

Group Annual Results

For the year ended
31 March 2022

Telkom

The year was characterised by the prolonged effects of the COVID-19 pandemic on certain economic sectors, an intensely competitive landscape, volatile Capital Markets and significant regulatory developments. Group performance remained under pressure due to a sluggish economy, global supply chain challenges and chip shortages. The impact of the post-pandemic recovery is still evident in the challenging performance in the small and medium businesses. Competition intensified in the mobile sector. We continue to innovate to protect Telkom's value proposition in the market. The outcome of the recently held spectrum auction resulted in us securing a consolidated 50MHz of 5G spectrum and procuring 20MHz of sub 1GHz spectrum. This spectrum will be consolidated into our existing holdings to improve our competitive advantage.

Group salient features

Revenue
down 1.1% to R42.8 billion



EBITDA flat (0.5%*)
with EBITDA margin expanded to 27.9%



HEPS and BEPS
up 2.5%* and 1.4%* respectively



Active mobile subscribers
up 10.5% to 16.9 million



Mobile broadband customers
at 10.7 million



Homes passed with fibre
up 52.7%



FTTH connectivity rate
at 46.3%



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Telkom SA SOC Ltd (Registration Number 1991/005476/30)
JSE share code: TKG | JSE bond code: BITEL
ISIN: ZAE00044897 (Telkom, the company or the Group)
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Performance overview

Notwithstanding the challenging operating environment that persisted in the year, Telkom grew its earnings with underlying HEPS and BEPS increasing by 2.5%* and 1.4%*, respectively. This performance was boosted by our lower finance charges and fair value movements compared to the prior year and resilient Group EBITDA. Underlying Group EBITDA was relatively flat, decreasing by 0.5%* to R 11 908 million, despite a 1.1% decline in Group revenue of R42 756 million.

The Group top-line remains under pressure

Group revenue declined marginally by 1.1% to R42 756 million, this was supported by the growth in the Mobile business, offset by the decline in the fixed and IT businesses which remain under pressure due to the challenging operating environment and a decline in the fixed business as customers migrate to modern technologies such as fibre and LTE. Although these businesses' top-line declined compared to the prior year, the rate of decline improved compared to the first half of the year. The stability in the fixed business is attributable to a slowdown in fixed voice churn and an increase in usage as there was improved economic activity in the year compared to the prior year.

Stable EBITDA supported by sustainable cost management despite challenges in revenue

Underlying Group EBITDA is stable at R11 908 million and the EBITDA margin expanded by 0.2 ppts* to 27.9%. This was underpinned by our effective sustainable cost management programme, which aims to contain opex growth below inflation and optimise cost to serve. Opex declined 4.0%* year on year despite an average Group-wide salary increase of 6.0%, which was effective from 1 April 2021. Mobile cost to serve was optimised despite the increase in costs associated with the post-paid market such as distribution channel costs. Cost to serve improvement was enabled by optimised roaming costs as we maintain stringent roaming traffic thresholds and migrate traffic to our network, supported by the ongoing network investment.

Openserve stabilisation path continues and is well underway in turning around several years of revenue declines. The Openserve business evolved as customers migrated from legacy to next-generation over the years. Today, more than half of its revenue is derived from the new business. However, a pricing gap remains between the new business and the legacy business. In the period under review, revenue was relatively flat for the first time after several years of significant decline in the legacy business. This was underpinned by growth in high-capacity links for carriers, an increase in demand for fibre services, and a slowdown in fixed voice churn. Openserve continued with its growth trajectory in the fibre market increasing homes passed with fibre by 52.7% and homes connected with fibre by 38.4%. This is in line with its strategy to accelerate the fibre to the home (FTTH) footprint while simultaneously focusing on connecting homes. In the second half of the year, overall fixed broadband customers increased for the first time in several years despite the decline in ADSL customers.

Swiftnet, our masts and tower business, increased revenue by 4.4% to R 1 292 million driven by commercialising the existing portfolio, new tower builds and the rollout of In Building Solutions (IBS). This performance includes the impact of terminations and continued focus on modernisation from our Mobile Network Operator (MNO) customers. We expect continuation of modernisation over the next year; however, coupled with deployment of new base station sites as the mobile network operators deploy their respective newly acquired permanent spectrum allocations. In the current year, the number of productive sites increased by 5.9% to 3 916. Swiftnet's profitability was impacted by the change in cost allocation methodology in the second half of the year. Global events impacting Capital Markets led us to review the timing of the listing of Swiftnet on the JSE. In March 2022, the Board resolved to postpone the separate listing of Swiftnet.

The Mobile business continues to drive growth in Telkom Consumer. The Mobile revenue growth of 6.3% was achieved against the backdrop of an intensely competitive landscape and challenging economic environment. As the overall macro-economic constraints materialise, the pre-paid surge has slowed as the share of wallet spend has plateaued. We grew our prepaid customer base by 12.0% to 14.3 million with ARPU normalising to pre-COVID-19 levels in line with management expectations. In the postpaid market, the post-paid base increased by 3.4% to 2.7 million and high levels of ARPUs were maintained at R212. The legacy fixed-line business remains under pressure due to migration from traditional fixed voice to newer technologies.

The impact of the post-pandemic recovery is still evident in small and medium businesses. We remain encouraged by the growth in our non-connectivity/application services which saw double-digit growth in the period under review.

BCX remains under pressure due to the lingering impact of the lockdown and the global supply chain constraints and shortages of semiconductor chips. The second half of the year saw good growth resulting from investments in new capabilities, progress made with strategic programmes, and renewed activity in the market. Revenue declined by 2.6%, mainly impacted by the IT segment, which faced supply chain pressure while the Converged Communications business stabilisation is gaining momentum. This fares well compared to a 6.1% revenue decline reported in the first half of the year. The improvements in performance seen in the last quarter across the business signal a more positive outlook for the next financial year.

FCF under pressure mainly due to spectrum investment, prior year capex overhang and a decline in revenue

We generated negative FCF of R2 080 million largely due to R1 142 million invested in spectrum. Excluding the impact of spectrum acquisition, we generated an underlying negative FCF of R938 million. The decline in underlying FCF is largely due to the capex overhang of R1 070 million relating to prior year capex that was settled in the current year, revenue decline and working capital movements. Working capital deteriorated in the current year, despite R1 009 million of handset financing. The deterioration in working capital is largely due to timing of cash flows, as a result of an increase in post-paid mobile handset sales and purchases following the gradual re-opening of the economy post the COVID-19 lockdown.

Regulatory developments

Telkom acquired 20MHz of 8000MHz and 22MHz of 3500MHz for 2.1 billion. Telkom made a payment of R 1.1 billion in the current financial year with the remainder of the payment being due when sub 1GHz spectrum currently occupied by broadcasters is available. However, this licensing process was subject to a Court challenge by Telkom. The latter has since been settled. Telkom opted for a forward-looking settlement with ICASA, addressing Telkom's principal complaints regarding ensuring fair competition in the sector while providing a level of regulatory certainty.

Telkom will use the newly acquired spectrum to support its strategy of building a data-led network. Given South Africa's dual economies, Telkom believes that 4G and 5G will co-exist for some time and is expanding its network based on current data traffic and readiness for 5G deployment. Today, 93% of Telkom's data traffic is on a 4G network and 68% of Telkom Mobile sites use fibre backhaul giving Telkom the edge for 5G deployment. The acquisition of 22MHz of 3500MHz results in us securing a consolidated 50MHz of contiguous spectrum giving us high spectral efficiency for optimal 5G deployment.

Based on ICASA's undertaking to consider the competitive effect of spectrum sharing arrangements, Telkom withdrew the referral of the Vodacom and Rain spectrum arrangement to the Competition Tribunal. Telkom is of the view that a broader public process by the sector regulator will be far more effective in addressing the implications of the licensing of spectrum on competition including spectrum arrangements. In line with the settlement, ICASA undertook to conduct the necessary consultative processes and complete the licensing process within FY2023.

Outlook

FY2022 was a reset year following changes in the global market, regulatory environment, intense competitive landscape and a weak macro-environment. We reviewed our Group strategy and five strategic pillars, namely portfolio diversification, integrated solutions, victory in broadband, operational efficiency and technology innovation (PIVOT). We concluded that, our strategy framework remains relevant. Our broadband-led strategy is the backbone of our PIVOT strategy. Over the past few years, Telkom invested in 5G infrastructure assets, and these set us apart from our competitors. In some of our businesses, we want to strengthen scale and capability to drive growth. Here, we are exploring local and international partnerships.

The Board remains committed to the value unlock strategy which is premised on Telkom's market capitalisation not representing its intrinsic value. The Board key focus is to drive maximum shareholder value. The delay of the separate listing of Swiftnet due to volatile capital markets was to protect shareholder value. Our strategic approach going forward is to affirm the valuation of these businesses and their contribution to the valuation of Telkom while ensuring long-term sustainable growth for the Group. To this end, the Board continue to explore all strategic options that it believes supports its value unlock strategy which seeks to maximise shareholder value.

A solid financial framework to support the Group strategy and deliver sustainable shareholder returns is key. We will enhance our financial framework in FY2023 and we expect the Group to return to growth. Telkom Mobile has grown ahead of the market and secured a third market position. Going forward, we expect Telkom Mobile to grow in line with its industry peers. In addition to the mobile business, we expect Openserve to start growing in the next financial year supporting topline growth. Given the slowdown in growth in the Mobile business and continuous decline in the legacy business, we expect Group revenue to grow at mid-single digit over the medium term. Our sustainable cost management is also expected to deliver mid-single digit EBITDA growth over the same period.

The release of spectrum provides upside to our growth ambitions in the long-term. Telkom Mobile obtained 50 MHz contiguous spectrum in 3500MHz to support its data-led strategy.

The industry will require a significant amount of masts, towers and fibre backhaul to connect to the base stations. Our infrastructure businesses, Openserve and Swiftnet are well positioned to capture this opportunity. We expect to continue to invest in the business, with capex to revenue ratio of between 16% to 18% per annum and maintain healthy balance sheet of net debt to EBITDA of 1.2x (including the acquisition of spectrum).

Returning cash to shareholders remains a key element of our capital allocation framework. Telkom is in year two of the three year dividend suspension period. The Board remains committed to reinstate the dividend policy at the end of FY2023 in line with the Board commitment on suspension of the dividend policy in FY2020. The Board is reviewing the dividend policy. It is imperative for Telkom to generate sustainable positive FCF to reward shareholders. In the current year, acquisition of spectrum took priority in line with the capital allocation framework principles of prioritising growth.

Medium-term guidance CAGR 2025 – (FY2022 as a base year)

Revenue	Mid-single digit growth
EBITDA	Mid-single digit growth
Net debt to EBITDA	≤1.2x
Capex to Revenue ratio per annum*	16-18%

As a result of spectrum acquisition of R2.1 billion, we expect capex to revenue ratio to reach 20% in FY2023 and normalise to sustainable capital investment levels of 16-18% thereafter. The guidance provided has not been reviewed or reported on by our joint independent external auditors.

Financial information summary (statutory)	March 2022 Rm	March 2021 Rm	Variance %
Gross operating revenue	42 756	43 222	(1.1)
EBITDA	11 908	11 703	1.8
EBITDA margin (%)	27.9	27.1	0.8
Capex	7 484	8 448	(11.4)
FCF	(2 080)	2 063	(200.8)
BEPS (cps)	536.6	489.9	9.5
HEPS (cps)	575.3	522.2	10.2
Net debt to EBITDA (times)	1.2	0.9	0.3
Annual dividend (cents)	–	–	–

Sello Moloko

Chairperson

Serame Taukobong

Group Chief Executive Officer

Dirk Reyneke

Group Chief Financial Officer

14 June 2022

Sponsor

Nedbank Corporate and Investment Banking,
a division of Nedbank Limited

Pro forma financial information: Certain information presented in this results announcement was prepared excluding the impact of the voluntary severance package (VSP), voluntary early retirement package (VERP) and section 189 costs in the comparative period and the related tax impact on results (the "pro forma adjustments"). This constitutes pro forma financial information to the extent that it is not extracted from the segment disclosure included in the Telkom audited consolidated abridged financial statements for the year ended 31 March 2022. This pro forma financial information has been presented to eliminate the impact of the pro forma adjustments from the consolidated financial results for the year ended 31 March 2021 to achieve a comparable period-on-period analysis and show the underlying performance of the business. The pro forma adjustments were determined in terms of the group accounting policies disclosed in the audited consolidated abridged financial statements for the year ended 31 March 2021. Due to its nature, the pro forma financial information is for illustrative purposes only and may not fairly present Telkom's results of operations. The pro forma financial information for the year ended 31 March 2021 has been presented on a consistent basis with the pro forma financial information published for the year ended 31 March 2021. The pro forma financial information is the responsibility of the directors.

Further information: The Telkom audited consolidated abridged financial statements for the year ended 31 March 2022 contained in the Telkom SA SOC Limited Group Abridged Annual Results for the year ended 31 March 2022 are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the Telkom annual financial statements for the year ended 31 March 2022 from which the Telkom audited consolidated abridged financial statements for the year ended 31 March 2022 were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements. The short-form announcement is only a summary of the information in the Telkom annual financial statements for the year ended 31 March 2022 and does not contain full or complete details.

This announcement does not include the information required pursuant to paragraph 16A(i) of IAS 34. Telkom SA SOC Ltd Group Abridged Annual Results for the year ended 31 March 2022 is available on the issuer's website, at the issuer's offices and upon request. The directors take full responsibility and confirm that this information has been correctly extracted from the underlying report. This announcement is itself not audited but is extracted from the underlying audited information.

The Telkom audited consolidated abridged financial statements for the year ended 31 March 2022 contained in the Telkom SA SOC Ltd Group Abridged Annual Results for the year ended 31 March 2022 have been audited by PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who expressed an unqualified opinion thereon. The auditor also expressed an unqualified opinion on the annual financial statements from which the Telkom audited consolidated abridged financial statements for the year ended 31 March 2022 were derived.

A copy of the auditor's report on the Telkom audited consolidated abridged financial statements for the year ended 31 March 2022 and of the auditor's report on the Telkom annual financial statements for the year ended 31 March 2022 are available for inspection at the company's registered office, together with the financial statements identified in the respective auditor's reports, which sets out key audit matters and the basis for its unqualified opinion is available at: www.telkom.co.za/ir/financial/financial-results-2022.shtml.

The comparative pro forma financial information in the Group Abridged Annual Results for the year ended 31 March 2022 has been reviewed by the group's joint independent external auditors and should be read in conjunction with that document.

This short-form announcement is the responsibility of the directors and any investment decisions should be based on the Telkom annual financial statements for the year ended 31 March 2022 published on the JSE's website on Tuesday, 14 June 2022 and also available on Telkom's website at: www.telkom.co.za/ir.

The Telkom annual financial statements for the year ended 31 March 2022 are available on the company's website at: <https://www.telkom.co.za/ir/financial/financial-results-2022.shtml> and on the JSE's website at: <https://senspdf.jse.co.za/documents/2022/jse/issue/TKG/ye2022.pdf>

The Telkom annual financial statements for the year ended 31 March 2022 are furthermore available for inspection at the company's registered address and the offices of the JSE sponsor (Nedbank Corporate and Investment Banking, a division of Nedbank Limited) during office hours at no charge to shareholders. Copies of the Telkom annual financial statements for the year ended 31 March 2022 may be requested including full details on how such request can be made. The distribution of the Telkom annual financial statements for the year ended 31 March 2022 as well as the notice of AGM will follow and will be announced on SENS.

* Excludes the impact of VSP, VERP and S189 costs of R270 million and the related tax impact of R76 million in the comparative year.