

Telkom SA SOC Ltd
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ISIN: ZAE000044897 (Telkom, the Company or the Group)

Group Interim Results for the six months ended 30 September 2023

Highlights

- Revenue¹ up 2.5% to R21 778 million
- Next-generation revenue up 8.1% to R17 234 million
- EBITDA^{1,5} up 1.7% with EBITDA margin^{1,5} at 23.1%
- HEPS^{1,2,5} up 46.7% to 195.0 cents per share
- BEPS¹ up 52.1% to 200.2 cents per share
- FCF^{3,5} up 130.4% to R573 million
- Mobile service revenue up 5.8% to R9 293 million

Telkom delivered solid earnings growth despite a tough trading environment. The first half of the year saw the economy struggle to grow with a high inflationary environment, propelling the highest interest rate levels South Africa has experienced in 14 years. Group performance was pleasing despite these challenges. We focused on driving top-line growth and cost-reduction initiatives to offset inflationary cost pressures and the added cost of loadshedding.

Telkom saw good growth in mobile service revenue driven by value-compelling propositions. We also sustained the growth trajectory in the fibre business from monetising fibre rollouts, as well as good growth of the IT business driven by increased demand for hardware and software by enterprise customers. The Group also continued to manage the migration to newer technologies as legacy and fixed voice revenues reduced as expected, and will continue to do so in the coming 12 to 18 months.

Telkom remains resolute in executing its strategic goals. We are proud to have made good progress on the Value Unlock programme. We have prioritised concluding the disposal of the masts and towers business while positioning the Telkom of Tomorrow as a leading Infrastructure Company (InfraCo). We are committed to facilitating a seamless management transition with the appointment of our new Group Chief Financial Officer and Chief Capital Projects Officer to focus on driving capital efficiency and realising optimal returns for Telkom InfraCo.

Performance overview

Notwithstanding the challenging operating environment that persisted in the first half of FY2024, Telkom delivered solid earnings, with HEPS^{1,2,5} and basic EPS¹ increasing 46.7% and 52.1%, respectively. Profit for the period was boosted by lower depreciation charges and growth in EBITDA, while higher interest rates materially increased net finance costs compared to the comparative period.

Group revenue¹ advanced by 2.5% to R21 778 million, driven by growth in mobile traffic, the monetisation of the rollout of our fibre infrastructure and growth of the IT business. Our cost-reduction initiatives bore fruit, partially offset inflationary increases and resulted in operating expenses¹ increasing by below inflation at 2.4%. Despite this increase, Group EBITDA^{1,5} grew by 1.7% to R5 025 million limited by higher bad debt provisions.

Openserve continued its journey to transform its technology, revenue, and channel mix, yielding a pleasing 6.9% increase in next-generation revenue to R4 526 million. In comparison, total operating

revenue declined by 2.7% for the period as legacy revenue declines impacted performance. Strong growth in next-generation revenue was due to the growth in fixed data revenue, which increased by 9.1%, underpinned by significant growth in high-speed fibre broadband connectivity and a steady increase across carrier services and enterprise connectivity. As the ever-increasing demand for data continued, we saw a 17.6% increase in fixed data traffic to 1 081 petabytes and are well positioned to provide a differentiated customer experience through additional capacity and diversity through our partnership with Google as its cable landing partner in South Africa and offer terrestrial services across the country. Openserve continued to drive market leadership with the highest fibre connectivity rate of 46.8% in the market, underpinned by a 22.4% increase of homes connected to 542 598 while homes passed grew by 20.6% to 1 158 761. The introduction of a sustainable energy mix coupled with improved efficiencies through an optimised headcount and exchange portfolios resulted in an increased EBITDA margin to 31.8%, despite higher operating costs caused by loadshedding.

Revenue for Telkom Consumer grew by 1.4%, driven by the value-compelling propositions of Mobile operations. Total external revenue from Mobile operations grew by 4.1% to R11 035 million, driven by 5.8% growth in mobile service revenue as the demand for data surged by 22.9% to 676 petabytes for the period.

Our subscriber base now stands at 18.3 million with a blended average revenue per user (ARPU) of R85. Our pre-paid customer base expanded by 1.0% to reach 15.3 million with an ARPU of R64, while the post-paid segment grew by 3.6%, reaching 3.0 million with an ARPU of R182. We continued to divest and manage the transition from legacy to next-generation technologies, with copper-based voice services now constituting a mere 4.5% of revenue, a decrease from the previous year's 6.2%.

The mobile broadband subscriber base increased by 10.5% to 12.2 million driven by the expansion of our LTE increasingly preferred offerings of affordable entry-level LTE pre-paid bundles and unlimited LTE post-paid offerings. Wireless broadband users now make up 66.7% of the total mobile base.

BCX continued focusing on improving the quality of its revenue mix by accelerating IT services revenue while managing the migration to next-generation technologies. Revenue increased by 0.7% to R7 043 million, primarily due to the double-digit growth in the IT business, partially offset by legacy declines in the Converged Communications business. The IT business revenue increased by 10.3% to R4 192 million, driven by the strong performance of the hardware and software segment resulting from customers' renewals of software contracts along with cleared prior year backlogs. While this growth provided BCX with access to a broader client footprint, it came at lower margins and reduced overall profitability for the period.

Gyro's masts and towers business (Swiftnet) which is classified as held for sale (presented as a discontinued operation) continued to commercialise, driven by additional tenancies on the existing portfolio and ongoing equipment upgrades by mobile network operators in enhancing their capacity and network, including deploying 5G. Eleven towers and one in-building solution site were constructed during the first half of the year, growing the total productive towers to 4 008. Revenue from continuing customers increased by 6.8% to R499 million, while total revenue was impacted by terminations and marginally reduced by 1.2% to R652 million.

Gyro also focused on realising value and optimising its property portfolio along with Telkom's properties through the accelerated disposal of decommissioned assets no longer required for operational purposes. We concluded offers to purchase amounting to R305 million for 50 properties during the period. Execution of energy projects also progressed through various interventions across all Telkom business units to ensure the resilience and efficiency of Telkom's network and operations while contributing towards attaining our ESG targets.

Strategy update

Telkom is embarking on a journey to transform and reorganise itself as an infrastructure company at its core. This is intended to promote strategic growth through consolidating core assets to drive capital efficiency, promote operational synergies to offset the impact of migrations to next-generation technologies and exploit

the right to win. This journey encompasses consolidating all of Telkom's infrastructure assets into the InfraCo, going to market as One Telkom to harness synergies across the business while maintaining each business unit's identity, and disposing of non-core assets. The journey to the Telkom of Tomorrow is anticipated to emerge over 12 to 18 months and be in full effect by the end of 2025. From here on, the focus will be to build from this base, grow and scale the business sustainably, and realise optimal returns for the Group going forward.

Committed to realising value

The Board is committed to the Value Unlock Strategy premised on Telkom's market capitalisation not representing the intrinsic value of its underlying assets. Value is realised by affirming the valuation of underlying businesses and their contribution to the valuation of Telkom while ensuring long-term sustainable growth for the Group. While the Board has approved an outright sale of the masts and towers business, other business units were investigated for minority and majority strategic equity partnerships to realise value and at the same time securing benefits from future capabilities and/or scale enhancements from potential strategic partnerships. The following progress was made in these areas during the period:

1) An official process was launched after the Telkom Board's approval for the outright sale of Swiftnet, the masts and towers business. The disposal process is at its final stages and Telkom has entered into an exclusivity period with a preferred bidder. As such, shareholders are advised to exercise caution, as indicated in the SENS announcement released on 21 November 2023, when dealing in Telkom's securities until a further announcement is made on the potential transaction. Accordingly, Swiftnet has been classified as an 'Asset Held for Sale' in line with IFRS reporting requirements.

2) Telkom is focused on positioning itself as an infrastructure business at its core. Once the InfraCo structure is in place and the masts and towers transition is concluded, Telkom will consider further opportunities to realise value, including those in relation to the minority partnerships for Openserve and a strategic equity partner for BCX.

Management transitions to drive Telkom of Tomorrow

The appointment of our incoming Group Chief Financial Officer (CFO), Ms Nonkululeko Dlamini, effective 01 December 2023, will ensure the continued execution of Telkom's reinvigorated strategy. Her skills in capital projects, capital raising, cost management and strategy alignment are a strong fit for the executive team. This will lead Telkom's strategic direction as an InfraCo.

Our current Group CFO, Dirk Reyneke, will assume the role of Chief Capital Projects Officer. His in-depth knowledge of all Telkom business units positions him well for this strategic role focused on driving capital efficiency, realising optimal returns for capital deployed, and sharing his expertise and experience with his successor.

Group revenue supported by next-generation revenue growth

Group revenue¹ increased by 2.5% to R21 778 million, driven by an increase in mobile data and fixed data connectivity revenue of 10.3% and 6.4%, respectively, and a 26.2% increase in IT hardware and software sales revenue. This was partially offset by a 23.2% decrease in fixed voice revenue due to the ongoing migration to modern technologies such as fibre and LTE.

EBITDA⁵

Group EBITDA^{1,5} increased 1.7% to R5 025 million, with the EBITDA margin^{1,5} contracting 0.2 percentage points (ppts) to 23.1% compared to the comparative period. The Group revenue¹ increase of 2.5% was offset by 2.4% higher operating expenditure¹ (opex), a 10.6% increase in sales commission and incentives from mobile and a 2.7% increase in the cost of handset, equipment and directories mainly attributable to the 26.2% increase in IT hardware and software revenue.

The opex increase is mainly attributable to a 77.8% increase in impairments of receivables¹ due to tough economic conditions, higher maintenance in line with the growth in mobile sites integrated, and accelerated loadshedding, partially offset by a 7.1% decrease in employee expenses due to the 16.3% lower headcount and no salary increases and performance incentives.

Mobile cost to serve deteriorated slightly by 0.3 ppts to 28.0% compared to 27.7% in the comparative period but recovered from 28.4% recorded for the year ended 31 March 2023. The year-on-year increase in cost to serve is driven by increased costs associated with the post-paid market, such as distribution channel costs. This was mitigated by optimising roaming costs as we maintain stringent roaming traffic thresholds and migrate traffic to our network.

FCF3,5 supported by improved working capital management

FCF3,5 excluding restructuring cost paid increased 130.4% to R573 million (H1 FY2023: negative R1 887 million), primarily due to the 95.8% increase in cash generated from operations. This is mainly driven by the R872 million working capital improvement due to efficient working capital management and the increase in profit before taxation¹ of 45.9% or R412 million compared to the prior period.

Regulatory and legal developments

Radio Frequency Spectrum

The Minister of Communications and Digital Technologies confirmed that the final analogue television switch-off date in the frequency bands above 694 MHz would be 31 July 2023. The switch-off would make available for use nationally the sub 1 GHz spectrum obtained by Telkom during the auction held in March 2022. Following the switch off date, Telkom, along with other market participants, informed ICASA that, although analogue broadcasting transmitters were switched off on 31 July 2023, interference was still being experienced in some areas. ICASA committed to investigating the issue and to have the sub 1 GHz IMT bands cleared by 30 September 2023. ICASA has confirmed that the issues with interference have now been resolved and that this spectrum should now be available nationally. Telkom has already deployed the acquired spectrum in those areas unaffected by television services interference and should now be able to deploy our spectrum anywhere in South Africa based on our commercial requirements. If further interference is present, these will be resolved by the Authority in accordance with the standard interference resolution processes. With the clearing of the sub 1 GHz (as confirmed by ICASA), the outstanding auction fees are payable. ICASA has stated that these outstanding fees must be paid on or before 31 December 2023.

ICASA has also begun the process of licensing additional high demand spectrum and has stated that it aims to conclude this process by 31 March 2024. Telkom has requested that ICASA postpone the second auction to the next financial year (i.e. 2025), on the basis that studies still need to be completed by ICASA in preparation for the next auction, and that the current challenging economic environment, including the impact of loadshedding, will make it particularly difficult for Telkom and other market participants to partake in the auction. ICASA has, to date, not responded to Telkom's request.

Electronic Communications 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, mobile virtual network operators, passive infrastructure, access to facilities, and competition. Telkom filed a comprehensive submission on the Bill on the extended due date of 31 August 2023.

Outlook

In the first half of FY2024, we prioritised driving cash generation by harnessing opex savings, managing working

capital, and focused on capital expenditure for growth and maintaining the availability of our fixed and mobile networks. All this was underpinned by refreshing our Company's culture and aligning senior leadership on the Telkom of Tomorrow as we evolve into an InfraCo. While we saw positive momentum in the current period, the increasingly challenging economic environment we operate in will continue to impact the performance across the entire telecommunications industry as we manage loadshedding through prioritising alternative energy investments.

Despite the challenging macro-economic environment, our guidance* for FY2024 remains unchanged. Group revenue and EBITDA are expected to grow at low to mid single digits as we focus on driving the top line and harnessing cost savings to improve our profitability by FY2025. We will continue to invest in our infrastructure to facilitate growth, with the capex-to-revenue ratio expected to be on the lower end of our 16% to 18% guidance for FY2024, in line with our prudent approach to capex for the year.

* The guidance in this outlook has not been reviewed or reported on by Telkom external auditors.

Financial information summary	September 2023 Rm	Restated September 2022 Rm	Variance %
Revenue ^{1,5}	21 778	21 238	2.5
EBITDA ^{1,5}	5 025	4 943	1.7
EBITDA margin (%) ^{1,5}	23.1	23.3	(0.2)
Capex ⁴	3 143	3 689	(14.8)
FCF ^{3,5}	573	(1 887)	130.4
BEPS (cents) ¹	200.2	131.6	52.1
HEPS (cents) ^{1,2,5}	195.0	132.9	46.7
Net debt ^{4,5} to EBITDA ^{1,5} (times)	1.8	1.7	0.1
Interim dividend (cents)	-	-	-

1 Presents the combination of the continuing and discontinued operations.

2 The HEPS comparative was restated by 4.3 cents per share.

3 FCF was adjusted to exclude R1 051 million restructuring cost paid. Including the restructuring cost, FCF of negative R478 million was generated resulting in a 74.7% increase compared to the prior period.

4 Includes held-for-sale assets and liabilities.

5 This is a non-defined IFRS measure.

Mvuleni Geoffrey Qhena
Chairman

Serame Taukobong Group
Group Chief Executive Officer

Dirk Reyneke Group
Group Chief Financial Officer

21 November 2023

Sponsor
Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Further information: The short-form interim financial results announcement is the responsibility of the Board of Directors of Telkom. It is only a summary of the information contained in the long-form interim financial results announcement and does not contain full or complete details.

Any investment decisions should be based on the long-form interim financial results announcement published on the

JSE's website on Tuesday, 21 November 2023 and also available on Telkom's website at <https://group.telkom.co.za//ir/>. The long-form interim financial results announcement, which includes the PricewaterhouseCoopers Inc. unmodified review report, is available on the Company's website at: <https://www.telkom.co.za/ir/financial/financial-results-2024.shtml> and on the JSE's website at: <https://senspdf.jse.co.za/documents/2023/jse/isse/TKG/ie2023.pdf>

Copies of the Telkom interim financial statements for the period ended 30 September 2023 may be requested from Karabelo Mosia at mosiakl@telkom.co.za

Transfer secretaries are Computershare and they are contactable on +27 11 370 5000.

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