

Telkom SA SOC Ltd

Interim Results Presentation

For the six months ended
30 September 2021

The Telkom logo, consisting of the word "Telkom" in white sans-serif font on a blue rectangular background. The background of the slide features a woman in a dark blazer looking out a window at a city skyline with a Telkom tower, and a man in a white shirt smiling while looking at his smartphone.

Telkom

Operating environment

1



Tough trading environment



Delayed economic recovery

- Sluggish economic growth
- Consumers under significant pressure
- High unemployment rate



Competitive landscape

- Increased competitive activities in the mobile space
- Price adjustments in the wholesale space



Regulatory uncertainty

- Initial Spectrum ITA set aside. ICASA expects to licence spectrum in March 2022
- ICASA to take back temporary spectrum ahead of spectrum assignment
- ICASA decision subject to court challenge

Productivity in a Covid-19 environment



Support employee wellness

- Mental and physical wellbeing of employees
- Developed a proactive Covid-19 vaccination framework
- Partnership with DisChem for vaccination of employees and their families



Hybrid work policy

- Allows employees to mainly work remotely
- Definition of workplace evolved to include company premises and employee's residence
- Equipped employees to work from home

Business performance

2



Solid operational performance



18.3%

Active mobile customers

16.3m



10.3%

Mobile broadband customers

10.6m



54.2%

Homes passed with fibre

707k



59%

New generation fixed broadband customers



56%

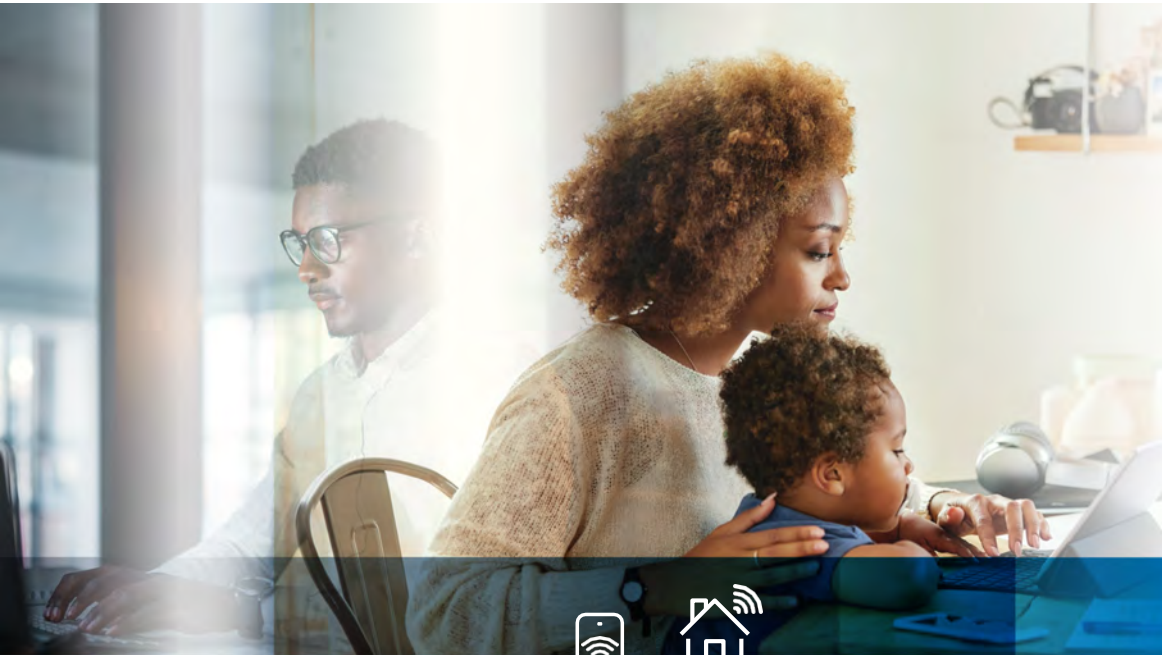
Tenants are external customers



1.55x

Tenancy ratio





Key strategic focus areas

Accelerate mobile growth

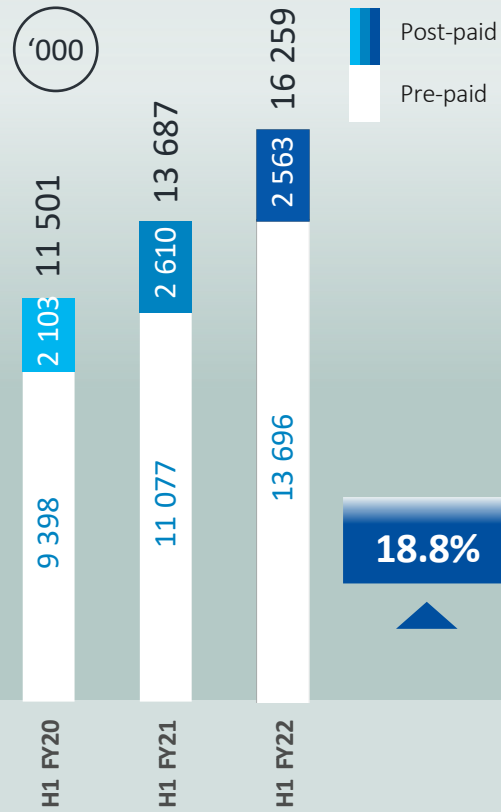
Drive high speed broadband

Network expansion

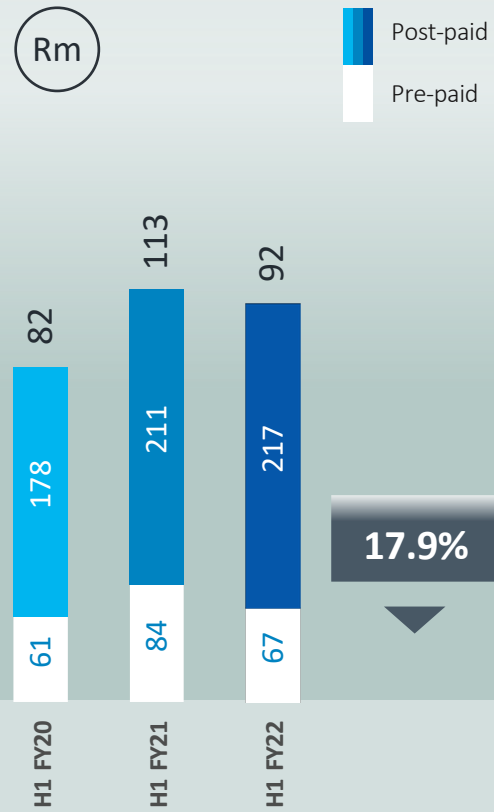
Telkom
Consumer

Solid performance against strong prior year

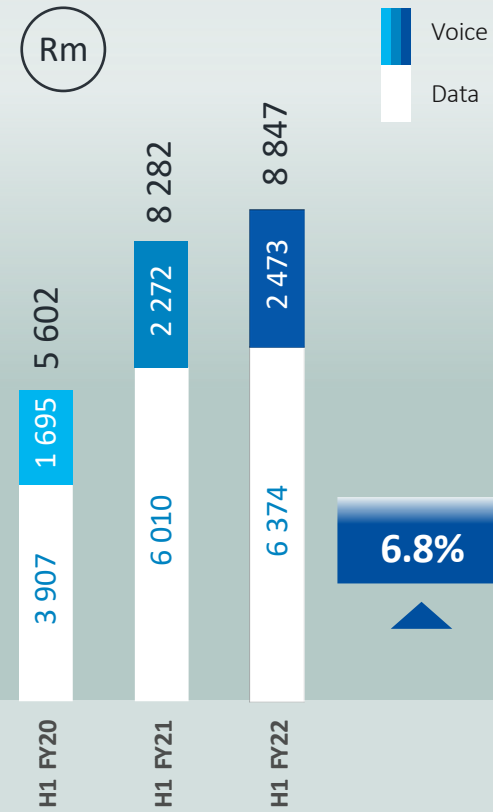
Subscriber growth



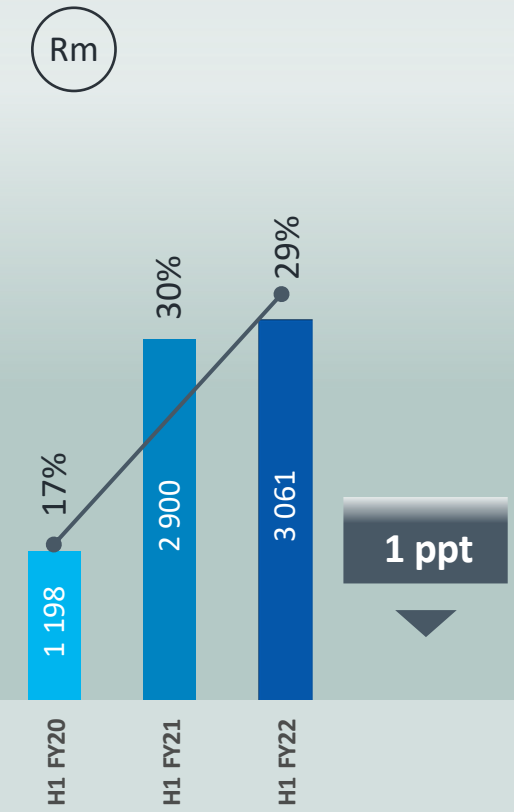
ARPU



Mobile service revenue

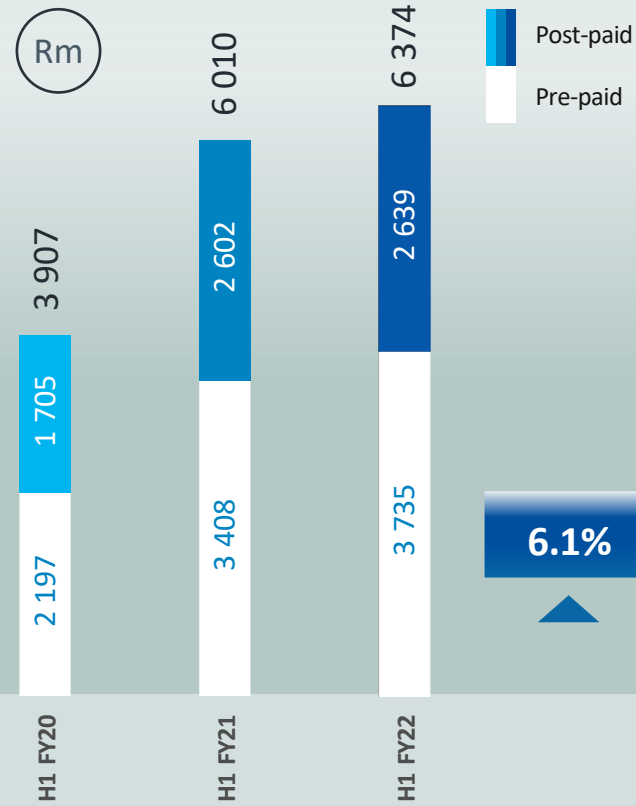


Mobile EBITDA/margin

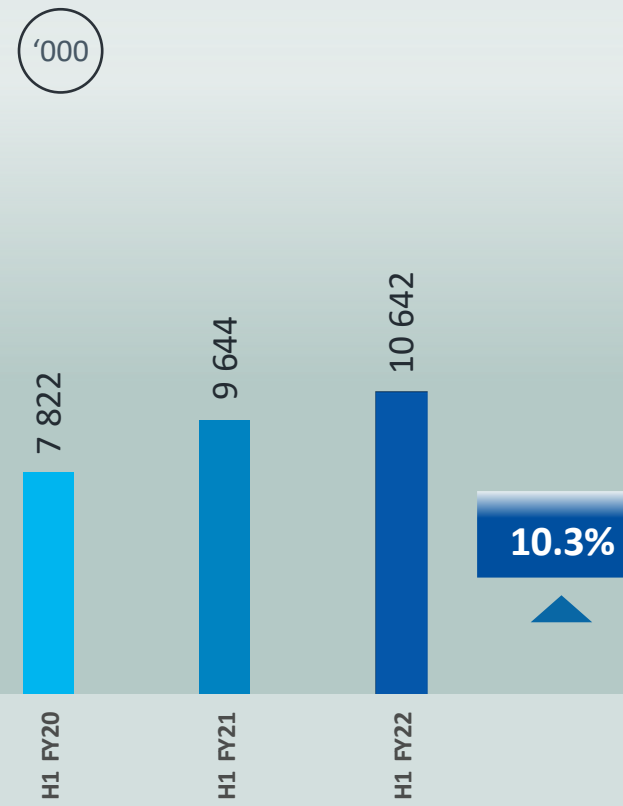


Monetisation of broadband traffic

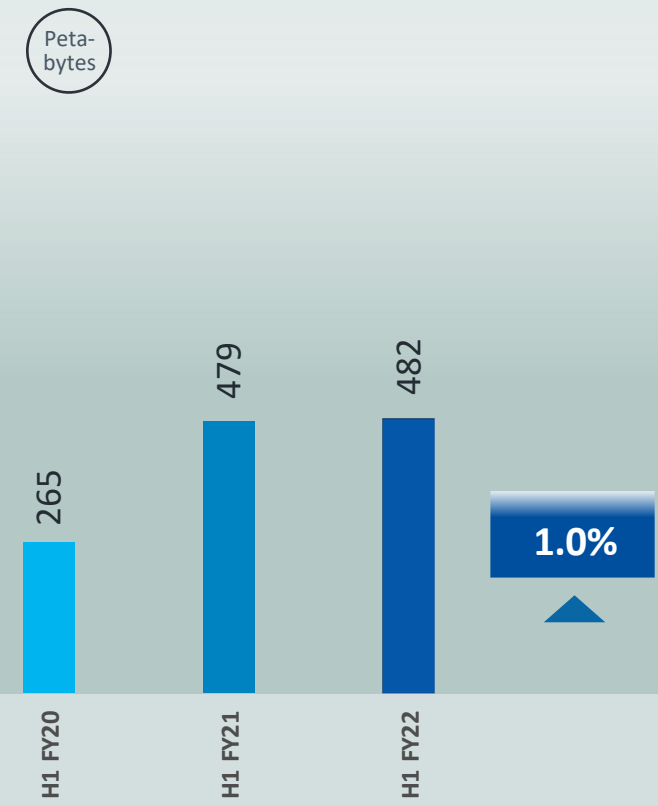
Mobile data revenue



Total mobile broadband subscribers

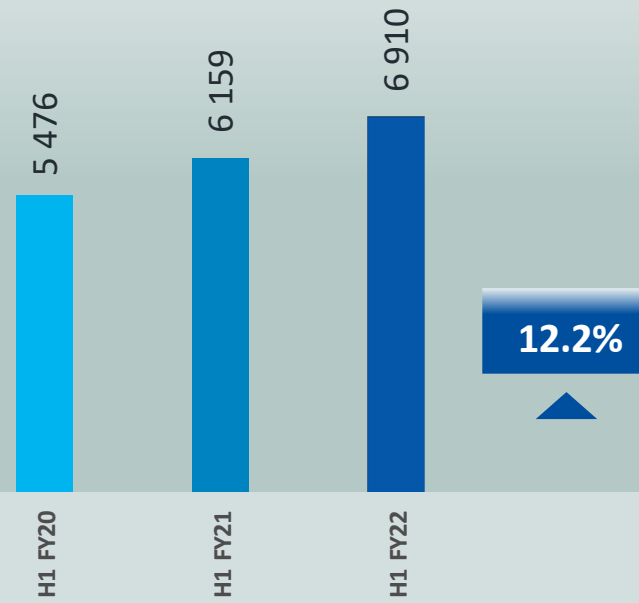


Mobile broadband traffic

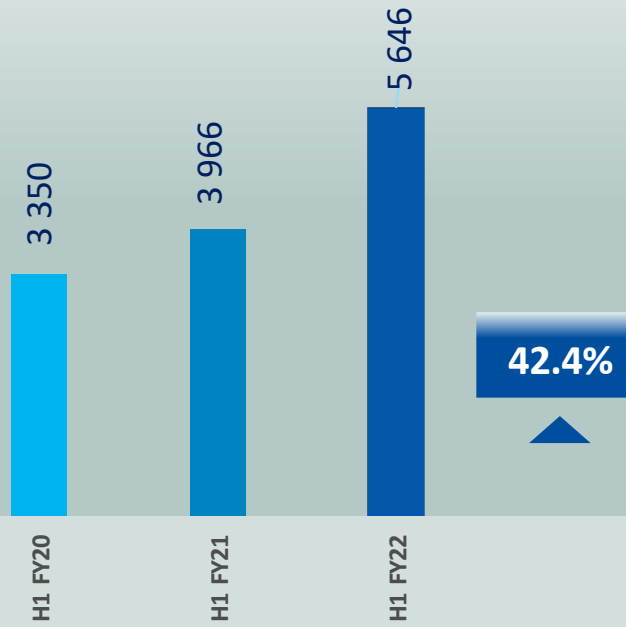


Ongoing network investment

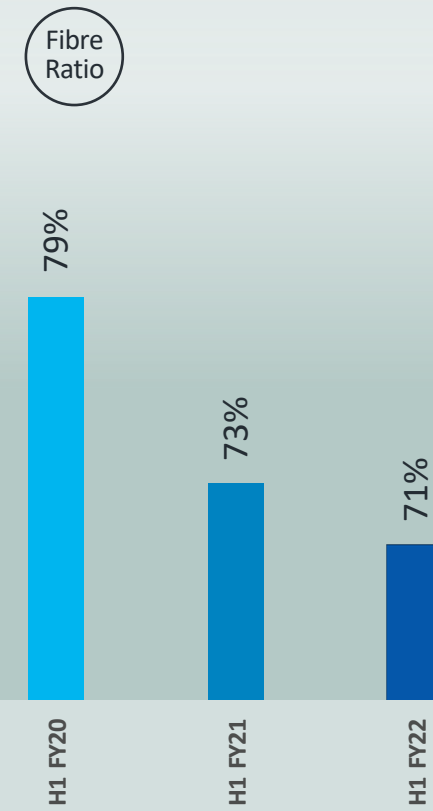
Mobile sites integrated



4.5G integrated sites



Site backhaul





Key strategic focus areas

Grow IT business

Evolve Converged Communication business

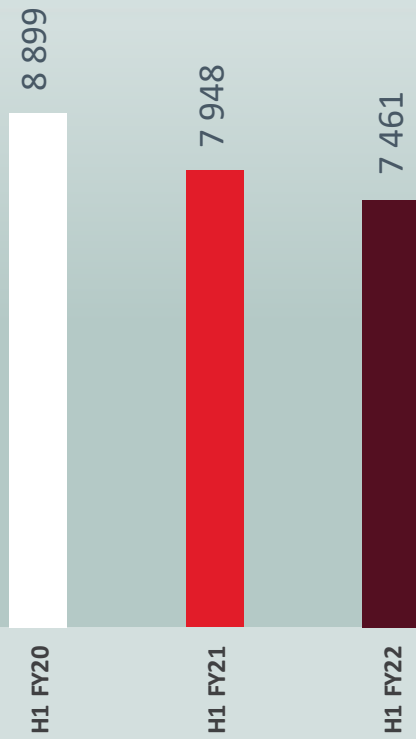
Reduce cost to serve

BCX

Financial performance under pressure

Revenue

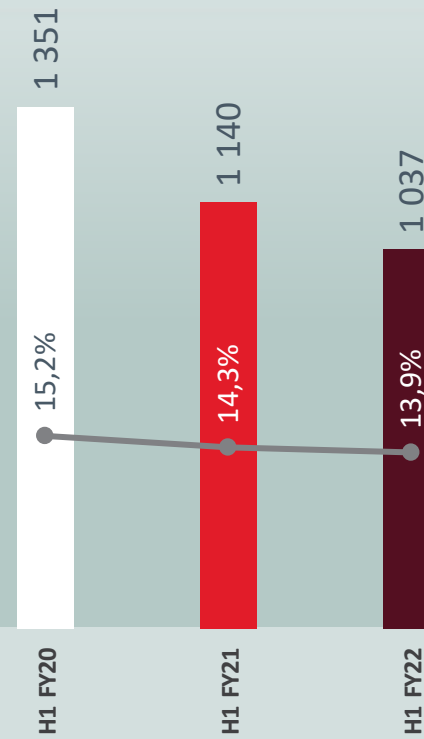
Rm



6.1%

EBITDA & margin

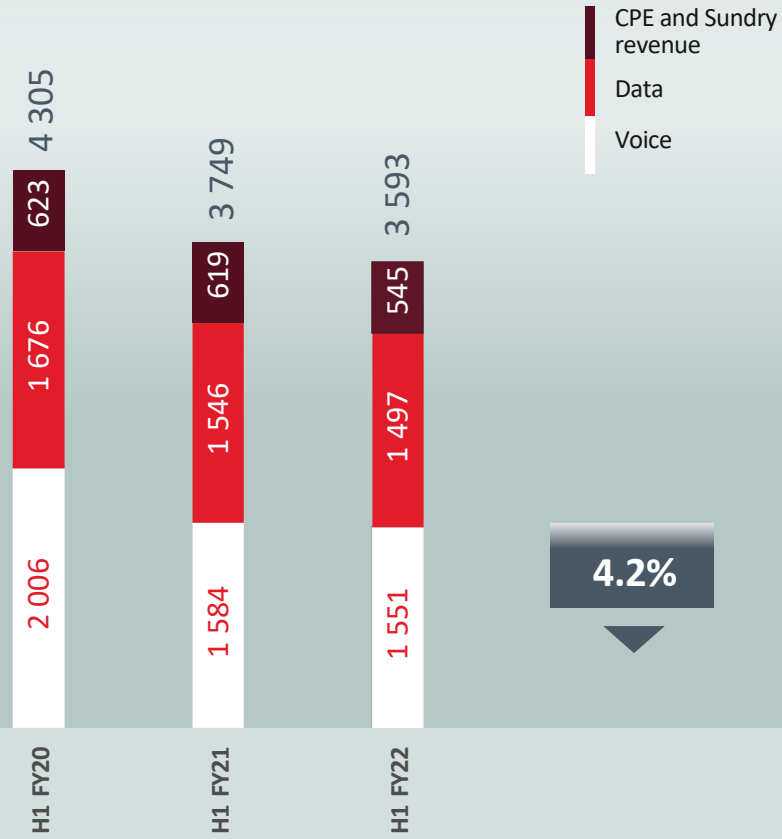
Rm



0.4 pts

Converged comms nearing stabilisation

Revenue



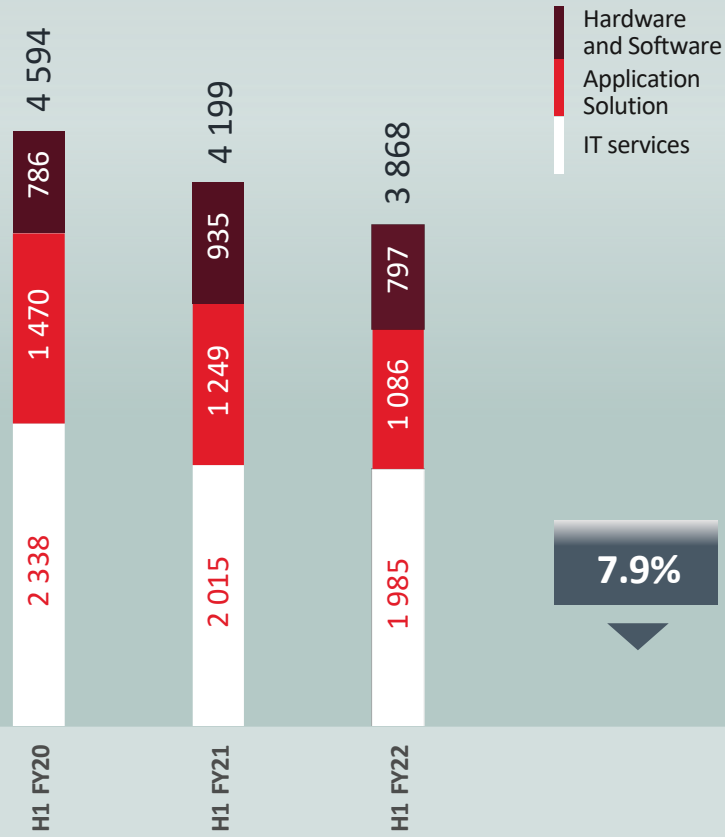
Next-generation revenue

Data access

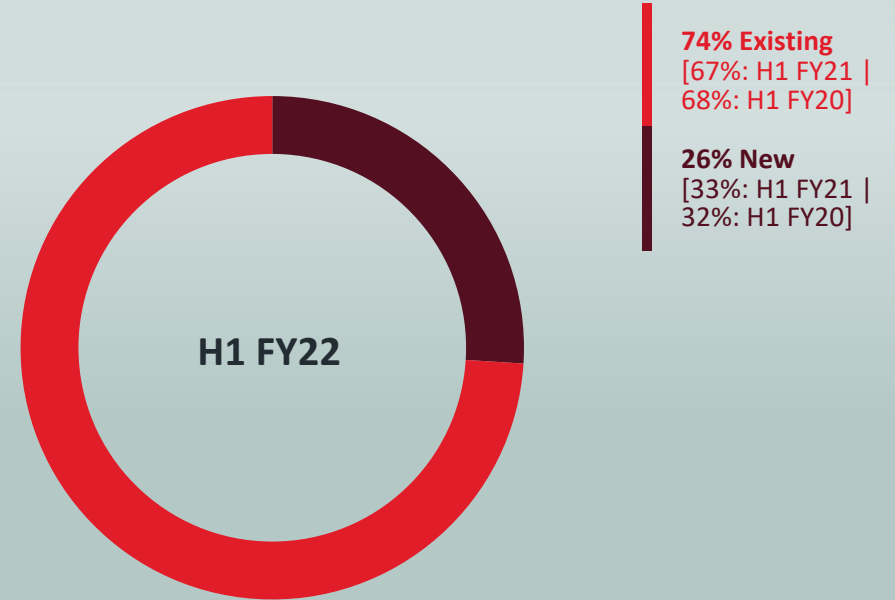


IT remains under pressure

Revenue



Annuity revenue ratio



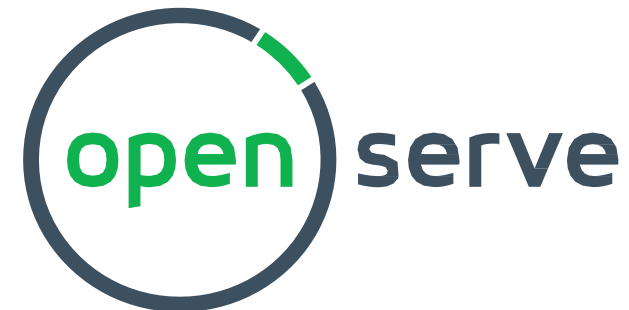


Key strategic focus areas

Modernise the network

Commercialise the network

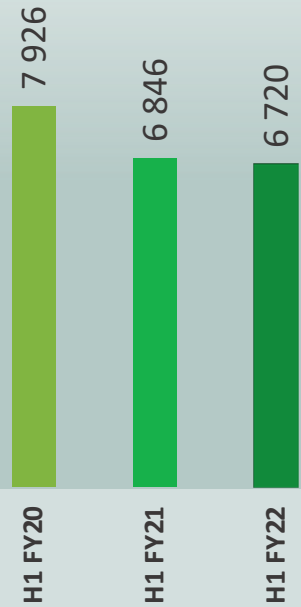
Transforming service delivery



Stable financial performance

Revenue

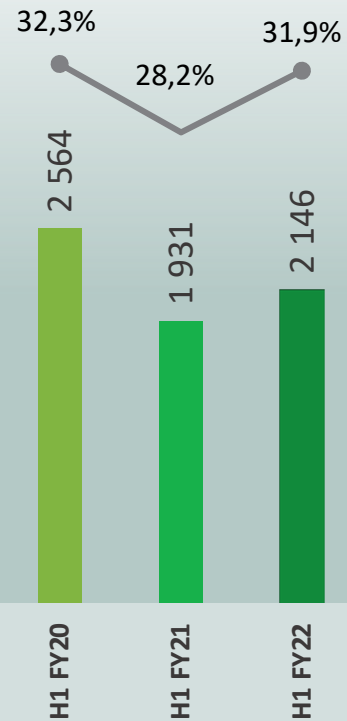
Rm



1.8%

EBITDA/EBITDA margin

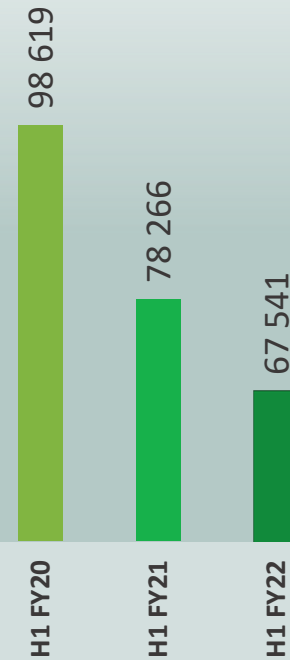
Rm



11.1%

Enterprise

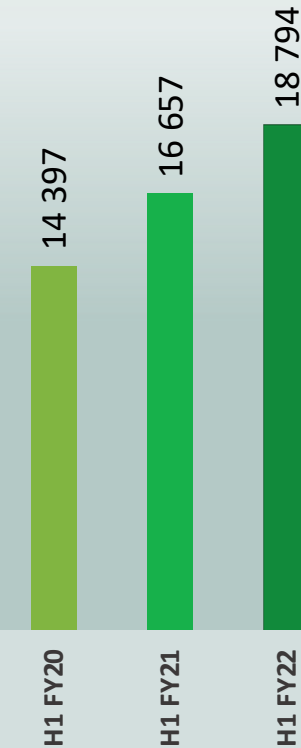
Business Services



13.7%

Carrier

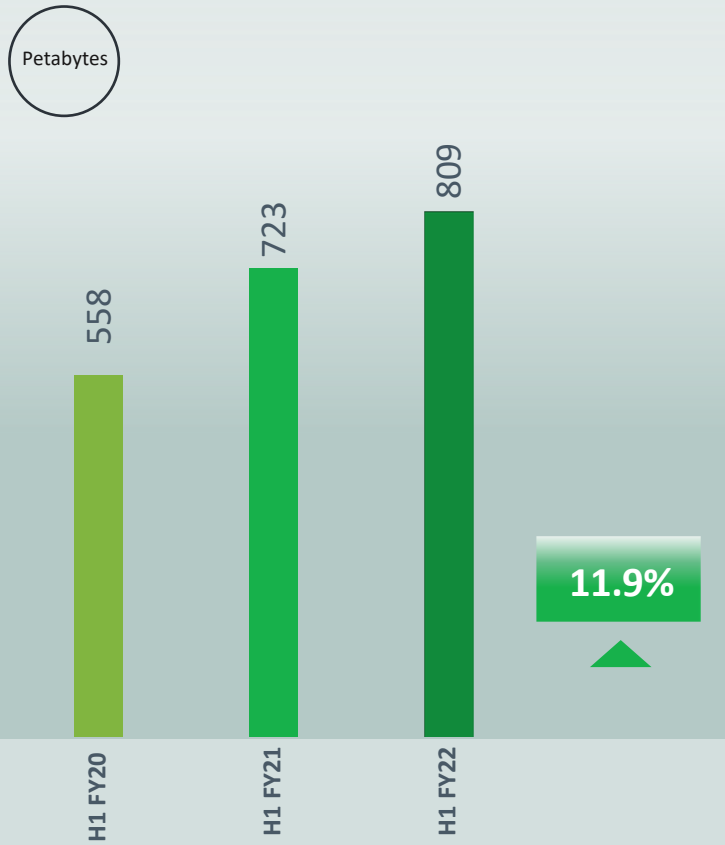
Services



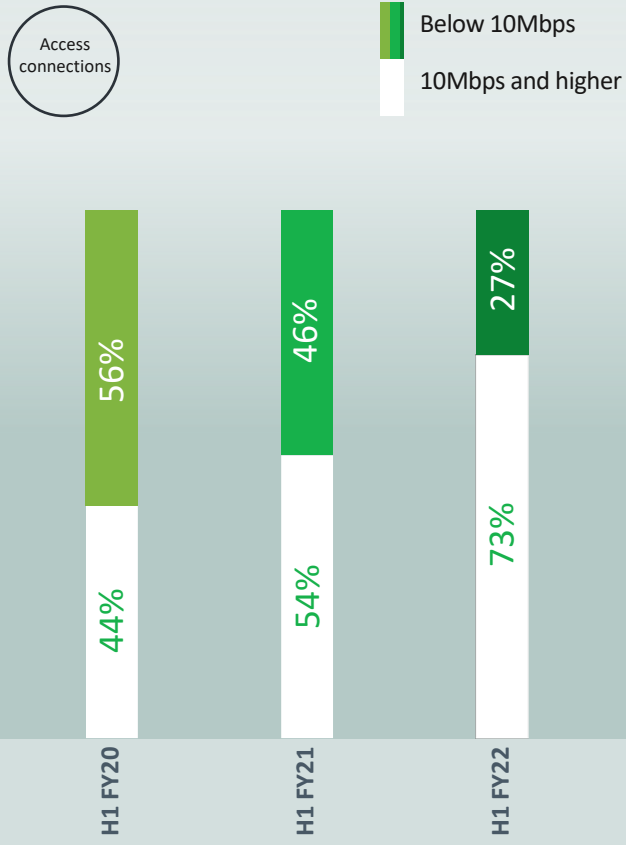
12.8%

Fixed broadband evolution

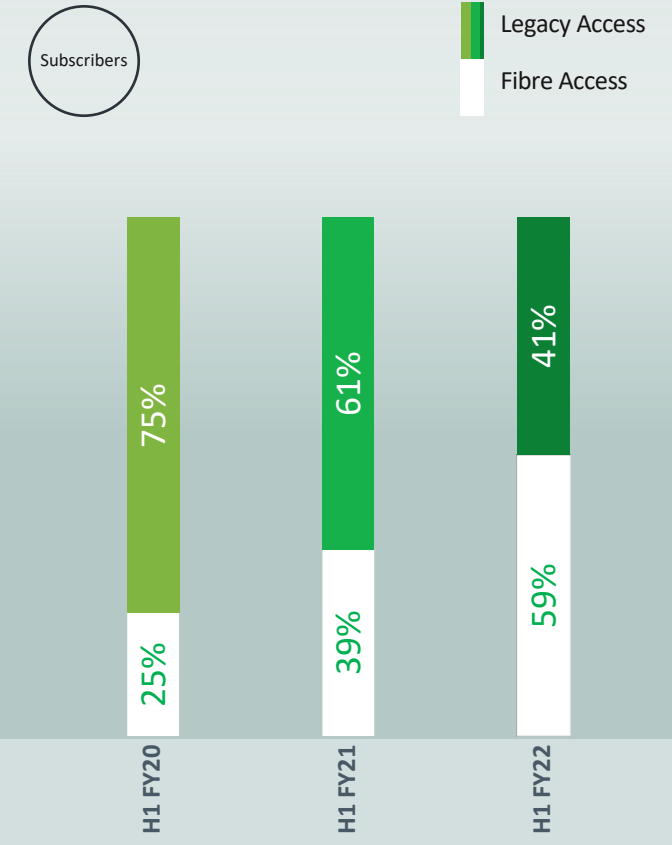
Fixed line broadband data consumption



Fixed line broadband connections

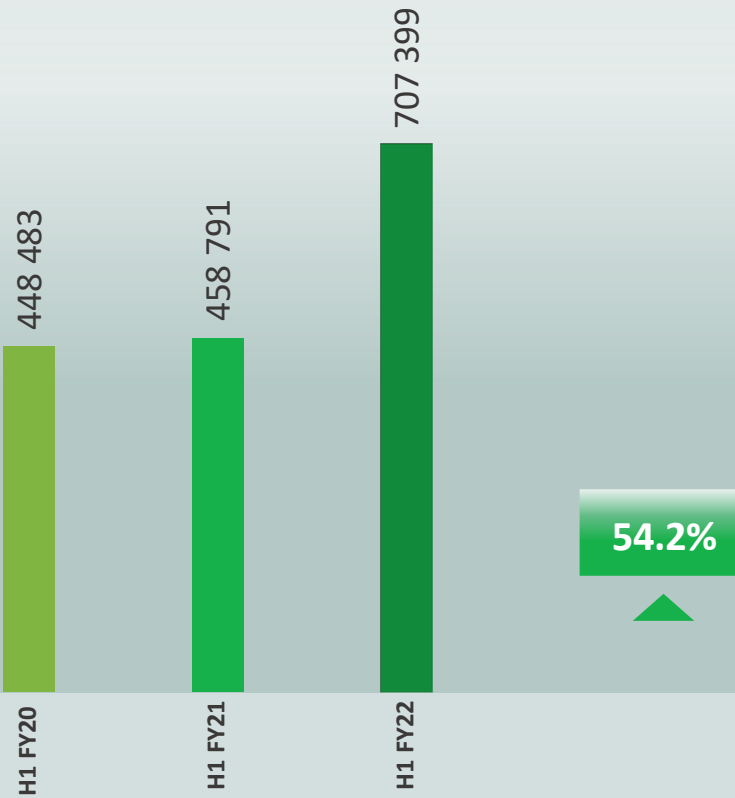


Fixed line broadband services

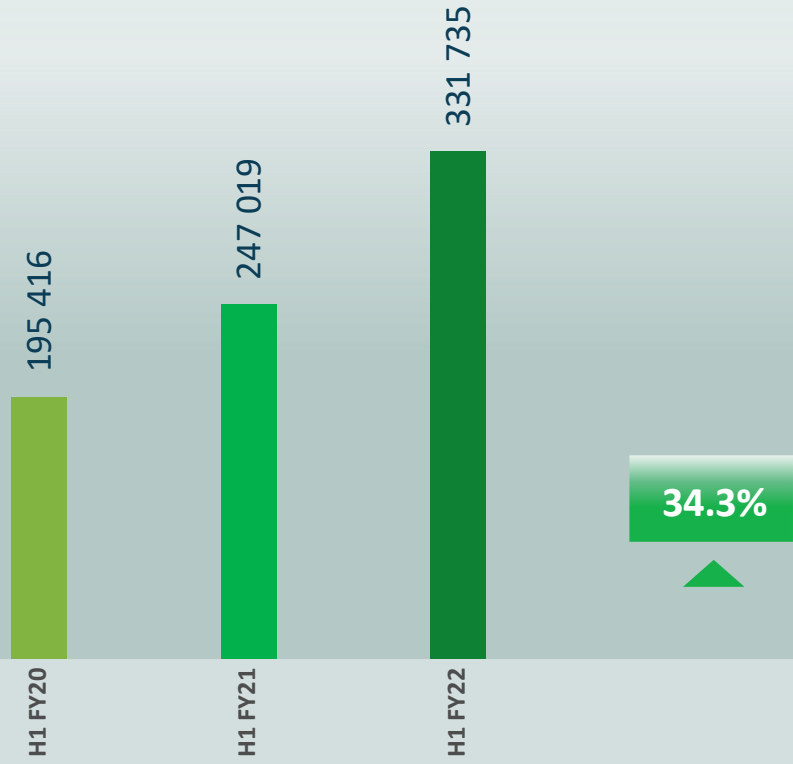


Accelerated investment in fibre

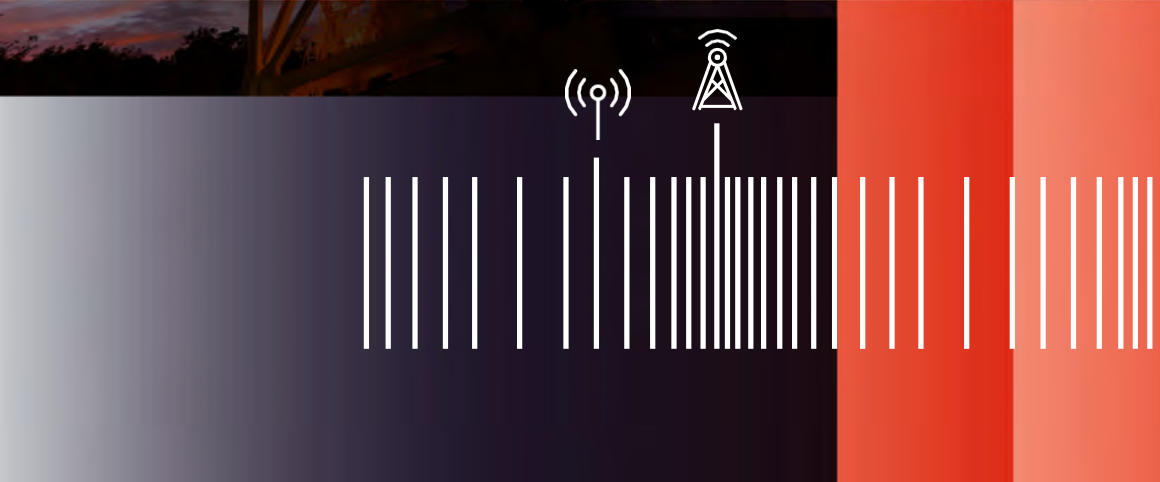
Homes passed with fibre



Fibre homes connected¹



¹ FY2021 Homes Connected measure as per the FCGA Definition of Terms



Key strategic focus areas

Grow tenancy ratio

Execute build plan program

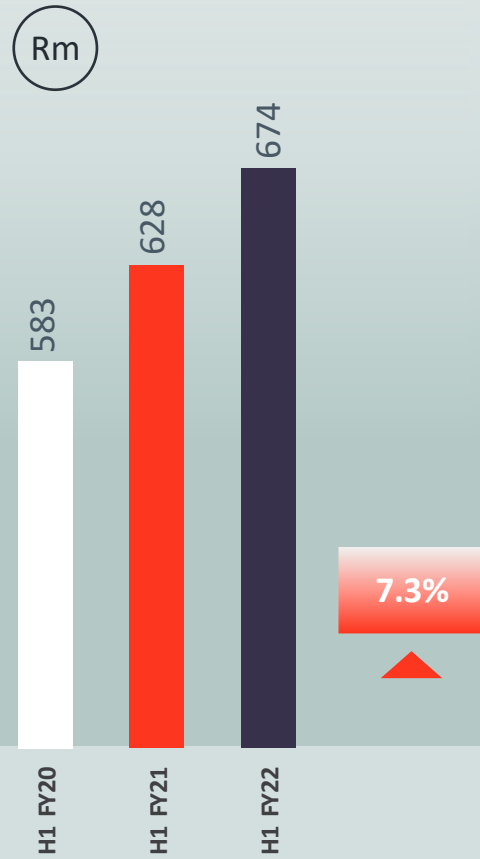
Expand range of products and services



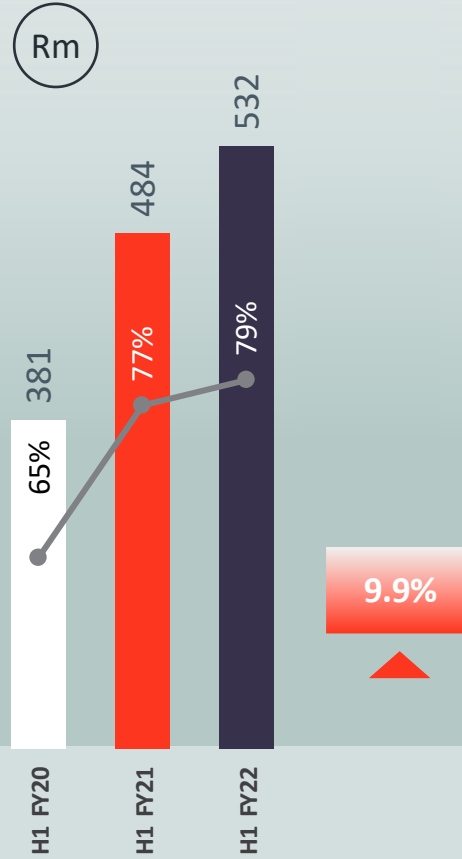
Robust financial performance



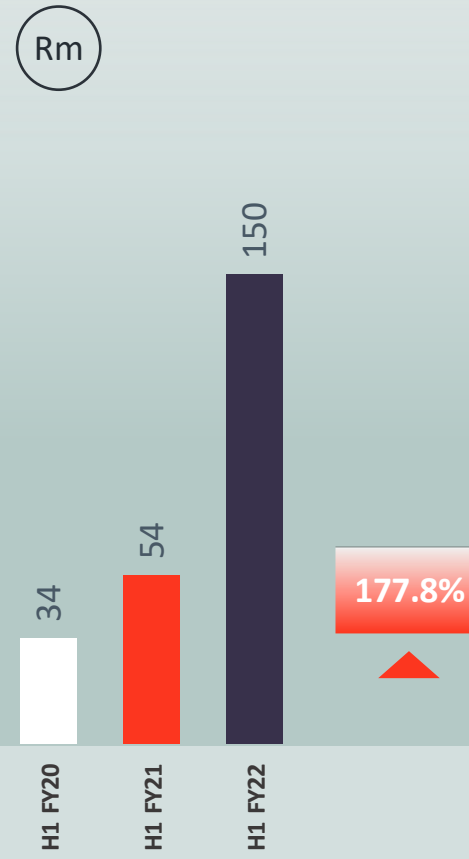
Revenue



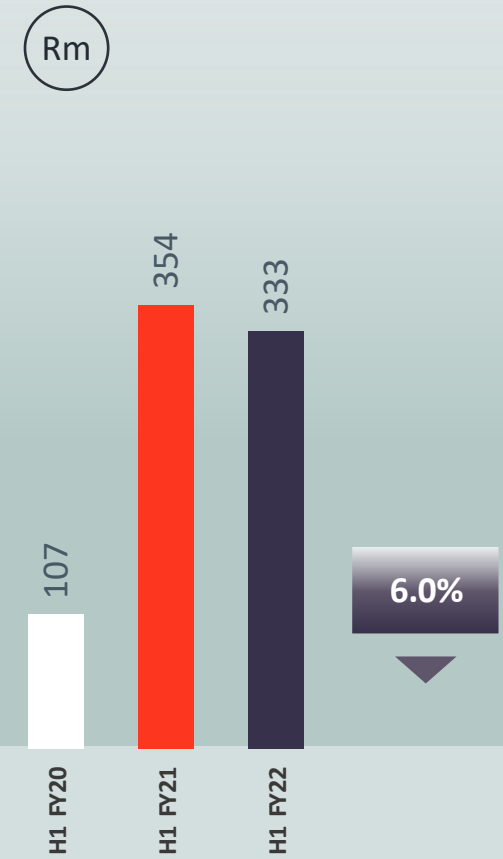
EBITDA & margin



Capex



FCF*



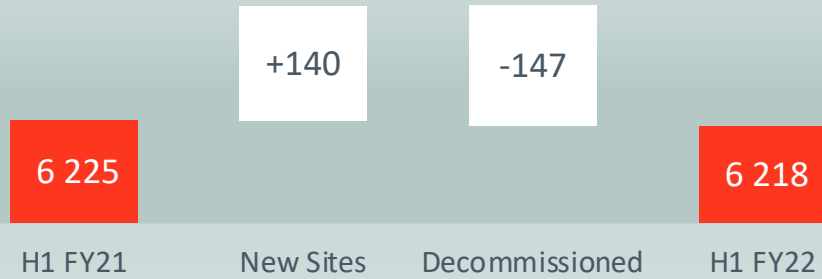
*Free Cashflow (H1 FY22) = Cash generated from operations (R615,5m) + Net Interest Received (R10,0m) – Tax paid (R143,4m) – Capex (R149,6m)

Growth in productive portfolio and tenancy ratio



Tower portfolio (all site types)

(# of sites)



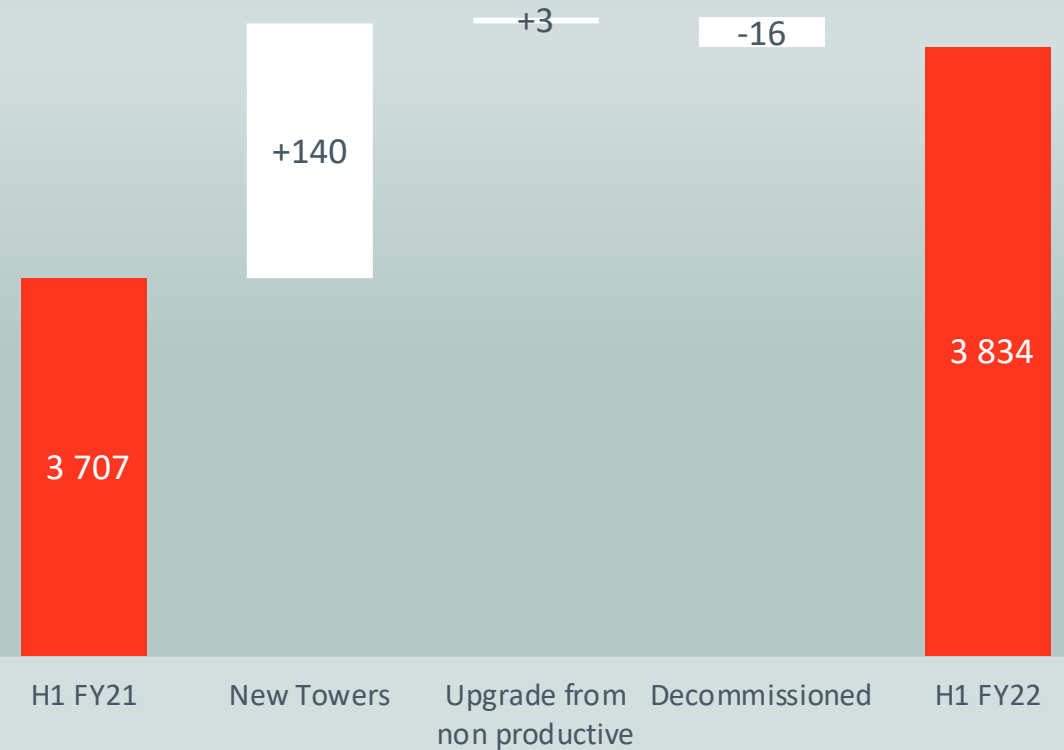
Tenancies and Tenancy ratio¹

(# of tenancies)



Productive portfolio growth

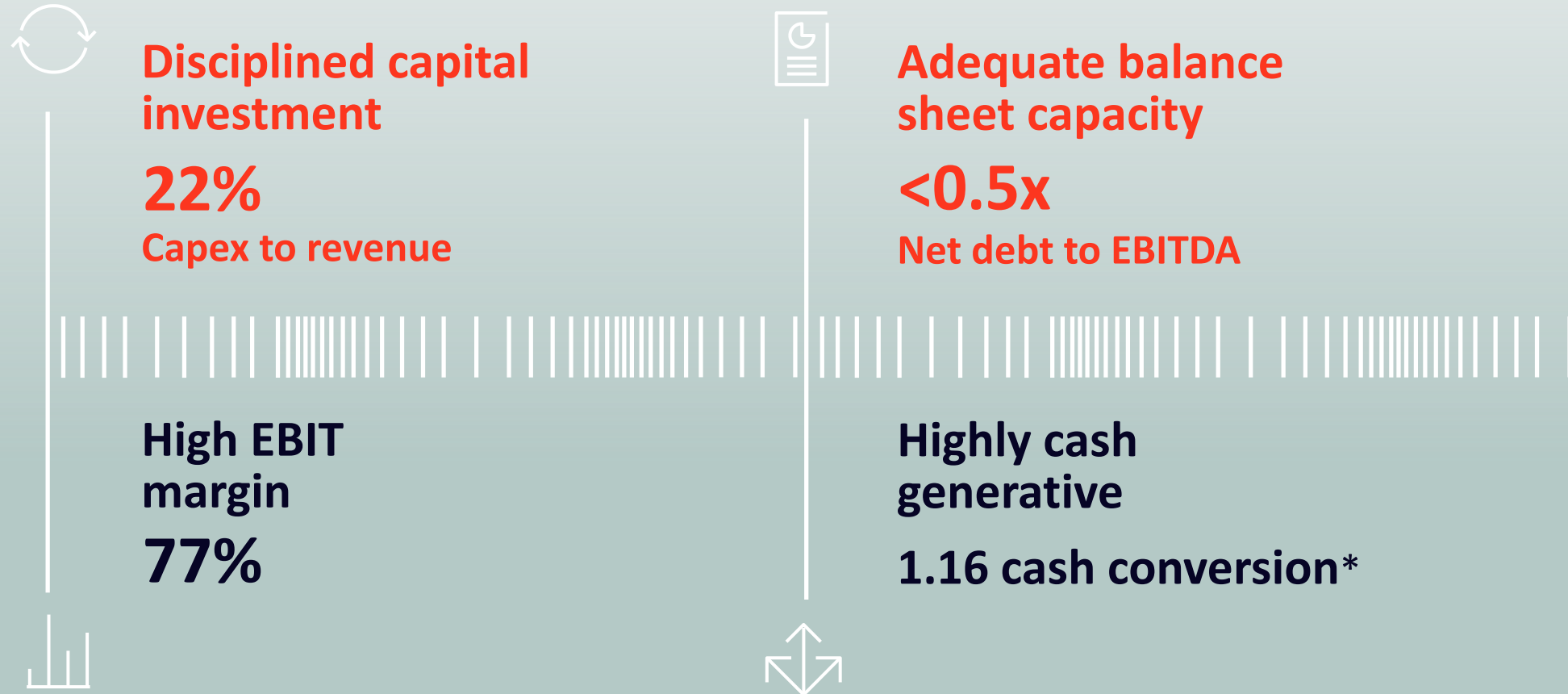
(# of sites)



xx Tenancy ratio based on commercially productive towers site of 3 834.
(Formula: Total number of tenancies / number of towers)

Note (1): Adjustment to tenancy ratio reported in H1 FY21 due to refinement of portfolio data. Adjustment from 1.32x to 1.52x

Robust returns



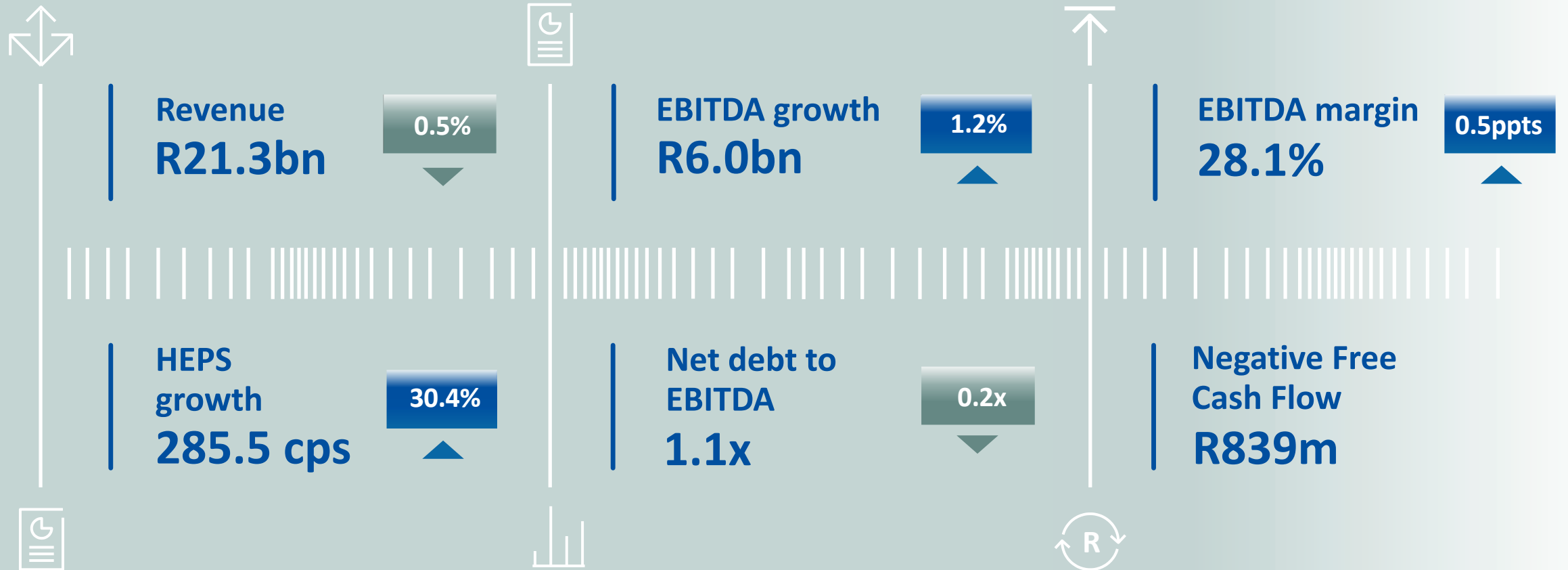
*Cash conversion = Cash generated from operations (R615m) before Net interest received (R9,9m) and before Tax paid (R143,3m) / EBITDA

Financial overview

3

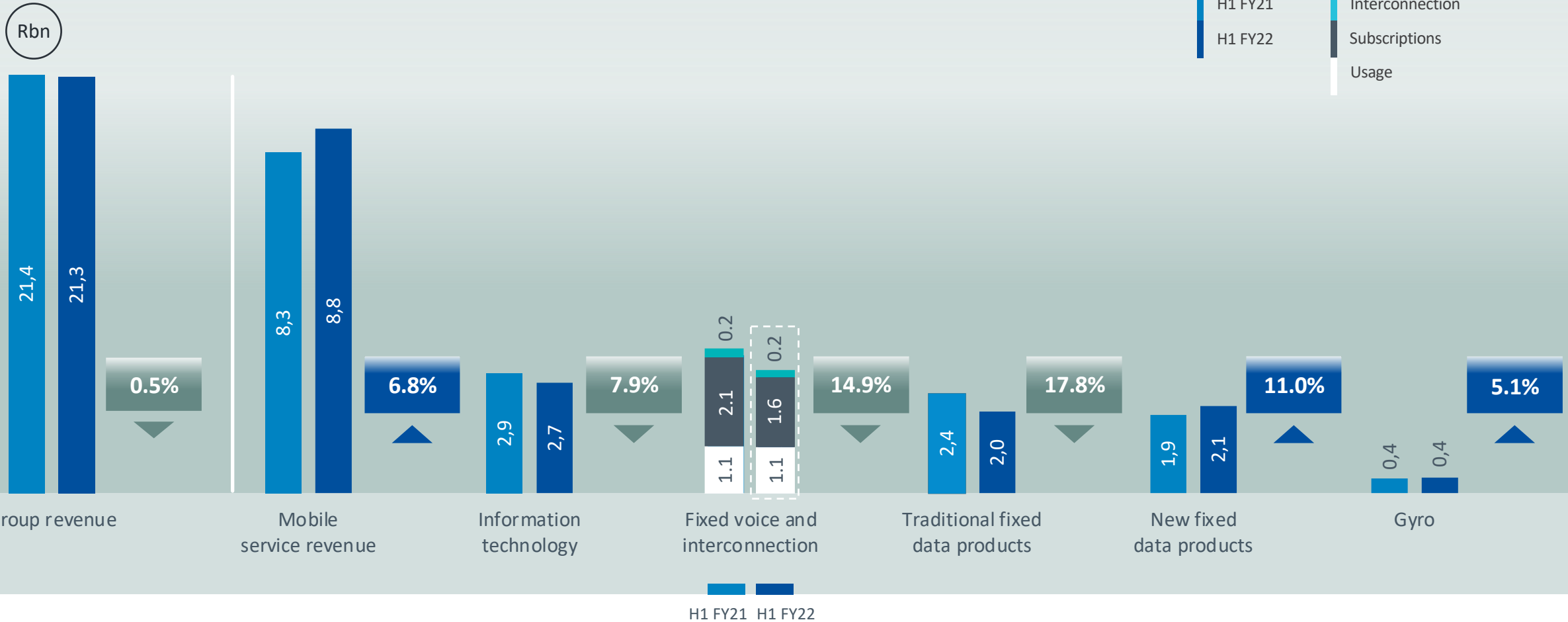


Group financial performance



Group revenue sustained

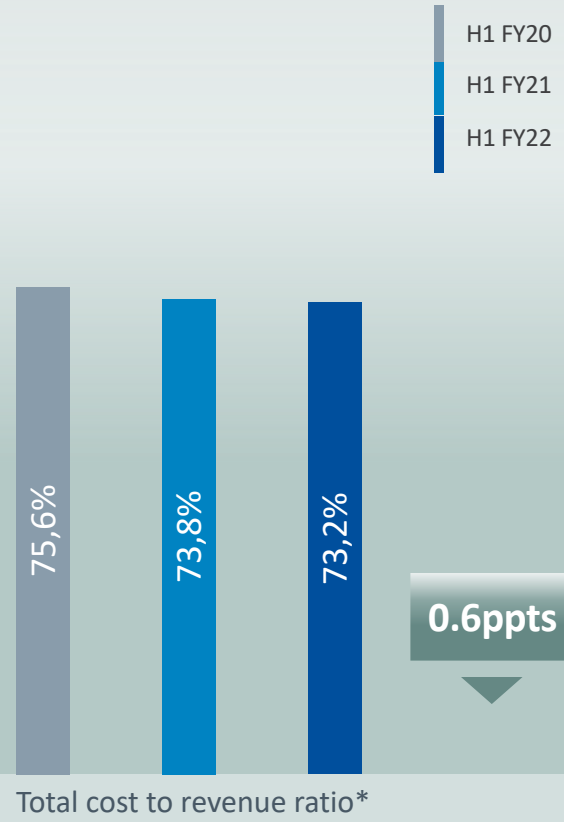
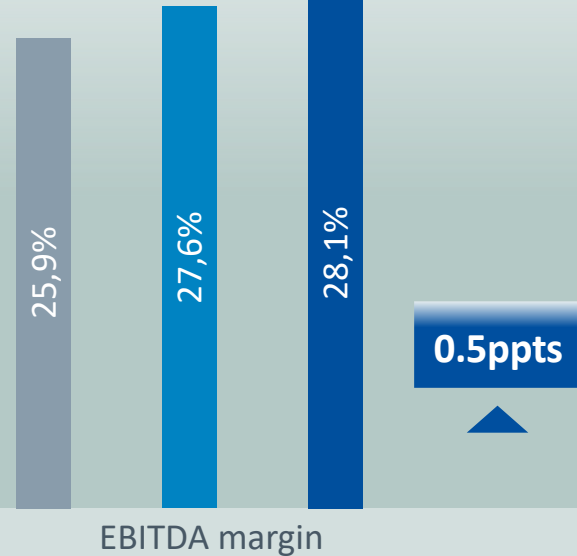
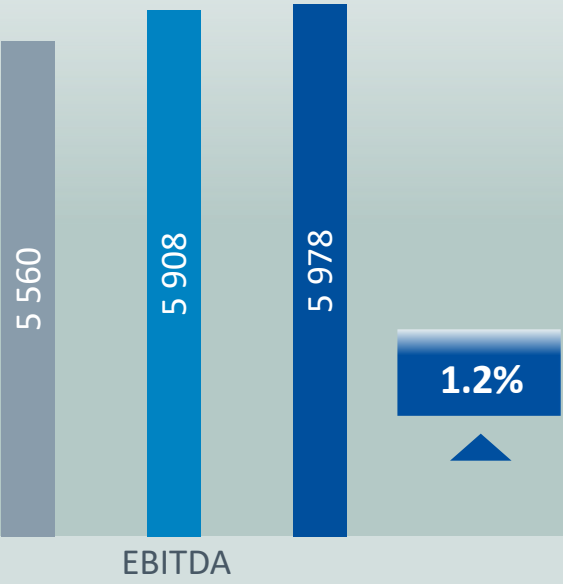
Revenue by stream



EBITDA margin expansion

EBITDA analysis

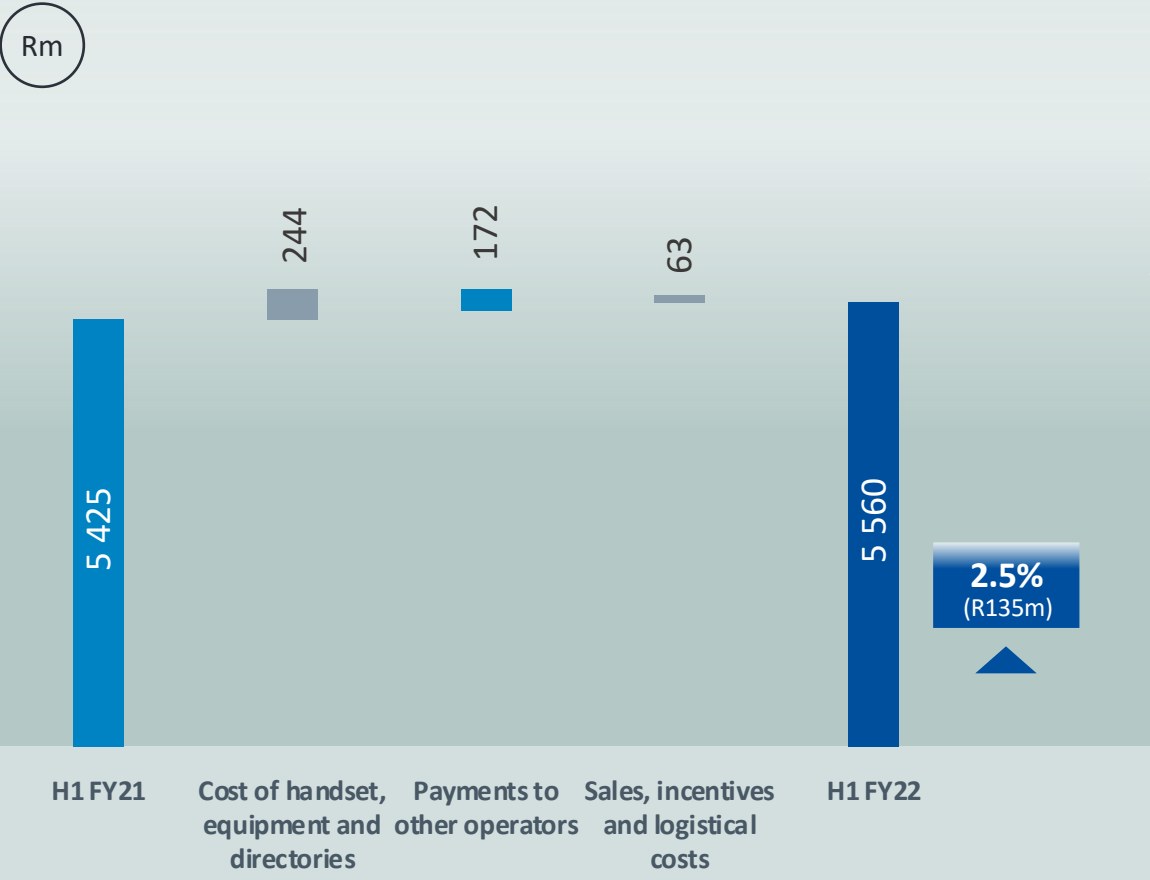
Rm



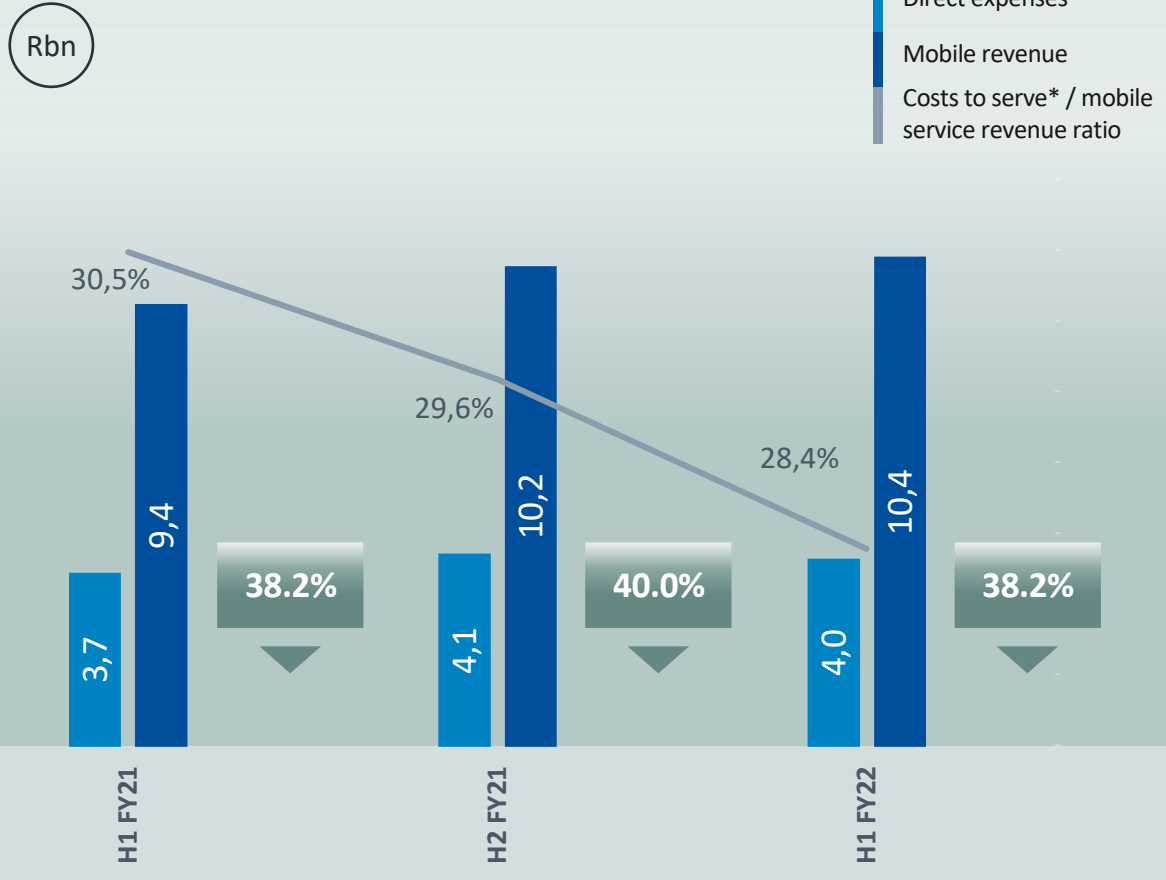
*Total cost includes direct and operating expenses

Mobile direct expenses under control

Direct expenses



Mobile cost efficiency ratios

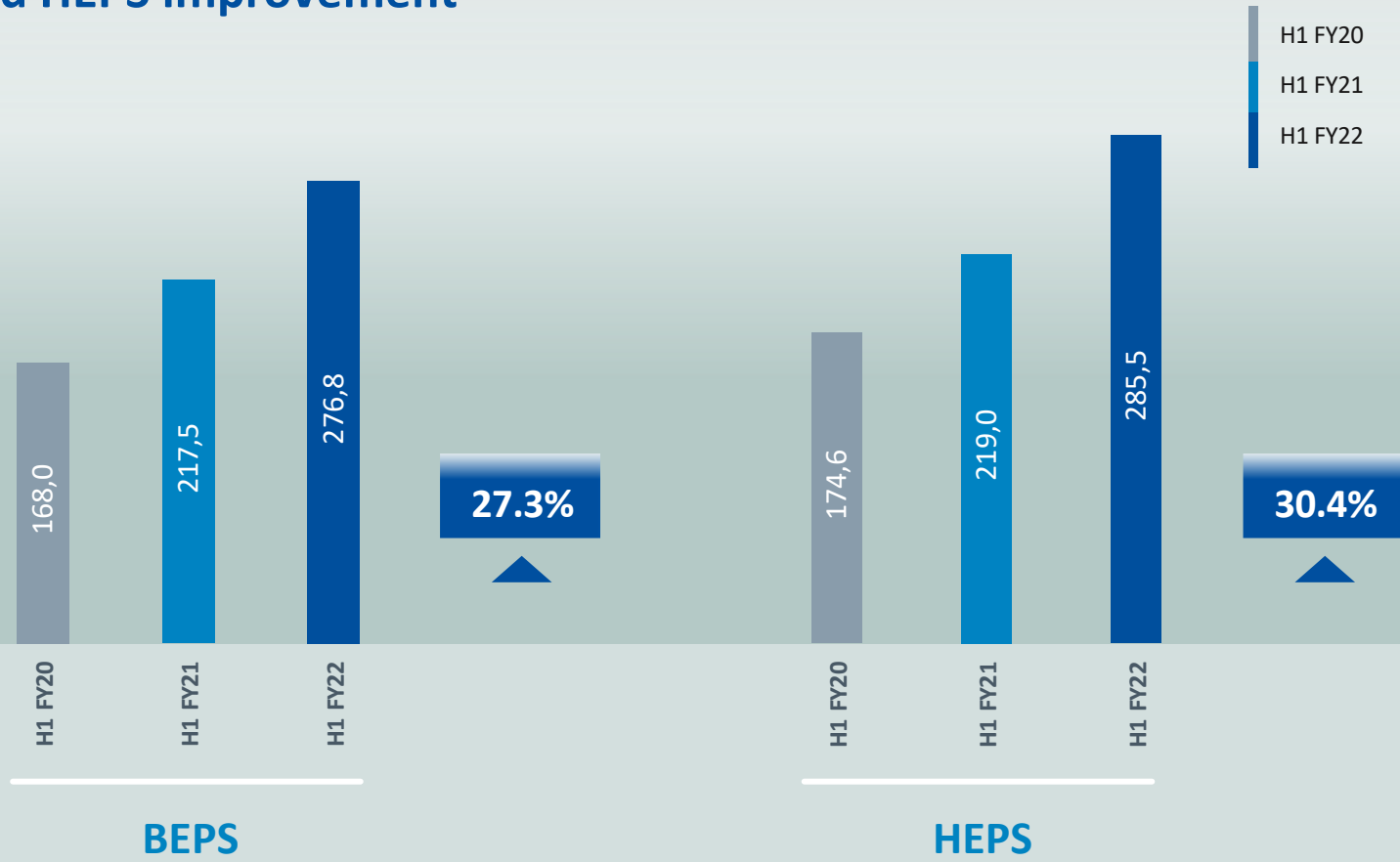


*Payments to other Operators (PtoO) and sales commission and incentives

Strong earnings growth

BEPS and HEPS improvement

Cents



Earnings improvement driven by:

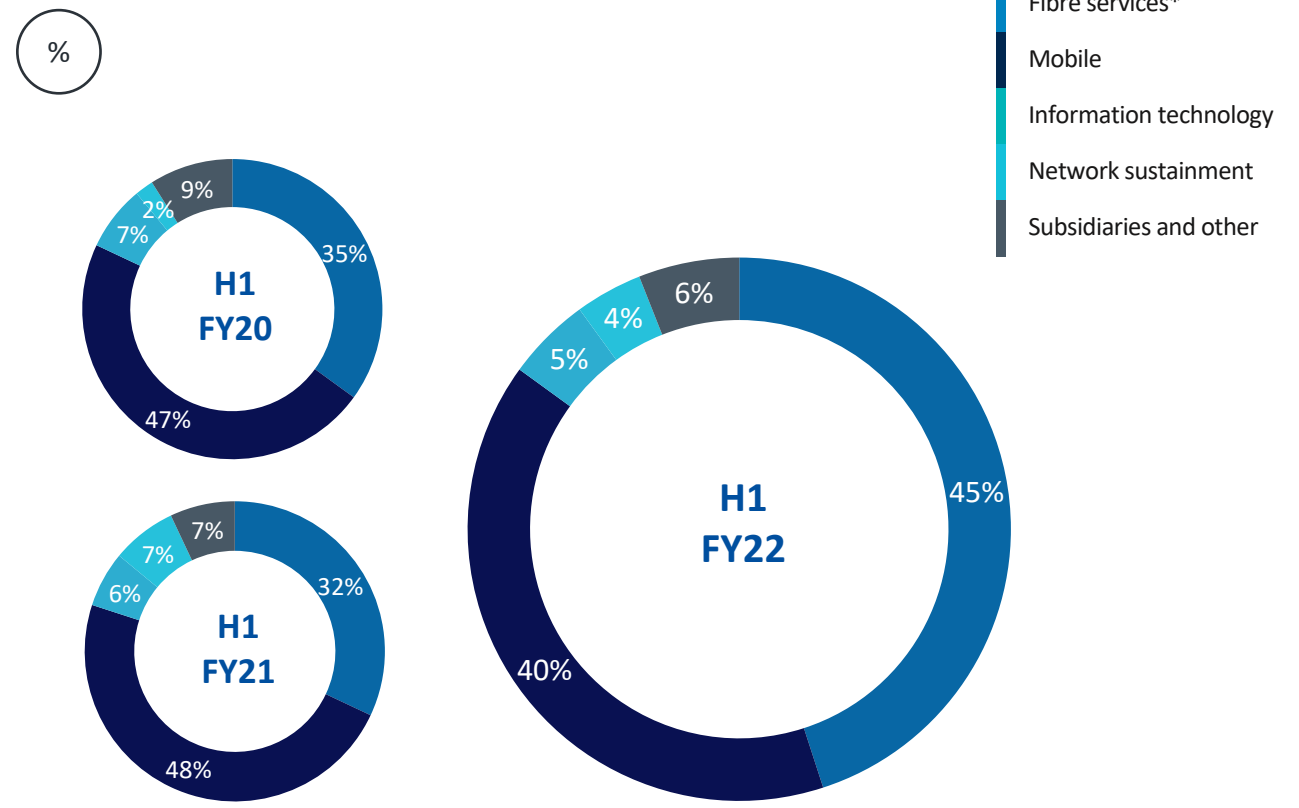
- Lower finance charges due to a reduction in gross debt levels.
- Lower and stable interest rates.
- Favourable foreign exchange hedging position.

Capex acceleration in Fibre services

Accelerated capex



Capex investments allocation



*Fibre services include FTTH, Core network and Service on demand

Free cash flow generation

Free cash flow (FCF) movement Rm	H1 FY22	H1 FY21	%
Cash generated from operations excluding VSP, VERP and section 189 costs paid	4 620	6 115	(24.4)
Add back: VSP, VERP and section 189 costs paid	(91)	(1 132)	92.0
Cash generated from operations	4 529	4 983	(9.1)
Repayment of lease liability	(474)	(431)	(10.0)
Interest received	119	171	(30.4)
Finance charges paid	(577)	(681)	15.3
Taxation paid	(433)	(898)	51.8
Cash generated from operations before dividend paid and received	3 164	3 144	0.6
Cash paid for capital expenditure	(4 003)	(2 933)	(36.5)
Free cash flow	(839)	211	(496.7)

Cash flow performance driven by:

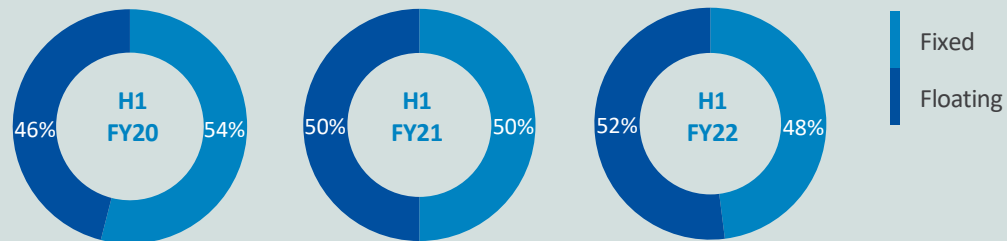
- Handset financing of approx. R300 million
- Q4 FY21 Capex settled in H1 FY22
- Prior period tax paid includes a SARS outstanding liability settlement.

Working capital movement:

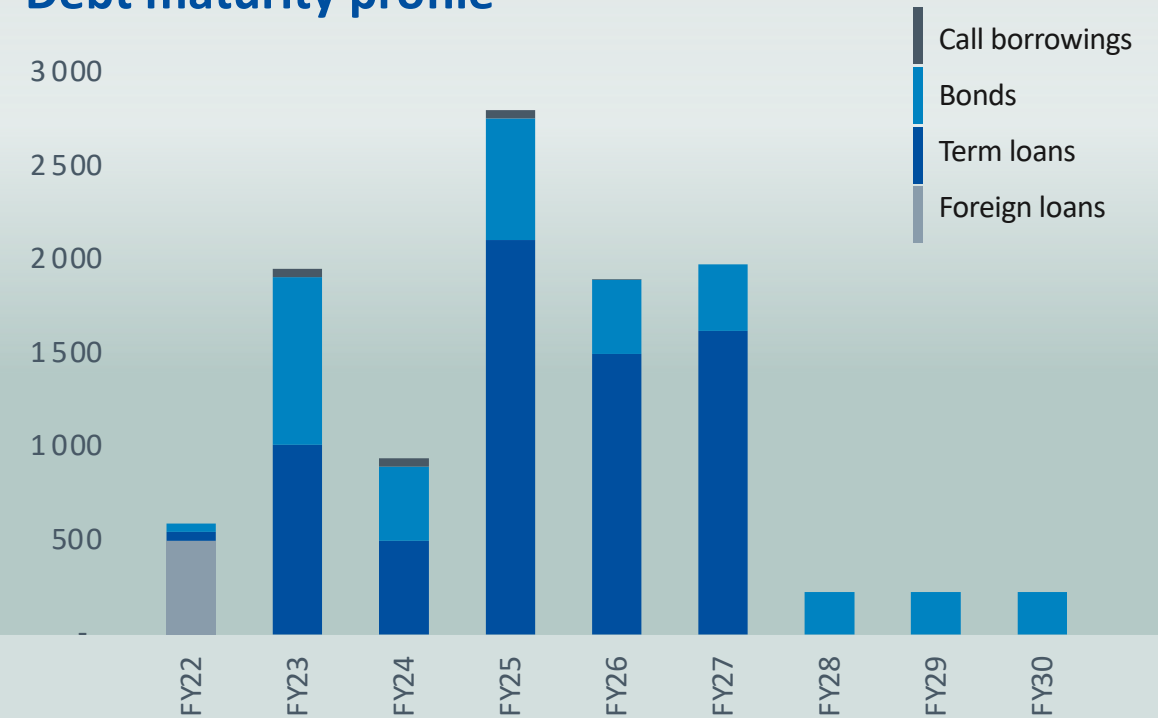
Working capital Rm	H1 FY22	H1 FY21	Var
(Increase)/decrease in inventory	(163)	(137)	(26)
(Increase)/decrease in accounts receivable	(159)	(283)	124
Increase/(decrease) in accounts payable	(841)	(168)	(673)
Movement	(1 163)	(578)	(575)

Healthy balance sheet

Rm	H1 FY22	FY21	%
Cash balances	3 388	5 002	(32.3)
Interest bearing debt	10 875	10 866	(0.1)
Opening balance	10 866	12 005	9.5
Net funding raised/(repaid)	(100)	(1 132)	(91.2)
Other	109	(7)	(1 657.1)
Lease liabilities	5 167	4 972	(3.9)
Opening balance	4 972	4 775	(3.9)
IFRS16 lease liability raised	195	197	1.0
Net debt	12 654	10 836	(16.8)
Net debt/EBITDA times	1.1	0.9	(0.2)
Average cost of debt (%)	6.2	6.2	-



Debt maturity profile



H2 Key Initiatives



Grow revenue

- Fulfill IT backorders
- Mobile regionalisation & CVM
- Fintech and content
- Increase FTTH connectivity



Improve profitability

- Sustainable cost management
 - contain Opex below inflation
 - optimise Direct costs



FCF generation

- Net working capital optimisation
- Handsets receivables financing

Holistic view of capital allocation framework



The Board remains committed to reinstate the dividend policy by the end of FY22.

Value unlock

4



Recap: Strategic rationale



Valuation

- Not a reflection of Telkom's intrinsic value
- Telkom InfraCo assets are not recognised
- InfraCo assets trade at higher multiples such as Towers, Data Centres and FibreCo



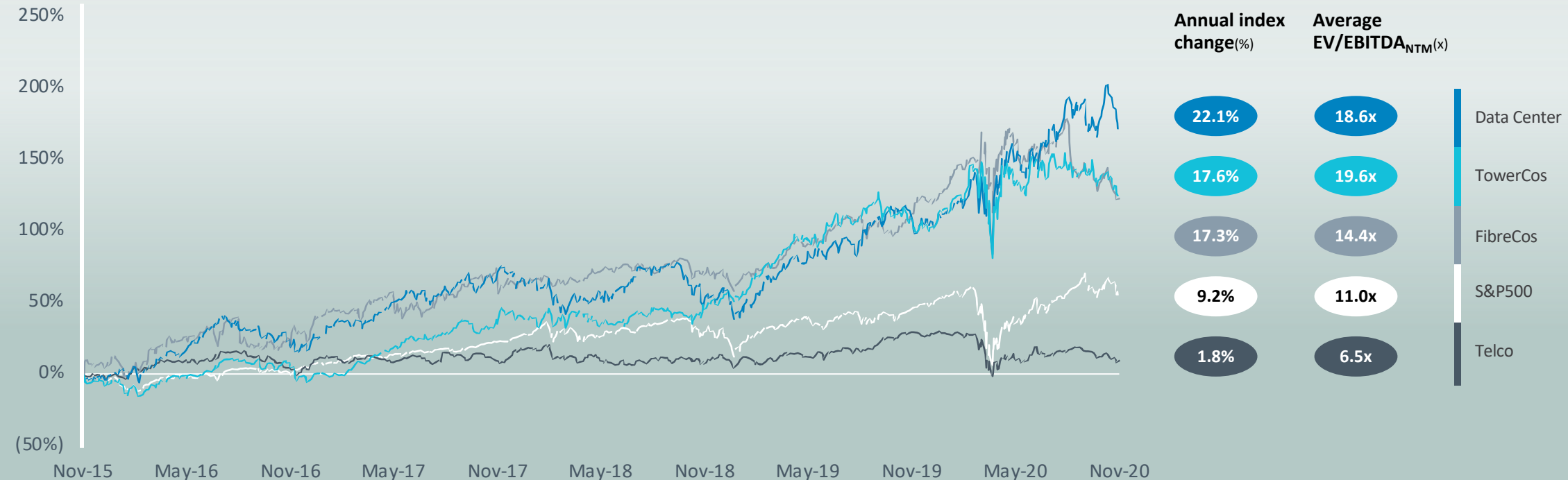
Proceeds

- Options
 - Reinvest in the business
 - Rebase the balance sheet
 - Return cash to shareholders

InfraCo trading at higher multiples, outperform telcos

Portfolio index evolution¹

(%, November 2nd 2015 to November 2nd 2020)



Note: 1 Selected leading companies in each category in terms of market cap and industry impact. DC: Equinix, Digital Realty, CoreSite, CyrusOne, GDS Holding. TowerCo: American Tower, Crown Castle, China Tower, SBA Communications, Cellnex. FiberCo: Retelit, Netlink NBN, Cogent. Telco: Verizon, Deutsche Telekom, Telefonica, Vodafone, AT&T, Nippon; Source: Capital IQ, Delta Partners analysis

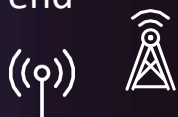
JSE Listing

Ticker name: SWN

Main Board: TMT sector

Float: Minority interest

Timeframe: By year end



5



Independently managed TowerCo

Towers

Tower assets

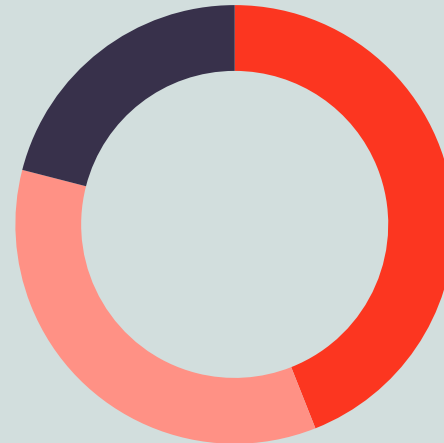
6 218	Current tower sites
3 834	Commercially productive tower sites
~2 100	Planned sites in permitting pipeline

56%
of towers
in excess of
35 meters



1.55x tenancy ratio¹

Tenants

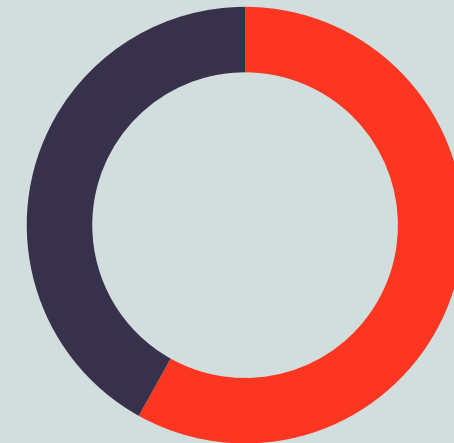


45%
Anchor Tenants
(Telkom Mobile
& Openserve)

32%
MNO third party
tenants

23%
Non-MNO third
party tenants

Regional distribution



58% Inland
42% Coastal

Note (1) Tenancy ratio based on commercially productive towers site of 3 834. (Formula: Total number of tenancies / number of towers)

Independent board, strong management team

Board of Directors

Majority shareholding by Telkom

Independent Board

- 3 Telkom representatives
- 4 Independent Non-Executive Directors

Independent board sub-committees (ARC, ITC, SEC, NOM, REMCO)

Independent Chairman of the Board

Management team – MSA



Lesiba Maloba
CEO

- +20 years experience Real Estate Investment Management
- Joined in 2017
- Previously at the PIC



Siphethe Dumeko
CFO

- +15 years experience in Finance
- Joined in 2019
- Previously at Business Partners



Nhlamulo Baloyi
Mast & Towers Executive

- +10 years experience in Telecommunications, Towers and Strategy
- Joined in 2016
- Previously at Delta Partners

Swiftnet investment case



Supportive strategic shareholder

- Telkom, a strategic and a long term shareholder
- Telkom fully supports Swiftnet strategy
- Independent board and highly experienced management team

Attractive assets class

- TowerCo trades at high multiples
- TowerCo outperforms Telcos in the Capital Markets
- Proven and scalable model

Robust returns

- High **EBITDA margins** in excess of **75%**
- High return on invested capital with **ROIC ~40%**
- Lowly geared with **Net debt to EBITDA < 0.5x**
- Highly cash generative business with **EBITDA cash conversion of >100%**

Strategy to drive growth

- Commercialise and increase tenancy on existing portfolio
- Acquire strategic sites and build new towers in line with MNO demand
- Expand range of products and services offering
- Actively prepare for 5G rollout

Outlook

6



Effective management transition



Serame Taukobong
GCEO Designate

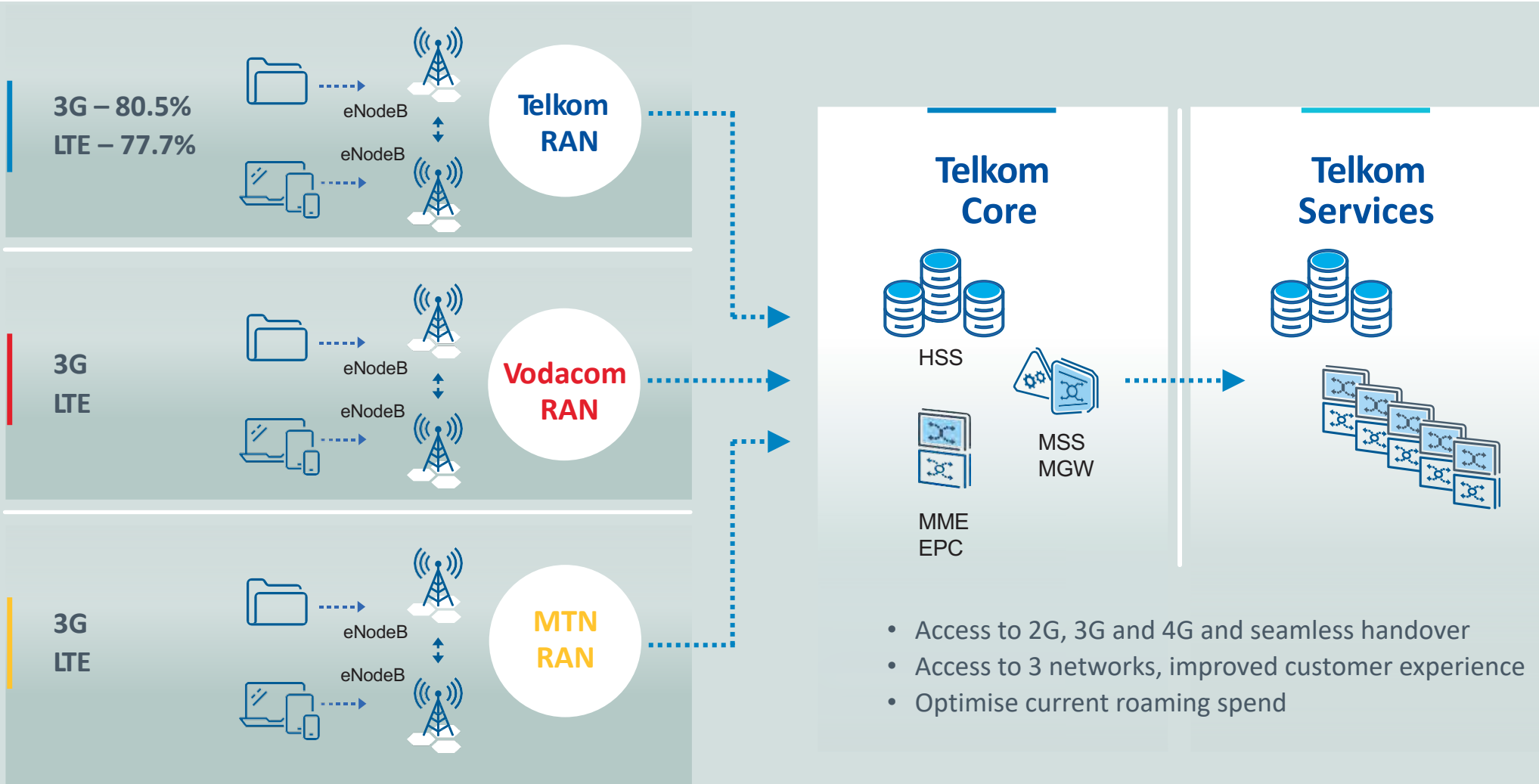
- 18 years of experience in telecoms
- Joined in 2018
- Previously at General Electric (GE)



Lunga Siyo
CEO: Telkom Consumer

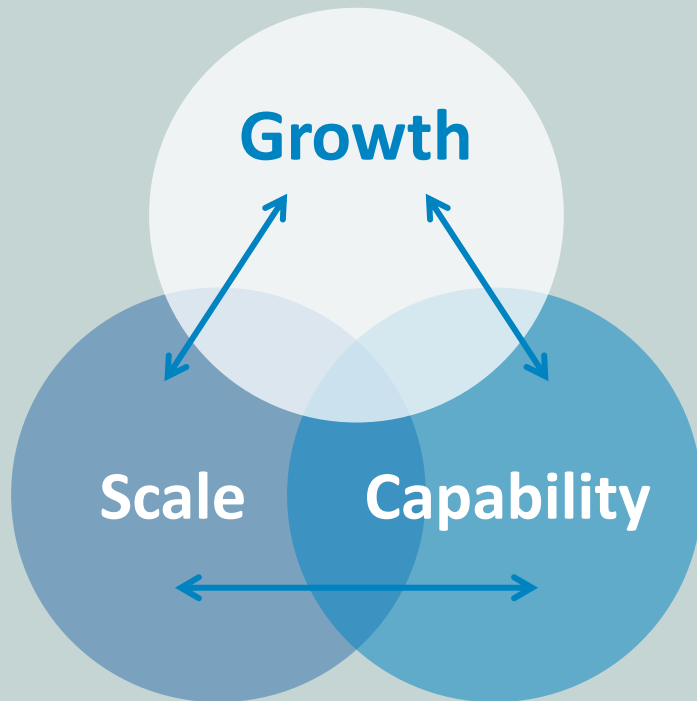
- >10 years experience in telecoms and financial services
- Joined in 2018
- Previously at Standard Bank

Dual national roaming partner strategy



- Access to 2G, 3G and 4G and seamless handover
- Access to 3 networks, improved customer experience
- Optimise current roaming spend

Business portfolio reviewed for growth



Scale

- Scale drives economics and underpins competitiveness
- Enables market relevance in our core business
- Growth areas need scale in core business to fund future investment

Capability

- Current core business alone does not provide a sufficient source of growth for Telkom
- Critical skills to drive adjacent opportunities
- Adjacent businesses allow us to access new sources of growth

BCX strategic intervention

Initial investment thesis

- Various IT segments converging with connectivity
- Combined entities would build a differentiated offering in market
- Diversify our Enterprise revenue
- One-stop-shop value proposition for Enterprise customers

Strategic gains to date

- Growth in converged communications capabilities (including SD-WAN, unified Comms)
- Sales wins in chosen industry verticals
- Increased traction in cloud solutions and digital platform services

Strategic intervention options

- **Strategic partnerships**
 - New IT capabilities & skills to focus on growth areas
 - Increased scale through access to new markets
- **Alternative / complementary option**
 - To make use of current market conditions to consolidate niche IT service companies

Q&A

Thank you



Annexure

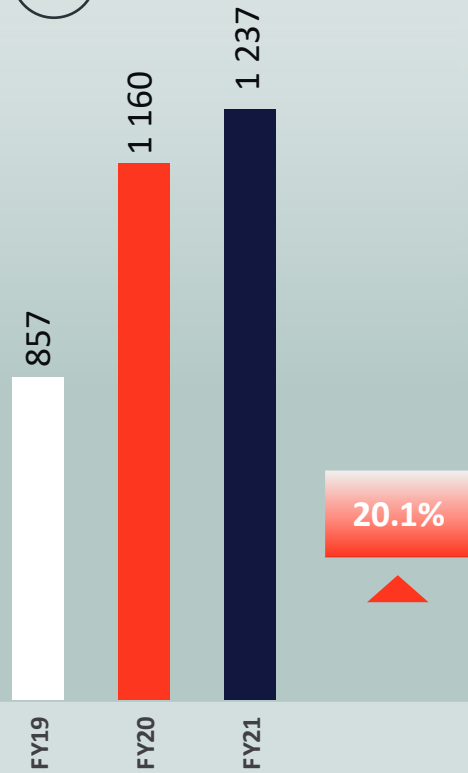


Historical performance demonstrates strong compound growth



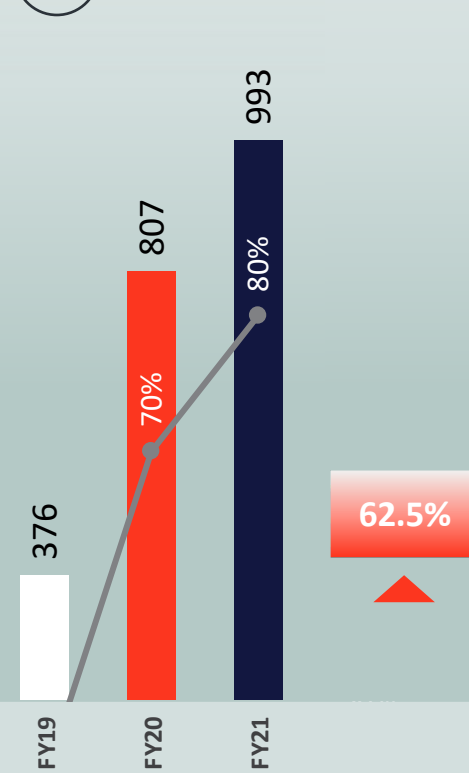
Revenue

Rm



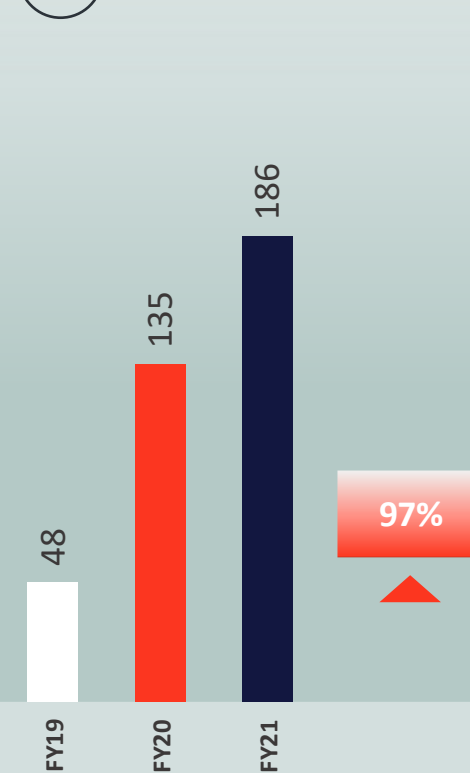
EBITDA & margin

Rm



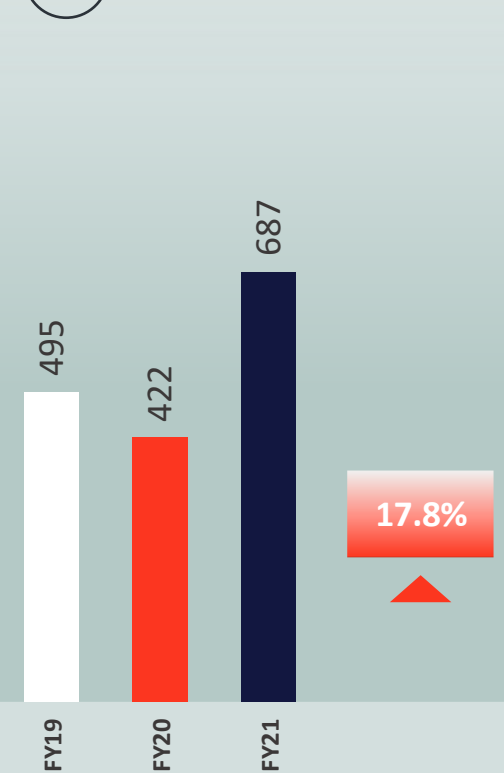
Capex

Rm



FCF

Rm



CAGR%