Telkom SA SOC Limited
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("Telkom" or the "Group")

Trading update for the quarter ended 31 December 2022 ("Q3 FY2023" or "the quarter")

Q3 FY2023 SALIENT FEATURES

- Group revenue up 2.3% to R11 031 million
- Group EBITDA down 13.5% to R2 492 million
- Telkom Mobile growth driven by value-compelling propositions
    - Mobile revenue up 7.0% to R5 685 million
        - Mobile service revenue up 4.5%
        - Handset and equipment revenue up 17.0%
    - Mobile data traffic and subscribers up 25.6% and 12.9% year-on-year ("y-o-y") to 309 petabytes and 18.6 million subscribers respectively
    - Mobile broadband customers up 9.9% to 11.5 million, comprising almost 62% of active mobile customers
- Openserve – new generation revenue growth sustained
    - Fixed data traffic up 15.0% to 492 petabytes
    - Leading FTTH connectivity rate of 45.9%, with number of homes passed up 27.6% and homes connected up 31.0%
- IT business growth at BCX supported revenue
    - IT business revenue up 8.8% to R1 587 million
    - Acquired cloud consulting services business to increase capacity and drive growth in line with increased cloud demand
- Swiftnet continued commercialising at healthy margins
    - Revenue increased marginally despite terminations
    - Additional 14 towers and 3 IBS sites constructed
    - Total EBITDA margin of 69.5% achieved

Telkom published its trading update for the quarter, demonstrating resilient performance by new generation network ("NGN") offerings despite challenging trading and economic conditions prevailing in South Africa.

Group Chief Executive Officer – Serame Taukobong comment:
Our mobile and broadband strategies continued bearing fruit. We saw good growth in broadband as our data-led and connect-led strategies continued to drive growth in mobile and fibre subscribers along with data usage. Mobile broadband customers now comprise almost 62% of total active mobile subscribers, while Openserve's open-access network gained traction as external channels advanced to contribute more than 30% of its total revenue.

Telkom navigated challenging trading conditions in the quarter and grew Group revenue by 2.3% driven by continued growth in new generation technologies and increased data consumption. We focused on offering attractive value propositions to customers in our Mobile business which advanced subscribers, while the focus on the smart deployment of the fibre infrastructure saw Openserve record a sustained increase in the broadband base. Demand for information technologies solutions and equipment by our enterprise customers continued at BCX as the IT hardware and software business improved the fulfilment of backlogged and new orders.

Despite good top line growth and the ongoing optimisation of roaming costs, the migration of legacy products to NGN offerings, our investment in post-paid to drive higher annuity revenue from this base, and the impact of sustained nationwide load shedding put pressure on our costs, EBITDA and cash flows. We are mindful of these impacts on the future of our businesses and we have thus embarked on cost saving programs to be implemented with sustainable benefits materialising over the next 6 – 18 months to mitigate cost pressures and improve the Group's medium-term profitability.

OPERATIONAL REVIEW

Satisfactory top line NGN growth, muted by legacy revenue declines

Group revenue grew by 2.3% to R11 031 million largely driven by growth in active subscribers – mobile and fibre, increased data traffic, higher handset and equipment sales to retail as well as increased IT solutions/equipment to enterprise customers.

Group top line performance was resilient considering ongoing load shedding, pressure on consumers due to ongoing interest rate hikes, high energy and fuel prices and other inflationary pressures on the cost of living. This coupled with muted economic growth put affordability at the forefront of consumers' minds. The performance of our value-driven and data-led strategy paid off as NGN revenues grew. Performance was however impacted by legacy and voice revenue declines caused by ongoing migration to lower margin NGN technologies.

The ongoing instability of electricity supply in South Africa saw accelerated load shedding continuing into Q3 FY2023 which impacted profitability as it inflated the cost base and had an impact on service revenue. Whilst our mobile sites are partially backed up through battery power, access network availability is materially reduced during load shedding stages 4 and beyond. This impacted revenue and increased roaming costs. However, our core and aggregation network had network availability of 99.99% during load shedding as it has resilient backup power, which consequently increased spend on diesel fuel to ensure network availability thereby also increasing our operating costs.

Group EBITDA declined by 13.5% as a result, contracting the EBITDA margin by 4.1 ppts to 22.6%, largely affected by the decline of legacy revenues, higher direct costs due to our commitment to sustainably evolve and position our mobile subscriber base for increased annuity revenue and higher operating costs exacerbated by load shedding. Load shedding resulted in a y-o-y increase of more than R150 million additional costs for the quarter.

Openserve NGN growth trajectory sustained

As Openserve positions itself as a newly established standalone subsidiary of Telkom, it continued its growth trajectory in Q3 FY2023 across NGN products and services. Fixed data NGN revenue grew by 12.5% driven by broadband (up 23.9%), carrier services (up 9.4%) and enterprise services (up 1.4%), contributing to Openserve's leadership in providing open access connectivity across South Africa.

As demand for connectivity and consumption increased, Openserve saw fixed data traffic increase by 15.0% to 492 petabytes. Focused on smart deployment of its fibre infrastructure, Openserve saw a sustained increase in its overall broadband base over the last four quarters which grew to over 567 000 billed connections. Continued demand for fibre services and growth across its data portfolio, resulted in a sustained growth of 5.0% in revenue from Openserve's external channels contributing to its Q3 FY2023 total revenue of R3 220 million. As Openserve transforms its technology, revenue and channel mix, it continued to experience pressure across its legacy-based products resulting in a 27.9% decline in fixed voice revenue. This legacy decline included migrations to NGN technology across all three segments of Enterprise, Consumer and Small to Medium Business which resulted in an overall revenue decline of 3.8% for the quarter.

Despite the increased challenge of load shedding, Openserve held true to its strategic objectives of providing the best customer experience in every interaction, creating digitally led innovative solutions and providing a cost-effective high-speed network, by maintaining its core and aggregation network availability at 99.99% and connected its fibre broadband customers within an average of less than 3 days, leading to an *interaction NPS* of above 65. Focused on providing fibre connectivity to South Africans, Openserve grew its homes passed base by 27.6% y-o-y to more than 1 million. This focus on execution coupled with a connect-led strategy, enabled Openserve to increase the number of homes connected with fibre by 31.0% to 469 556 y-o-y, maintaining its leading connectivity rate of 45.9%.

While Openserve lays the foundation for future growth, the ongoing economic pressures and load shedding, negatively impacted costs with a significant increase of R108 million y-o-y in diesel spend, resulting in a lower EBITDA margin of 29.4% for the quarter and EBITDA of R948 million. Considering these challenges, Openserve has actioned its energy plan by rolling out alternative energy options to over 200 key sites across the country and will continue to de-risk itself by implementing multiple cost-effective energy solutions as part of its overall Sustainable Energy Strategy.

Telkom Consumer value-compelling propositions advanced revenue

Telkom Consumer revenue increased by 1.7% in the quarter to R6 657 million despite trading in an adverse economic climate and the accelerated migration of legacy to next generation technologies. Our traditional copper-based voice revenues continue their downward trajectory and declined by 27.5% as we de-risk ourselves from these legacy services and now only account for 5.3% of total operating revenue for the business unit. We saw growth in fibre, which improved subscribers by 22.1% and revenue by 34.3%.

Mobile revenue increased by 7.0% to R5 685 million, spurred by the continued provision of its value-compelling propositions which continue to drive data consumption.

In the quarter **Mobile service revenue** increased 4.5% to R4 598 million, strengthened by a 12.9% y-o-y growth in active subscribers to 18.6 million at a blended ARPU of R87.

- Post-paid ARPU was R204, having declined by 5.5% y-o-y, as we are now levelling towards our pre-COVID-19 levels, with subscribers for this base growing by 13.1%.
- The pre-paid ARPU at R64 is holding within our target range and this base saw subscriber growth of 12.9%.

Feeding from our strategy of growing data, our mobile data traffic grew by 25.6% to 309 petabytes supported by a 9.9% growth in Mobile broadband subscribers to 11.5 million, leading to mobile data revenue growing by 5.8%.

We remain encouraged by the growth in our non-connectivity services. Non-connectivity revenue increased by 16% to R909 million. Our airtime advance product remains a significant contributor to our non-connectivity revenue growth as we advanced approximately R2 708 million in in airtime now contributing 30% of total recharges.

EBITDA declined by 28.1% to R840 million. Approximately 28.3% of the decline can be attributed to the load shedding impact while the balance is as a result of growth in the network footprint and an increased investment as per our previously stated intent to increase our post-paid annuity revenue contribution.

Capital expenditure increased by 30.4% y-o-y with a spend to date of R2 644 million, inclusive of R1 142 million in respect of the spectrum auction, which enabled improved capacity and coverage across our 7 463 base stations, representing a 5.4% y-o-y increase in base stations.

BCX maintains top line supported by hardware and software sales

Q3 FY2023 revenue is flat at R3 506 million mainly due to an increase in hardware and software sales, that was, however slightly offset by a decline in the converged communication business.

The **IT business** grew 7.4% to R1 875 million, largely attributable to growth in the hardware and software business of 30.2%. The IT hardware and software business leveraged off its partner eco-system and a more reliable global supply chain to improve the fulfilment of back-logged orders and new orders. Performance was, however, negatively impacted by a 2.5% decline in the total IT services revenue, due to a prior year once-off project in the field services enablement and digital workspace management spaces, not recurring in the quarter.

The **Converged Communications** business revenue declined by 7.4% to R1 631 million. The business continued to see a decline in fixed voice revenue with ongoing migrations to more cost-effective next generation solutions. The traditional voice revenues declined in line with our 5-year migration plan. Furthermore, we experienced lower than expected uptake on the next generation technologies due to customers still seeing value in the legacy services especially in the public sector. With the increase in adoption of Hybrid Cloud services, traditional data customers are shifting away more rapidly from premium multiprotocol label switch services and adopting new software-defined wide area network technologies that are driving a shift to lower ARPU broadband services due to more favourable pricing on internet.

Despite cost management initiatives, **EBITDA** declined by 19.1% to R441 million, due to limited revenue growth, as well as the impact of product mix, where more IT hardware and software products at lower margins were sold. The EBITDA margin shrunk by 2.9 ppts in the quarter resulting in a margin of 12.6%.

As BCX continues operating in a challenging landscape, the business seeks to implement measures for growth, specifically within its IT businesses, whilst it pivots its Converged Communication businesses towards a digital framework.

Swiftnet continued to commercialise its portfolio with healthy margins

Swiftnet remains focused on commercialising the masts and towers portfolio, that amounted to 3 960 towers at the end of the quarter and included 14 towers and 3 in-building solutions sites that were constructed during Q3 FY2023.

Revenue amounted to R318 million, which was flat y-o-y. Revenue growth underpinned by escalations, new tenancies and existing tenant installation upgrades, was offset by terminations from one of our Mobile Network Operator (MNO) customers as well as Openserve's continued optimisation of legacy-based technologies. To further augment growth, we received new site applications from various tenants as their 5G rollout plans are implemented.

EBITDA was R221 million, at a healthy 69.5% EBITDA margin. EBITDA margin declined by 9.0 ppts y-o-y, driven by the implementation of the refined property operating cost allocation methodology in the last quarter of the prior financial year.

VALUE UNLOCK FOR SHAREHOLDERS

The value unlock strategy adopted to realise the intrinsic value of underlying business in the Telkom Group remains underway. Following the Board's in-principle approval to affirm and realise the value of Swiftnet through a full or partial disposal of the mast and towers business, a multi-party sales process commenced in late 2022 and offers are expected to be received during the course of March 2023. Telkom will evaluate the offers received and a further update will be provided in due course.

Following the legal separation of Openserve to a stand-alone entity, effective 1 September 2022, various initiatives are underway with the goal of realising value through the sale of a minority stake in the 100% owned Telkom subsidiary. Telkom has been receiving a number of unsolicited approaches for this business and is currently undertaking a market sounding exercise to test the breadth of interest for this deemed to be core business of Telkom. With adequate interest, a formal process will be launched by the end of the 2023 financial year ("FY2023").

BCX will continue to pursue partnerships to drive scale and capabilities to grow, amongst others, its cybersecurity segment. In the meantime, to complement the partnership with Alibaba, which gives BCX exclusivity to sell cloud services in South Africa and the rest of the continent, BCX acquired DotCom – a cloud consulting services company to further facilitate the growth of its cloud capabilities.

COST SAVINGS PROGRAMME TO UPLIFT MEDIUM-TERM PROFITABILITY LAUNCHED

The impact of ongoing load shedding for the quarter and the increased Mobile network footprint resulted in a higher cost base for the Group. This coupled with the required investment in working capital to optimise the Mobile subscriber base mix negatively impacted Telkom's profitability for the current financial year to date.

The working capital investment in Mobile handsets and post-paid cost of sales are immediate costs, with corresponding revenues recognised over 24 to 36 months and thereby do not immediately offset the upfront costs associated with growing our post-paid subscriber base. This in turn has also put pressure on margins and cash generation in the short term.

In response to this, Telkom has embarked on cost saving initiatives targeting a reduction of costs over the next 6-18 months to reduce and optimise the Group cost structure and return to a blended Group EBITDA margin of more than 25%.

A number of initiatives are already in progress to address the Group cost base. These are aimed at rebasing our cost structures. The benefits of these initiatives are expected to be visible in the medium term from FY2024 onwards. Telkom will be required to invest in exiting and reducing certain direct and operating costs in the coming 6-18 months. A substantial portion of these costs will be accrued for in FY2023.

In addition, in order to mitigate the impact of frontloaded investment in working capital as well as ongoing pressure on free cash flow ("FCF"), the Group plans to raise a further R1 billion by the end of FY2023 through the sale of qualifying device receivables to external financial institutions to mitigate the impact on FCF.

OUTLOOK

While the Group saw an uplift in Q3 FY2023 revenue, the annual trend of declining profitability is expected to continue into the fourth quarter of FY2023 ("Q4 FY2023"). We expect an overall weaker Q4 FY2023 relative to Q3 FY2023 impacted by the ongoing upfront investment in working capital, continued accelerated load shedding and inflationary cost pressures. The upfront costs relating to cost cutting initiatives outlined in the previous section will further put pressure on Group profitability and FCF for Q4 FY2023 and in turn, for FY2023, with the related benefits only materialising in future years.

The information contained in this trading update has not been reviewed or reported on by Telkom's independent external auditors. All number and percentages contained in the update reflect Q3 FY2023 compared to the third quarter of the financial year ended 31 March 2022 unless stated otherwise.

Centurion
14 February 2023

Sponsor

Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Telkom

Quarterly financial information

The financial information in the table below has not been reviewed or reported on by Telkom's joint independent external auditors

(R'm)	Q3 FY2023	Q2 FY2023	Q1 FY2023	Q4 FY2022	Q3 FY2022
	December 2022	**September 2022**	**June 2022**	**March 2022**	**December 2021**
Group revenue	11 031	10 870	10 281	10 678	10 786
Group EBITDA	2 492	2 608	2 334	3 049	2 881
Group EBITDA margin	22.6	24.0	22.7	28.6	26.7
Group capex	1 657	2 684	1 005	2 329	1 545
Revenue breakdown					
Fixed	**3 513**	**3 453**	**3 494**	**3 891**	**3 743**
Voice and subscription	**978**	**1 054**	**1 092**	**1 168**	**1 193**
Usage	279	441	453	493	469
Subscriptions	699	613	639	675	724
Interconnection	**66**	**74**	**72**	**72**	**81**
Fixed-line domestic	38	48	46	45	45
Fixed-line international	28	26	26	27	36
Data	**2 036**	**1 996**	**1 994**	**2 135**	**2 034**
Data connectivity	1 520	1 481	1 489	1 612	1 503
Internet access and related services	377	367	357	369	367
Managed data network services	138	148	146	152	166
Multimedia services	1	0	2	2	-2
Customer premises equipment sales and rentals	**362**	**259**	**269**	**423**	**356**
Sales	185	96	100	196	186
Rentals	177	163	169	227	170
Other revenue	**71**	**70**	**67**	**93**	**79**
Mobile	**5 685**	**5 425**	**5 180**	**5 111**	**5 314**
Mobile voice and subscriptions	1 143	1 134	1 079	1 074	1 150
Mobile interconnection	146	135	118	123	122
Mobile data	3 309	3 233	3 084	3 062	3 127
Mobile handset and equipment	1 007	844	827	773	861
Significant financing component	80	79	72	79	54
Information technology	**1 587**	**1 743**	**1 376**	**1 466**	**1 458**
Information technology service solutions	696	645	728	759	730
Application solutions	254	246	231	232	231
IT hardware and software	588	828	373	453	457
Industrial technologies	40	14	39	15	33
Significant financing component	9	10	5	7	7
Other	**246**	**249**	**231**	**207**	**271**
Yep	72	58	53	60	106
Gyro	174	191	178	147	165
Total	**11 031**	**10 870**	**10 281**	**10 678**	**10 786**

Quarterly information (Business unit stand-alone view)

(R'm)	Q3 FY2023	Q2 FY2023	Q1 FY2023	Q4 FY2022 Restated	Q3 FY2022 Restated
Revenue	**December 2022**	**September 2022**	**June 2022**	**March 2022**	**December 2021**
Telkom Consumer	6 657	6 469	6 248	6 249	6 544
BCX	3 506	3 595	3 401	3 836	3 506
Openserve	3 220	3 217	3 217	3 361	3 347
Swiftnet	318	338	322	301	317
EBITDA					
Consumer	840	893	840	1 001	1 169
BCX	441	397	445	470	545
Openserve	948	923	961	1 042	1 095
Swiftnet	221	229	230	127	250
EBITDA margin (%)					
Consumer	12.6	13.8	13.4	16.0	17.9
BCX	12.6	11.0	13.1	12.2	15.6
Openserve	29.4	28.7	29.9	31.0	32.7
Swiftnet	69.5	67.8	71.4	42.3	78.5
Swiftnet - normalised*				70.3	69.9
Mobile service revenue (external)	4 598	4 502	4 281	4 259	4 399
Mobile EBITDA margin	20.5	22.0	23.0	24.9	26.5

* The full impact of the direct cost allocation methodology was included in Q4 FY2022 and Q3 FY2022.

Quarterly operational information

	Q3 FY2023	Q2 FY2023	Q1 FY2023	Q4 FY2022	Q3 FY2022
	December 2022	**September 2022**	**June 2022**	**March 2022**	**December 2021**
Broadband subscribers	**12 054 013**	**11 596 889**	**11 359 289**	**11 234 715**	**11 021 999**
Fixed broadband subscribers	567 294	562 080	563 053	584 189	567 853
Mobile broadband subscribers	11 486 719	11 034 809	10 746 418	10 650 526	10 454 146
Active mobile subscribers	**18 554 558**	**18 023 524**	**17 317 015**	**16 936 464**	**16 430 307**
Pre-paid subscribers	15 624 214	15 161 977	14 534 596	14 269 139	13 839 870
Post-paid subscribers	2 930 344	2 861 547	2 782 419	2 667 325	2 590 437
Mobile blended ARPU (rand)	**87.24**	**87.87**	**88.53**	**89.94**	**91.45**
Pre-paid ARPU	64.16	64.47	64.77	65.67	66.68
Post-paid ARPU	203.73	205.92	208.50	212.47	215.49
Traffic					
Fixed broadband (petabytes)	492	467	452	428	428
Mobile broadband (petabytes)	309	287	263	245	246
Total fixed-line traffic (millions of minutes)	1 202	1 358	1 365	1 508	1 512

Network					
Homes passed with fibre	1 022 011	960 801	890 182	839 691	801 084
Homes connected with fibre	469 556	443 469	414 847	389 109	358 528
Fibre connectivity rate (%)	45.9	46.2	46.6	46.3	44.8
Mobile sites integrated	7 463	7 384	7 350	7 313	7 082

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.