

Telkom SA SOC Ltd









# Group Annual Results

For the year ended  
31 March 2024

Seamlessly  
connecting our  
customers to a  
better life.

Telkom

## Highlights

Mobile service revenue	up 6.8% to R19 026 million	
Group revenue <sup>1,2</sup>	up 1.6% to R43 230 million	
Next-generation revenue	up 7.0% to R34 356 million	
NGN fibre connectivity revenue	up 14.5% to R5 633 million	
Group EBITDA <sup>1,3,4,5</sup>	up 5.2% with EBITDA margin at 23.2%	
HEPS <sup>1,4,7,8</sup>	up 201.3% to 376.0 cents per share	
BEPS <sup>1,3</sup>	up 442.8% to 385.5 cents per share	
Free cash flow <sup>4,6</sup>	up 115.6% to R424 million	

Telkom made good progress in the 2024 financial year, delivering a stronger operational performance and improved financial results as the leading infrastructure company at the heart of South Africa's digital connectivity.

Group performance for the year improved against a challenging economic backdrop in South Africa. Our data-led strategy delivered ahead of industry trends as we grew Mobile service revenue by 6.8% and surpassed 20 million mobile subscribers. Openserve's leading fibre connectivity rate advanced to 48.5% as we prioritised monetising our fixed network and passed more than 1.2 million homes with fibre. BCX made good strides in growing its IT service revenue, and Swiftnet's tower rollout programme and tenant growth further contributed to revenue growth and margin expansion for the Telkom Group.

We invested R6.1 billion towards network resilience, expanding our mobile network, modernising our fixed network infrastructure and fortifying our skills and capabilities for information and communication technology (ICT) managed services. This investment included spectrum, which is already deployed to further improve our offerings and service levels to retail, enterprise and wholesale customers.

We made excellent progress in delivering on our strategic imperative to unlock value through the proposed disposal of Swiftnet for R6.75 billion. The transaction was presented and approved by shareholders on 24 May 2024. This approval indicates our shareholders' support for management to explore further opportunities that enhance shareholder value.

## Performance overview

Telkom delivered improved financial results despite inflationary pressures and the added operating cost resulting from power outages in South Africa. Increased operating margins were driven by continued demand for and growth of our next-generation (NGN) offerings. Stronger operational performance along with cost-optimisation initiatives contributed to a normalised EBITDA<sup>1,3,4,5</sup> growth of 5.2% to R10.0 billion. Including non-recurring restructuring costs in the prior year, reported EBITDA<sup>1,4,5</sup> advanced by 18.4%.

Total headline earnings per share (HEPS)<sup>1,4,7,8</sup> and basic earnings per share (BEPS)<sup>1,3</sup> increased by >100% to 376.0 cents and 385.5 cents, respectively, driven by improved operational performance. From a loss position in the prior year, profit for the year also increased by >100% to R1.9 billion<sup>1,3</sup>, boosted by the non-recurrence of once-off restructuring costs and lower depreciation, while higher interest rates increased net finance costs compared to the prior year.

We put great effort into improving cash generated from operations, which increased by more than R4 billion excluding restructuring costs. Better-than-expected positive free cash flow<sup>4,6</sup> of R424 million was driven by improved operational performance and our measured approach towards capital expenditure (capex) this year.

Openserve continued its leadership in the fixed wholesale connectivity market which saw it increase its external channel revenue significantly by 10.7% to R4 526 million, driven by next-generation fibre connectivity that now constitutes more than 93% of Openserve's external wholesale revenue. This external growth contributed to the total NGN fibre revenue, which grew by 7.4% and now represents 76.4% of Openserve's overall revenue of R12 511 million. The next-generation fibre revenue growth was driven by continued growth of 16.1% in broadband connectivity

(fibre to the home), while the enterprise and carrier segments grew by 4.8% and 2.5%, respectively.

Driving its strategic focus of improving its cost base, Openserve continued to optimise its sites and implemented green energy solutions in the form of solar and lithium-ion batteries to support an always-on network thus reducing its dependency on high-cost energy solutions. These and other cost-reduction initiatives contributed to margin expansion, and EBITDA<sup>4,8</sup> improved by 6.6% to R3 934 million, yielding an EBITDA margin<sup>4,8</sup> of 31.4% (+2.8 percentage points (ppts)).

Openserve invested R2 547 million to modernise its network and drive fibre deployment to pass 1 217 110 homes, a 17.0% increase. Its connect-led strategy continues to see positive results, enabling it to increase its homes connected by 19.8% to 590 527, sustaining its leadership in the market with the highest connectivity rate of 48.5% (+1.1 ppts).

Executing on its strategic imperatives to provide a highly reliable and scaled network while providing exceptional customer experience, Openserve continued to show industry-leading network availability uptimes of 99.86%, 99.85% and 100% across its access, transport, and core network layers, respectively. The resilience and high availability of its network could also be seen through the growth in data consumption of 2 307 petabytes, an increase of 21.7%.

Telkom Consumer remained resilient in delivering competitive high-speed broadband solutions across both the mobile and fibre segments, increasing external revenue by 2.2% to R26 140 million. Total external revenue from Mobile operations increased by 4.5% to R22 583 million, driven by 6.8% growth in Mobile service revenue. Mobile service revenue growth was primarily due to mobile data revenue, which increased by 10.6%, contributing R14 300 million to total mobile revenue.

As we focused on sustainable growth, we continued to refine our operational efficiencies and optimise cost structures. EBITDA<sup>4,8</sup> grew by 24.2% to R4 093 million as a result, and the EBITDA margin<sup>4,8</sup> expanded to 15.5% (+2.8 ppts). The Mobile business also improved its EBITDA margin<sup>4,8</sup> to 22.2% (+1.7 ppts), despite the adverse effects of loadshedding and higher expected credit losses due to economic pressure on consumers.

In a highly competitive market, we grew our mobile subscriber base by 11.9% to 20.4 million, with a blended average revenue per user (ARPU) of R84 (FY2023: R86). Our pre-paid base expanded by 14.3% to reach 17.5 million subscribers. This was fuelled by the acquisition of higher-quality connections and improved recharging behaviour and ARPUs within the existing customer base. The post-paid base remained relatively stable at 2.9 million subscribers. Mobile broadband subscribers increased by 9.5% to 12.7 million, representing 62.3% of our total mobile base now using wireless broadband.

We invested R2 598 million in Mobile capex, including R972 million for spectrum. This enabled us to expand our network coverage by 2.5%, grow our presence to 7 738 sites, and maintain network resilience by replacing over 5 688 lithium-ion backup batteries and repairing more than 1 606 sites. Our leading 4G device adoption rate exceeded 92.0%, informed by our data-led strategy. Currently, 51% of data traffic is routed through our 4.5G network (primarily serving fixed wireless access) and 46% through our 4G network (predominantly catering to mobile data services). We have deployed 465 active 5G sites since launching our 5G services in 2022.

BCX, operating in a highly competitive market, focused on enhancing the quality and sustainability of its client base. Reported revenue declined by 2.3% to R12 915 million.

IT revenue increased by 9.9% to R7 262 million, largely due to a strong performance from the hardware and software business.

This performance, albeit at lower average margins, was driven by new product deals, existing software contract renewals and record cross-border sales. BCX complements hardware and software sales with higher-margin IT Services, as much as possible in the form of managed services. IT Services performed well, increasing revenue by 6.6% to R4 789 million. This was supported by strong cybersecurity growth and steady growth of the data centre and infrastructure solutions business as demand for storage and cloud computing continued to grow in the market.

Converged Communications revenue declined by 14.5% to R5 653 million as we continued migrating customers to next-generation technologies. Accordingly, revenue from next-generation services grew by 28.7% while legacy products continued to decline as envisaged.

While BCX reduced some operating costs, this was not sufficient to offset the combined effects of revenue mix at lower margins, the decline in higher-margin legacy revenue, and higher expected credit losses on trade receivables. Consequently, EBITDA<sup>4,8</sup> reduced by 28.4% to R1 294 million at a margin of 10.0% (-3.7 ppts).

Swiftnet continued to commercialise its masts and towers portfolio as customers continued to invest in improving their network performance and capacity through equipment upgrades and modernisation. Swiftnet's revenue growth was limited to 1.3% (R1 321 million), impacted by terminations from two customers. Revenue from other customers increased by 10.7% to R1 018 million on the back of inflationary escalations, new tenancies, 5G rollouts and upgrades.

EBITDA<sup>4,8</sup> increased by 10.4% to R990 million at an EBITDA margin<sup>4</sup> of 74.9%, attributable to the optimisation of tower operating costs.

The masts and towers build programme gained momentum, with 68 towers and eight in-building solution sites being constructed, resulting in 4 047 total productive towers. The rollout of Power-as-a-Service (PaaS) at scale began in the final quarter of the year, with 18 PaaS solutions for customers being built and connected.

Gyro shifted its focus in FY2024 following the Board of Directors' (Board) decision to exit property development and focus on managing the Group's property portfolio for core operational purposes. Gyro focused on optimising the Telkom Group property footprint and improving energy efficiency.

We accelerated the disposal of decommissioned properties no longer required, generating R92 million in cash proceeds from the transfer of 56 sold properties. A further 42 properties with a sale value of R287 million remain in the conveyancing process and are expected to transfer during FY2025.

The implementation of various energy interventions improved the resilience of our mobile and fixed networks and contributed meaningfully to reducing Telkom Group's carbon emissions. We prioritised technologies that maximise energy security and decarbonisation while optimising utilities and diesel costs. Scope 1 and 2 emissions decreased by 65 747 tCO<sub>2</sub>e, a 9.0% reduction that far exceeded the 4.2% target for the year.

## Group revenue

Group revenue<sup>1,2</sup> increased by 1.6% to R43 230 million, driven by an increase in mobile data and NGN fibre data connectivity revenue of 10.6% and 14.5%, respectively. This was partially offset by a 23.4% decrease in fixed-voice revenue due to the ongoing migration to modern technologies such as fibre and LTE, a 20.7% decrease in customer premises equipment and a 6.8% decrease in mobile handset sales.

## Group EBITDA

Group EBITDA<sup>1,3,4,5</sup> increased by 5.2% to R10 041 million, with the EBITDA margin<sup>1,3,4,5</sup> expanding 0.8 ppts to 23.2% compared to FY2023. The Group revenue<sup>1,2</sup> increase of 1.6% and decrease in cost of handset, equipment and directories and payments to other operators of 3.4% and 2.1%, respectively, were offset by 1.4% higher operating expenditure (opex)<sup>1,3</sup> and a 9.0% increase in sales commission and incentives from Mobile.

The opex<sup>1,3</sup> increase is mainly attributable to the 16.6% increase in maintenance in line with the growth in mobile sites integrated and the 34.2% increase in impairments of receivables<sup>1</sup> due to the deterioration of macro-economic conditions. This was partially offset by a 12.9% decrease in other expenses<sup>1</sup>, mainly due to lower third-party costs and the containment of discretionary spend, as well as a 4.0% decrease in employee expenses<sup>1,3</sup> due to the 15.0% reduction in headcount, 0% salary increases for management and the 5.0% average salary increase for bargaining unit employees, only effected in the third quarter of FY2024.

Mobile cost to serve improved by 0.7 ppts to 27.7% compared to 28.4% in the prior year. The year-on-year decrease in cost to serve was mainly driven by the optimisation of roaming costs as we maintained stringent roaming traffic thresholds and our focus on migrating traffic to our network.

## Leadership changes to drive strategy

We appointed our new Group Chief Financial Officer, Nonkululeko Dlamini, in December 2023, and further strengthened our leadership team in April 2024 with the appointment of Sello Mmakau as Group Chief Digital Officer. This new position was established in FY2024 to drive the Group's technology and digital transformation journey, with a focus on providing exceptional service to our customers.

## Capital allocation priorities and reinstatement of dividend policy

Our capital allocation priorities relate closely to unlocking value for our shareholders. Our short to medium-term priorities are to strengthen our balance sheet by paying down debt in the prevailing "higher-for-longer" interest rate environment, and to invest in capex to drive future growth. While the proceeds from the disposal of the masts and towers business will boost the Group's cash position and reduce debt to within the targeted 1.0x – 1.5x net debt<sup>1,4</sup> to EBITDA<sup>1,3,4,5</sup> range in the short term, the repayment of debt from cash generated from operations is also a priority for the medium term. These target debt levels will further free up cash flow by reducing finance costs and will give the Group balance sheet flexibility to gear up at more favourable rates when the interest rate cycle turns.

Linked to this is Telkom's goal to return cash to shareholders after sufficiently funding capex and strengthening our balance sheet. Management has considered the Group's business plans and is confident that Telkom will be in a position to pay dividends in the near term, with

FY2025 targeted as the first year-end to consider paying a dividend. A revised dividend policy has been approved by the Board. The new policy will be based on available free cash flow while prioritising a strong balance sheet and future capex requirements. The policy proposes a dividend payout range of 30% to 40% of free cash flow after taking into account capex investments. The dividend will be declared and paid on an annual basis, with a resulting dividend yield comparable with local telecommunications companies.

## Outlook

In FY2024, we established a good base to grow as OneTelkom, using our extensive digital infrastructure – including our mobile and fixed networks as well as our ICT capabilities. The objective of Telkom operating as an infrastructure company (InfraCo) is to grow sustainably by pooling our assets and capabilities and going to the market as OneTelkom. This will improve returns for the Group on our existing and future digital infrastructure. We will invest capex in identified growth areas ahead of time to improve our future operating profit, cash flow and, ultimately, returns on the capital invested. With the proposed disposal of Swiftnet, our future areas of growth have been brought into focus as we enter our next phase of monetising Telkom's existing and future digital infrastructure as an InfraCo. This will entail efficiently investing in our mobile and fibre network businesses while expanding our ICT capabilities anchored by data centres (own and through partnerships) as a base from which to grow our IT managed services offering.

Future growth for the Group will be facilitated by efficient deployment of capex for our Mobile business, exploring radio access network sharing with other mobile network operators (MNOs), enabling us to capture high-traffic activity while keeping capex at manageable levels.

Our fibre business, Openserve, has a national footprint that gives it access to 8 million homes within a 5km radius of its last-mile infrastructure. Openserve will continue monetising this footprint as it rolls out fibre and connects homes and enterprises across South Africa, with the ambition of continuously driving our connectivity rate to reach 50%. The immediate to long-term rollout of 5G, and equipment upgrades by MNOs due to migrate 2G and 3G customers by the end of 2027 to newer-generation mobile connectivity in 4G and 5G technologies, will continue to drive fibre connectivity rollouts to towers and 5G small cell sites.

Capex for BCX is generally project-based. With the data centres serving as the anchor, we will grow our IT managed services to diversify our revenue base and improve margins for this business as we optimise its operating structure in the coming year.

We will continue to operate Swiftnet as part of the Group while regulatory approvals for its disposal are pending, and have refocused Gyro on optimising the Group's core property portfolio while delivering on the sustainability goals of the Telkom Group.

Financial information summary	Pro forma		Variance %
	March 2024	March 2023	
<b>Total operations</b>	<b>Rm</b>	<b>Rm</b>	
Revenue <sup>1,2</sup>	43 230	42 534	1.6
EBITDA <sup>1,3,4,5</sup>	10 041	9 545	5.2
EBITDA margin (%) <sup>1,3,4,5</sup>	23.2	22.4	0.8
Capex	6 134	7 401	(17.1)
Free cash flow <sup>4,6</sup>	424	(2 722)	115.6
BEPS (cents) <sup>1,3</sup>	385.5	71.0	442.8
HEPS (cents) <sup>1,4,7,8</sup>	376.0	124.8	201.3
Net debt <sup>1,4</sup> to EBITDA <sup>1,3,4,5</sup> (times)	1.7	1.8	(0.1)
Dividend	Rnil	Rnil	-

<sup>1</sup> Includes total operations.  
<sup>2</sup> Revenue was restated for the IFRS 15 prior period error and adoption of IFRS 17.  
<sup>3</sup> Excludes the impact of the R1 065 million restructuring cost and the cash-generating unit impairment of R13 017 million in the comparative year.  
<sup>4</sup> This is a non-IFRS financial measure.  
<sup>5</sup> EBITDA was restated for the adoption of IFRS 17.  
<sup>6</sup> Includes restructuring and spectrum acquisition costs paid during FY2024 of R1 068 million and R972 million, respectively.  
<sup>7</sup> During the year, we restated the HEPS comparative by 9.7 cents per share.  
<sup>8</sup> Excludes the restructuring cost of R1 065 million with the related tax impact of R288 million in the comparative year.

**Mvuleni Geoffrey Qhena**  
Chairman  
**Serame Taukobong**  
Group Chief Executive Officer  
**Nonkululeko Dlamini**  
Group Chief Financial Officer  
 18 June 2024  
**Sponsor**  
Nedbank Corporate and Investment Banking,  
a division of Nedbank Limited

**Pro forma financial information:** The Group presents various non-IFRS financial measures in the results announcement. These non-IFRS financial measures include i) the illustrative write-up of the invested capital of BCX and Gyro to their theoretical fair value which is used in the calculation of the return on invested capital, ii) the net debt, iii) the free cash flow, and iv) the BCX narrative has been prepared excluding the impact of IFRS 15 (principal versus agent) in the current and prior years. Furthermore, the financial information in the current financial year has been prepared including Swiftnet on a combined basis. In addition to the non-IFRS financial measures noted above, the financial information in the prior year excludes the impact of voluntary severance packages, voluntary early retirement packages and \$189 costs, the impairment of asset charges and related tax impact on the results (the pro forma adjustments). These measures constitute pro forma financial information and are annotated throughout the results announcement. This pro forma financial information was presented to illustrate the impact of the pro forma adjustments on the audited consolidated annual financial statements for the years ended 31 March 2024 and 31 March 2023 to achieve a comparable year-on-year 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 annual financial statements for the year ended 31 March 2024. The pro forma financial information is the responsibility of the Directors.

**Further information:** The short-form annual financial results announcement is the responsibility of the Board of Directors of Telkom. It is only a summary of the information contained in the annual financial statements for the year ended 31 March 2024 (AFS 2024) and does not contain full or complete details.

The pro forma financial information in the Group Annual Results for the year ended 31 March 2024 has been reviewed by the Group's independent external auditor who issued a reasonable assurance report thereon, prepared in terms of ISAE 3420 which is available on <https://group.telkom.co.za/ir/>. Any investment decisions should be based on the AFS 2024 published on the JSE's cloud link on Tuesday, 18 June 2024 and also available on Telkom's website at <https://group.telkom.co.za/ir/overview.html>. The AFS 2024, on which the Group's external auditor, PricewaterhouseCoopers Inc. has issued an unqualified opinion, is available on the Company's website at: <https://group.telkom.co.za/ir/financial-information.html> and on the JSE's cloud link at: <https://snpdf.jse.co.za/documents/2024/jse/jse/tkg/ye2024.pdf>. Copies of the Telkom annual financial statements for the year ended 31 March 2024 may be requested from our Group Company Secretary, Ephuy Mthomhame at [mthomh1@telkom.co.za](mailto:mthomh1@telkom.co.za).  
**Telkom SA SOC Ltd (Registration number: 1991/005476/30)**  
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