

Telkom SA SOC Limited  
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ISIN: ZAE000044897  
("Telkom" or "the Group")

## Trading update for the quarter ended 30 June 2021 ("Q1 FY2022")

### Q1 FY2022: Group salient features

- Group revenue up 3.5% year on year to R10 618 million mainly driven by the mobile business
- Mobile data revenue grew 11.1% supported by growth in mobile broadband customers
- Mobile broadband customers up 30.9% to 10.5 million, representing 65.6% of active customers
- Active mobile customers up 36.3% year on year to 16.1 million
- Fixed data connectivity revenue grew 1.2% driven by increased demand in fixed broadband usage
- Fibre to the home grew by 32.2% to 306 837 representing FTTH connectivity rate of 50.1%
- Masts and Towers number of external leases increased 6.9% year on year to 8 685
- Group EBITDA up 7.3% to R 2 751 million with EBITDA margin expansion of 0.9 ppts to 25.9%

### Statement from the Group Chief Executive Officer: Siphon Maseko

"Telkom published a solid set of results for the first quarter of the year in a challenging trading and economic environment. Group revenue and EBITDA grew 3.5% and 7.3% respectively, demonstrating recovery in topline revenue and strong profitability compared to the prior year. Our sustainable cost management continues to deliver positive results, culminating in Group EBITDA growing faster than revenue despite a salary increase of an average of 6.0% across the Group", says Siphon Maseko, Group Chief Executive Officer.

Despite the South African economy gradually opening, customers remain under severe financial pressure due to loss of jobs, reduced income and liquidation of small businesses. We witnessed a continuing change in consumer behavior in the postpaid consumer market. As customers seek to manage their spend, we saw a reluctance to renew postpaid contracts with some customers opting to switch from postpaid to prepaid propositions. In the Enterprise segment, investment lags the economy as the country grapples with the COVID-19 third wave with many Small and Medium Entities (SMEs) having to close their businesses in these challenging times.

What has been encouraging is the Mobile business sustaining its growth trajectory despite a very strong prior year first quarter, with postpaid ARPU holding steady at around R220. Our Masts and Tower portfolio continued to grow and expanded its footprint. We have also seen a recovery in the Converged Communication business in BCX with this business recording growth while the IT business remains under pressure. For the first time since the technology migration at Openserve, the number of homes connected with fibre surpassed the number of homes connected with copper. Although the overall fixed business is still declining, we noted positive recovery in the fixed voice usage and fixed data connectivity revenue compared to the prior year boosting the performance of Openserve.

"This has been enabled by our ongoing capital investment and broadband led strategy which underpins the evolution of our business. Today, the new revenue streams, being mobile, IT, fibre and masts and towers contribute more than 70% of Group revenue and remain the driver of the topline growth and the profitability of the business", Maseko concluded.

## Operating review

### Group delivered solid performance

Group revenue returned to growth, increasing by 3.5% to R10 618 million, following a full year of flat Group revenue. The Mobile business and the Masts and Tower (M&T) portfolio sustained their growth trajectory into the first quarter. Although the fixed business declined 5.6% in the period, we saw a significant slowdown in the rate of decline. Fixed voice revenue declined by 13.6% year on year. This compares favourably to the 33.5% decline reported in the prior year. Fixed data connectivity revenue grew by 1.2% year on year, compared to the decline of 15.6% reported in the prior year.

Group EBITDA grew faster than revenue with an increase of 7.3% to R 2 751 million with the EBITDA margin expanding 0.9 ppts to 25.9%. This was underpinned by our effective sustainable cost management as opex growth was contained below inflation despite an average salary increase of 6% across the Group, which was effective from 01 April 2021.

### Consumer business continues to drive growth

The Consumer business revenue grew 8.3% to R 6 519 million driven by growth in the mobile revenue. This was partially offset by the decline in fixed-line business due to continued migration to next generation technologies such as LTE and fibre and ongoing pressure in the SME segment.

The Mobile service revenue grew 13.0% to R4 442 million. This was supported by 36.3% year on year growth in active customers to 16.1 million. The postpaid market remains challenged in terms of new connections due to consumers being under pressure from a weak economy. We remain prudent with our credit management approach and are focusing on our customer value management to preserve and grow the average revenue per postpaid customer. Despite the challenging environment, our postpaid customer base was relatively flat compared to the prior year at 2.6 million with postpaid ARPU up 3.8% year on year to R221. The prepaid market remains the driver of new connections, prepaid customers grew by 46.8% to 13.5 million. In the quarter under review, 744 485 prepaid net additions were recorded. Prepaid ARPU declined by 15.3% to R68 compared to R80 reported in the prior year due to the significant slowdown in working from home and online schooling.

Mobile data revenue grew by 11.1% to R3 211 million, supported by 30.9% growth in mobile broadband customers to 10.5 million which represents more than 65% of our active customer base. Capex of R534 million was invested in coverage with 6 646 base stations to date reflecting an 8.8% year on year increase in base stations.

Mobile EBITDA margin was maintained at 28.4%, benefitting from both revenue growth and cost containment. Despite the increase in service revenue, we continued to demonstrate efficient mobile growth, with the mobile cost to serve ratio improving from 31.6% in the prior year to 28.3% in the current period. Cost to serve includes the payments to other operators, sales commission, incentives and logistical expenses.

Driving the growth of adjacent revenue streams and opportunities remains a strategic imperative. We enhanced our Insurance and Business Lending products to improve our value proposition for our customers. A Digital Wallet was launched in the market and a significant number of customers have been verified, registered, and are using the platform. The prepaid purchases make up the most popular transactions on the platform. The Telkom Digital Wallet uses WhatsApp as its channel and thus allows customers to send money to anyone with a mobile number quickly and securely, without needing to download a mobile application. Customers can pay or get paid through a QR (quick response) code, send money, make cash withdrawals or pay for goods. The Telkom Digital Wallet can also be linked to physical

cards such as VISA and Mastercard. We will continue to enhance our Digital Wallet proposition with an introduction of a suite of Investment products to be launched in the second quarter of the financial year in partnership with Easy Equities.

### **BCX remains under pressure due to a weak economy**

The South African economy continues to be under pressure due to the impact of COVID-19. BCX, which serves all the sectors of the economy, has performed in direct correlation with decreased South African GDP growth. We continue to see sluggish IT spend and investments by Corporates as the country battles with the impact of COVID-19 and the effects of restrictions on parts of the economy due to lockdowns. COVID-19 is an ongoing risk and management is driving initiatives to mitigate the risk. BCX maintains an annuity revenue mix of between 70%-75%, which continues to cushion the revenue decline during the pandemic. BCX results reflect the challenging environment with its revenue down 4.9% to R3 787 million. Despite these challenges, existing customers continue to honor their payment obligations. No requests for extended payment terms were witnessed in the quarter under review.

The Converged Communication business (fixed business) demonstrated encouraging trends with 3.2% year on year growth in revenue to R1 842 million. 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 activities in the period under review compared to the prior year when the country was in lockdown level 5.

The IT business is hardest hit by the challenging environment with revenue down 11.8% to R1 827 million due to delayed investment in IT by enterprise customers. No significant churn was observed from existing customers.

To mitigate the impact of the overall revenue decline, management focused on driving cost efficiencies with BCX EBITDA margin expanding by 2.2 ppts to 12.9% compared to the prior year.

### **Openserve on a recovery path**

Revenue of R3 347 million was only R48 million or 1.4% lower than the prior year. This small decline indicates recovery in Openserve's revenue following the four previous successive years of significant decline in revenue. This is attributable to growth in high capacity links for carriers, an increase in demand for fibre services and a slowdown in fixed voice churn, which has a much smaller proportionate impact than prior years.

The demand to upgrade carrier sites to high capacity sites by our customers in the mobile industry contributed significantly to the fixed data business growth in the period under review. The ongoing investment enabled Openserve to carry the increased demand in data services through upgrading the high capacity sites and expand its fibre footprint. Capex of R798 million was invested in the first quarter of the year.

Significant strides were made in the fibre business, increasing the number of homes passed by 34.3% to 612 451 following fibre rollout and supply chain challenges from the international lockdown in the prior year. The number of homes connected with fibre increased by 32.2% to 306 837 representing a fibre connectivity rate of 50.1% which remains the highest in the market. We have reached an inflection point, where the number of homes connected with fibre of 306 837 surpassed the number of homes connected with copper of 264 186. Despite the decline in the overall fixed broadband numbers, we have seen an increase in usage with fixed broadband traffic up 4.4%. More than 60% of our broadband customer base utilise speeds exceeding 10 Mbps. The decline in the fixed voice business continued in the period under review driven by SMEs, which was partially offset by an improvement in the Enterprise segment.

**EBITDA margin** improved by 1.1 ppts to 29.2%, underpinned by reduced direct costs and opex compared to the prior year.

### **Gyro business sustains its growth trajectory**

M&T revenue increased by 7.6% to R325 million and the EBITDA margin increased by 7.7 ppts to 75.8% as the portfolio continues to be commercialised. The tower build program remains on track with 26 towers constructed in the first quarter compared to none in the prior year as a result of the COVID-19 lockdown restrictions. The number of external leases, compared to the prior year, increased by 6.9% to 8 685.

The selected property development opportunities are in various stages of development planning, and many are nearing the “investment decision and construction phase”. We continue to explore development partnership opportunities with experienced property investors, whilst ensuring that we support the transformation of the property sector through investment and development activity opportunities.

### **Unlock value for shareholders**

Management remains committed and firmly on course with the value unlock strategy. Unlocking value from our portfolio of businesses is a key component of our capital allocation framework and will afford management flexibility to rebase the balance sheet and reinvest in the business. We continue to explore several options to unlock further value in the M&T business, which has operated as a separate tower company for over three years. We hope that further unlocking of value will affirm the valuation of the tower business and its contribution to the overall valuation of the Telkom business.

### **Update on the regulatory environment**

The High Court interdicted the licensing of high demand spectrum to preserve the status quo until it can finally determine the lawfulness of the process. The review application is expected to be heard in September 2021. In the meantime, the affected parties, including ICASA and Telkom, are exploring a settlement. The use of the temporary spectrum licensed to the MNOs has been extended until 31 August 2021. Licensees continue to pay pro rata spectrum fees in terms of the prescribed spectrum fees regulations for the use of these frequency bands and to apply the prescribed obligations such as deployment of virtual classrooms and the zero-rating of access to education and health web sites. The Authority is expected to extend the use of the temporary spectrum for the duration of the declaration of the state of national disaster or the conclusion of the spectrum auction.

In order to give context to the Mobile Broadband Service Inquiry process ICASA will be holding public hearings on 12 and 13 of August 2021. ICASA has found some of our competitors to have significant market power in certain retail and wholesale markets and as a result of their vertical relationships. We responded to them in our submission in relation to the draft regulations and findings document that the draft regulations do not go far enough to address the duopolistic market structure and that, instead of focusing on increased reporting requirements, they need to consider more appropriate remedies such as accounting separation and regulated site access and national roaming in order to make competition more effective.

The information contained in this trading update has not been reviewed or reported on by Telkom’s independent external auditors. All numbers and percentages in this update reflect first quarter numbers compared to the prior year first quarter numbers and percentages unless otherwise stated.

### **Centurion**

4 August 2021

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

## Quarterly financial information

	Q1 FY2022	Q4 FY2021	Q3 FY2021	Q2 FY2021	Q1 FY2021
	June 2021	March 2021	December 2020	September 2020	June 2020
Group Revenue	10 618	10 790	11 036	11 141	10 255
Group EBITDA	2 751	3 332	2 733	3 343	2 565
Group EBITDA margin	25.9	30.9	24.8	30.0	25.0
Group capex	1 503	3 323	2 183	1 778	1 164
<b>REVENUE BREAKDOWN</b>					
<b>Fixed</b>	<b>3 843</b>	<b>3 993</b>	<b>4 030</b>	<b>4 441</b>	<b>4 072</b>
<b>Voice and subscription</b>	<b>1 353</b>	<b>1 451</b>	<b>1 510</b>	<b>1 610</b>	<b>1 539</b>
Usage	526	550	575	615	473
Subscriptions	827	901	935	995	1 066
<b>Interconnection</b>	<b>62</b>	<b>77</b>	<b>159</b>	<b>101</b>	<b>98</b>
Fixed-line domestic	38	49	52	59	47
Fixed-line international	24	28	107	42	51
<b>Data</b>	<b>2 038</b>	<b>2 053</b>	<b>2 194</b>	<b>2 181</b>	<b>2 143</b>
Data connectivity	1 476	1 536	1 579	1 574	1 458
Internet access and related services	370	381	380	390	410
Managed data network services	199	167	186	223	252
Multimedia services	-7	-31	149	-6	23
<b>Customer premises equipment sales and rentals</b>	<b>324</b>	<b>368</b>	<b>112</b>	<b>481</b>	<b>228</b>
Sales	165	120	-90	232	44
Rentals	159	248	202	249	184
Other revenue	66	44	55	68	64
<b>Mobile</b>	<b>5 208</b>	<b>5 107</b>	<b>5 066</b>	<b>5 061</b>	<b>4 392</b>
Mobile voice and subscriptions	1 113	1 081	1 140	1 092	929
Mobile interconnection	118	121	113	139	112
Mobile data	3 211	3 154	3 047	3 119	2 891
Mobile handset and equipment	703	700	705	648	395
Significant financing component	63	51	61	63	65
<b>Information technology</b>	<b>1 313</b>	<b>1 417</b>	<b>1 660</b>	<b>1 318</b>	<b>1 591</b>
Information technology service solutions	729	937	973	914	861
Application solutions	252	230	261	301	320
IT hardware and software	289	175	40.7	58	376
Industrial technologies	36	33	34	30	34
Significant financing component	7	42	-15	15	0
<b>Other</b>	<b>254</b>	<b>273</b>	<b>280</b>	<b>321</b>	<b>200</b>
Yep	77	106	115	114	51
Gyro	177	167	165	207	149
<b>Total</b>	<b>10 618</b>	<b>10 791</b>	<b>11 035</b>	<b>11 141</b>	<b>10 255</b>

### Quarterly Business Unit information (stand-alone views)

	Q1 FY2022	Q4 FY2021	Q3 FY2021	Q2 FY2021	Q1 FY2021
	June 2021	March 2021	December 2020	September 2020	June 2020
<b>Revenue</b>					
Telkom Consumer	6 519	6 526	6 599	6 669	6 021
BCX	3 787	3 883	3 911	3 964	3 984
Openserve	3 347	3 252	3 387	3 451	3 395
M&T revenue	325	306	303	326	302
<b>EBITDA margin</b>					
Consumer	17.9	20.1	16.7	21.3	19.5
BCX	12.9	15.5	18.4	18.0	10.7
Openserve	29.2	36.9	30.8	28.3	28.1
Gyro	78.8	78.9	79.1	89.5	61.4
Mobile EBITDA margin	28.4	28.6	23.6	30.5	29.2

### Quarterly operational information

	Q1 FY2022	Q4 FY2021	Q3 FY2021	Q2 FY2021	Q1 FY2021
	June 2021	March 2021	December 2020	September 2020	June 2020
<b>Broadband subscribers</b>	<b>11 105 198</b>	<b>10 861 786</b>	<b>10 673 916</b>	<b>10 281 853</b>	<b>8 715 232</b>
Fixed broadband subscribers	571 023	605 807	617 047	637 884	667 920
Mobile broadband subscribers	10 534 175	10 255 979	10 056 869	9 643 969	8 047 312
<b>Active mobile subscribers</b>	<b>16 068 102</b>	<b>15 325 582</b>	<b>14 931 670</b>	<b>13 686 689</b>	<b>11 792 328</b>
Prepaid subscribers	13 490 473	12 745 988	12 354 754	11 077 104	9 190 702
Postpaid subscribers	2 577 129	2 579 594	2 576 916	2 609 585	2 601 626
<b>Mobile blended ARPU (rand)</b>	<b>94.31</b>	<b>104.45</b>	<b>107.80</b>	<b>112.55</b>	<b>111.40</b>
Prepaid ARPU	67.84	77.05	79.51	83.55	80.07
Postpaid ARPU	221.11	211.22	211.75	211.19	212.79
<b>Traffic</b>					
Fixed broadband (petabytes)	380	357	348	359	364
Mobile broadband (petabytes)	234	235	228	231	248
Total fixed-line traffic (millions of minutes)	1 569	1 667	1 768	1 830	1 522
<b>Network</b>					
Homes passed with fibre	612 451	549 957	483 977	458 791	456 163
Homes connected with fibre	306 837	281 065	258 640	247 019	232 118
Fibre connectivity rate (%)	50.1	51.1	56.7	53.8	50.9
Mobile sites integrated	6 646	6 430	6 135	6 159	6 106