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 first quarter ended 30 June 2024

Q1 FY2025 HIGHLIGHTS

- **Group revenue up 3.9%** to R10 907 million
- **Group next generation ("NGN") revenue up 7.0%**
- **Group EBITDA up 24.1%** to R2 778 million*
- Telkom Consumer performance driven by growth in value-compelling data offerings
  - **Mobile revenue up 5.3%** to R5 737 million
    - **Mobile service revenue up 9.5%**
    - **Mobile data revenue up 12.9%**
  - **Mobile EBITDA up 35.7%** to R1 543 million
- **Openserve fixed data NGN revenue up 7.1%**
  - **EBITDA up 16.8%** to R1 023 million
  - **Market-leading** fibre-to-the-home ("FTTH") **connectivity rate of 49%**
- **BCX revenue up 2.4%** to R3 175 million
  - **IT revenue up 7.1%**
- **Swiftnet revenue up 5.2%**
- **R161 million proceeds** from non-core property disposals

** EBITDA growth for Q1 is on the back of a stronger Q1 FY2025 compared to the prior comparative period. The growth is expected to moderate for the full year driven by a higher base from the second quarter to the end of FY2024.*

Group Chief Executive Officer – Serame Taukobong commented:
"Telkom had a good start to the financial year with pleasing performance on the top line benefiting from our data-led strategy and compelling value propositions. Our next generation revenue streams continued their positive momentum and grew by R576 million, an increase of 7.0%. NGN revenues now comprise 80.7% of Group revenue.

NGN broadband offerings, enabled by our ongoing capital investment in our mobile and fibre networks; have positioned Telkom advantageously as the best value mobile network while the connect-led strategy for our fibre network further improved the market-leading home connection rate to 49.0% for the quarter. These capex investments give our networks the capacity to accommodate and handle high data traffic demands from our retail and enterprise customers, on already existing mobile and fibre infrastructure.

We are pleased that the Group expanded its EBITDA margin by 2.3 percentage points (ppts) from 31 March 2024 driven by top line growth and stringent cost management, despite inflation causing upward pressure on costs as our ongoing cost optimisation initiatives yield positive results. We continue to focus on cost containment while simultaneously monetising our networks by adding to our mobile sites and expanding fibre footprint where these investments contribute to top line growth and overall profitability."

STRONG FINANCIAL PERFORMANCE DRIVEN BY SOLID SUBSCRIBER GROWTH AND UPTAKE OF NEXT GENERATION DATA OFFERINGS

Telkom achieved strong quarterly results for the three months ended 30 June 2024 in weak economic conditions and a challenging trading environment. Group revenue grew within guidance and advanced by 3.9% to R10 907 million year-on-year (y-o-y) driven by growth in demand for our NGN offerings. Key contributors to strong NGN growth include Mobile service revenue growth of 9.5%, fixed data NGN revenue growth of 7.1% and information technology revenue growth of 10.3%.

We saw continued momentum in demand for data traffic and mobile with fixed traffic growing 25.8% and 33.0%, respectively y-o-y. Our mobile subscribers advanced by 14.6% and surpassed the 21 million mark with a stable pre-paid ARPU and post-paid base, while homes connected with fibre grew by strong double digits, at 19.5% y-o-y.

These key performance drivers propelled NGN revenue growth, supported by reduced direct costs resulting from ongoing cost optimisation projects. This led to EBITDA growth of 24.1%, advancing EBITDA to R2 778 million with the Group EBITDA margin improving to 25.5%, also benefiting from a stabilised electricity supply in South Africa during the quarter.

OPERATIONAL REVIEWS

Telkom Consumer's improved performance driven by our data-led strategy

Telkom Consumer recorded a 2.6% increase in revenue to R6 589 million, in a challenging competitive landscape. Our overall performance was on the back of a data-centric approach stemming from both the Mobile business and the expansion of our fibre offerings.

Mobile business revenue growth was propelled by a 9.5% increase in external mobile service revenue to R4 996 million, with total external revenue increasing by 5.3% to R5 737 million. This growth was driven by our continuous delivery of innovative and value-oriented offerings, which significantly stimulated data consumption. Increasingly, consumers sought value on our personalised pricing platform, Mo'Nice, which now accounts for 35.4% of total service revenue.

The driving force behind our performance stems from the strengthening of our subscriber base, which rose by 14.6% to 21.2 million total mobile subscribers, characterised by a blended ARPU of R81 (Q1 FY2024: R83). Our post-paid subscriber base remains steady at approximately 3.0 million, with an ARPU of R183 (Q1 FY2024: R183), while the pre-paid segment experienced an increase of 17.4% to 18.2 million subscribers with an ARPU of R62 (Q1 FY2024: R63).

Our data-led strategy has at its core the provision of unparalleled customer value proposition, where we experienced a 25.8% surge in mobile data traffic amounting to 414 petabytes. This growth was bolstered by a 15.1% increase in mobile broadband subscribers, to 13.5 million (comprising 63.5% of total subscribers). As a result, our mobile data revenue had a solid growth of 12.9%. We experienced an 8.0% increase in the fibre subscriber base, supported by a 12.5% ARPU growth resulting in revenue from fibre growing by 25.1%.

Telkom Consumer EBITDA increased by 28.4% to reach R1 201 million, on the back of solid revenue growth and prudent cost containment initiatives. These drivers led to an increase in the EBITDA margin of 3.6 ppts. Mobile EBITDA in turn grew by 35.7% to R1 543 million on the back of strong revenue growth, particularly in the pre-paid domain and reduced load shedding costs. As a result, the Mobile EBITDA margin grew by 6.0 ppts y-o-y.

We are still experiencing robust growth of our “beyond connectivity” services, with revenue holding at R407.5 million. A significant contributor to this growth is the airtime advance product, which increased 32.3% y-o-y and now represents 32.9% of our total recharges.

Capital expenditure allowed for enhanced capacity and coverage across our network of 7 778 base stations, underscoring our commitment to expand and strengthen mobile network infrastructure.

Openserve maintains momentum in next generation expansion

Openserve’s NGN products and services maintained their upward trajectory, showing continued growth with fixed data NGN revenue increasing by 7.1% y-o-y. As Openserve strives to differentiate its product portfolio and strengthen its external wholesale channels, its contribution to Telkom’s overall revenue grew by 9.2% to R1 179 million. These channels experienced strong NGN revenue growth of 9.0% y-o-y, resulting in NGN connectivity now representing more than 94% of Openserve’s overall external wholesale revenue.

While we see ongoing growth in NGN services, the overall revenue declined by 2.4% to R3 056 million y-o-y, primarily driven by a decline of 28.4% (R188 million) in voice and legacy revenue.

Bolstered by the strategic imperative of building an extensive network, homes passed increased by 13.4% to 1 256 603 homes. Openserve’s connect-led strategy continued to deliver positive results with an increase of 19.5% in the number of homes connected to 615 430, resulting in a connectivity rate of 49.0%, which continues to be market leading. With the increase in demand for connectivity and high-speed broadband, we continued to see growth in data consumption as it advanced by 33.0% to 681 petabytes for the quarter. We are confident that the capital investment to modernise and transform our network will continue enabling us to connect more homes as well as cater for higher bandwidth requirements from our customers.

Significant strides were made in delivering excellence in customer experience through innovation and the automation of processes that allow customers and employees to have a seamless experience. The Interaction Net Promotor Score (iNPS) was at 72.3, a 3.3% increase y-o-y, while network reliability remained at the forefront of the industry with exceptional performance across access, transport and core network layers achieving uptime of 99.95%, 99.91% and 99.99% respectively.

In addition to our network consolidation and simplification strategy, Openserve continued to execute on improved green energy mix through the deployment of lithium-ion batteries and solar energy solutions together with an improved diesel delivery model. These initiatives, coupled with the strategic upgrade of technologies and infrastructure at key central office locations along with the improved stability of the electricity grid, resulted in a decrease of 84.6% (R128 million) in diesel spend to R23 million for the quarter. These cost efficiency initiatives contributed to an increase of 16.8% in EBITDA to R1 023 million and a 5.5 ppts y-o-y growth in EBITDA margin to 33.5%.

Openserve remains steadfast in its commitment to execute on its strategy, guided by a well-defined strategic plan. Our strategic execution remains strong, emphasising our transformation journey as well as improved customer experience through focused investments in infrastructure and essential capabilities.

BCX revenue up supported by growth in the IT business

BCX revenue increased by 2.4% to R3 175 million, on the back of strong performance in the IT Hardware and Software business.

The IT business grew reported revenue by 7.1% to R1 790 million, primarily driven by the continued over-performance of the software and hardware business. The IT hardware and software business saw revenue growth of 22.5% y-o-y, driven by an increase in new business and clearing of backlog orders. While the low-margin hardware and software business supports revenue growth, it is done strategically to allow BCX to gain access to a wider client base to enable the selling of high-margin IT services in order to improve product mix. The growth in the IT hardware and software business is primarily due to the growth in the local business unit with an increase of 29.8%. The IT Services revenue was stable at R1 117 million.

The Converged Communications business revenue declined by 3.2% to R1 385 million driven by the continued migration from legacy services. Legacy telephone lines continued to decline and resulted in voice revenue declines of 14.6% y-o-y, in line with our migration strategy. Data connectivity revenue, which contributes 33.9% to the Converged Communications revenue, has reached an inflection point with 78.2% of revenue comprising NGN revenue.

EBITDA declined by 8.0% to R253 million y-o-y driven by the impact of revenue growth from low-margin hardware and software business along with converged communications legacy declines. This was offset by the decline in impairment of receivables as collections improved. EBITDA margin decreased by 0.9 ppts y-o-y resulting in a margin of 8.0% for the quarter.

Swiftnet continued to grow, with an increased focus on Power-as-a-Service

Swiftnet continued to augment and commercialise the business by adapting to changing market conditions and identifying additional opportunities for revenue streams, whilst maintaining strong EBITDA margins.

The tower build program remained on track with four towers and one In-Building Solution (IBS) site being constructed during the quarter.

Swiftnet's revenue during the first quarter increased by 5.2% y-o-y to R343 million, with revenue from growing customers increasing by 14.5% to R285 million underpinned by inflationary escalations, new tenancies, 5G expansion, antennae upgrades as well as new tower builds and IBS, reflecting our customers' focus on network improvement and modernisation.

During the quarter, Swiftnet's EBITDA increased by 7.7% to R252 million y-o-y, at a strong EBITDA margin of 73.5%.

We remain focused on providing value-add offerings to our customers to meet their evolving needs. The planned roll-out of Power-as-a-Service (PaaS) is in execution phase and on track, with 141 PaaS solutions built and connected to customers during the first quarter of the financial year. We will continue the PaaS rollouts at scale during the remainder of the financial year. PaaS has started to generate revenue on sites connected to customers. We expect this service to contribute significantly to revenue growth in the current financial year.

R161 million proceeds from disposals of non-core property

Gyro continued to rationalise the property portfolio through accelerated disposal and transfer of properties that are no longer core for the Group's operational requirements. This ongoing process will continuously reduce the property footprint, optimise property operating costs and realise cash for Telkom.

We began the year with 42 properties with a sales value of R287 million undergoing the conveyancing process, with a target to transfer them during the financial year. From these, we successfully transferred 19 properties, and realised sales proceeds of R161 million in the first quarter.

The first auction for additional properties approved during the quarter was completed in June, resulting in sale offers for nine properties to the value of R33 million. Signature of sale agreements is in progress, ahead of commencement of the conveyancing process. Gyro plans to dispose of more non-core properties (including those previously earmarked for property development) during the rest of the year.

GROUP DEBT ACTIVELY MANAGED AND DEBT PROFILE CONTINUES TO IMPROVE

Telkom recently raised funds by means of a public bond auction in the debt capital markets and successfully issued two bond instruments with 3-year and 5-year tenors raising R345 million and R405 million, respectively. The R750 million will refinance maturing debt and address upcoming maturities in FY2025. The cost of the issuance was achieved at competitive pricing, improving the Group's debt maturity profile and liquidity. We consider this an affirmation of the Group's outlook by local debt capital markets, that will continue to be a source for refinancing bond maturities.

TELKOM CREDIT RATING AFFIRMED BY MOODY'S

On 11 July 2024 Moody's affirmed Telkom's corporate family rating as Ba2 and the national scale rating as Aa2.za with a stable outlook. According to Moody's, these ratings are supported by Telkom's leading market position in South Africa's fixed-line business as operator of the largest fibre network in the country, adequate financial policies along with the expectation that Telkom's credit metrics will strengthen over the coming 12-18 months.

SWIFTNET DISPOSAL UPDATE

Shareholder approval was obtained at a general meeting of shareholders held on 24 May 2024 for the sale of the masts and towers business housed in Swiftnet, for R6.75 billion, to a consortium comprising an infrastructure fund managed by a subsidiary of Actis LLP and an infrastructure vehicle owned by Royal Bafokeng Holdings, the B-BBEE partner.

On 01 August 2024, the Competition Commission of South Africa recommended that the Competition Tribunal of South Africa ("Tribunal") approve the proposed transaction with conditions. The proposed transaction will now be referred to the Tribunal for its decision.

The regulatory approvals required from the Tribunal and the Independent Communications Authority of South Africa (ICASA) are still in progress.

REGULATORY AND LEGAL MATTERS

Licensing of radio frequency spectrum delayed

ICASA indicated on 9 May 2024 that the licensing of additional high demand spectrum will be delayed to 2025/2026. This should allow sufficient time for the Authority to consider all relevant issues in designing the licence process, including consideration of competition and the effect of the spectrum arrangements between licensees. A mobile network operator launched a review application pertaining to the approval by ICASA of spectrum sharing/pooling arrangements between other mobile network operators, which may also have a bearing on the design of the upcoming spectrum licensing process.

Review of call termination rates by ICASA ongoing

Having begun its review of call termination rates in May 2021, ICASA published the Draft Call Termination Regulations on 15 March 2024. Telkom provided its written inputs on the proposed rates and costing methodology. This was followed by public hearings at the ICASA offices on 13 June 2024. Telkom looks forward to the publication of the final regulations and trusts that these will facilitate pro-competitive outcomes in the voice market.

SIU matter – High Court Judgment setting aside Proclamation 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 Investigating Unit ("SIU") authority to investigate various historical 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 State Attorney is progressing the appeal, and on 21 June 2024 Telkom received an application for condonation of the late filing of the SIU's Notice of Appeal. The Supreme Court of Appeal subsequently issued a directive in terms of which it confirmed lodgement of the Notice of Appeal and indicated that the record of High Court proceedings must be filed by 27 September 2024.

The matter is pending before the Supreme Court of Appeal, and Telkom will continue with steps to uphold the High Court order in its favour.

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 30 June 2024 compared to the quarter ended 30 June 2023, unless otherwise stated.

TELKOM MANAGEMENT TO HOST MARKET UPDATE CONFERENCE CALL

Management will host a call for the investment community on Monday, 5 August 2024 at 16h00 South African Standard Time (UTC+2) to go through the trading update and conduct a Q&A session. Dial-in details will be made available on the Group website https://group.telkom.co.za/ir/overview.html.

Centurion

5 August 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 auditor.

(R'm)	Q1 FY2025	Restated Q4 FY2024	Q3 FY2024	Q2 FY2024	Q1 FY2024
	June 2024	**March 2024**	**December 2023**	**September 2023**	**June 2023**
Group revenue[1]	10 907	10 791	11 093	10 845	10 501
- NGN	8 801	8 665	8 889	8 577	8 225
- Traditional & other	2 106	2 126	2 204	2 268	2 276
Group EBITDA - reported (total operations) %[1]	2 778	2 539	2 477	2 786	2 239
Group EBITDA margin - reported (total operations) %[1]	25.5%	23.2%	22.3%	25.7%	21.3%
Group capex	**1 711**	**1 795**	**1 196**	**1 990**	**1 153**
REVENUE BREAKDOWN					
Mobile	**5 737**	**5 591**	**5 957**	**5 587**	**5 448**
Mobile voice and subscriptions	1 044	1 026	1 092	1 038	1 044
Mobile interconnection	125	134	145	119	128
Mobile data	3 827	3 647	3 689	3 575	3 389
Mobile handset and equipment	668	714	960	765	804
Significant financing component	73	70	71	90	83
Fixed	**3 356**	**3 410**	**3 324**	**3 398**	**3 389**
Data	**2 111**	**2 090**	**2 078**	**2 060**	**2 062**
Data connectivity	1 658	1 627	1 602	1 583	1 576
Internet access and related services	333	345	358	356	359
Managed data network services	119	117	117	121	126
Multimedia services	1	1	1	-	1
Voice and subscription	**664**	**701**	**724**	**796**	**846**
Usage	256	284	274	303	324
Subscriptions	408	417	450	493	522
Interconnection	**57**	**65**	**63**	**61**	**58**
Fixed-line domestic	35	37	35	34	36
Fixed-line international	22	28	28	27	22
Customer premises equipment sales and rentals	**323**	**339**	**279**	**306**	**259**
Sales	145	93	83	91	67
Rentals	178	246	196	215	192
Insurance service revenue	**72**	**72**	**74**	**73**	**62**
Other revenue	**129**	**143**	**106**	**102**	**102**

Information technology[1]	**1 572**	**1 528**	**1 575**	**1 612**	**1 425**
Information technology service solutions[1]	656	581	696	690	673
Application solutions	241	253	225	224	236
IT hardware and software[1]	633	612	615	652	473
Industrial technologies	29	67	25	24	30
Significant financing component	13	15	14	22	13
Other	**242**	**262**	**237**	**248**	**239**
Yep	34	53	46	58	44
Gyro	208	209	191	190	195
Total [1]	**10 907**	**10 791**	**11 093**	**10 845**	**10 501**

[1] The FY2024 historical quarterly revenues for BCX were restated in accordance with IFRS15. Historical quarterly revenues for Group revenue were restated accordingly.

Quarterly information (Business unit stand-alone view)

		Restated			
(R'm)	**Q1 FY2025**	**Q4 FY2024**	**Q3 FY2024**	**Q2 FY2024**	**Q1 FY2024**
Revenue	**June 2024**	**March 2024**	**December 2023**	**September 2023**	**June 2023**
Telkom Consumer	6 589	6 470	6 875	6 560	6 424
BCX[1]	3 175	3 287	3 225	3 301	3 102
Openserve	3 056	3 130	3 120	3 130	3 131
Swiftnet	343	336	333	326	326
EBITDA					
Telkom Consumer	1 201	1 113	983	1 062	935
BCX	253	239	322	458	275
Openserve	1 023	930	1 014	1 114	876
Swiftnet	252	256	246	254	234
EBITDA margin (%)					
Telkom Consumer	18.2%	17.2%	14.3%	16.2%	14.6%
BCX[1]	8.0%	7.3%	10.0%	13.9%	8.9%
Openserve	33.5%	29.7%	32.5%	35.6%	28.0%
Swiftnet	73.5%	76.2%	73.9%	77.9%	71.8%
Mobile service revenue (external)	4 996	4 807	4 926	4 732	4 561
Mobile EBITDA margin	26.8%	24.6%	20.0%	23.5%	20.8%

[1] The FY2024 historical quarterly revenues for BCX were restated in accordance with IFRS15. Historical quarterly revenues for Group revenue were restated accordingly.

Telkom

Quarterly operational information

	Q1 FY2025 June 2024	Q4 FY2024 March 2024	Q3 FY2024 December 2023	Q2 FY2024 September 2023	Q1 FY2024 June 2023
Broadband subscribers	**14 020 599**	**13 295 611**	**13 300 371**	**12 749 692**	**12 255 546**
Fixed broadband subscribers	553 869	554 953	556 965	554 809	555 170
Mobile broadband subscribers	13 466 730	12 740 658	12 743 406	12 194 883	11 700 376
Active mobile subscribers	**21 213 647**	**20 438 983**	**19 737 370**	**18 286 160**	**18 505 103**
Pre-paid subscribers	18 242 602	17 493 045	16 793 495	15 320 566	15 538 892
Post-paid subscribers	2 971 045	2 945 938	2 943 875	2 965 594	2 966 211
Mobile blended ARPU (rand)	**80.53**	**84.10**	**85.60**	**84.59**	**83.12**
Pre-paid ARPU	61.99	64.86	65.90	64.40	62.60
Post-paid ARPU	183.05	180.48	181.75	182.41	182.66
Traffic					
Fixed broadband (petabytes)	681	614	612	569	512
Mobile broadband (petabytes)	414	371	370	347	329
Total fixed-line traffic (millions of minutes)	955	995	1 001	1 033	1 060
Network					
Homes passed with fibre	1 256 603	1 217 110	1 185 623	1 158 761	1 107 794
Homes connected with fibre	615 430	590 527	567 350	542 598	515 201
Fibre connectivity rate (%)	49.0%	48.5%	47.9%	46.8%	46.5%
Mobile sites integrated	7 778	7 738	7 721	7 684	7 644

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/overview.html.

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.