benefitting from the mobile service revenue growth and cost containments. The Mobile cost to serve ratio continues to improve, decreasing from 30.9% to 26.9%. The benefit of the second roaming agreement is still to be realised.

Our digital and fintech revenue streams are starting to gain momentum. Fintech products and channels provide avenues to de-risk our core business, extend sales channels and offering new revenue. With data being at the core, we will maintain a value driven pricing strategy and offer segmented value propositions. We are continuing our improvement in customer experience and aim to grow our non-connectivity/application services revenue with a focus on Fintech, SmartHome and content.

BCX remains under pressure impacted by global supply challenges

Q3 FY2022 BCX revenue declined by 3.6% to R3 769 million because of global supply challenges. Global challenges, such as the global chip shortage and shipping delays, exacerbates backlogs and offsets any relief from the waning Covid-19 conditions. After the likely slight rebound in GDP for 2021, we cautiously anticipate that our stable corporate client base will review ICT projects that were previously delayed due to the pandemic.

The Converged communication (fixed) business trend continues with a 2.9% increase compared to the prior year. The improvement is attributable to higher demand in customer premises equipment to support the increase in data usage. The IT business is still the hardest hit during the constrained environment with Q3 FY2022 revenue down 8.8% compared to Q3 FY2021. This stems mainly from the backlog in IT hardware due to the global chip shortage impacting the manufacturing of IT equipment. We continue to retain our existing customer base.

Management remains committed to driving the cost efficiencies program with a quarter on quarter EBITDA margin expanding by 2.5 pts. On a year on year basis, BCX Q3 FY2022 EBITDA margin contracted by 0.7 pts to 17.7% in comparison to Q3 FY2021.

Whilst the current environment continues to be challenging within the IT market, BCX remains focused on the opportunities the future holds. BCX was selected as the Cisco Middle East and Africa Security Partner of the year, competing against over 2 000 Cisco partners across 70 countries. We continue to pursue partnerships driving customer solutions and focusing on growing our cybersecurity business.

Openserve continues stabilisation path

Q3 FY2022 revenue of R3 348 million was in line with the reported quarters for the financial year and marginally lower than Q3 FY2021 by 1.2%. Openserve's revenue stabilisation for the year is mainly attributable to growth in high capacity links for carriers, an increase in demand for fibre services and a slowdown in fixed voice churn as we continue to invest in the network.

Significant strides were made in the fibre business, with fibre to the home increasing by 65.5% year on year to 801 084. The number of homes passed and connected increased to 358 528, an increase of 38.6%, with a connectivity rate of 44.8%. The slight dilution in FTTH connectivity rate reflects a lag between passing and connecting a home. The increase in the number of homes connected with fibre enabled Openserve to increase the services, consisting of broadband, voice, and other IP security services. Our broadband connections on speeds of 10 Mbps and higher improved by 11.4% with now more than 75% of our customer base utilising such speeds.

Q3 FY2022 EBITDA margin of 30.9% was in line with the prior year, underpinned by the stable revenue performance and ongoing cost efficiency initiatives.

M&T business sustains its growth trajectory

Q3 FY2022 Swiftnet revenue increased by 4.6% to R317 million and the EBITDA margin decreased marginally by 0.4 pts to 78.5%. The tower build program remains on track with 56 towers constructed in Q3 FY2022, amounting to 114 towers constructed in the financial year. We continue to advance development partnership opportunities with experienced property investors for select property development opportunities which are in the investment decision and pre-construction phase.

Unlock value for shareholders

The Value Unlock programme relating to Swiftnet, Telkom's masts and tower business, is on track. The Board remains committed in pursuing its listing on the JSE before the end of the financial year. Substantial progress continues to be made and the Board expects to make a further announcement regarding a separate listing of Swiftnet soon. The Board believes that a separate listing of Swiftnet will affirm the valuation of the masts and tower business and its contribution to the overall valuation of the Telkom business, thereby unlocking further value for Telkom.

The proceeds of the value unlock are expected to be reinvested in the business and/or rebase the balance sheet and/or shareholder rewards.

Update on the regulatory environment

Telkom supports the release of spectrum. It should be released as soon as possible following a lawful, reasonable, and fair process. The release of spectrum must promote effective competition for the benefit the consumer, the sector, and economy. As such, Telkom has requested an expedited review of the currently flawed process. Subject to the directions of the court, Telkom has requested that the review be heard on 1-4 March 2022.

ICASA has published a discussion document on the review of the call termination regime. Public hearings are scheduled for 7 February 2022.

ICASA has indicated that it still views competition in mobile and fixed termination markets to be ineffective. For this reason, it maintains its stance that call termination rates be regulated. Telkom has expressed concerns that the proposed removal of the pro-competitive mobile termination rate ("MTR") asymmetry for operators with a market share of less than 20% combined with the retention of the existing fixed termination rate MTR differential will hinder smaller operators' ability to compete effectively.

SIU investigation

The matters outlined for investigation by the SIU are of public record. Based on information currently at the company's disposal, Telkom does not anticipate that the investigation by the SIU will reveal any new facts and any losses. Therefore, at this point, Telkom expects no material impact on its financial statements resulting from outcomes of the SIU investigation. Telkom awaits further clarity and direction from the SIU on the scope and timing of the investigation and is committed to supporting them complete the investigation efficiently.

The information contained in this trading update has not been reviewed or reported on by Telkom's independent external auditors. All numbers and percentages in this update reflect Q3 FY2022 compared to Q3 FY2021 unless otherwise stated.

Centurion

7 February 2022

Sponsor: Nedbank Corporate and Investment Banking

Quarterly financial information

The following table includes statutory and normalised EBITDA. The prior year normalised Group EBITDA excludes R196 million cost related to VSP/VERP. Normalised numbers are prepared on a pro-forma basis, are the responsibility of the directors and have been prepared for illustrative purposes only and due to their nature, may not fairly represent Telkom's performance.

(R'm)	Q3 FY2022	Q2 FY2022	Q1 FY2022	Q4 FY2021	Q3 FY2021	Q2 FY2021	Q1 FY2021
	December 2021	September 2021	June 2021	March 2021	December 2020	September 2020	June 2020
Group revenue	10 786	10 674	10 618	10 790	11 036	11 141	10 255
Group EBITDA (statutory)	2 881	3 227	2 751	3 062	2 733	3 343	2 565
Group EBITDA margin (%)	26.7	30.2	25.9	28.4	24.8	30.0	25.0
Group EBITDA (normalised)	2 889	3 227	2 751	3 136	2 929	3 343	2 565
Group EBITDA margin (%)	26.8	30.2	25.9	29.1	26.5	30.0	25.0
Group capex	1 545	2 107	1 503	3 323	2 183	1 778	1 164
Revenue breakdown							
Fixed	3 743	3 858	3 843	3 993	4 030	4 441	4 072
Voice and subscription	1 203	1 331	1 353	1 451	1 510	1 610	1 539
Usage	479	543	526	550	575	615	473
Subscriptions	724	788	827	901	935	995	1 066
Interconnection	81	104	62	77	159	101	98
Fixed-line domestic	45	53	38	49	52	59	47
Fixed-line international	36	51	24	28	107	42	51
Data	2 034	2 068	2 038	2 053	2 194	2 181	2 143
Data connectivity	1 503	1 520	1 476	1 536	1 579	1 574	1 458
Internet access and related services	367	384	370	381	380	390	410
Managed data network services	166	161	199	167	186	223	252
Multimedia services	-2	3	-7	-31	49	-6	23
Customer premises equipment sales and rentals	346	311	324	368	112	481	228

Sales	134	116	165	120	-90	232	44
Rentals	212	195	159	248	202	249	184
Other revenue	79	44	66	44	55	68	64
Mobile	5 314	5 158	5 208	5 107	5 066	5 061	4 392
Mobile voice and subscriptions	1 150	1 123	1 113	1 081	1 140	1 092	929
Mobile interconnection	122	119	118	121	113	139	112
Mobile data	3 127	3 163	3 211	3 154	3 047	3 119	2 891
Mobile handset and equipment	861	693	703	700	705	648	395
Significant financing component	54	60	63	51	61	63	65
Information technology	1 458	1 367	1 313	1 417	1 660	1 318	1 591
Information technology service solutions	857	865	729	937	973	695	861
Application solutions	231	233	252	230	261	301	320
IT hardware and software	330	250	289	175	407	277	376
Industrial technologies	33	14	36	33	34	30	34
Significant financing component	7	5	7	42	-15	15	0
Other	271	291	254	273	280	321	200
Trudon	106	94	77	106	115	114	51
Gyro	165	197	177	167	165	207	149
Total	10 786	10 674	10 618	10 790	11 036	11 141	10 255

Quarterly information (Business unit stand-alone view)

(R'm)	Q3 FY2022	Q2 FY2022	Q1 FY2022	Q4 FY2021	Q3 FY2021	Q2 FY2021	Q1 FY2021
	December 2021	September 2021	June 2021	March 2021	December 2020	September 2020	June 2020
Revenue							
Telkom Consumer	6 544	6 441	6 519	6 526	6 599	6 669	6 021
BCX	3 769	3 674	3 787	3 883	3 911	3 964	3 984
Openserve	3 347	3 373	3 347	3 252	3 387	3 451	3 395
Swiftnet	317	349	325	306	303	326	302

EBITDA margin (%)							
Consumer	17.1	19.6	17.9	20.1	16.7	21.3	19.5
BCX	17.7	15.2	12.9	15.5	18.4	18.0	10.7
Openserve	30.9	34.7	29.2	36.9	30.8	28.3	28.1
Swiftnet	78.5	81.9	75.7	87.9	78.9	79.8	76.0
Mobile service revenue (external)	4 399	4 404	4 443	4 356	4 300	4 349	3 933
Mobile EBITDA margin	26.5	29.2	28.4	28.6	23.6	30.5	29.2

Quarterly operational information

	Q3 FY2022	Q2 FY2022	Q1 FY2022	Q4 FY2021	Q3 FY2021	Q2 FY2021	Q1 FY2021
	December 2021	September 2021	June 2021	March 2021	December 2020	September 2020	June 2020
Broadband subscribers	11 021 999	11 204 557	11 105 198	10 861 786	10 673 916	10 281 853	8 715 232
Fixed broadband subscribers	567 853	562 552	571 023	605 807	617 047	637 884	667 920
Mobile broadband subscribers	10 454 146	10 642 005	10 534 175	10 255 979	10 056 869	9 643 969	8 047 312
Active mobile subscribers	16 430 307	16 258 857	16 068 102	15 325 582	14 931 670	13 686 689	11 792 328
Prepaid subscribers	13 839 870	13 696 236	13 490 473	12 745 988	12 354 754	11 077 104	9 190 702
Postpaid subscribers	2 590 437	2 562 621	2 577 129	2 579 594	2 576 916	2 609 585	2 601 626
Mobile blended ARPU (rand)	91.45	92.40	94.31	104.45	107.80	112.55	111.40
Prepaid ARPU	66.68	67.21	67.84	77.05	79.51	83.55	80.07
Postpaid ARPU	215.49	216.84	221.11	211.22	211.75	211.19	212.79
Traffic							
Fixed broadband (petabytes)	428	429	380	357	348	359	364
Mobile broadband (petabytes)	246	248	234	235	228	231	248
Total fixed-line traffic (millions of minutes)	1 512	1 589	1 569	1 667	1 768	1 830	1 522
Network							
Homes passed with fibre	801 084	707 399	612 451	549 957	483 977	458 791	456 163

Homes connected with fibre	358 528	331 735	306 837	281 065	258 640	247 019	232 118
Fibre connectivity rate (%)	44.8	46.9	50.1	51.1	56.7	53.8	50.9
Mobile sites integrated	7 082	6 910	6 646	6 430	6 135	6 159	6 106

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 www.telkom.co.za/ir.

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.