Telkom SA SOC Ltd

Annual Results Presentation

for the year ended 31 March 2023

Seamlessly connecting
our customers to a better life

Operating context

1

Weak trading environment

Telkom

Challenging macro-economic environment

- Sustained high inflation
  - CPI at **7.1%** above SARB range (March '23)
- No real GDP growth forecast for 2023 - **0.2%**
- Weak Rand vs foreign currencies
- Geopolitical volatility

Consumers under pressure

- Double-digit food inflation – **14.0%** (March '23)
- Significant increases in energy costs
- Record-high interest rates in 10 years – **8.25%** repo rate p.a. (May '23)
- Below inflation adjustments for social grants/salaries

Total loadshedding increased >5x to 5 585 hours in FY2023

Impact on Telkom Group:

- 96% higher diesel usage at record-high prices
- R655m spent on diesel by Group + back-up batteries
- Mobile network average availability at ~89.1%, reduced by loadshedding.
- Openserve - high network availability maintained across access, transport and core network layers – at a cost
- No impact on Masts & towers business – customers responsible for own power at sites

Business Overview

2

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Group salient features

Operating revenue
marginally up by **0.9%** to **R43 138 million**

Normalised HEPS
down **76.6%** to **134.6 cents per share**

Capex
down **1.1%** to **R7 401 million**

Normalised EBITDA
down **19.8%** with **EBITDA margin** at **22.1%**

Free cash flow
down **30.9%** to **negative R2 722 million**

Normalised BEPS
down **86.8%** to **71.0 cents per share**

Net debt to EBITDA
up to **1.8x**

New technologies driving growth

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Telkom Consumer

7.8%
Mobile subscriber growth

Broadband growth

1 167
petabytes of data

19.9%
Increase in broadband traffic

openserve

Leading
industry connectivity rate
47.4%

Network availability rate
99.50% to 99.99%

1 895
Petabytes

13.8%
Increase in fixed broadband traffic

BCX

IT Growth

11.1%*
Growth in IoT solutions

swiftnet

Increase
in productive portfolio

66
New towers

10
Power-as-a-Service sites

Pipeline of permitting for over
2 000

** Revenue growth in IoT solutions*

Migration from legacy to NGN revenue technologies

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Telkom Consumer

31.9%
Growth in NGN revenue to R1 536m (excl. Mobile)

32.8%
Decline in fixed line legacy revenue to R1 972m

openserve

10.2%
NGN revenue growth to R8 716m

28.3%
Decline in legacy & voice revenue to R1 344m

BCX

9.1%
Growth in IT revenues to R 7 644m

12.3%
Decline in legacy voice & data revenue to R5 262m

swiftnet

10.3%
Growth in continuing customers to R920m

16.1%
Decline of decommissioning customers to R384m

Human capital required to operate sustainably, c. 1 742 employees impacted

Telkom

01

S189 Notice

issued on
14 February 2023

02

VSP/VERP Process

1 165
employees accepted
VSP & VERPs

03

S189 Exits

577
exits due to retrenchment
on 31 May 2023

1 165 employees accepted voluntary severance and early retirement packages plus 577 employees retrenched at 31st of May 2023 at cost of R1 065 million

ESG highlights

FY2023 Highlights

154 200
Lives impacted (through jobs created)
FY 2022 (cumulative): 90 000

30 100
Lives impacted (through digital literacy)
FY 2022: 14 400

138 800
Homes passed in townships through our FTTX footprint
FY 2022 (mid-year): 119 579

445 100
Platform access for SMMEs
FY 2022: 443 500

33%
Women in management positions (M5 and above)
FY 2022: 32%

19%
Reduction in electricity consumption
FY 2023: 595 715 100 kWh
FY 2022: 738 256 000 kWh

96%
Increase in diesel consumption*
FY 2023: 23 086 000 L
FY 2022: 11 768 100 L

930 200kL
Reduction in potable water consumption
FY 2022: 997 600 kL

5 400 tonnes
E-waste recycled
FY 2022: 1 870 tonnes

18%
Reduction in scope 1 and 2 emissions
FY 2023: 700 800 tCO_2e
FY 2022: 852 800 tCO_2e

* *Telkom experienced an increase in diesel consumption due to loadshedding, which has resulted in higher scope 1 emissions. However, the group has achieved an 18% reduction in scope 1 and 2 emissions as a result of the energy efficiency initiatives that were implemented in the financial year.*
* *Numbers have been rounded off*

COE Programme - R125 million invested in the last 25 years

	Skills development	Employment & Economic development	ICT Sector development
Inputs to the Programme by Telkom	**R125 million** invested in the COE Programme by Telkom since 1997: **R33 million** investment by Telkom into the COE between 1997 and 2009 (excluding bursaries) + **R92 million** investment by Telkom into the COE between 2010 and 2022 (excluding bursaries) + Approximately **50 funding partners** have contributed to the Programme		
Outputs of the Programme	• **3 641 postgraduate students** graduated from the Programme since inception • **15 COEs located** in universities across South Africa supported in 2022 (expanded reach from 7 COEs at inception in 1997) • Approximately **410 females and 691 previously disadvantaged individuals** graduated • Focused on developing skills in **10** out of **27** identified skills gaps identified in ICT sector	• **88% of COE graduated students employed >** 74% employment rate for individuals who hold at least a bachelor's degree in SA • **3 204 of 3 641 students, employed in the ICT sector** (inclusive of researchers in academia) • Approximately **309 graduates employed** by Telkom between **2004 to 2022**	**Over 7 300 research outputs** including: • **2 364** peer reviewed publications • **3 973** conference papers • **969** book chapters • **4 products** developed as part of COE-based research between 1997 and 2022 • Every **1% increase** in COE funding (majority of which Telkom provides) contributes to **5 additional research outputs**
Outcomes of the Programme	• **100%** of COEs interviewed noted improved skills in COE learners • **Expansion of pool of knowledgeable** individuals in ICT sector	• **Absorbed into the ICT industry**, often working up into high-level management positions	• Facilitates the **growth of the ICT knowledge** base both **locally and globally** through peer-reviewed publications
Impact of the Programme	**25 years** of **empowering students** to advance research and knowledge in ICT, **a national contribution** towards **building a skilled workforce for tomorrow** and **enabling sector growth** across the country.		

Activities of the Programme

Source: Own analysis of COE survey data collected between December 2022 and February 2023

Our network evolution

3

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Customer connectivity evolution

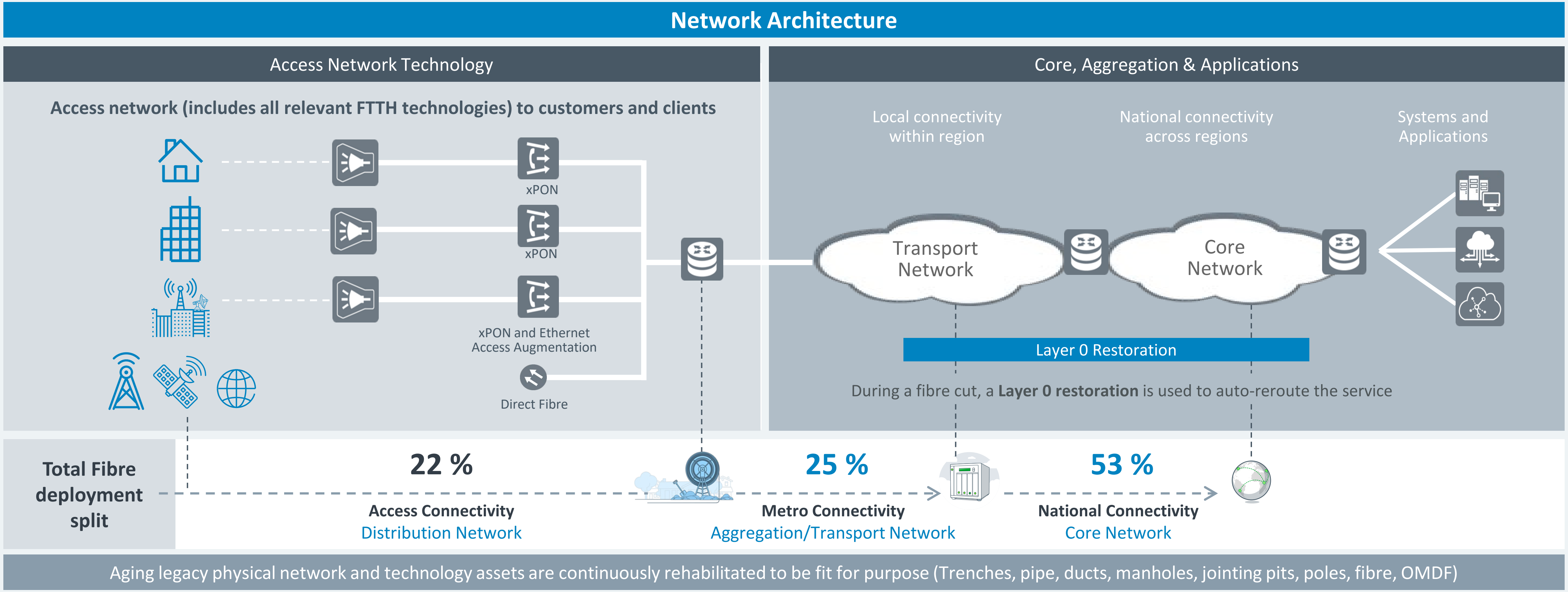
Customers connectivity usage

64kbps per user

36 to 375 Gigabytes usage per FTTH user from FY15 to FY23

Connectivity demand moves from voice to data

More than 40 years of fibre deployment across our core & transport network



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R13bn impairment, an IAS36 requirement

Considerations that adversely impacted Group:

- Market changes – pressure on consumers
- Economic factors - including accelerated loadshedding, low economic growth, high interest rate environment
- Evolving technologies – migration from legacy to NGN technologies

International Accounting Standard 36, Impairment of Assets:

- Requires assessment and testing for impairment - all 4 cash-generating units (CGUs) assessed
- Resulted in R13bn impairment to older NGN
- 2 CGUs impacted Openserve – R6.8bn and Telkom Consumer – R5.9bn
- Impairment is non-cash adjustment, has no impact on Telkom's cash position, does not affect Group's compliance with debt covenants nor ability to fund capex

Financial Overview

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Abnormal items impacting our results

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Non-cash impairment charge

Major impairment indicators

- Share trading at significant discount to net asset value
- All CGU carrying value were measured against value in use, based on forward looking discounted free cash flow valuations
- As required by IAS36, impairment was allocated proportionally across all assets in affected CGU's

Outcome

- Non-cash flow impairment charge of R13 billion which does not impact business prospects
- Allows for competitive pricing

Restructuring costs

Rationale

- Significant market changes and tough current economic conditions
- Restructuring aimed at meeting future demands

Outcome

- Once-off cost of R1 065 million
- Staff reduction of ~ 15% employees
- Resetting HR cost for future years

Loadshedding

Rationale

- Increased loadshedding
- Little prospects of situation being remedied in near future

Outcome

- Diesel expenses of R503 million
- Roaming cost impact amounting to R219 million
- Increased investment in power resilience

Normalised group financial performance

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0.9%

Revenue

R43.1bn

19.8%

EBITDA*

R9.6bn

5.8ppts

EBITDA margin*

22.1%

76.6%

HEPS*

134.6 cps

0.6x

Net debt to EBITDA*

1.8x

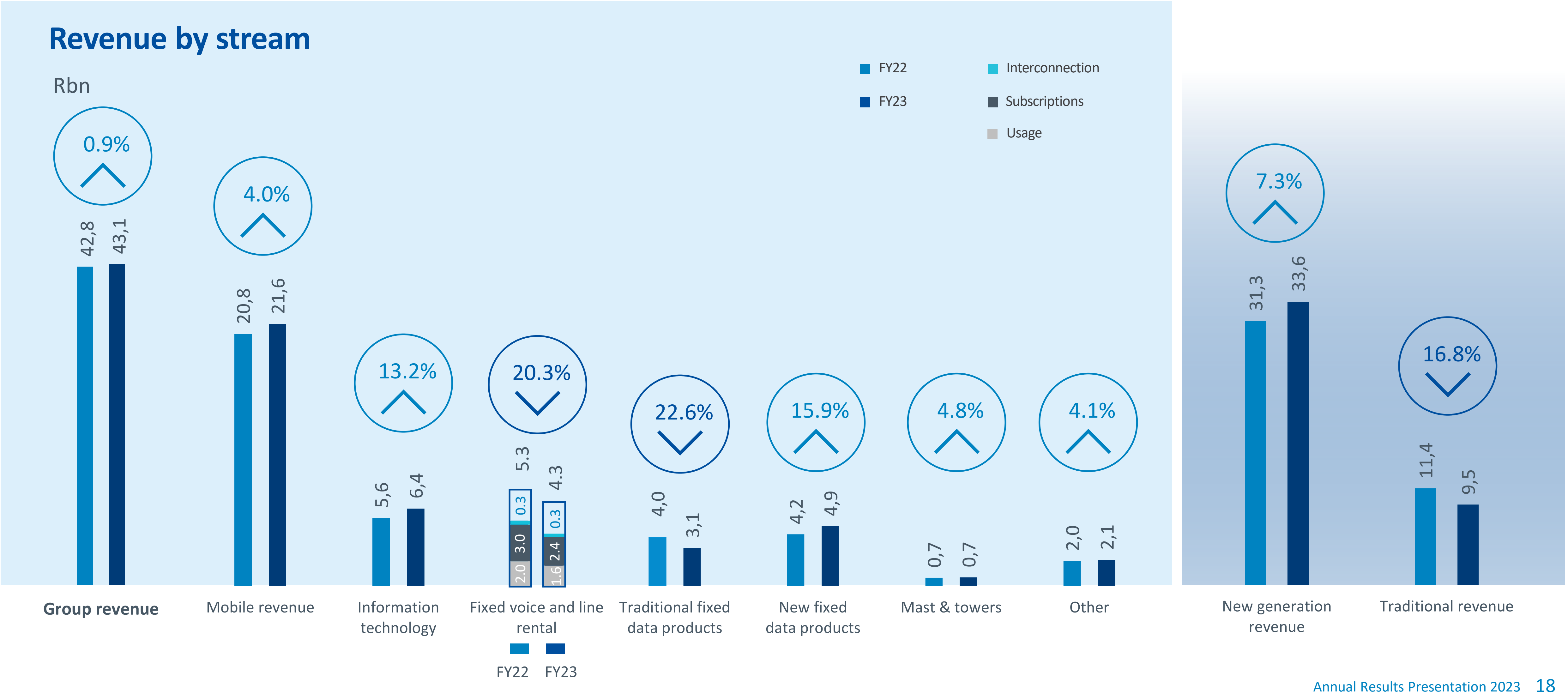
Negative Free Cash Flow

R2.7bn

* *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*

Group revenue stable with pleasing growth in new generation revenue

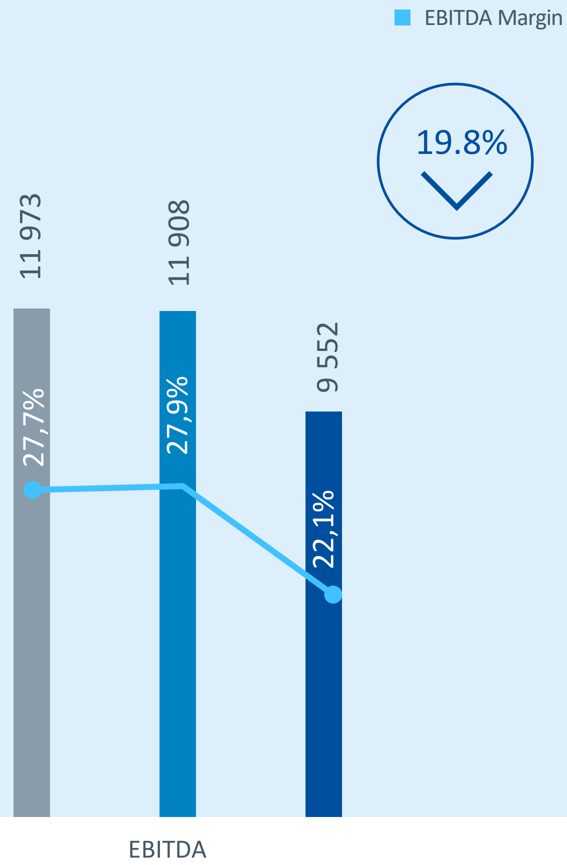
Revenue by stream

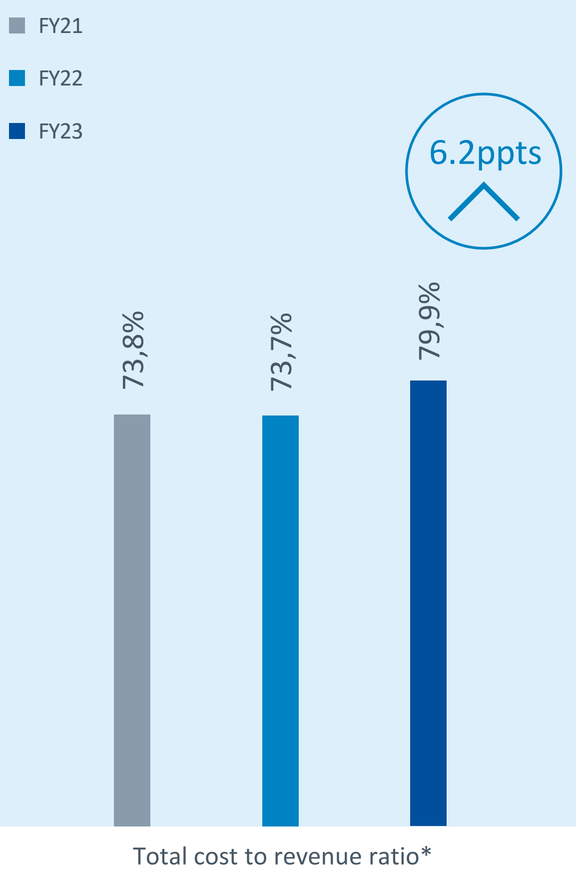


EBITDA impacted by increased expenses

EBITDA analysis

Rm





EBITDA decline mainly due to:

Replacing higher margin legacy revenues with lower margin NGN revenues

Operating expenses increase of 7.3% influenced by:

- Expenses relating to load shedding of R874 million; and
- Increased impairment of receivables of R452 million due to constrained consumer disposable income.

Opportunities in flight to restore margin:

- **Direct cost initiatives to improve ratio further;**
- **Channel optimisation; and**
- **Legacy cost base addressed**
  - Restructuring process completed; and
  - Productivity & efficiency programme to address non-staff cost.

** Total cost includes direct and operating expenses*

Strategy to grow mobile post-paid sales having short term impact on mobile costs

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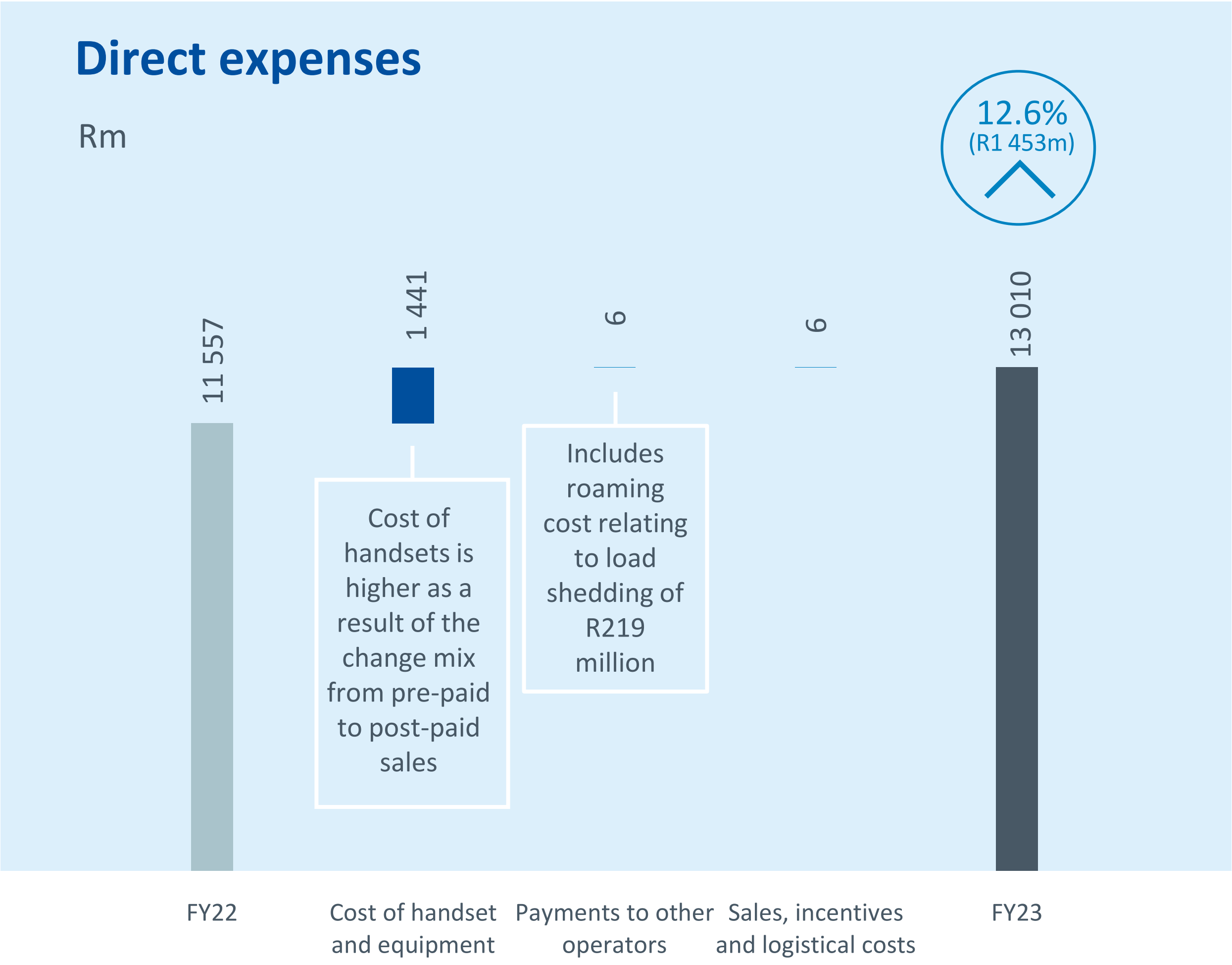
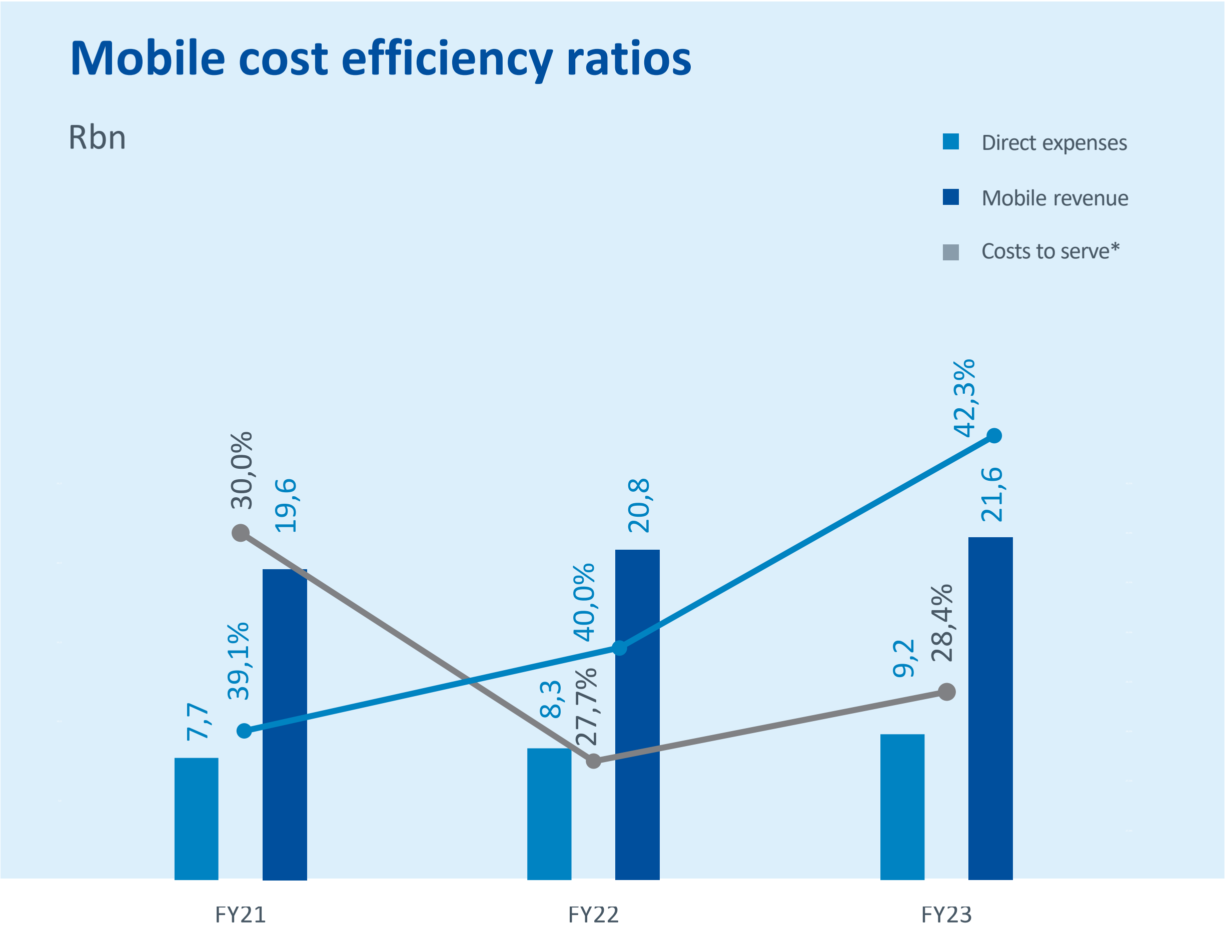
Direct expenses



Mobile cost efficiency ratios



*Payments to other Operators (PtoO) and sales commission and incentives in relation to mobile service revenue

Capital allocation prioritises growth

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Sources of Capital

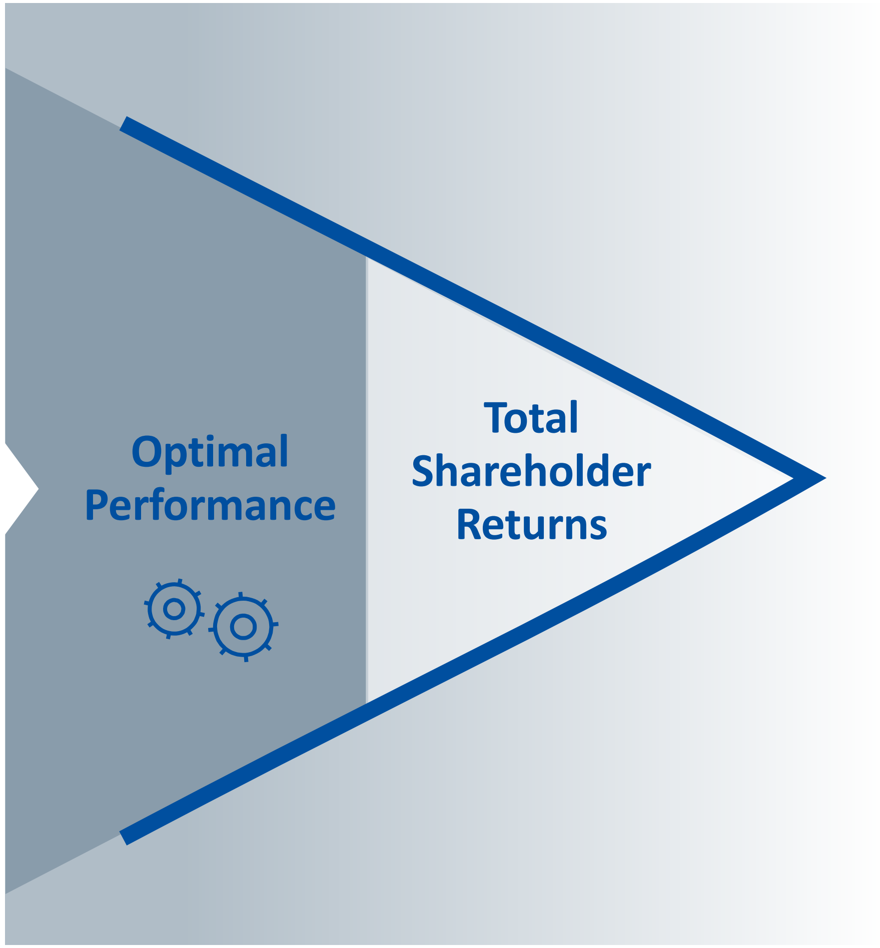
- Operational cashflow
- Debt issuance - adequate debt capacity
- Corporate action proceeds
- Accelerated property disposal

Uses of Capital

- Re-balance balance sheet and gearing
- Prioritise capex in growth to ensure sustainability of the business
- Hurdle for investing: IRR > WACC

Shareholder returns

- Remains a key component
- Dividend policy remains suspended



Capex and ROIC

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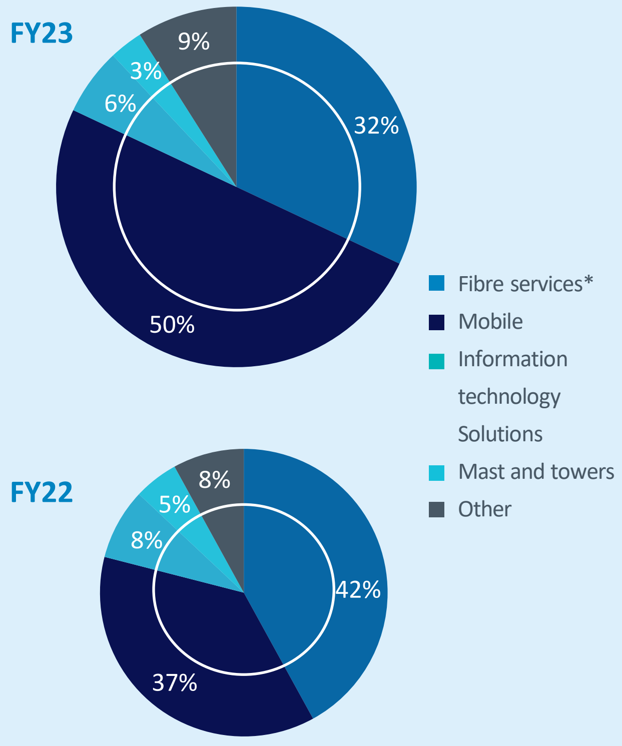
Capex spend and intensity

Capex investments allocation



Network expansion	FY23	FY22	FY21
Fibre to the home	1 040 565	839 691	549 957
Homes connected	492 819	389 109	281 065
Active fibre connectivity rate %	47.4	46.3	51.1

Mobile footprint

	FY23	FY22	FY21
Mobile sites integrated	7 546	7 313	6 430

ROIC per technology at fair value

FY23	NGN	Mobile	IT	M&T	Legacy
ROIC %	11.3	6.3	(6.8)	9.5	(314.6)
Operating profit after tax	2 621	940	(220)	596	(2 598)
Invested capital at fair value	23 216	14 909	3 245	6 249	826

** Fibre services include FTTH and Core network.*

Free cash flow performance improved in H2

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Free cash flow (FCF) movement

Rm	H1	H2	FY23	FY22	%
Cash receipts from customers before working capital impact	**21 220**	**22 202**	**43 423**	**42 957**	**1.1**
Movement in working capital	(860)	(2 140)	(3 001)	(1 343)	(123.3)
Cash receipts from customers	**20 360**	**20 062**	**40 422**	**41 614**	**(2.9)**
Cash paid to suppliers before working capital impact	**(18 306)**	**(15 715)**	**(34 021)**	**(32 511)**	**(4.6)**
Movement in working capital	**793**	**(489)**	**304**	**783**	**(61.2)**
Cash paid to suppliers	**(17 513)**	**(16 204)**	**(33 717)**	**(31 728)**	**(6.3)**
Cash generated from operations	**2 847**	**3 858**	**6 705**	**9 886**	**(32.2)**
Repayment of lease liability	(523)	(563)	(1 086)	(1 076)	(0.9)
Interest received	102	180	282	235	(20.0)
Finance charges paid	(654)	(802)	(1 456)	(1 188)	(22.6)
Taxation paid	(301)	(246)	(547)	(764)	28.4
Cash generated from operations before dividend paid and received	**1 471**	**2 427**	**3 898**	**7 093**	**(45.0)**
Spectrum acquisition	–	–	–	(1 142)	100.0
Cash paid for capital expenditure	(3 358)	(3 262)	(6 620)	(8 031)	17.6
Free cash flow	**(1 887)**	**(835)**	**(2 722)**	**(2 080)**	**(30.9)**

Cash burn rate

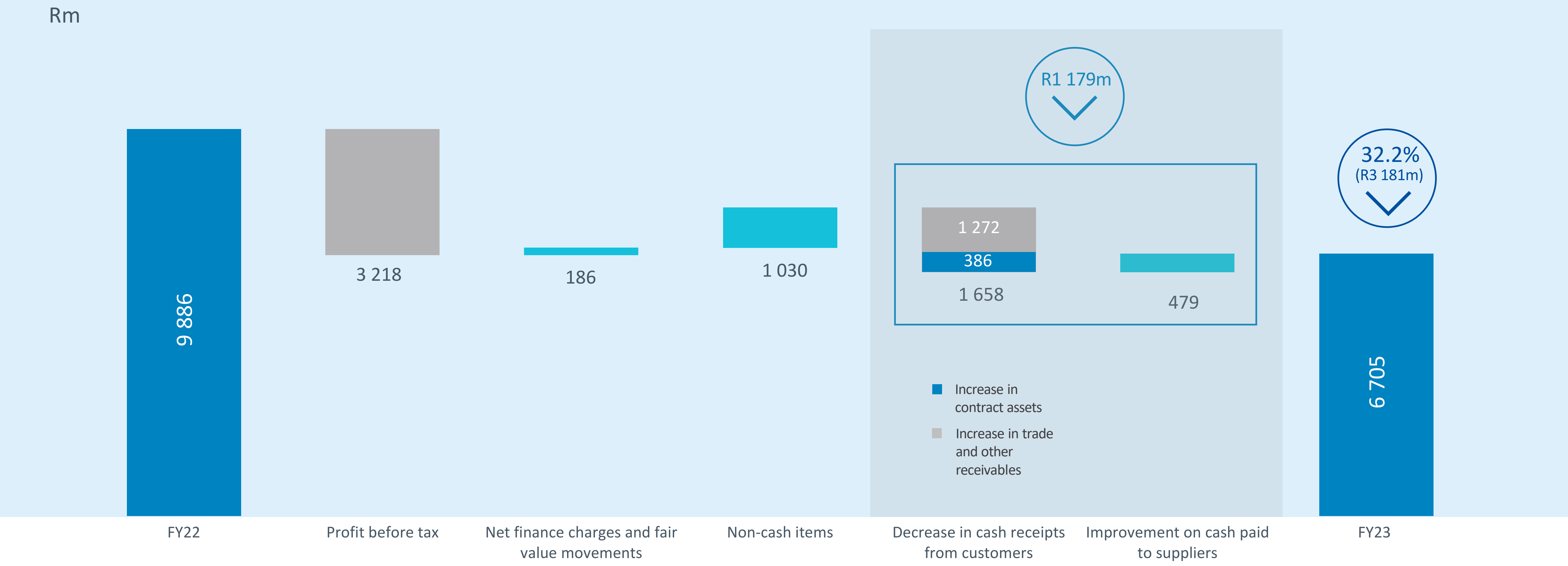
	FY23	FY22	%
Closing cash balance	3 469	3 239	7.1
Opening cash balance	3 239	5 002	35.2
Cash movement utilised	230	(1 763)	113.0
Net movement in borrowings	(2 425)	(1 066)	(127.5)
Cash movement for the year	(2 195)	(2 829)	22.4

Key features

- H2 improvement on the FCF of 55.7%
- Delay in cash flows due to continued growth in post-paid contracts. The collections derived from post-paid contracts and trade debtors sales are deferred over the contract period while the cost of sale (trade payable) are recorded immediately causing a timing difference in cash flows.

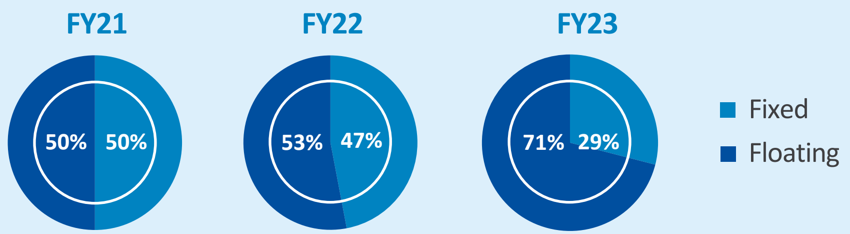
Cash generated from operations

Cash generated from operations movements



Balance sheet gearing within acceptable limits

Rm	FY23	FY22	%
Cash balances	**3 469**	3 239	7.1
Interest bearing debt	**14 357**	11 932	(8.8)
Opening balance	**11 932**	10 866	(9.8)
Net funding raised/(repaid)	**2 320**	(193)	(1 302.1)
Spectrum funding	**-**	1 150	100.0
Other	**105**	109	(3.7)
Lease liabilities	**5 889**	5 374	(9.6)
Opening balance	**5 374**	4 972	(8.1)
IFRS16 lease liability raised	**515**	402	(28.1)
Net debt	**16 777**	14 067	(19.3)
Net debt/EBITDA (times)	**1.8**	1.2	(0.6)
Average cost of debt (%)	**8.6**	6.5	(2.1)



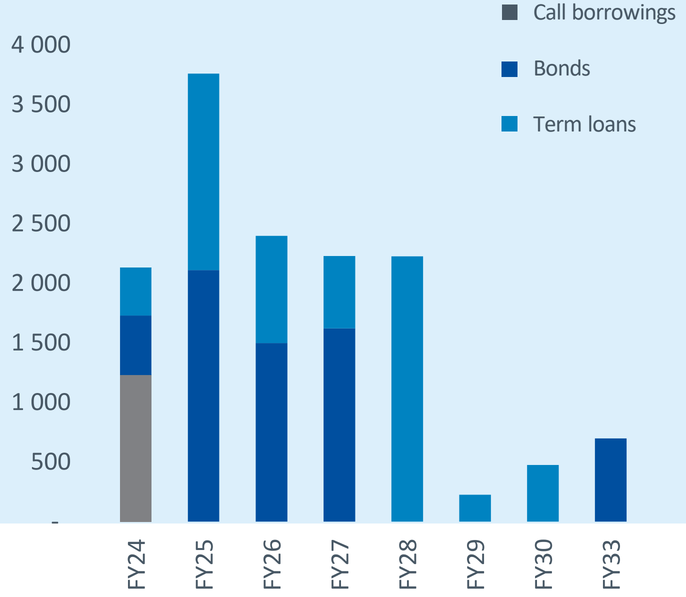
Bank balance R3.5bn

Adequate liquidity
+
Unutilised facilities R2.8bn

Enough headroom for future growth

Credit matrix	Loan covenants	FY23	FY22
Net debt to EBITDA	Not exceed 3:1	1.8	1.2
Interest cover	At least 3.5:1	10.3	12.1

Debt maturity profile



Reinstatement of dividend policy postponed

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Dividend policy suspended three years ago

- Negative annual FCF in 2019
- Uncertainty relating to spectrum
- High levels of net debt to EBITDA

Additional considerations

- Cash flow and profitability challenges
- Adverse economic conditions
- Cash flow for restructuring costs in FY24

Board suspended dividend policy for at least one additional year

Financial framework to drive sustainable growth

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Inputs	Drivers	Medium term guidance FY2023 – FY2025 (CAGR)	FY23 Actual	Outputs
Annual strategic review	**New revenue streams** (Fibre, Mobile & IT businesses)	Low to mid single digit Revenue growth	(0.9%)	Sustainable organic growth
	Sustainable cost management program (staff optimisation, roaming, channel optimisation and legacy costs)	Low to mid single digit EBITDA growth*	(19.8%)	
	Capex to fund growth	16 - 18%	17.2%	
	Adequate balance sheet capacity to fund growth	Net debt to EBITDA of 1.5x – 1.9x	1.8x	

** FY2023 still challenging to achieve*

Corporate activity

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Transactions to realise value

- Continue to look at options to maximise value for shareholders
- We view transactions and partnerships as a lever to realise value
- There is great interest for (1) masts and towers business and (2) fibre business
- Also have future growth plans in place for these assets
- Initiatives underway have progressed as follows:

Further updates will be made to the market as and when considered necessary

swiftnet

- Process for the disposal of a full or partial stake of Swiftnet, the mast & towers business, well on track
- Engaging on non-binding offers received from shortlisted bidders

openserve

- Exploring options to realise value
- Received numerous credible expressions of interest from a broad range of suitable local and international partners from market sounding exercise

BCX

- Investigating strategic equity partnerships to enhance scale and capabilities in various areas including cloud services and cyber security
- Assessing the market for possible international and/or local partners and to consider available options in this regard.
- Advisors appointed to drive process

Strategic review & Outlook

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Strategic priorities

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ONE
Short-term Focus

is on RELEASING cash

... through **disposal of non-core assets** and **OPEX rationalisation**, providing the required **financial strength and baseline** to engage in Telkom's Transformation

TWO
Mid-term Focus

is to IMPROVE the return on assets

... through a deliberate process of **sweating current assets**, and being **laser-focussed** in the **deployment of new assets**

THREE
Long-term Focus

is to TRANSFORM the way in which Telkom has been operating in recent years

... by **executing** on actionable activities vs launching new businesses, where the organization does not have the required assets and/or capabilities to succeed

Telkom of today

Telkom

Why an INFRA CORE?

- Allow for **driving capital efficiency**
- **Protect** & **sweat** relevant **assets**
- Exploit the **right** to **win**
- **Promote** & **drive** operational **synergies**

INFRA CO

Fibre (Key asset)
- **+170,000 km** of fibre
- **1 million** homes passed with a further potential of **2 million**

Towers
- **+4 000 productive** towers
- **42%** anchor tenancy

Mobile
- **+6 800 4.5G** integrated sites
- **+300** active **5G sites**

Real estate

Land, buildings & additional non-core assets

Data centres
- **10 carrier neutral** DCs
- **3 Tier 4** DCs

NGN assets
- **Many aggregation nodes;** potential for Edge DCs
- **PaaS** potential **properties**

Telkom of tomorrow - leveraging infrastructure assets for growth

Telkom

- **Split IT Services & Converged Comms** in BCX

BCX Services | Converged Comms

B BCX / Enterprise Co

A **Consolidate core assets**, **continue develop & enable** strategic/financial **partner(s)**

INFRA CO

openserve

Mobile network | Other[1]

- **Focus** on & **enhance prepaid** with Digital Co
- Grow **fixed broadband**

C Consumer Co

F Digital Co

- Support **Consumer** with **fintech** & **entertainment** partnerships
- Support **SME** with **insurance, fintech** partnerships, etc.

- **Complete** Mast and Tower transaction
- **Optimise** property **portfolio, sell** low potential assets

swiftnet | Property portfolio

D Gyro

Refresh Culture & Leadership
+
Elevate Performance Management

E SME Co

- **Carve-out** from Consumer
- **Partner** with SME **service providers**

[1] *Includes all other assets e.g. DCs, property, etc.*

Q&A
Thank you

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Telkom SA SOC Ltd

Annexures

Business Unit performance


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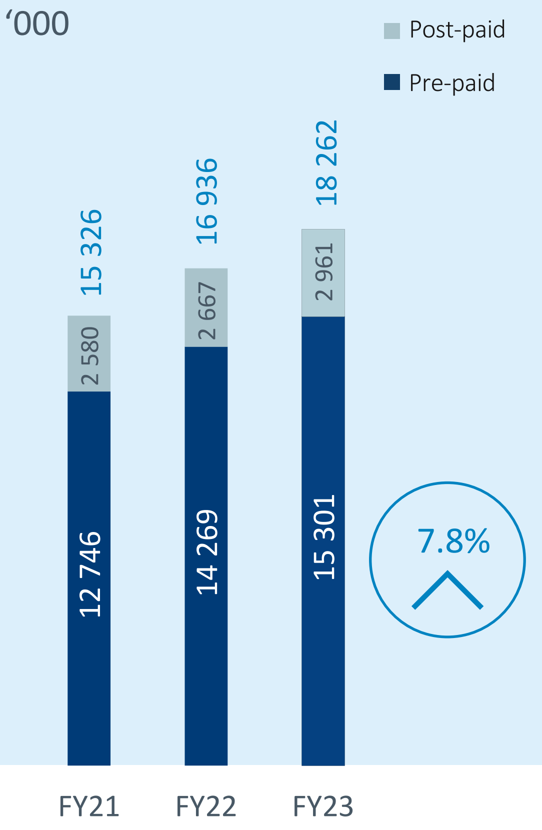
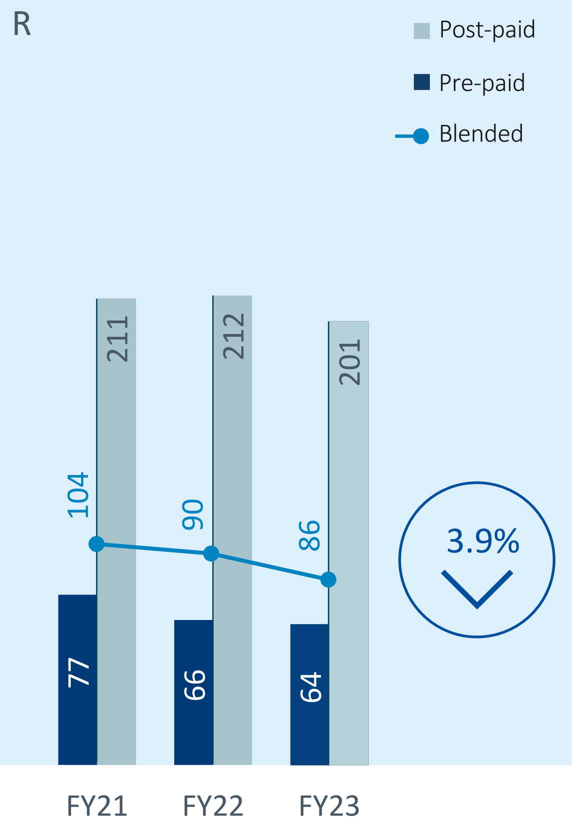
Consumer

Stable mobile growth

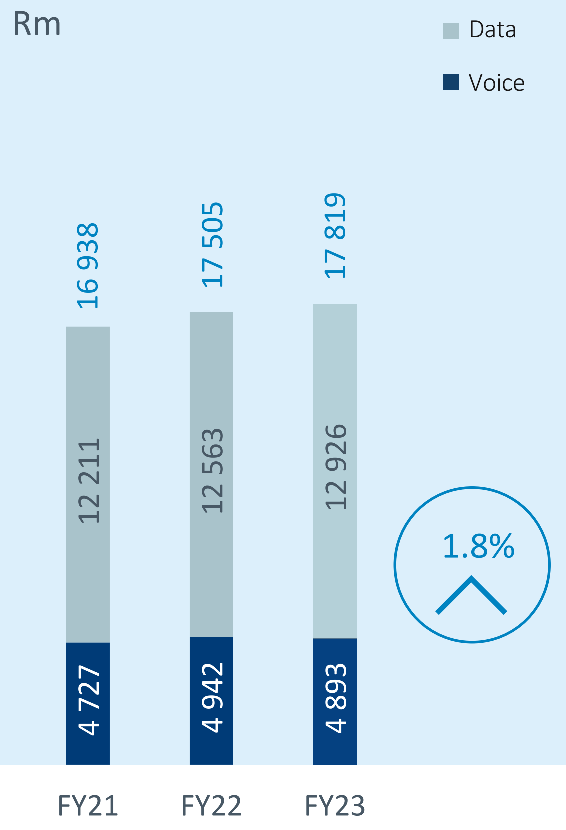
Subscriber growth



ARPU



Service revenue

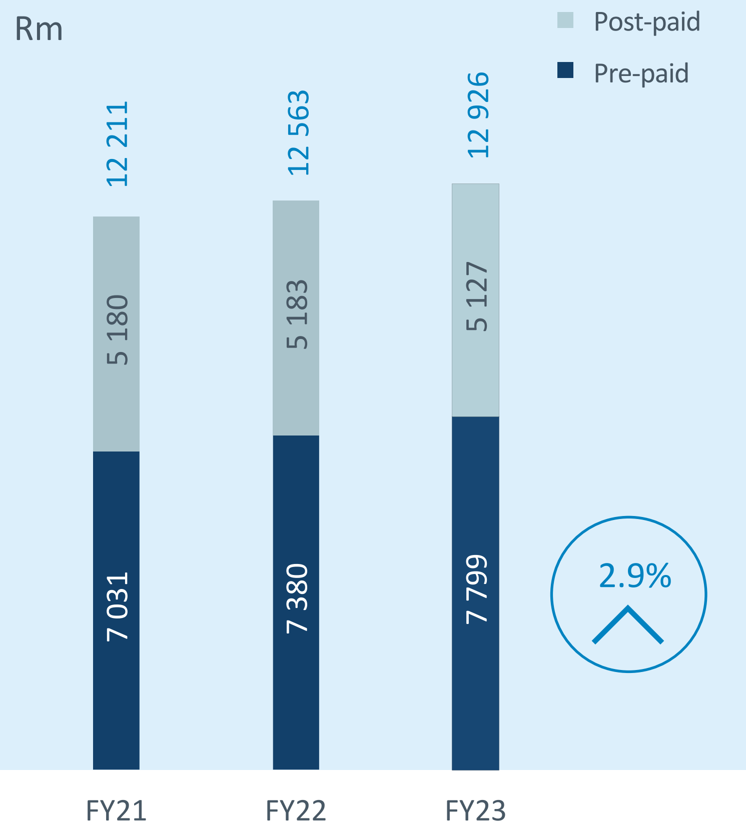


EBITDA/EBITDA margin

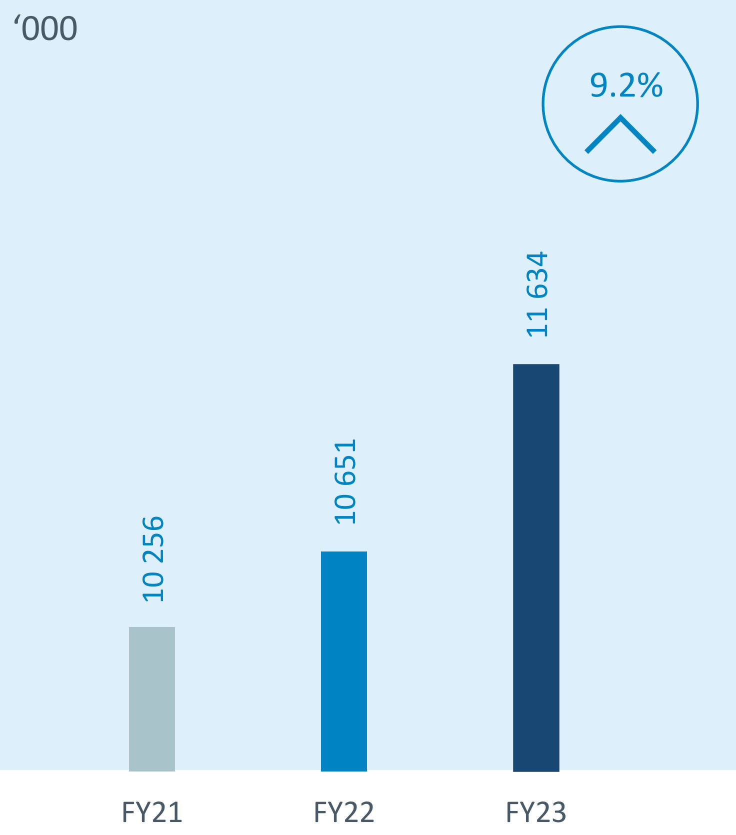
Mobile broadband traffic continues to grow

Telkom Consumer

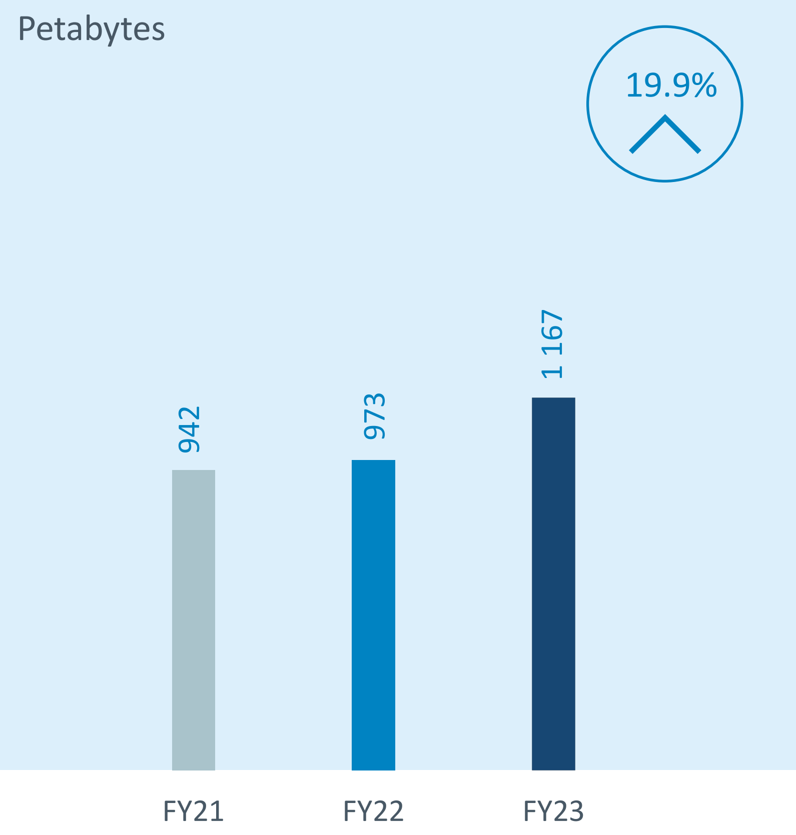
Data revenue



Broadband subscribers



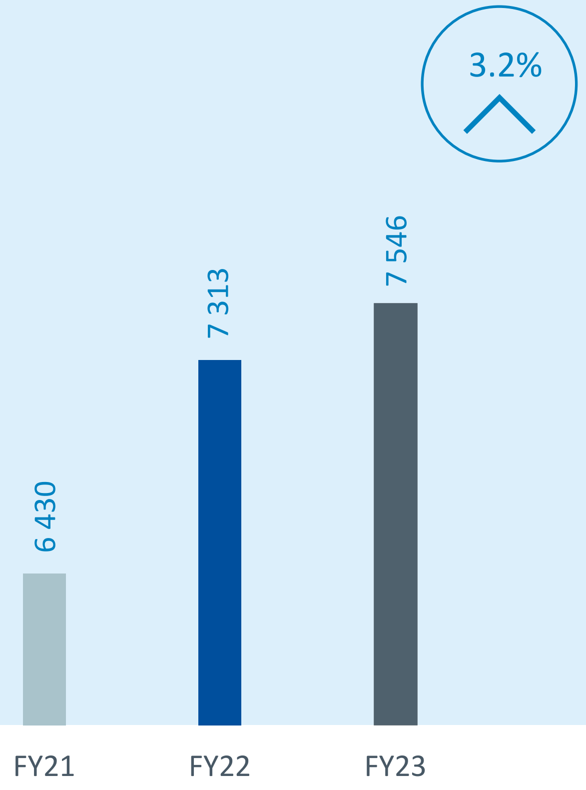
Broadband traffic



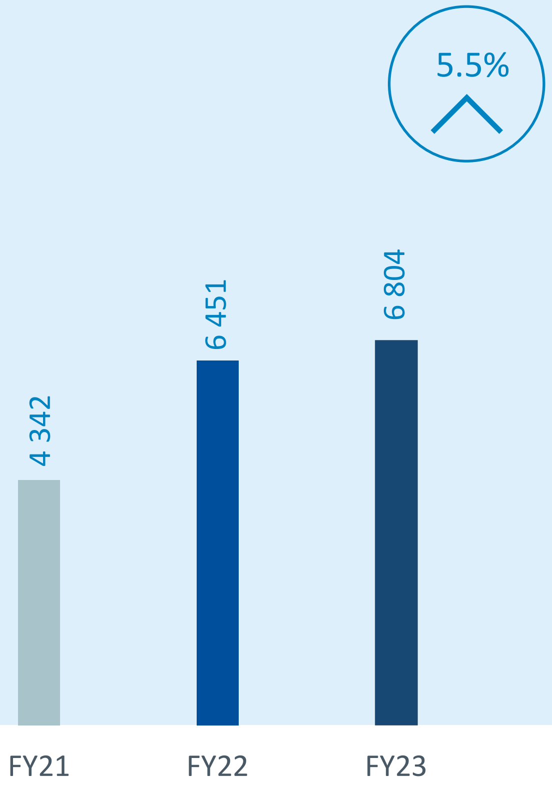
Consumer: Ongoing network investment

Telkom Consumer

Mobile sites integrated

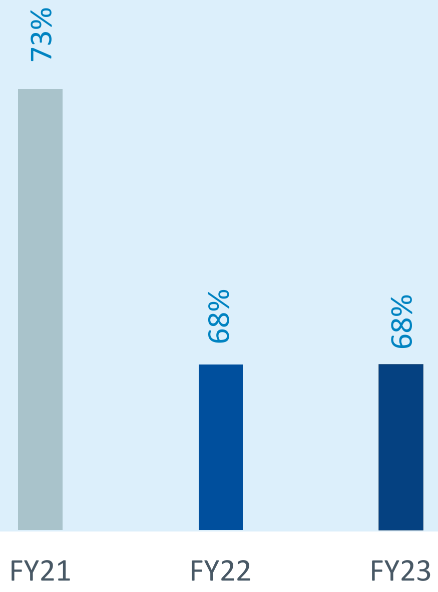


4.5G integrated sites



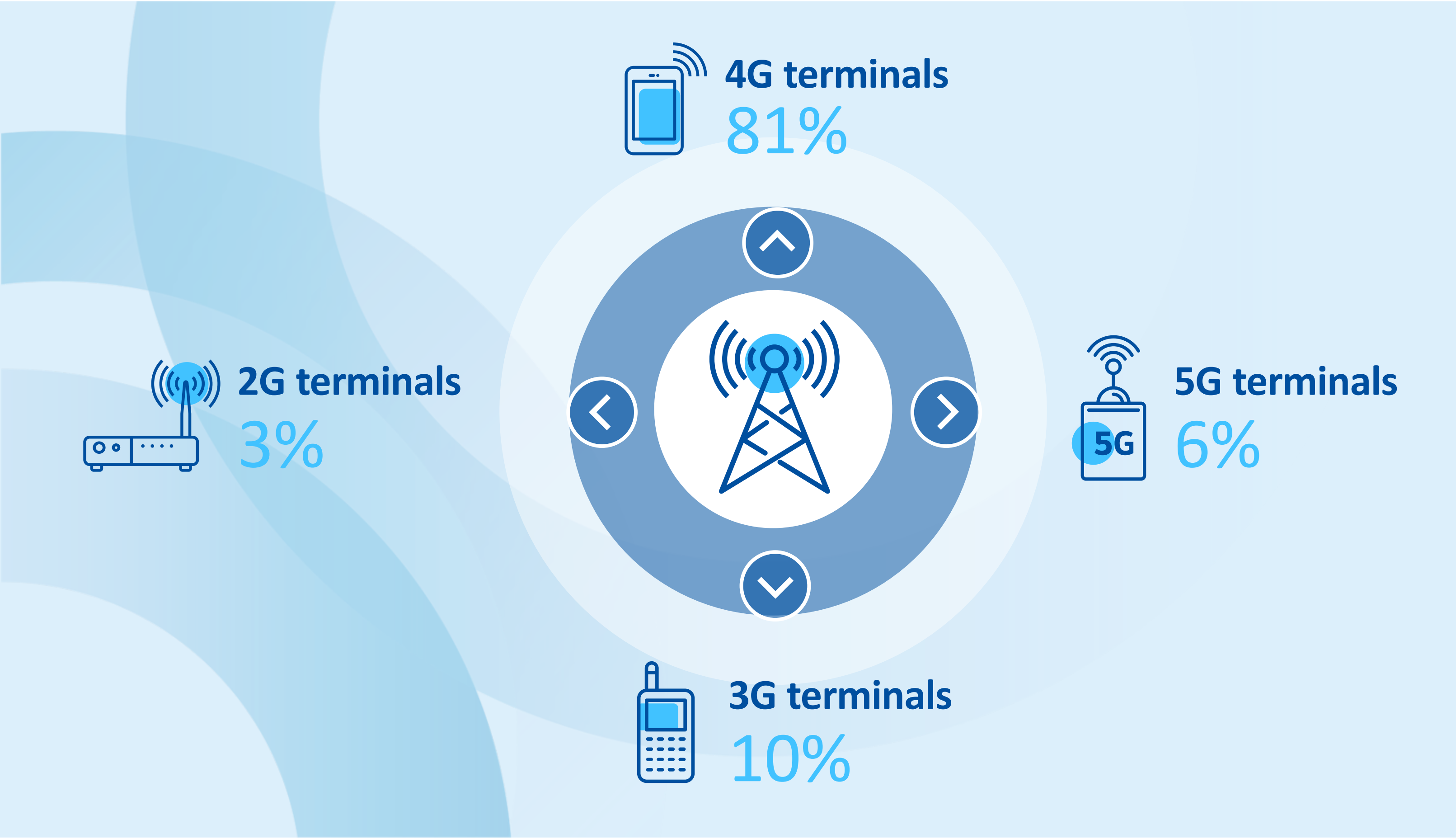
Site backhaul

Fibre Ratio



High 4G device penetration and growing 5G base

Telkom Consumer



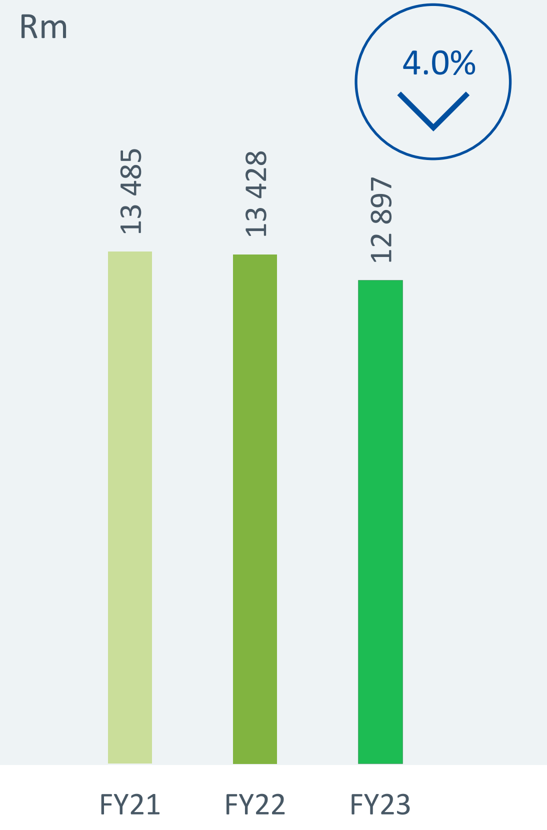
- **87%** of devices in network support 4G and 5G and this aligns with Telkom's strategy of a data-led network
- Device penetration positions Telkom in a pole position with regard to government's requirement to sunset legacy technologies, especially 2G.
- The **high 4G and 5G device penetration** also enables Telkom to have a high ratio of Volte usage which is currently at 37%. Volte is required in order to move voice traffic from 3G to 4G


VARIABLE
GAME_START
PLAYER_RUN = 8
CURRENT_YEARS
CURRENT_MONTH
85%
74%
63%
MONTH

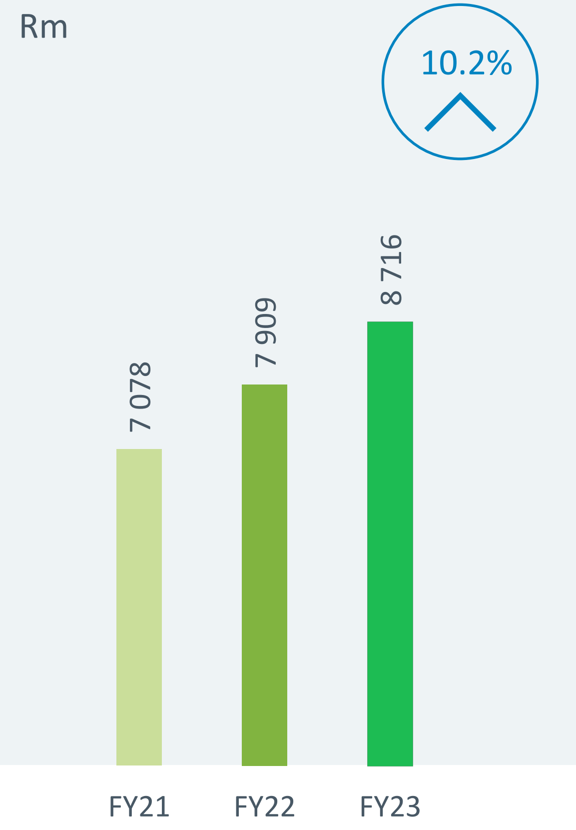
open serve

Impressive NGN growth

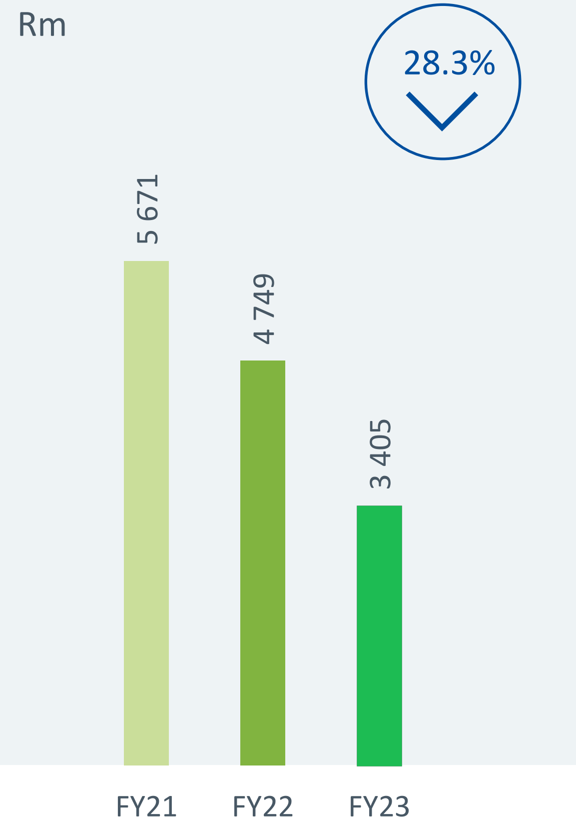
Revenue



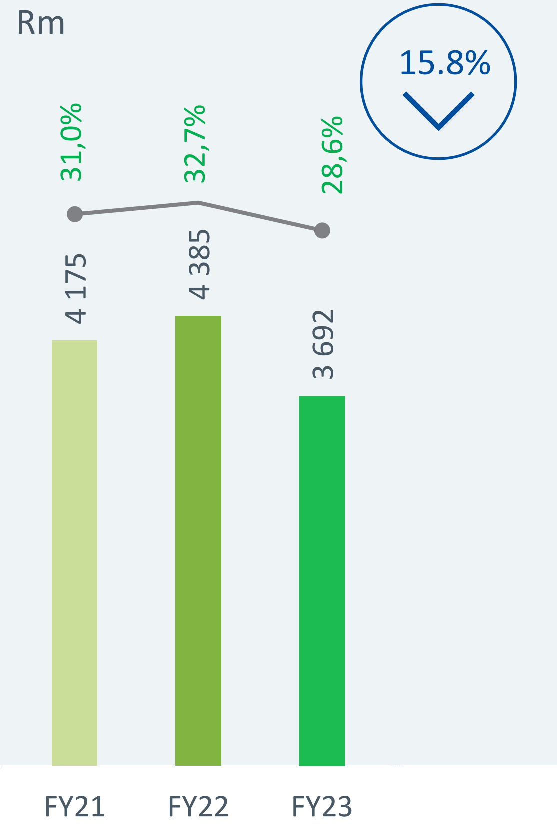
NGN Revenue[1]



Legacy & Voice Revenue[2]

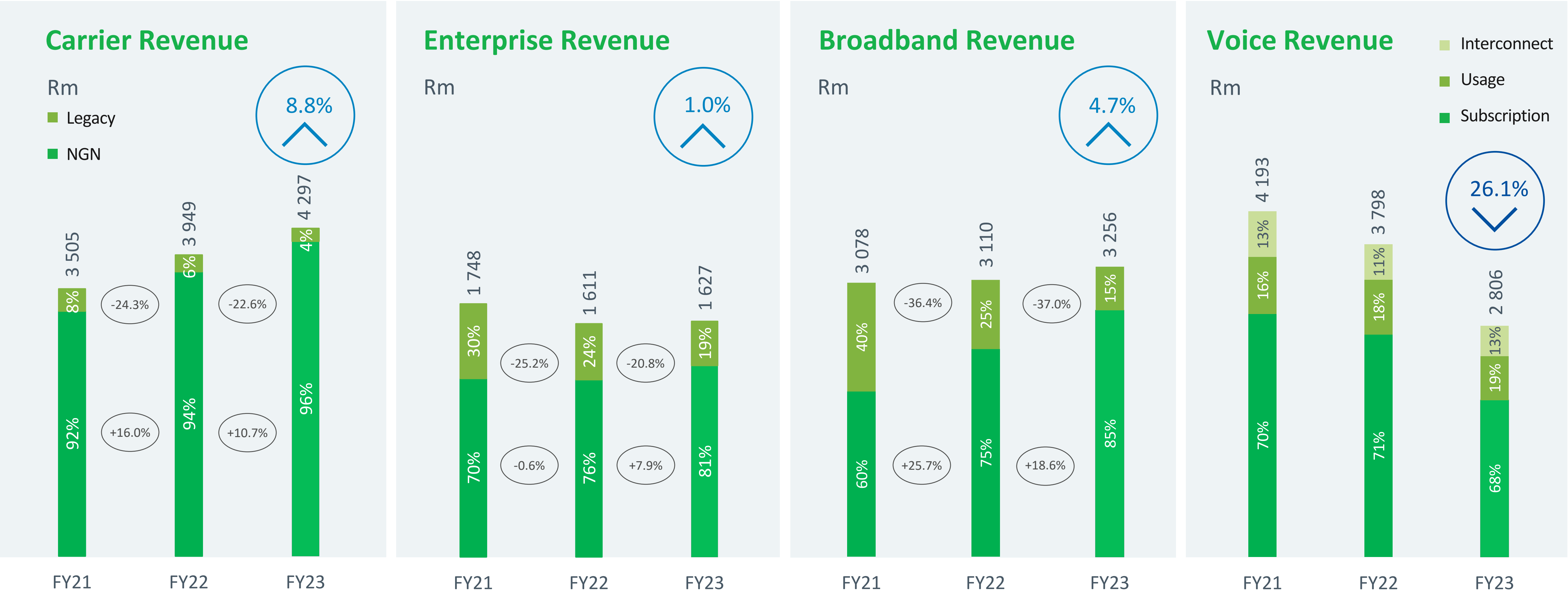


EBITDA/EBITDA margin[3]

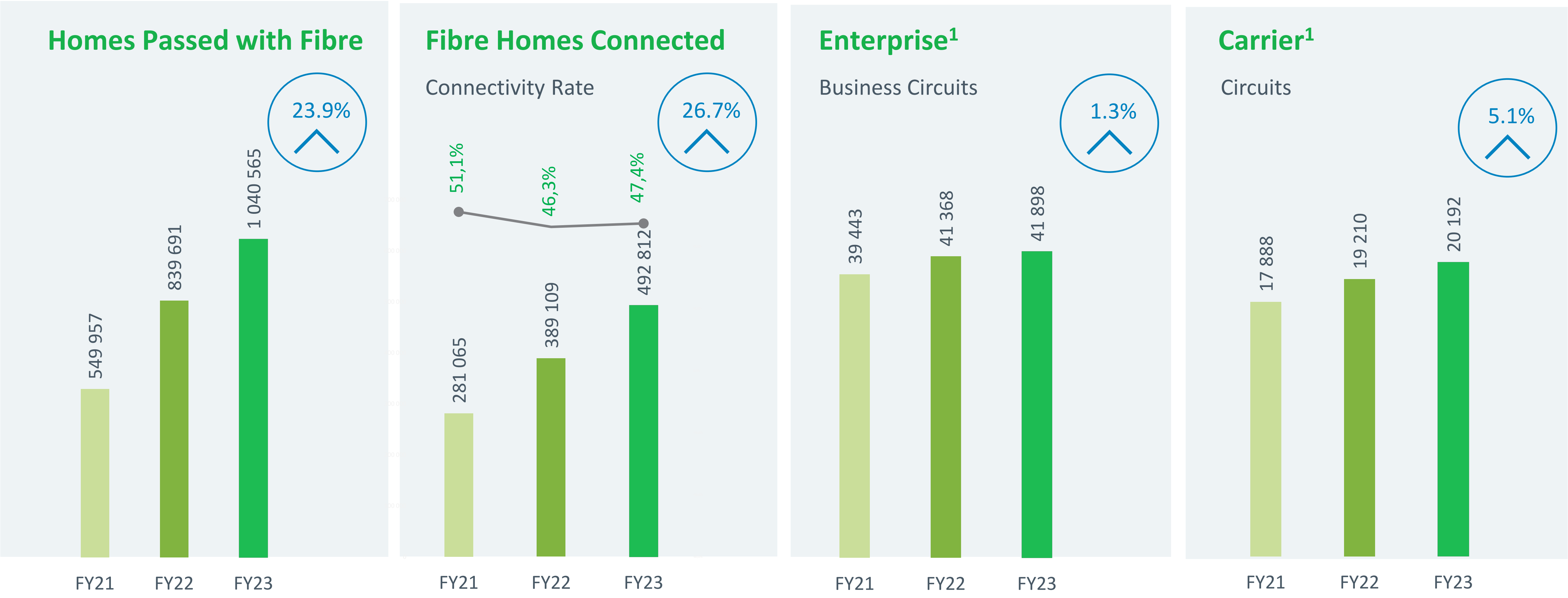


1 *Inclusive of Satellite Services and Interconnect Revenue*
2 *Inclusive of Legacy and Voice Usage and Subscription Revenue*
3 *FY22 EBITDA/Margin restated*

Evolution of new generation revenue



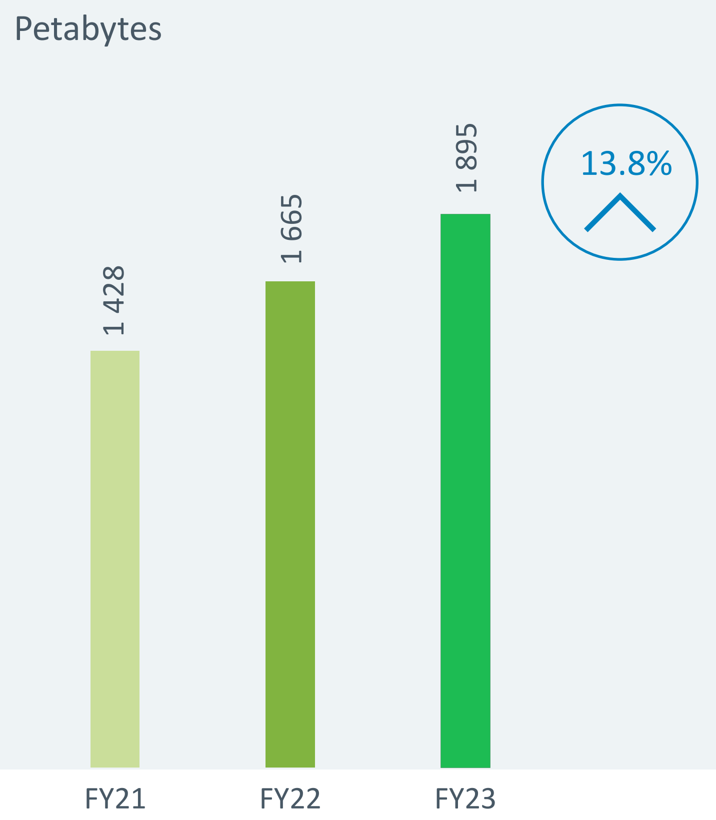
Connect-led strategy delivers highest connectivity rate – 47.4%



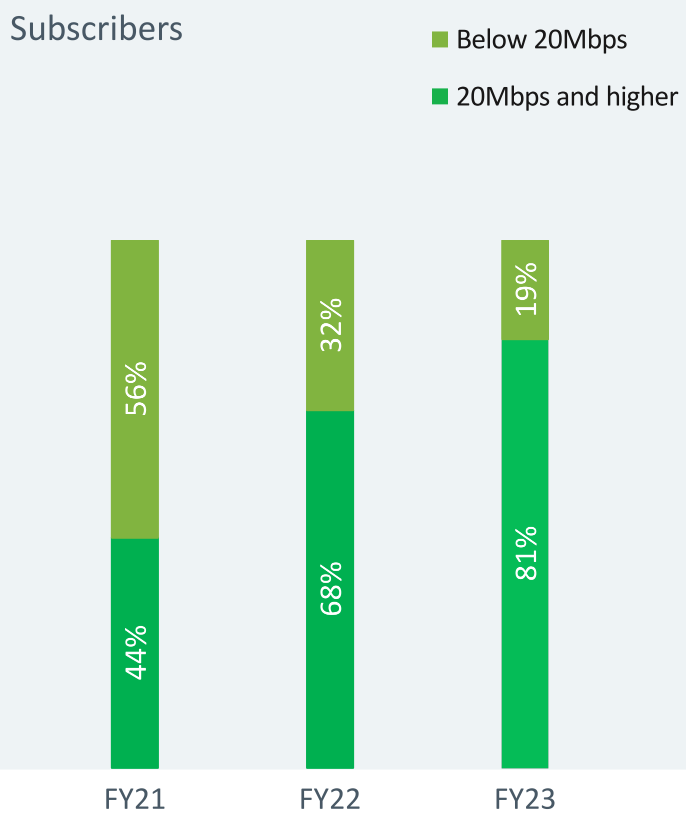
[1] *Segment lead approach*

Fixed broadband evolution

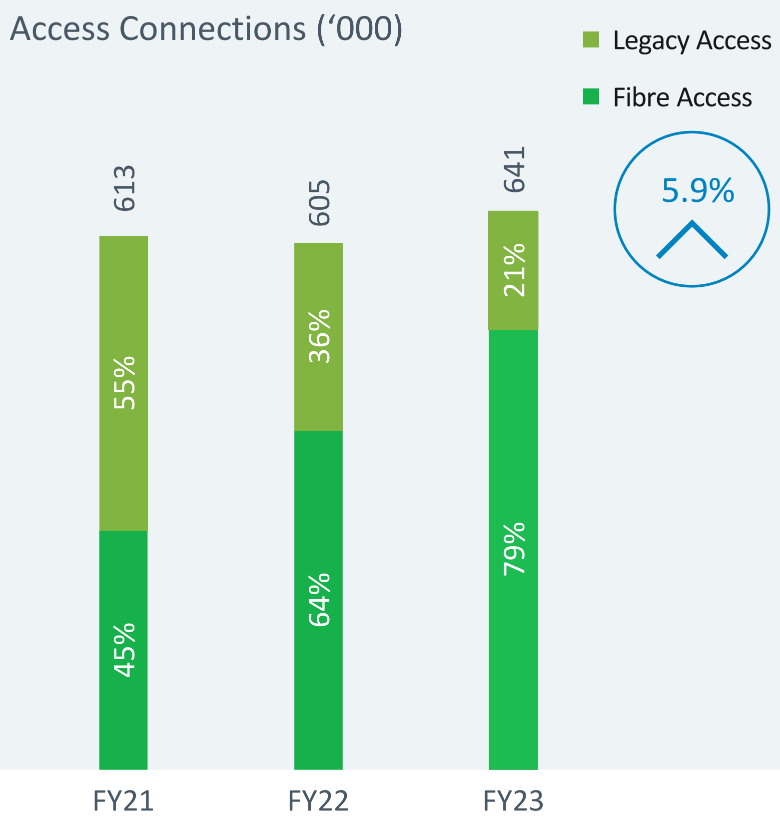
Fixed line broadband data consumption



Fixed line broadband services

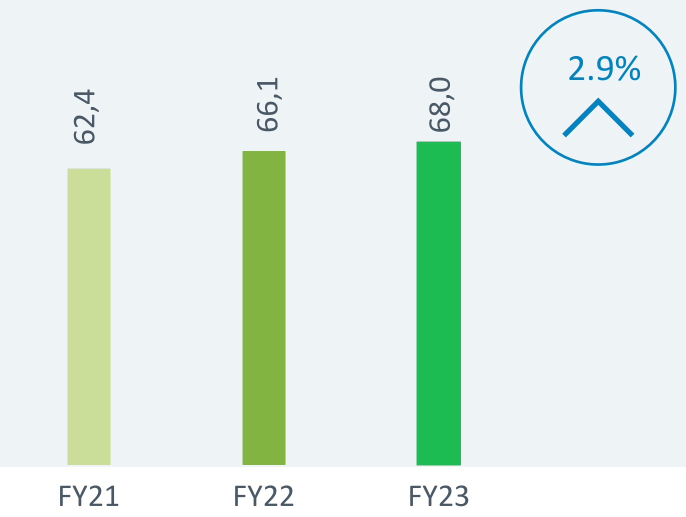


Fixed line broadband connections

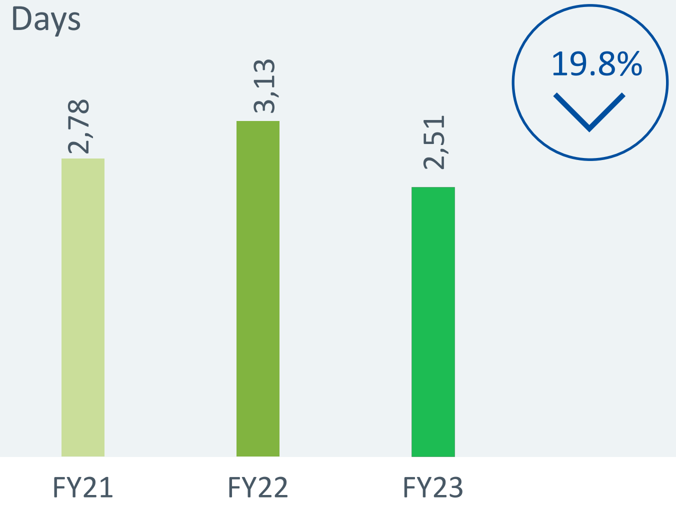


Transform Service Delivery

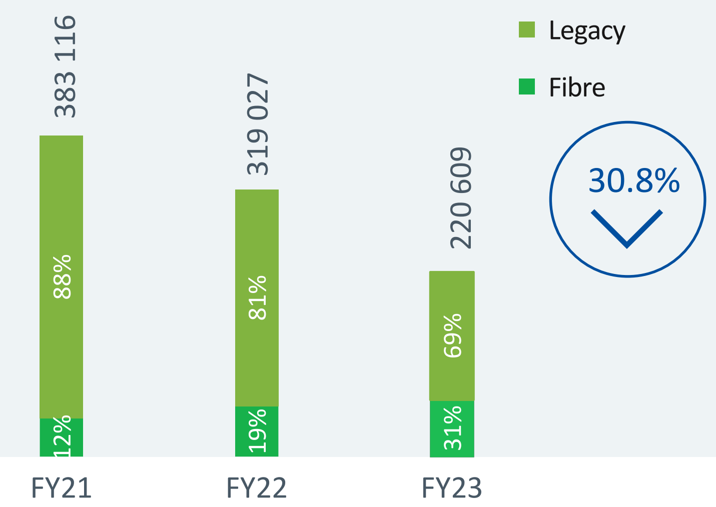
Net Promoter Score (NPS)



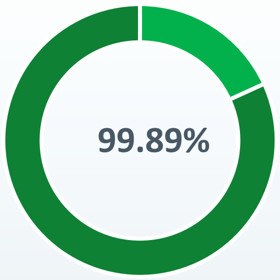
Fibre Broadband Ave Time to Install



Assurance Visits



Broadband Access Availability

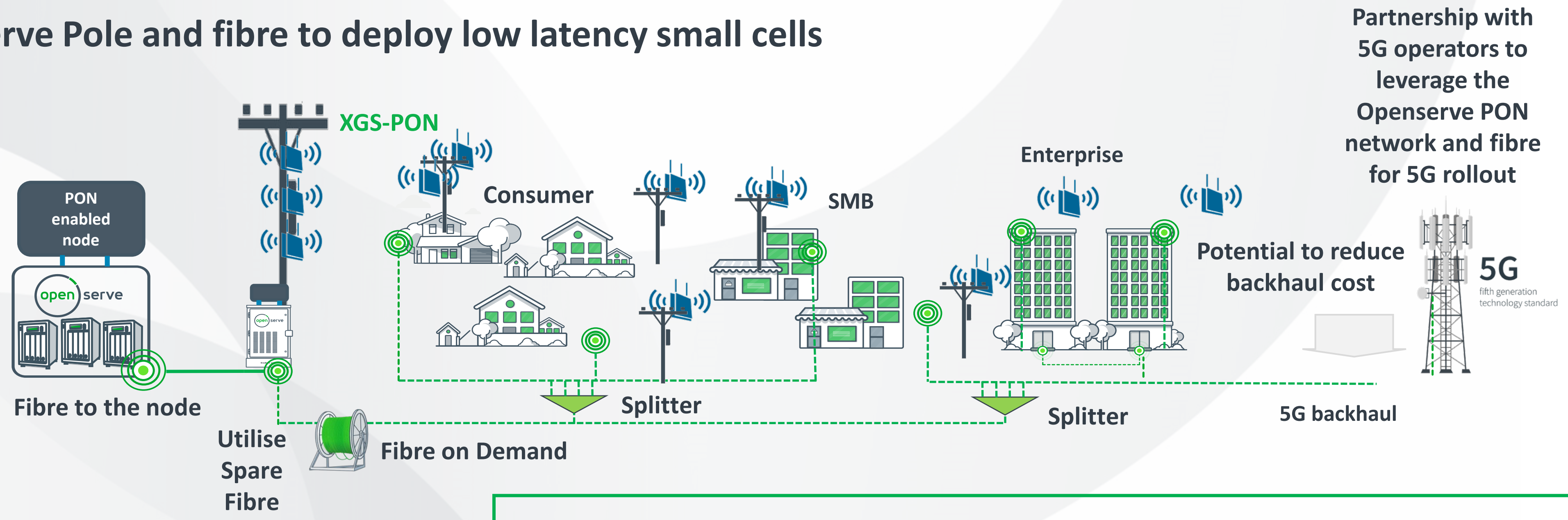


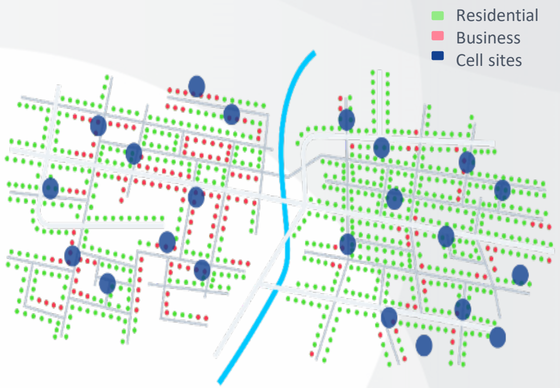
Transport Availability

Core Availability

Fibre on demand strategy aligned to future 5G enablement

Openserve Pole and fibre to deploy low latency small cells





"The World is Going 5G, 5G is going Fibre"

Only fibre can support the 5G demand of massive connectivity, high speed and low latency
Fibre and 5G complements each other and drive the growth and evolution

5G transport | **Offload to Wi-Fi** | **Connect faster**

Openserve has deployed **XGS-PON FTTH access fibre** over xPON technology (**up-to 10Gbps**)

5G wireless networks use high-frequency millimetre waves, however, these waves can only travel about 60 metres. This means that operators will rely on fibre networks for the final stage of connectivity.

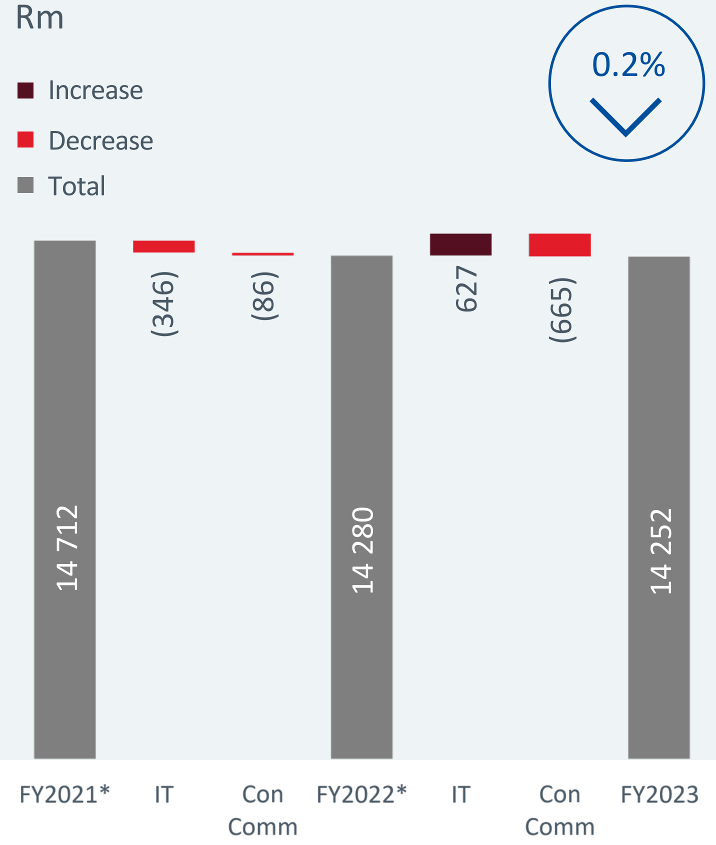
Telecommunication companies will install lower-cast, small cell sites – which are much cheaper than macro cell towers – thereby relying on fibre networks as the backbone of 5G technology.


BCX

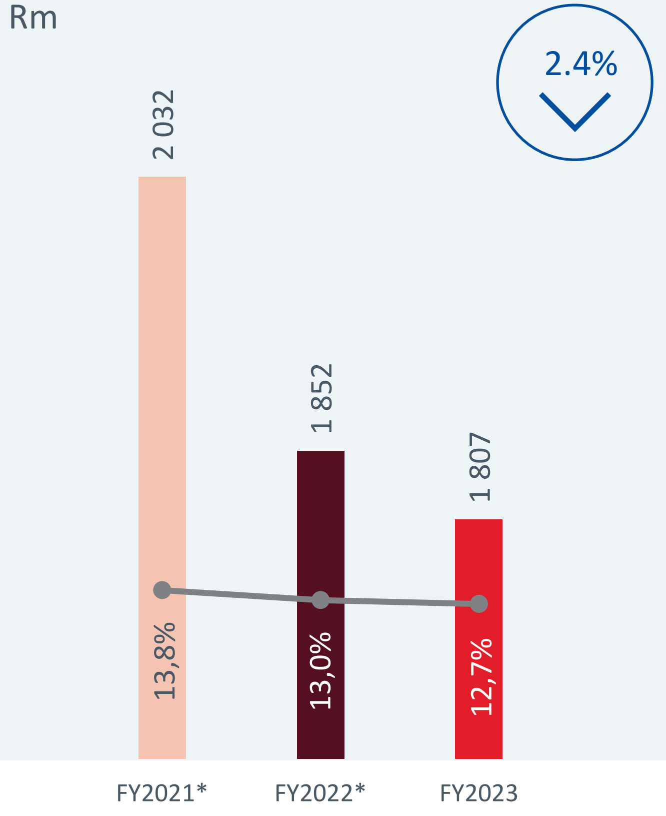
IT business growth largely driven by hardware and software investments

BCX

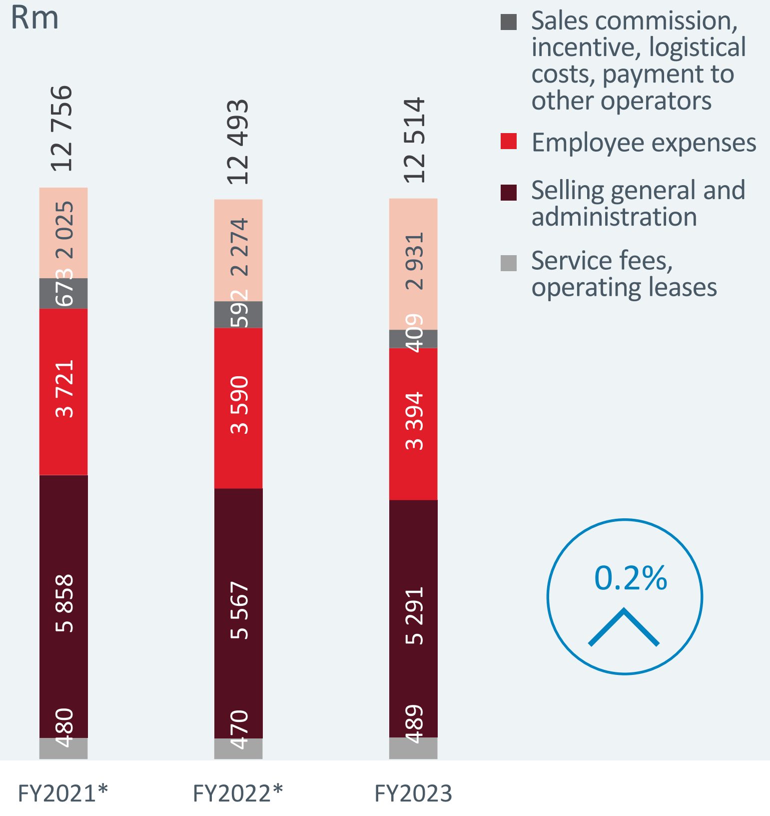
Revenue



EBITDA & EBITDA margin



Total Expenses

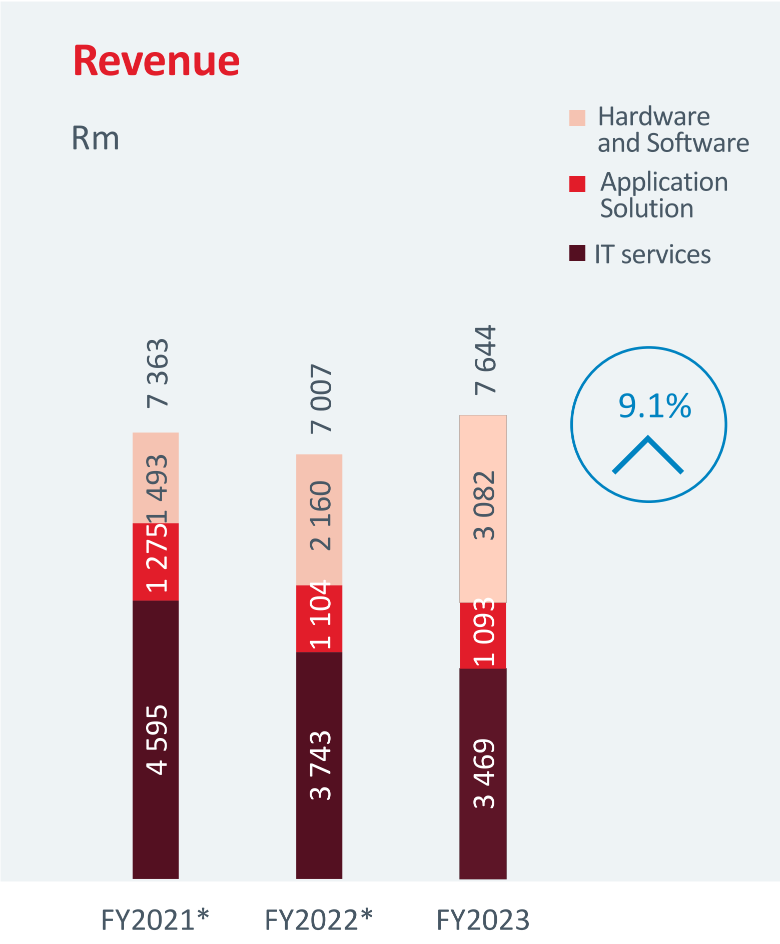


^ *Cost of handsets, equipment and software*

* *Restated to exclude TGIT*

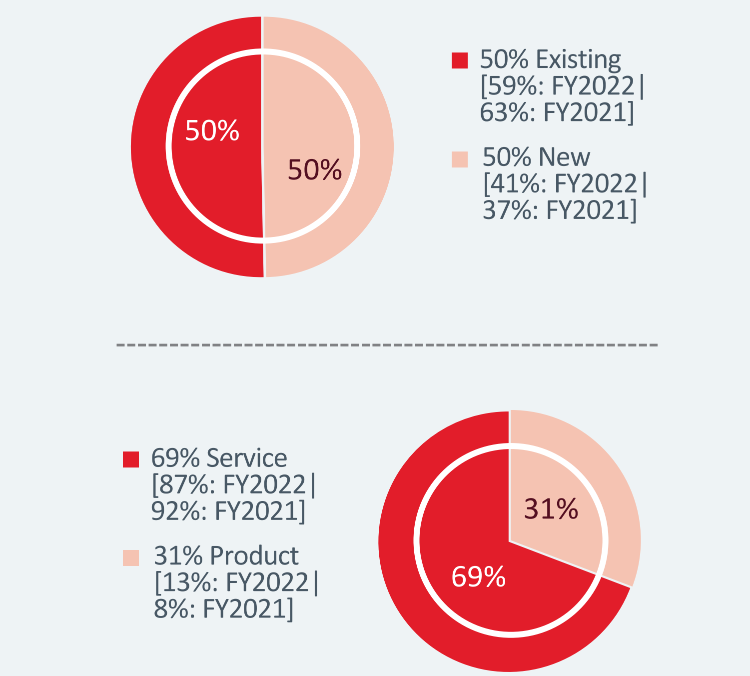
IT business growth with healthy annuity levels

Revenue

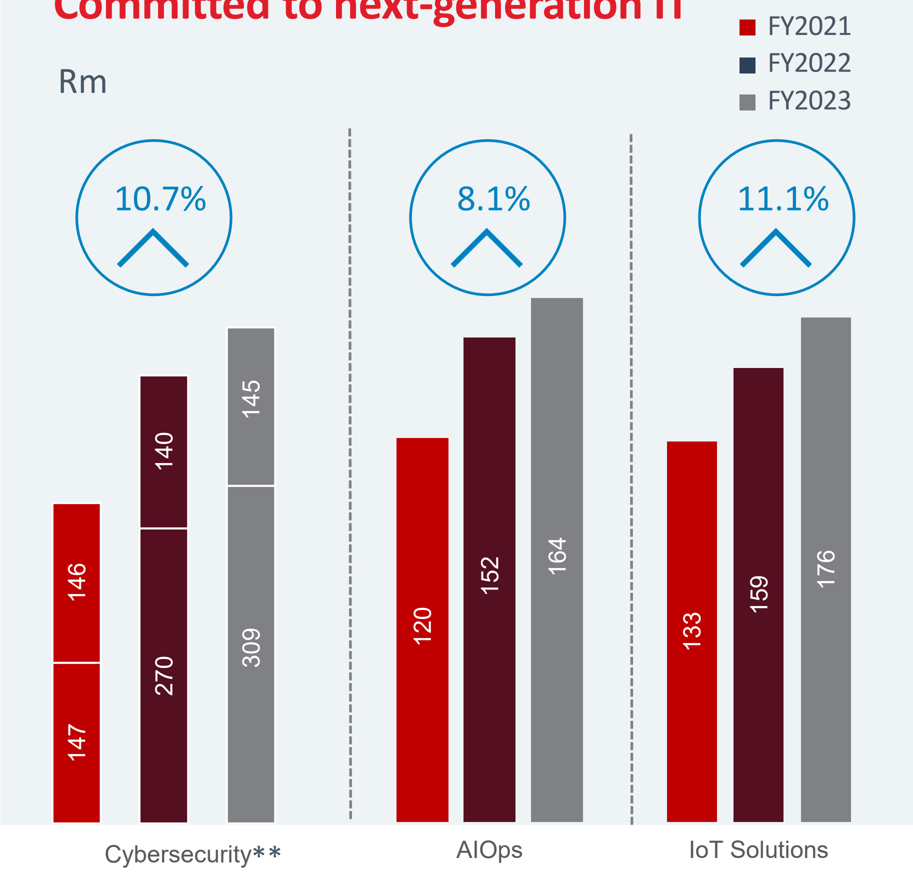


* Restated to exclude TGIT

Annuity and product revenue ratio



Committed to next-generation IT

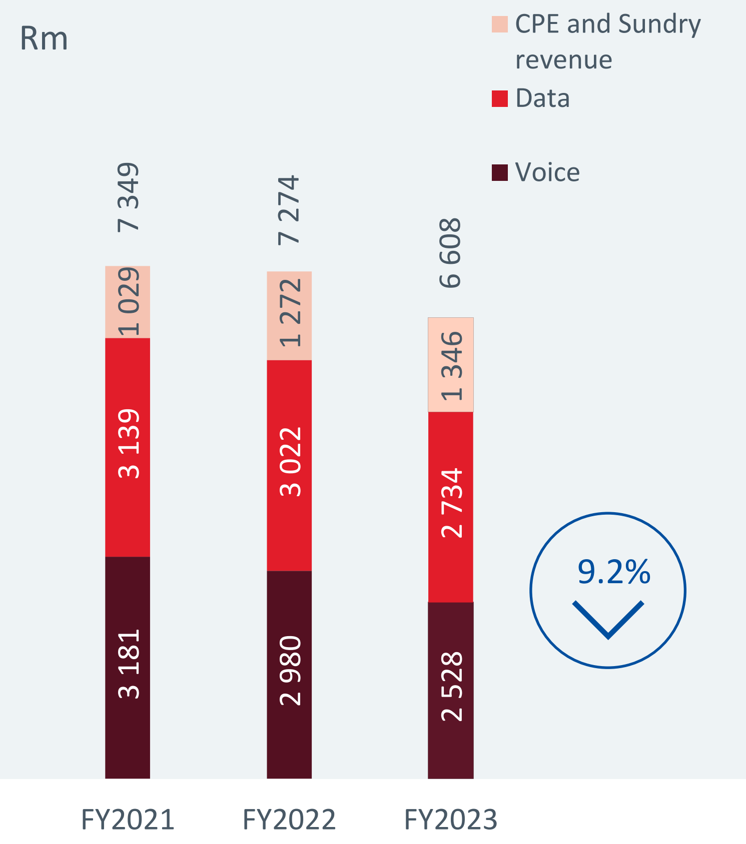


**Cybersecurity services and products

Converged Communications remained under pressure

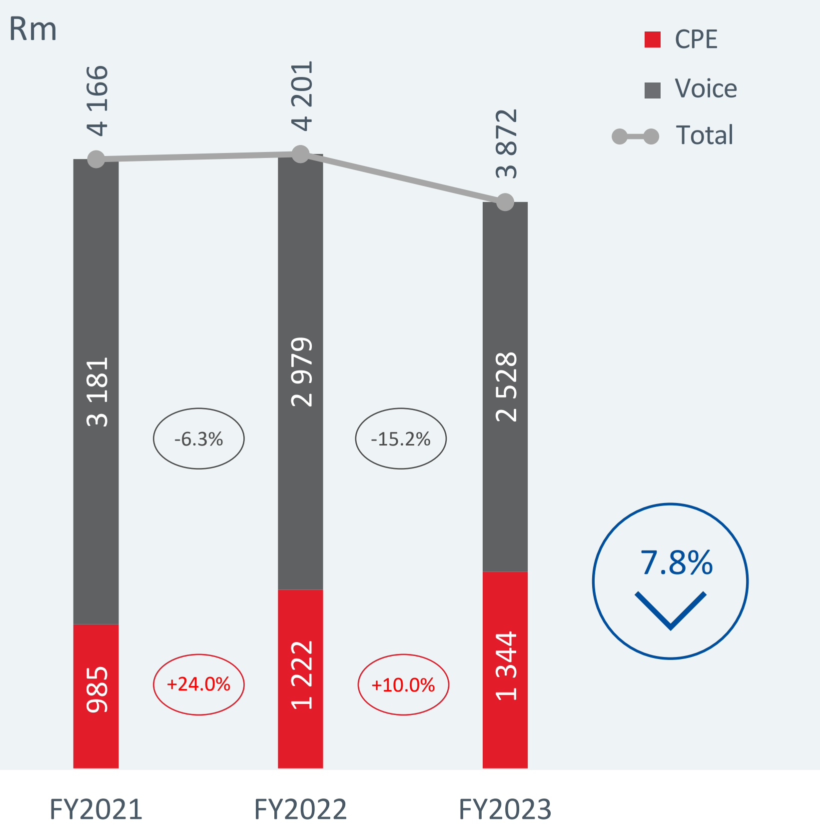
BCX

Revenue



Next-generation revenue

Unified Communications decline

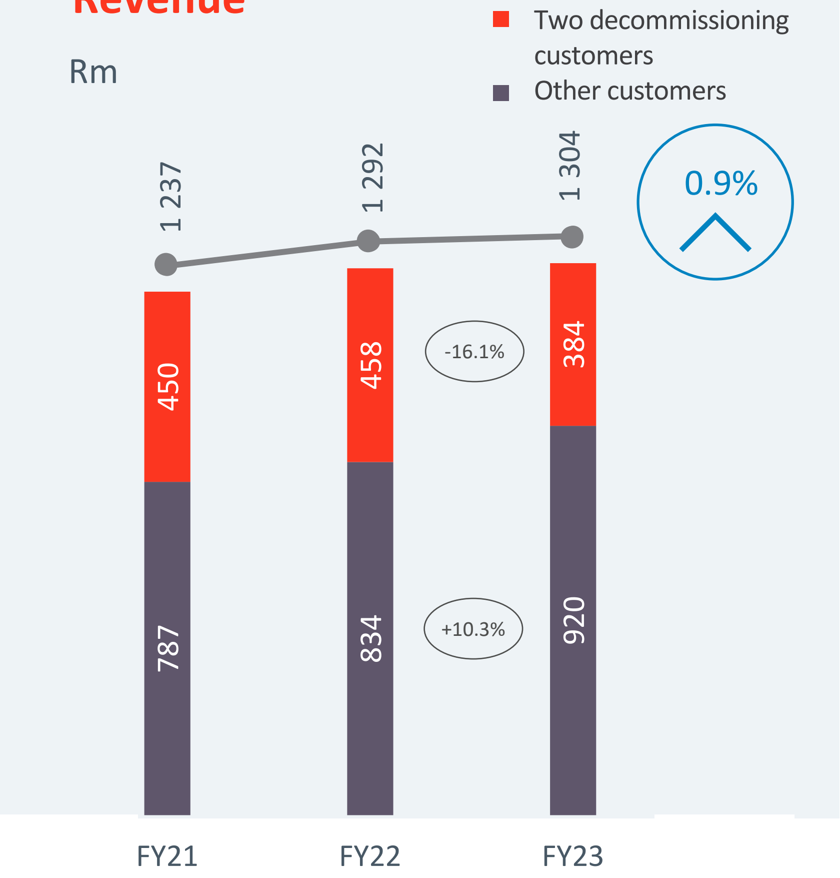



swiftnet

Stable revenue and strong EBITDA margin

Revenue*

Rm

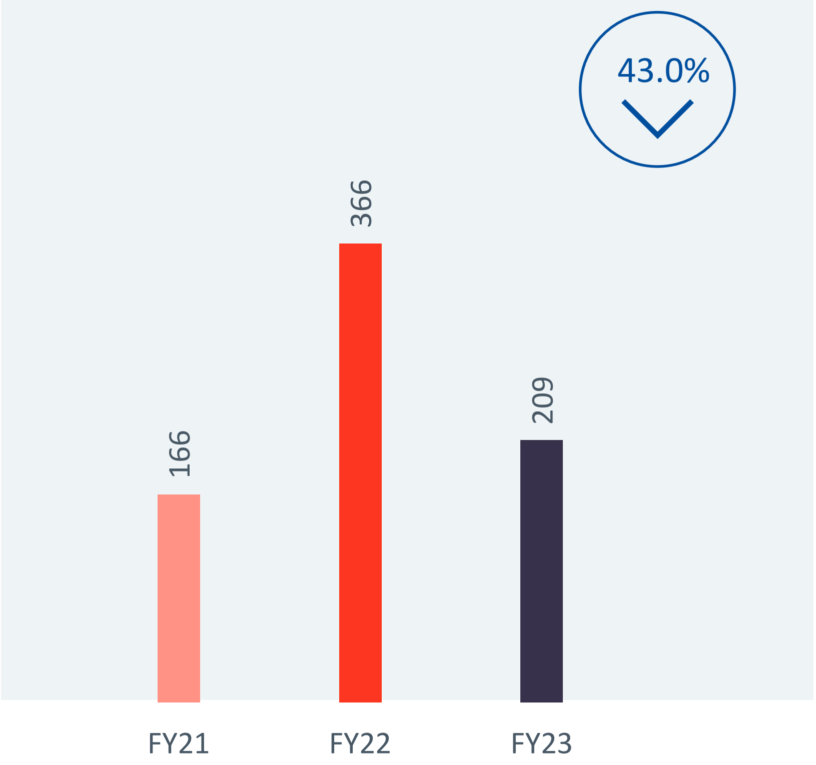


EBITDA/EBITDA margin**

Rm

Capex

Rm

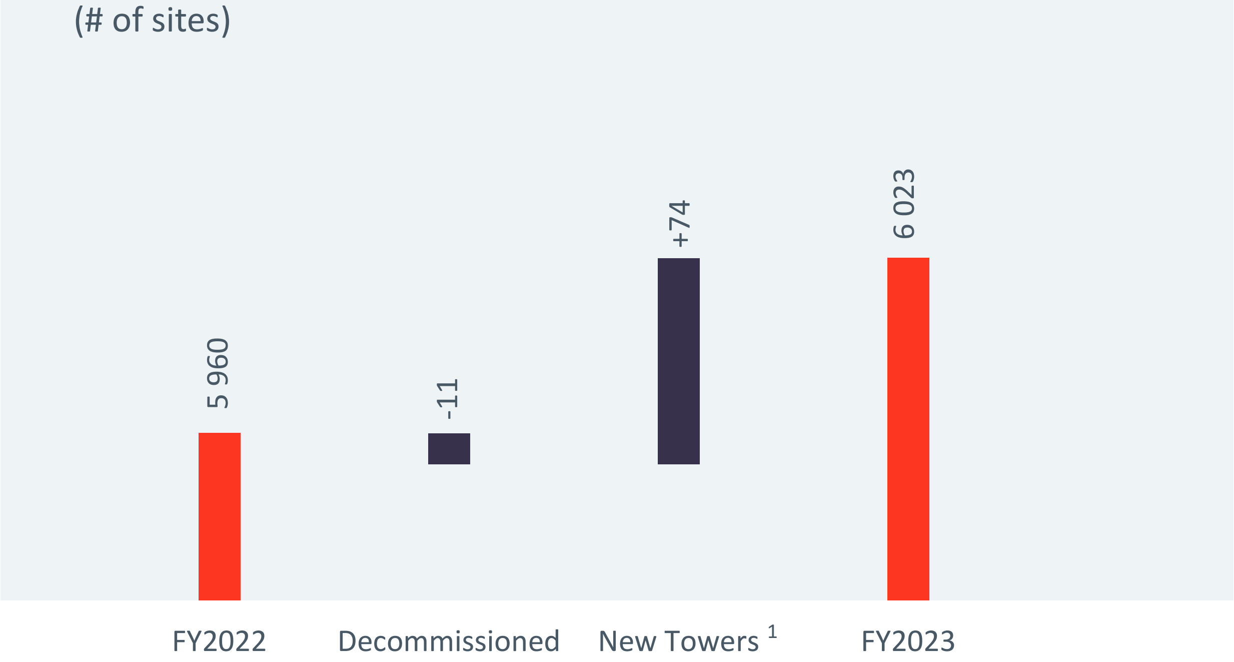


* *The increase in revenue in FY23 is net of Openserve decommissioning and optimisation as well as terminations from one of our MNO customers. Excluding the impact from these two customers, revenue from other customers increased by 10,3% in FY23 against the prior financial year*

** *The decline in reported EBITDA and reported EBITDA margin in FY23 was driven by once-off transaction related expenses. Excluding the impact of these once-off transaction related expenses, on a normalised basis the EBITDA improved to R927m (from R896m) at a normalised EBITDA margin of 71.1% .*

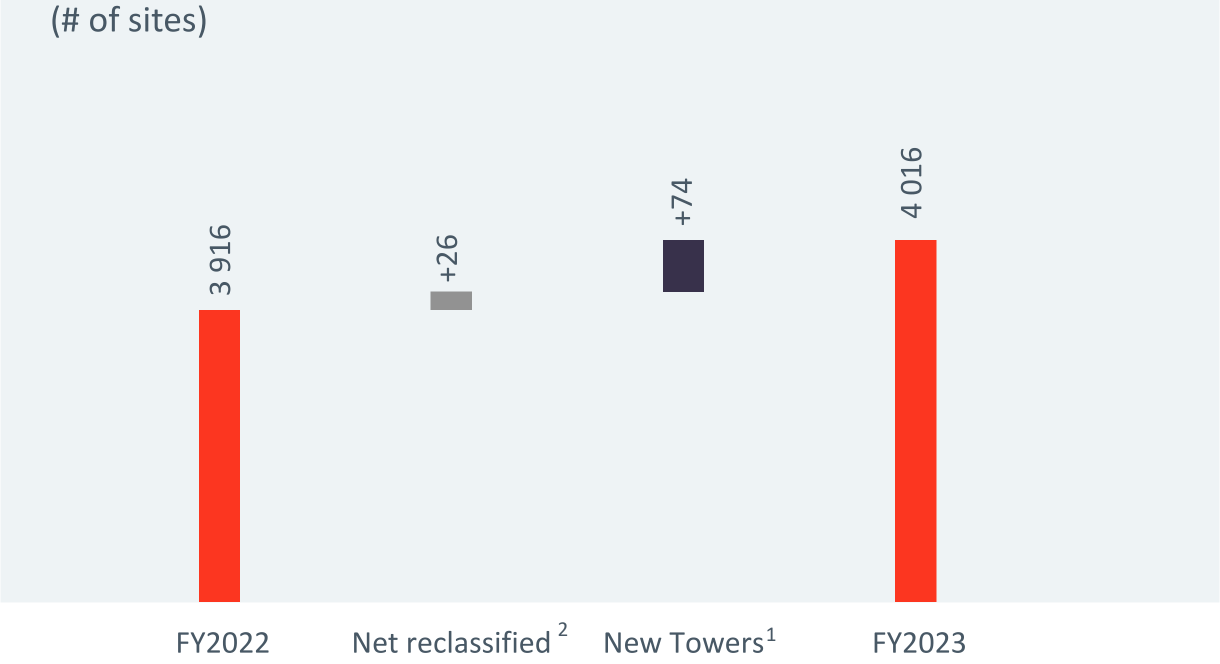
Growth in commercially productive portfolio

Tower portfolio (all site types)



Notes:
1: 74 New Towers is comprised of 66 towers and 8 IBS

Productive portfolio growth



Notes:
2: Net reclassified includes 42 upgrades from the unproductive to the productive portfolio less 10 decommissioned sites and less 6 downgrades from the productive to the unproductive portfolio. Please note: The towers that were decommissioned from the productive portfolio were supporting legacy Openserve equipment (and are not capable of supporting Mobile Network Operators ('MNOs).


R64m
Proceeds from 39 Property sales transactions concluded
50
Approved properties for disposal in the new financial year
21
Non-binding MOUs concluded with investment partners
Gyro