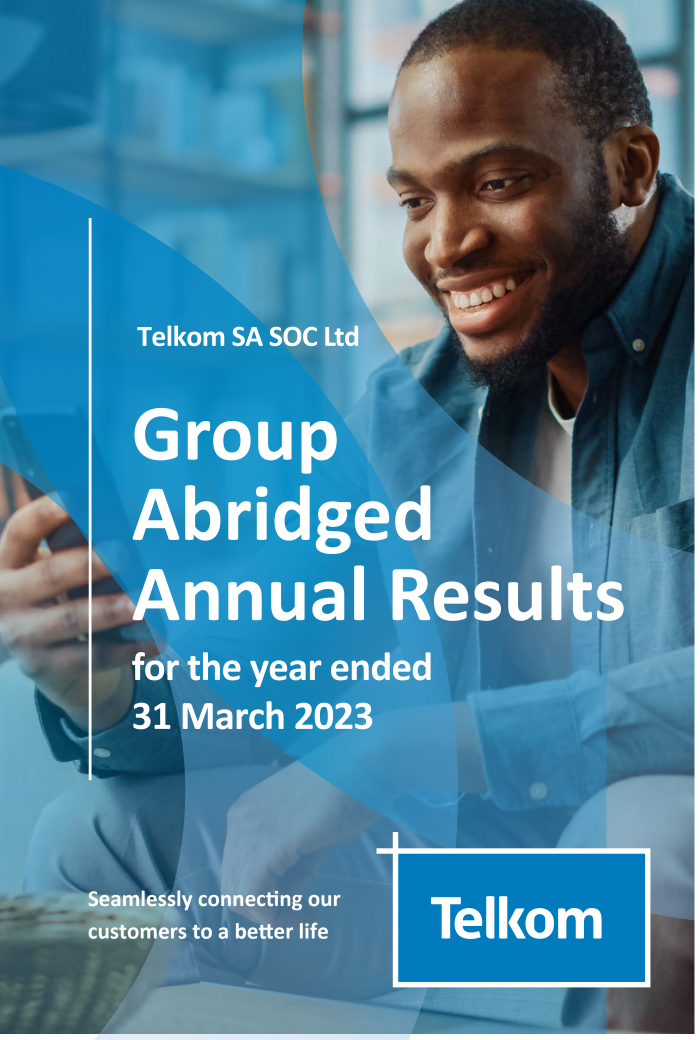

Telkom SA SOC Ltd

Group Abridged Annual Results

for the year ended 31 March 2023

Seamlessly connecting our customers to a better life

Telkom

Group salient features

Revenue	marginally up by **0.9%** to **R43 138 million**
EBITDA*	down **19.8%** with **EBITDA margin* at 22.1%**
HEPS* and BEPS*	down 76.6% and 86.8% **to 134.6 cents and 71.0 cents** per share respectively
Mobile service revenue	up **1.8%** to **R17 819 million**
Mobile customer base	**up 7.8% to 18.3 million** subscribers
FTTH	**connectivity rate** at 47.4%
IT revenue	up **13.7%** to **R6 371 million**

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Telkom SA SOC Ltd (Registration Number 1991/005476/30)
JSE share code: TKG | JSE bond code: BITEL
ISIN: ZAE000044897 (Telkom, the Company or the Group)
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The year was characterised by unprecedented levels of loadshedding, constrained consumer spending, and dynamic competition against the backdrop of a sluggish economy with persistent inflationary pressures.

As we continued to manage the transition to next-generation technologies, Group performance was under pressure from a pronounced reduction in legacy revenues for the year. Despite this, revenue grew marginally. However, the incremental costs of loadshedding reduced overall profitability, notwithstanding our efforts to manage operating costs.

Competition intensified in the mobile, fibre and IT services businesses. In response, we have embarked on a Group-wide cost transformation journey to return the Group's profitability to above 25% in the medium term while driving revenue growth in ever-evolving markets.

Performance overview

Revenue was marginally up by 0.9% to R43 138 million despite challenging trading conditions as our mobile and broadband strategies continued bearing fruit. The migration of revenues from legacy to newer technologies, our investment in the Mobile post-paid base to drive higher annuity revenue, and the impact of sustained loadshedding put pressure on our operating costs. Normalised Group EBITDA* decreased by 19.8% excluding a R1 065 million provision for restructuring costs. Normalised HEPS* and BEPS* dropped by 76.6% to 134.6 cents and by 86.8% to 71.0 cents, respectively.

Openserve saw growth across its next-generation data-led products, now representing close to 70% of its revenue base, as it continued the journey to transform its revenue mix. Fixed-data next-generation revenue grew by 10.2% driven by increased rollout of fibre and healthy growth in carrier services and enterprise services, contributing to Openserve's leadership in providing open-access connectivity across South Africa.

However, performance was limited by pricing gaps between new-generation business and legacy business, as declines in fixed-voice and legacy revenues accelerated during the year. Revenue declined by 4.0% to R12 897 million. Although costs were well managed and grew by less than inflation, significant increases in backup power due to unreliable energy supply put pressure on profitability. Openserve continued to expand its fibre footprint across all channels and increased the number of homes passed with fibre by 23.9%, surpassing the 1 million homes mark. Homes connected advanced by 26.7% to 47.4% and high-capacity carrier connectivity to base stations increased by 5.1% while enterprise market connectivity grew by 2.5%. Openserve's investment in upgrading its existing fibre nodes, and an undersea cable partnership with Google that gives it access to 12 Tbps of capacity, will further enhance Openserve's position as the leading provider of high-speed connectivity in South Africa.

Overall revenue for **Telkom Consumer** was stable at R25 673 million. Revenue growth of 4.0% for Mobile operations and a 14.8% upswing in handset and equipment sales revenue were offset by the planned decline in traditional copper-based voice services, which now represent a reduced 5.8% of total external revenues.

Mobile service revenue growth of 1.8% resulted from the expansion of our total customer base, which grew pleasingly by 7.8% to 18.3 million customers at a blended average revenue per user (ARPU) of R86, driven by our competitive customer value propositions. Our post-paid strategy paid off as our customer base advanced by 11.0% to reach the 3.0 million mark at an ARPU of R201. Our pre-paid base also continued growing by 7.2% to reach 15.3 million at an ARPU of R64. We continued to extend our network footprint, launching our 5G services and effectively utilising the newly procured spectrum, with a particular emphasis on the low-frequency band (800 MHz), to enhance coverage of our LTE services. This benefited our mobile broadband subscriber base, which grew 9.2% to 11.6 million, representing 63.7% of our total mobile base now using wireless broadband.

BCX had a challenging year but managed to maintain stable revenue levels at R14 252 million. Performance was driven by 9.1% growth in the IT business, which was offset by declines in the Converged Communications business. The IT business growth was largely due to double-digit revenue growth in the hardware and software business, albeit at lower margins. The Converged Communications business continued to be impacted by migration to next-generation technologies and robust competition in the market. BCX is bolstering its skills and capabilities to support and guide its customers in transitioning to cloud-based solutions and adopting new business models requiring modern ICT solutions.

Our masts and towers business, **Swiftnet**, continued commercialising its productive portfolio and saw marginal revenue growth of 0.9% to R1 304 million, driven by construction of 66 additional towers and eight new in-building coverage solutions (IBS) sites. Continued modernisation by mobile network operators (MNOs) on our sites, coupled with new base station sites and the deployment of 5G by our clients, grew revenue from continuing customers by 10.3%, mitigating the impact of terminations and decommissioning by two customers. After launching its first 5G outdoor Distribution Antenna System (oDAS) small cell sites, for future site deployments in support of our customers' 5G rollout plans, Swiftnet successfully tested the technical capability of our power-as-a-service (PaaS) solution. Swiftnet's EBITDA margin remains healthy at 68.8%.

Gyro advanced property development planning activity for select development opportunities. This attracted interest which resulted in Gyro concluding non-binding memoranda with property development investment partners for the execution of the development projects. The intent is to commence construction for some projects during the new financial year.

Significant market changes and economic factors, including accelerated loadshedding, low economic growth and a high interest rate environment, coupled with fast-evolving technologies, have had an adverse effect on the Group. These in line with the requirements of assessing and testing for **impairment** as per *IAS* 36 (Impairment of Assets), resulted in an impairment of R13 017 million (excluding tax effects) in respect of two of the Group's cash-generating units, Openserve and Telkom Consumer. The impairment is a non-cash adjustment and does not impact the Group's EBITDA, has no impact on Telkom's cash position, and affects neither the Group's compliance with debt covenants nor its ability to fund its capital expenditure programme.

Group revenue maintained

Group revenue increased marginally by 0.9% to R43 138 million, driven by a decrease in fixed and IT service revenue due to the challenging operating environment and the decline in the legacy fixed business as customers migrated to modern technologies such as fibre and LTE. This was offset by an increase in mobile handset and IT hardware and software sales, which are at lower margins, and a 1.8% increase in mobile service revenue.

EBITDA impacted by higher handset costs and operational expenses

Group EBITDA* was down 19.8% at R9 552 million, and the EBITDA margin* contracted by 5.8 percentage points (ppts) to 22.1%. This was mainly attributable to a 25.5% increase in our cost of handset and equipment, mainly due to higher mobile handset sales of 14.8% and the increase in IT hardware and software revenue of 65.8%.

Operating expenditure (opex)* increased by 7.3% largely impacted by accelerated loadshedding and an average Group-wide salary increase of 6.0%, which was effective from 1 April 2022. Tough economic conditions further contributed to the 56.3% increase in impairment of receivables.

Mobile cost to serve deteriorated slightly by 0.7 ppts to 28.4% compared to the prior year, impacted by accelerated loadshedding and the increase in costs associated with the post-paid market, such as distribution channel costs. This was mitigated by optimising roaming costs as we maintained stringent roaming traffic thresholds and migrated traffic to our network, supported by ongoing network investment.

Although improved in the second half, FCF** was under pressure mainly due to the impact of mobile post-paid sales on working capital

Free cash flow (FCF)** weakened to negative R2 722 million (FY2022: negative R2 080 million), primarily as a result of the 45.0% decrease in cash generated from operations before dividend paid, impacted by the R3 218 million decline in profit before tax* compared to the prior year. This was partially offset by a 17.6% decrease in cash paid for capex.

Regulatory developments

Spectrum

The Independent Communications Authority of South Africa (ICASA) started the second spectrum licensing process (auction) by publishing an Information Memorandum (IM) in August 2022 soliciting comments on potential frequency bands to be included in the licensing process. The IM containing all necessary auction-related information (spectrum bands, caps, reserve prices, obligations, etc.) has not yet been published. It is anticipated that more than 200 MHz of new spectrum will be on offer in the second auction, including the unsold 800 MHz spectrum lot. In terms of the settlement agreement between ICASA and Telkom reached in April 2022, ICASA will consider the spectrum holdings emanating from the previous auction, including the imbalances in the sub 1 GHz band, and the impact of the auction on competition in designing the next auction. ICASA further stated that it would conduct an inquiry into a secondary market for spectrum.

Outlook

FY2023 was a challenging year, with unexpected additional cost pressures caused by loadshedding amid an already strained economy. The impact of continued migration to newer technologies was felt across most of our businesses, and with increasing competition resulting in downward pricing pressure in the market, we launched our cost transition programme to mitigate this impact and rebase our operating costs to improve profitability in the medium term. In the last quarter of the year, we launched a labour consultation process aimed at restructuring the organisation to meet future demands. The Openserve and BCX businesses were the most impacted in the Group. This process is largely complete and has realised its intended goal. The benefits of this restructuring will materialise partially in FY2024, with the full impact expected from FY2025 onwards.

While we did not meet certain of our financial framework criteria, the resulting revenue growth at 0.9% for the year was masked by pronounced declines in legacy revenue in FY2023. As the impact of these declines decrease in FY2024, FY2025 and beyond, the returns on our historical and ongoing investments in new technologies will become more apparent.

Along with the **cost transformation journey**, we aim to improve our EBITDA margin to historical levels of around 25% in the medium term. While we rebase our cost base in FY2024, all business units have also been tasked with driving top-line growth while simultaneously evolving their business models to drive the future sustainability of Telkom.

We expect Telkom Mobile to continue growing its customer base in line with the industry. Openserve will continue driving growth of next-generation products and services with a focus on monetising its network and exploring diversification opportunities. BCX's recent strategic acquisitions and partnerships to bolster its skill capabilities will enhance its overall proposition, providing more value to clients. Swiftnet will continue increasing tenancies on its existing portfolio, acquiring sites and constructing new towers in line with MNO demand, actively enabling 5G rollout in South Africa, and bolstering its offering with power solutions to help customers maintain network availability.

Telkom remains committed to realising value

Telkom continues to consider its options to **maximise value for shareholders**, premised on Telkom's market capitalisation not reflecting its intrinsic value. While interest remains for the masts and towers business and fibre business, we will consider the continued interest in these assets carefully, with the goal of realising the best return for shareholders. In the meantime, we have future growth plans in place for these assets and will continue operating them for the benefit of the Group.

Resumption of dividend policy postponed

FY2023 marks the final year of the three-year dividend suspension period. The Board has concluded that in light of the Group's cash position and the current economic environment, the resumption of a **dividend** should be **postponed** for at least another year. While we are committed to returning cash to shareholders in the medium term, we consider it prudent to first strengthen our cash position as we navigate the Telkom cost transformation journey along with market and economic conditions.

Underlying financial performance	Reported March 2023 Rm	Pro forma March 2023 Rm	March 2022 Rm	Variance %
Gross operating revenue	**43 138**	**43 138**	42 756	0.9
EBITDA*	**8 487**	**9 552**	11 908	(19.8)
EBITDA margin (%)*	**19.7**	**22.1**	27.9	(5.8)
Capex	**7 401**	**7 401**	7 484	(1.1)
FCF**	**(2 722)**	**(2 722)**	(2 080)	30.9
BEPS (cents)*	**(2 058.9)**	**71.0**	536.6	(86.8)
HEPS (cents)*	**(25.8)**	**134.6**	575.3	(76.6)
Net debt** to EBITDA* (times)	**2.0**	**1.8**	1.2	0.6
Dividend	**–**	**–**	–	–

Mvuleni Geoffrey Qhena
Chairman

Serame Taukobong
Group Chief Executive Officer

Dirk Reyneke
Group Chief Financial Officer

13 June 2023

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

Pro forma financial information: The pro forma financial information has been prepared excluding the impact of voluntary severance package (VSP), voluntary early retirement package (VERP) costs and S189 costs, the impairment of assets charge in the current year and the related tax impact on results and the write-up of invested capital of BCX and Gyro to fair value (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 2023. 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 2023 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 2023. 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 2023 has been presented on a consistent basis with the pro forma financial information published for the year ended 31 March 2023. 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 2023 contained in the Telkom SA SOC Ltd Group Abridged Annual Results for the year ended 31 March 2023 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 2023 from which the Telkom audited consolidated abridged financial statements for the year ended 31 March 2023 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 a summary of the information in the Telkom full announcement for the year ended 31 March 2023 and does not contain full or complete details.

This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34. Telkom SA SOC Ltd Group Abridged Annual Results for the year ended 31 March 2023 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 2023 have been audited by PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who expressed an unqualified opinion thereon. The joint auditors 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 2023 were derived.

A copy of the auditor's report on the Telkom audited consolidated abridged financial statements for the year ended 31 March 2023 and of the auditor's report on the Telkom annual financial statements for the year ended 31 March 2023 are available for inspection at the company's registered office, together with the annual 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: **https://group.telkom.co.za/ir/financial/financial-results-2023.shtml**.

The pro forma financial information in the Group Abridged Annual Results for the year ended 31 March 2023 has been reviewed by the Group's joint independent external auditors and who issued reasonable assurance report thereon, prepared in terms of ISAE 3420 which is available on **https://group.telkom.co.za/ir/**.

This short-form announcement is the responsibility of the Directors and any investment decisions should be based on consideration of Telkom's full announcement released on SENS for the year ended 31 March 2023 published on the JSE's website on Tuesday, 13 June 2023 and also available on Telkom's website at: **https://group.telkom.co.za/ir/**.

The Telkom audited consolidated abridged financial statements for the year ended 31 March 2023 are available on the Company's website at:

https://group.telkom.co.za/ir/financial/financial-results-2023.shtml and on the JSE's website at: **https://senspdf.jse.co.za/documents/2023/jse/isse/TKG/ye2023.pdf**

The Telkom annual financial statements for the year ended 31 March 2023 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 2023 may be requested i.e. by emailing contact name/email address. The distribution of the Telkom annual report for the year ended 31 March 2023 as well as the notice of AGM will follow and will be announced on SENS.

** EBITDA and HEPS excludes the impact of the restructuring cost of R1 065 million and the tax impact of R288 million on profit after tax and BEPS further excludes the impact of the R13 017 million impairment charge with the related tax impact of R3 477 million.*

*** This is a non-defined IFRS measure.*