

Conference call transcript

2 June 2026

FY2026 RESULTS

Video

Every day at Telkom Group, momentum is unlocked. Movement in ideas. Movement in technology. Movement in people determined to propel South Africa forward. Behind momentum is infrastructure. The systems, the networks, the platforms built, sustained, and continuously strengthened. Our fibre network extends beyond 180,000 kilometres. Over 7,000 integrated 4.5G sites powering seamless mobile connectivity. Three cable landing stations connecting not just our country, but the continent.

We have sharpened our ambitions, organised our capabilities, and built an organisation that performs as one. The story of a successful One Telkom. A more focused organisation, a more resilient business, a stronger infrastructure ecosystem, and an ambition that continues to grow. Enhancing operational excellence. Expanding capabilities. Investing in smarter technologies and systems that orchestrate the next possible. Our results reflect more than numbers and a strategy at work. They reflect movement, resilience, and an organisation building unstoppable momentum. Because when Telkom Group works, South Africa can prosper and we can orchestrate possible. Telkom, orchestrators of possible.

Kamohelo Selepe

The day has finally arrived. Today being the 2nd of June, we have officially announced our annual results for the year ended the 2nd of March 2026. Kamohelo Selepe, I'm part of the investor relations team at Telkom. Good morning, ladies and gentlemen. Welcome to our annual results presentation for the financial year ended March 2026. On behalf of the board and management team, it is my pleasure to welcome you all this morning. We are privileged to be joined by a diverse group of stakeholders from South Africa and beyond.

A warm welcome to members of the investment community and media, representatives from government and regulatory institutions, members of the Telkom board, members of the Telkom executive committee. I would also like to extend a special welcome to my colleagues across the Telkom Group and our employees joining online across various locations in the country. We are delighted to those joining us here at the Johannesburg Stock Exchange. We also

welcome stakeholders participating via Business Day TV, LinkedIn Live, our webcast platform, and through the teleconference facility. We thank you for taking the time to join us today.

Before we start with the presentation and introducing our speakers, please note that the customary disclaimer applies for this presentation. The disclaimer is included in the results announcement material published earlier this morning. It is an honour to once again share the stage with our group CEO, Monghadi Serame Taukobong, and our group CFO, Mofumahadi Nonkululeko Dlamini. Please give them a warm round of applause. Monghadi is Mr and Mofumahadi is Mrs if you wondered what that meant. They'll be taking us through today's presentation.

Monghadi Serame Taukobong will begin with strategic highlights and the business review. Under the business review, he will touch on the performance of our three business units, starting with mobile, which is housed under consumer, Openserve, and BCX. Mofumahadi Nonkululeko Dlamini will cover the financial performance. Her presentation will include revenue performance, cost optimisation initiatives, and EBITDA margin expansion. She'll also cover return on invested capital and free cash flow performance. Monghadi Taukobong will then return to provide an outlook and discuss the group's priorities. That is before we go into the question-and-answer session. Ladies and gentlemen, it is my pleasure to hand over to our group CEO. Please join me in welcoming Monghadi Serame Taukobong. Over to you Sir.

Serame Taukobong

Thank you, Kamo. Good morning or should I say quality morning to you all. When we last met, we talked about quality earnings and growth as well as sharpening our competitiveness. We could have also said resilience. During a year which profoundly tested corporate South Africa, Telkom proved its mettle as a digital backbone of South Africa's connectivity and progress. This morning, I would like to demonstrate what the One Telkom platform has delivered.

Our data-led strategy continues to deliver traction, supported by rigorous, and intentional execution across the group. We have improved profitability, strengthened free cash flow, maintained robust balance sheet, and enhanced our dividend policy. Importantly, we have delivered against our medium-term framework, especially on margin and capex leverage, and we're reiterating that framework.

The platform is stronger. The engines are visible. The One Telkom agenda is clear. We will continue to focus on quality growth, disciplined capital allocation, and long-term value creation. We can see the continued sustained growth across all three matrices in the business. Data revenue continues to lead the business, growing by 7.6% and now accounting to over 60% of group revenue. EBITDA has increased by 5.8% to R12.5 billion and margin equally now standing at 28.1%. Headline earnings per share increasing by 21.5%, demonstrating sustained value post the Swiftnet transaction. These growth factors and the continued focus on structural cost improvements translated to strong free cash flow, now at R3.1 billion, and allowing us to pay an increased ordinary dividend of 270 cents per share, an increase of 65.7%.

Sustainability is embedded in how we drive long-term value at Telkom. In 2026, we move from defining a strategy to embedding it in business with clear pillars, targets, and performance measures. I'm particularly passionate about leaders, female leaders in our organisation, and we continue to drive a key focus on this. Overall, we've moved from commitment to execution, with performance tracking now in place.

Now, the businesses behind the numbers. The three engines, each with a distinct story. In mobile, we are compounding growth. Openserve, we are showing inflection. In BCX, we are focusing on execution. We start with a bit of colour on the revenue. What is key for us here? Yes, the revenue at 1.4% in the top line might seem muted. However, it is driven by an intentional drive to move away from the legacy decline in our fixed converged com business. What is encouraging for us is how the data growth driven both in mobile and Openserve is driving this inflection upwards. The mix is shifting, the quality is improving. That is the thrust of the data engine. Our infrastructure is not just our competitive engine, it is a structural moat.

Let us move now to Telkom Consumer. 14 consecutive quarters of market-leading service growth. Equally, in our 15th year, Telkom Mobile achieved 25 million subscribers. Mobile data revenue expanded to R17.7 billion revenue. supported by an 18.5% increase in data usage to over 2 exabytes. Myuran, that's for you. Exabytes. That is 2 billion gigabytes. This reflects continued growth in digital consumption across our consumer base and highlights the increased strategic importance of network capacity, network optimisation, and service monetisation. EBITDA margin expanding to 29%, driven by cost discipline, roaming optimisation, and sharper execution. Mobile is not just performing, it is compounding, and it knows how to do so in a competitive environment.

Let us move to our prepaid. Affordable broadband is demanding, and we are the network that is catching that demand consistently at scale, and the numbers show it. Our prepaid base actually grew by 11.6% to 22.6 million subscribers, adding over 2.4 million prepaid subscribers, yet maintaining an ARPU stable at R60. This performance continues to be driven by targeted consumer acquisition, deep segmentation through our best-in-class people-led AI capabilities and effective customer value management.

We will move now to Openserve, the backbone of South Africa's digital infrastructure, scale and reliability that few competitors can replicate. If we look at the mix, fibre revenue grew up by 8.1%, external revenue grew up by 10.7%. EBITDA margin up now to 33.8%. Openserve's inflection is structural, not seasonal. The fibre strategy is delivering, and the numbers are confirming it. Equally, maintaining our industry connectivity rate at 53.1% NPS, the highest in the market. Service automation is working and customers are feeding it. The network is scalable, the service layer is improving, and the growth optionality is real.

In BCX, we have new leadership, urgency is real, and we have four clear priorities. First, scale in cloud and cybersecurity. Reposition towards higher margin and digital services. Restore margins through cost discipline. Drive executional excellence. Better pipeline and stronger delivery. The task team has already delivered visible progress, with tighter receivables, lower

opex, and cost discipline. It is not business as usual here, and the management team knows it. Oh, before I move, happy birthday, Hasnain.

But importantly, BCX operates in a tough market, and we're not hiding it. Revenue is down. The legacy and traditional voice is declining, and customers move from fibre. The migration was expected. The pace, indeed, was faster than anticipated. However, we are seeing positive shoots in cybersecurity, in municipal services, and also in the right shape of IT hardware solutions. The trajectory is improving. However, we have said to the market that this is a business where the focus is clear on execution and the team, the One Telkom team that is in place, certainly has their work cut out. I will now hand over to Madam Nonku to take over the financials.

Nonkululeko Dlamini

Thank you, Serame. And good morning, ladies and gentlemen. So, I'll take you through the financial performance for the financial year 2026, as Serame has touched on the details of the operational performance. And just to link up with Serame's comments, we've seen resilience in performance because we've set up these platforms to see operational performance improving. And the strategy execution is showing traction over the past three years that we've been at it.

As indicated, the quality of earnings has shown improvement. We focused on ensuring that we do smart deployment of our capital expenditure where it is going to be driving our data-led strategy. And we've continued to look after the balance sheet, ensuring that it remains resilient and strong and ready for flexibility where there are opportunities for growth. And the free cash flow number has remained strong over the past two years, having reported R2.7 billion last year and R3 billion this year. And I'll unpack these numbers a bit further.

And just on the high level, Serame has touched on some of these financial highlights in relation to the revenue performance, the EBITDA performance, as well as headline earnings per share. But if we look at the capex deployment, we do see that we increased the capex expenditure by 10.4%. And again, we focused on ensuring that it goes to the growth areas of our business. with capital intensity going to the higher end of our guidance of 12% to 15% at 14.5%. And the return on investment capital has also shown an improvement.

From the balance sheet perspective, ladies and gentlemen, you'd recall last year we finished the transaction on the exit of Swiftnet and a significant portion of that proceeds went to the payment of debt. And we saw then a significant reduction in our net debt of 14.7%. And therefore, confirming or reconfirming our strong balance sheet and a significant reduction in interest-bearing debt as a result.

So, if I can just unpack the financial performance in detail, revenue growth of 1.4%, and I'll go through some details further on. But if we look at other income, last year we had to exit a significant part of our investment properties. And therefore, the investment income R1.5 billion. The reduction is driven by the fact that in the new financial year 2026, there wasn't a significant exit of investment properties. We did indicate to the market that the biggest portion was last

year. We will continue to consolidate but not to the extent and values that we had in the 2025 financial year.

We continued with our cost optimisation programme, and I'll unpack the cost a bit further, both operating costs and other costs. And this focus has seen significant improvement in our margins as well. But if I can touch on depreciation on this slide, two things in that number happened. We had to exit Swiftnet, which was part of our business last year and therefore had leases from the Swiftnet process. And therefore, we've had a depreciation addition through those lease liabilities adding to our depreciation.

Secondly, with the increase in PPE through investment in capex, there was also an increase in depreciation as we put some of the assets into commercial operations. And maybe lastly on this slide, the investment income talks to the bank balance of what was left over after we exited Swiftnet and paid a portion of the debt. And we've seen an improvement to R431 million in investment income in this regard. And the interest and finance charges also reduced quite significantly. We paid the debt in May already. And for the better part of the year, our debt was already far lower by close to R4.7 billion that we used from the Swiftnet proceeds. And therefore, that ended up in our interest and finance charges.

However, we've got a hedging strategy and with the strengthening of the rand against the dollar in the past year, we've had to take care of those FX impact in our interest and finance charges. And that netted off some of the benefit we saw coming through from the reduction in debt. And lastly, taxation payment, you'll see an increase there, driven by the improvement in the business performance overall, which means we are then paying more in terms of the tax. And also, we've utilised a significant portion of our assessed losses in the last year when we exited Swiftnet. And the tax expense has therefore increased as a result.

Serame has touched on this, but just to highlight again, our revenue streams are growing in the places where we are focusing. We can see that the data-led related streams grew by 9.1% overall, contributing R26 billion in the revenue reported. And other revenue, which is R18.5 billion in total, also contributing a decrease. But that is also talking to the migration that we are driving in the business from the legacy to the data-led streams.

Now, if I just focus a bit on expenses, we've driven a structural approach into our cost optimisation. And overall, we then see a reduction in operating expenses of 2.1%. And that comes from the fact that we even though we had to increase expenses in relation to employees, as we had to cater for salary increases, from the maintenance perspective with the consolidation we've driven in our assets, we've seen a reduction in maintenance cost requirements.

Secondly, on impairment, there was a strong focus on collections, specifically from BCX with the municipality and the public sector, and that resulted in reduction in requirements for provision for impairments. Secondly, in the consumer business, there's been a drive to ensure

that the renewal of contracts and the vetting looks at our customers and ensures that we improve the collections. And that has also resulted in the reduction in our ECL requirements.

So, overall, we are seeing a good improvement in our operating expenses. And ladies and gentlemen, you'll recall three years ago, this cost to income ratio was at 78.4%. And we've seen a pleasing improvement to 73% in 2026. And we are continuing with the focus in this area. Each of the business units is contributing in line with their business requirements. As we can see that Openserve is currently at 67.2% in this cost to income ratio, mobile 71.7% and BCX at 90.6%. So, together, they've contributed to this improvement of 2.1 percentage points with regards to our cost to income ratio.

If we look at profitability, our EBITDA grew by 5.8% overall, largely driven by the improvement, as I mentioned, in the operating expenses, but also revenue increased overall in the business. And if we look at the margins as well, just looking at the underlying business before you look at the impact from the sale of properties, our margins increased by double digits, 10.3%. And with the impact of the sale of property where we had a significant portion in the previous year of R654 million versus the R194 million impact this year, we see 1.2 percentage points improvement in margins. And if then you look at our guidance we are fairly in line with what we have guided the market as margins are part of our guidance.

If I just touch on headline earnings per share as well, an improvement of 21.5%. That's a clean number without property and all these other things that we would adjust for. And again, this is talking to the performance from the underlying business, the focus on improving costs and the delivery from the data-led strategy that has driven an improvement in our headline earnings per share.

Our balance sheet remains strong. Last year, after the exit of Swiftnet, we had a cash balance of R11 billion. As I indicated, we used a significant portion of this money to reduce the debt. And we landed at a lower cash balance, but consequently, a lower net debt number of R6.6 billion. And our net debt to EBITDA at this point in time is at 0.5x, an improvement from the 0.6x that we reported last year. This has been actually a contribution as well because our average cost of debt has reduced from the 9.3% we reported last year to the 8.5% of this year.

Again, when we took a decision to pay down debt, we took a position that said, which is the most expensive debt we have in our book? And that's where we focus on reducing. And in the current year, therefore, that is the 2027 coming year, we're comfortable with our maturity profile. And we have about just over R2 billion amount to pay in the year, significantly coming from the bonds that are maturing. And we're comfortable that this maturity profile is going to be manageable within the strength of our performance, as well as the balance sheet. As well as our floating and fixed rates approach is more towards the floating rate with an element fixed. But again, it's driven by our risk management strategy with regards to the balancing of what is fixed and what is floating rate.

If I just touch on the capital expenditure details, as I indicated, we increased the expenditure on capital expenditure. increasing our intensity from 13.3% last year to 14.5% with an additional expenditure of just over R600 million and the 10.4% in percentage terms. Our return on invested capital has been a focus over the years. If we just look back in years in 2023, this 11.2% we report today was actually 3.5%. And if we look in 2024, we improved it to 7.6%. And we're at 11.2%.

And this is a balance between the additional investment we've had to put through in order to ensure we drive our data led strategy with the focus on improving costs and driving revenue resulting in a net profit after tax that is used in this calculation. So, we are comfortable that with regards to return on invested capital, we are on the right trajectory in the midterm guidance that we are looking at to make sure that it's than weighted average cost of capital.

And again, if we look at our allocation of capital expenditure, a significant portion went to the data led areas of our business being mobile and fibre. But we've also had to focus on improving the IT solutions to just make sure that the customer experience is improved as we drive the strategy. And a significant portion, as we modernise our system, therefore, went to the IT expenditure.

If I can just touch on how we got to the R3 billion free cash flow that we delivered this year, a 10.4% improvement compared to the prior year. We saw an improvement in cash receipt from customers with BCX focusing on collections, but also the revenue improvement that we delivered. You will recall in the last year financial statements, we had a cash payment and receipt in relation to the Google transaction, which impacted both the receipts and payments. And that was cleaned out last year and did not affect this financial year.

But if we look at the cash paid to suppliers, we see a reduction, but it's not because we paid more. If you look at our focus on cost optimisation, we've reduced the cost and therefore the payment to suppliers would have reduced because the need was reduced. So, that is where it looks like the accounts payable was a bit more paid than last year. But the other elements in relation to the improvement, we also have dividend received from the cell captive. So, we've got an insurance that we do for our devices with the cell captive. There's a requirement for solvency and we looked at the fact that we're over covered in terms of the solvency. And we were able to draw a R240 million from that.

Our finance charges have reduced to R1.5 billion compared to R2 billion in the previous year. And those are some of the drivers of the improvement in free cash flow, having catered for an increase in capital expenditure payment. And if we look at the free cash flow in a waterfall from the EBITDA, we take off the non-cash items. And working capital, in fact, shows an R872 million backward movement. But again, as I indicated, we're quite comfortable with the focus and management of our working capital because if you look at that number, we saw an improvement in receivables collection.

Our inventory is well managed. However, if you then look at accounts payable, there's an element of cost optimisation of close to half a billion. That is an improvement. And some of the impact is coming from the operating requirements of last year, which then had to be paid in this financial year. And then the interest and financial charges have reduced. And as Serame has indicated, of this R3 billion that we delivered this year, 45% is going to be going to our shareholders in the ordinary dividend that we'll be paying.

And if I unpack then the dividend declaration, we started paying a dividend last year. with a dividend policy that the board had approved of 30% to 40%. The board look at the sustainability of the business in the financial year and a decision was taken to improve the dividend policy to 30% to 40% to 40% to 60%. And we are paying out at 45% this financial year. This is a significant improvement from the R833 million we paid in the ordinary dividend last year to the 1.3, a 65.7% in total. And yes, we had a special dividend paid last year from the proceeds of Swiftnet. Our dividend yield comes out at 4.6%.

And just to touch on the medium-term guidance, which we are keeping as is for now, Serame has touched on the performance of revenue and we are trending behind the guidance at 1.4%, but we are continuing to focus on revenue generating streams to ensure that we move towards the guidance to 2028. In terms of the EBITDA margin as indicated, the 28.1% includes the sale of properties, but if you exclude that, we come to the level of 27%, just above 27%.

And there is a contribution from each of the business units with mobile moving much higher at this point in time, being 29% versus the guidance we gave of 28%. Openserve at 33.5%, when the guidance is 35%, and they're still pushing towards that guidance. And if we look at the capital expenditure intensity, we are at the higher end and we intend keeping that within 12% to 15% guidance in the medium term. Net debt to EBITDA is at the low end of the guidance, and we are keeping that at the range of 0.5x to 1.5x in the medium term.

And lastly, ladies and gentlemen, just in terms of our capital allocation, we will continue focusing on ensuring that we drive the business to improve EBITDA margins, to the revenue as well as cost management. We'll continue to invest capex smartly and deploy it in areas that will ensure improvement in performance so that we can enhance the shareholder return. And we are looking therefore at ensuring that the balance sheet remains prudent in where we spend the money and we maintain the sustainability for opportunities for growth. And in the distribution, we will continue to focus on ensuring that we progress the dividend framework, supporting the sustainable return to our shareholders, and keep the financial flexibility in our balance sheet. And that is our financial performance for 2026. Thank you very much.

Serame Taukobong

One day I'll get a bigger applause than Nonku. Let me close to where we are going. Five priorities, all tied up to the same medium term commitments. Firstly, we will sustain our mobile thrust. Maintain the focus on prepaid, our regional execution, with the big focus on our mobile network quality. We will build on open service inflection, focusing on broadband, enterprise, and carrier services, effectively commercialising our fibre network. Thirdly, a big focus on BCX.

Stability first, portfolio quality, then growth. Fourth, cost and cash. Revenue growth ahead of inflation with a big thrust on EBITDA conversion. Lastly, smart capex deployment within the range of 12% to 15%. Priority on mobile and fibre, ensuring that our balance sheet flexibility is maintained. And of course, returning returns to shareholders and making sure that they're sustained.

We are cognisant of the world around us. The environment is complex. We are not immune, but we are built for it. There is trade fragmentation, technology nationalisation, data sovereignty, all creating pressure on enterprise clients. A local InfraCo with sovereign in-country assets has structural advantage here. The real pressure on customers and businesses is energy costs. Fuel is up, electricity is up, budgets are tighter. Our customers are more cost conscious and more digitally dependent than ever. We have the resilient infrastructure the right value propositions and continued focused on cost dissipation and cost execution.

In closing, the data laid strategy is working. The infrastructure is unrivalled. The execution sharper than it has ever been before. We maintain our ongoing commitment as the backbone of South Africa's digital future, a fact we continue to demonstrate every day. The platform is set. The next phase for us is growth, ensuring that consistent quality is sustained. As we leave this platform, or as we leave the stage today, our commitment to you is a continued focus on revenue, delivery on execution, and ensuring that we do return the shareholder returns that you become accustomed to. And before we go to questions, a good morning and a quality morning to you all.

Kamohelo Selepe

Thank you, Monghadi Taukobong and Mofumahadi Dlamini, for taking us through the presentation and the performance that prevailed for the financial year. Before we go into the question and answer session, I would like to quickly reflect on the key takeaways from the presentations. Data-led revenue growth is offsetting traditional fixed-revenue decline as we drive intentionally away from it. Prepaid continues to drive market-leading service revenue growth in our mobile business. Openserve grew revenue growth, with external revenue coming at above 10%.

In BCX, the keywords were new leadership, agency of execution is real. On the financial performance outside of free cash flow, the key takeaway was cost to income ratio improved to 73% from 78% three years ago. Working capital optimisation continues to be a focus. To quote our group CFO's words, we are comfortable with its management. The dividend pay-out was increased with a higher dividend declared at 45%. The medium-term guidance has been maintained. With that, we'll now move into the Q&A session. But before we start, let me outline how it's going to be managed.

As I've indicated earlier, we have various stakeholders in the room and online. To encourage different voices, participants will be limited to a maximum of three questions each. Also, if you please try to pose your questions within 60 and 90 minutes, so that... 60 to 90 seconds, sorry – Louise was getting excited there – so that we accommodate as many participants as possible.

Before asking a question, please introduce yourself and the organisation you represent. The Q&A will be in rounds. We'll first take questions in the room and on the teleconference platform. After our group CEO and group CFO have responded to the first round, we'll move to questions posted on the webcast. We'll then come back to the room and the teleconference. Let me now open the floor for questions, starting in the room. Louise, you can go ahead.

Louise Pillay

Hi everyone, good morning and a quality morning to everyone as well. I think thank you for this great set of results. I think we've waited a long time for these levels of dividends, so I think the market does appreciate that. I think in terms of, I have got two questions. How would you rank your capital allocation priorities? You are currently sitting on a net cash position, excluding leases. If you can maybe just give us a bit more colour on how you would prioritise growth, considering that you've paid over a significant amount of your financial debt. And then the second question is around, I guess, the dividend pay-out ratio that increased. What informed that decision and what specific factors, if we can go into the details around that, maybe that would require more than 90 seconds, please. Thank you.

Kamohelo Selepe

Thank you, Louise. Any questions in the room?

Nadim Mohamed

Good morning. Nadim Mohamed from Standard Bank Securities, firstly, well done on an excellent set of results and phenomenal free cash flow generation well ahead of expectations. Just two questions from my side. The first one is just a big picture question. We are seeing the world prepare for a huge movement in AI workloads to data centres and billions and hundreds of billions of Dollars being spent on that. I would like to understand from a Telkom perspective, being the digital infrastructure backbone of the country, what does that actually mean on a three or five year view for you in terms of demand for your respective infrastructure?

And then secondly, we saw a bit of a slowdown. You are still top of the market in terms of mobile data growth, but a bit of a slowdown in Q4 towards the 9% year on year growth level. I'd just like to understand, was that just the law of large numbers with a tougher base, or are you seeing slightly tougher market conditions in South Africa? Thank you.

Kamohelo Selepe

Thank you, Nadim. I think I will hand over to our Group CFO and CEO to answer the questions before we go to the teleconference.

Serame Taukobong

Excellent. Thank you. I'll start with Nadim. I have to also raise my CFO's voice. So, if we look at the demand on AI and workloads in the long term, I think what's key for us in the South African context is to compare what those demands are. I think our view from a telecom perspective is that the demand on AI is actually going to be more for latency and distributed AI load. And without going into much more detail, I think our infrastructure is actually more geared

up to provide for that. And I think we'll be talking more in the future of how we are best built for that latency demand-driven AI infrastructure ecosystem. So, we'll touch on that in later terms. In terms of the base, it is a function of the size of the base and seasonality in Q4. I hope I've covered you, Nadim.

And then I'll touch on to Louise and the capital allocation. The focus really is a bit of both of growth, typically for mobile and Openserve, but also for policy in both, particularly on the mobile network, because as we expanding the subscriber base, if you look at Lunga's side, it is for network expansion, but equally to make sure that we maintain network quality. And that's how we structure the expansion. On the Openserve side, the growth is more light to touch in terms of the capex required. Given the expansiveness of our network, for us to expand to the last mileage is as less capex demanding compared to our peers. So, it is a balance of those, yeah.

Kamo

Thank you, Monghadi Taukobong. We will now go to the teleconference.

Nonkululeko Dlamini

So, the dividend allocation, Louise, you'd recall we come from a suspended dividend policy. It was important for us to first see a positive free cash flow position, which was the R400 million we delivered about three years ago. Last year we had R2.7 billion or call it R2.8 billion. And the focus then for us is to ensure that from the underlying performance, we get comfortable that the free cash flow will continue to be delivered with the stringent management of working capital and investing in the right places because we need to deliver a free cash flow after being comfortable that we've invested for growth in the business.

And therefore, if we then look in the long term, for us, it's important to look at the dividend that we're comfortable it's going to be sustainable for the shareholders. And we were then comfortable to move further on. As we said, it's a progression process, as we have started from zero, and we are seeing a progression after catering for capex requirement. And again, in the uncertain economic conditions, we did not distribute 100%. We're comfortable with the range at which we've distributed it, and we'll continue to focus on delivery. And the return on shareholders is quite a critical pillar for us to focus on.

Kamohelo Selepe

Thank you. Can you please check on the teleconference if there are any questions?

Operator

At the moment, sir, we have two questions. The first question comes from Thando Skosana of UBS. Please go ahead.

Thando Skosana

Hi. Hi. Yes, this is Thando from UBS. Thank you very much for taking my questions and congratulations on a great set of numbers. I'll try and stick in about two questions, please. The first one is just if you could just explain in terms of your 2028 margin target. I'm quite surprised

that you haven't upgraded this, just given the fact that now structurally your business is in a more favourable position if you look at the consumer as well as the Openserve. So, just some thoughts there and whether the delta is probably BCX.

The second question is just on the prepaid segment. You are expanding into non-metro areas. Your ARPUs seem to be stable. I'm just wondering if you see any pressures from your bigger peers. They are talking quite positively now in the SA market. So, just some thoughts there on the competitive landscape and the sustainability of your ARPUs going forward. So, I'll just keep it at two and go back in line. Thank you.

Kamohelo Selepe

Thank you, Thando. Over to you.

Serame Taukobong

So, thank you, Thando, for those questions. I think if you look at the shape of that guidance, particularly, I think you were asking of the EBITDA margin, what we indicated that the EBITDA was a function of both the top line revenue across all the business units growing ahead of inflation. And as we've seen, yes, mobile and Openserve coming through in line, not yet at the line levels that we wanted them to be. So, I think that is what's maintaining that EBITDA level and us not changing that guidance in particular. So, it is a function of all three, top line revenue above inflation, the cost obviously coming in line to the numbers that we want to get then to that guidance.

And we're in the second year of that guidance. We feel like we will stick to it at that level. So, that talks to why we're not changing the overall EBITDA guidance in that regard. Secondly, I think in terms of the prepaid metro and that expansion, yes, we are seeing competitive activity, but we have seen the published results. We are confident in the responses to the market. And I think even in the latest numbers that have been published, the team is holding their head way above water. Thank you.

Kamohelo Selepe

Thank you, Monghadi Taukobong. I will go to the webcast questions. I think mostly they've been attended to. Just a question from Jono. Capex spiked above the envelope in the second half. Was this bringing some of the capex for this year forward, or do you anticipate running closer to the top end of the envelope over the next 12 months? If I can go to the second one. What is the outlook for free cash flow? This is from Madi. Given FY2026 net income to FCF conversion looks quite strong, is that sustainable or likely to improve further? And Madi also asks, when is BCX likely to get above 10% margin? Madi, you know we don't guide on free cash flow. And lastly, most of the debt maturing in FY2027 is in the bond market. Is the expectation that most of this debt will be refinanced in the DCM market?

Serame Taukobong

I think the capex is, as we know, we build in the calendar year, not the financial year. We've always maintained that, particularly for the mobile team. Build our capex earlier in the year,

then you can carry more subscribers during the year. So, it's part of the cyclical plan that we execute our capex. Build our base stations earlier in the year so that Lunga and his team can carry the scrubbers earlier in the year. So, it's typical of the pattern that we do. I think you answered the free cash flow.

BCX, in terms of 10% margin, we are reluctant to be putting ourselves in targets and numbers at this stage in time. I think our journey with BCX is clear. The focus right now is on stabilising the platform, and then getting into profitability, etc. So, I think the team has done a lot in getting that platform stable at this point in time.

Nonkululeko Dlamini

And if I can touch on the maturities for 2027, yes, the significant portion is coming from the bonds and a portion of it is actually now in the June month. We're looking at the market conditions to take a decision on where we go with the debt. But in the immediate, as it was indicated, we've got enough cash buffer and we are comfortable to pay the June maturities. But for us, it's also critical to stay visible in the bond market so that as our business evolves and we need to go out and raise money for new projects, there is no restart with the bond market. So, we think a significant portion we will pay back and we will watch the market conditions. If you just look in the month of March, April, we've seen a spike in the interest rates. And to continue to preserve free cash flow, we will ensure that when we raise money, it's at the optimal rates and in the immediate. Therefore, we think we'll repay the bonds maturing and we will stay visible in the bond market and decide as the year goes.

Kamohelo Selepe

Thank you for those responses. Let me come back to the room. Any further questions in the room? Yes, Myuran.

Myuran Rajaratnam

Myuran from Metal Industries Pension Fund. Two questions. One is on the fibre to the home side and fibre to the business. How's the competitive dynamics at the moment? Are you able to increase prices at least by inflation, fibre to the home and fibre to the business? And then just maybe adding to Louise's question. Telkom had a child a long time ago, Vodacom, an illegitimate child, and that pays 70% of its free cash flow. Why not 70%? I see some board members here. I mean, really, if you really think you can sustain R3 billion, why not 70% is my question. Thank you.

Kamohelo Selepe

Thank you, Myuran. I will take another hand.

Viwe Kupiso

Viwe Kupiso from RMB Morgan Stanley. Thanks a lot for the opportunity to ask questions and congratulations on a great set of results. It seems like Telkom is on a great wicket. What are some of the risks that could derail your performance? And could you perhaps give a sense of timelines in terms of exiting the businesses that are drag, or copper specifically within

Openserve? And then if you look at BCX, how much of that story is a self-help story versus macro turning around and aiding in the recovery of that business? Thank you.

Kamohelo Selepe

Thank you, Viwe. I'll hand over to you.

Serame Taukobong

So, Myuran, I think your question to the board, I think there will be an AGM declaration soon. You can ask that question to the board at the AGM. It's slightly above my pay grade. If we look at the FTTH and FTTB, Openserve actually has taken price increases in the past few years, which are above inflation. So, that has been the norm. In fact, in the past two years, we've done just that. So, as an open access provider, we've seen those two price increases. I think we took one 1st November. Yeah. 1st of April. So, we've taken and we can go through, I think. But we've seen, unlike the mobile business, those got passed through immediately. What the team then in turn does is focus on migrating subscribers up. So, when subscribers want to move down is to actually can you sell you up to a higher package to then keep subscribers at the same price point but maybe consuming better data bundles. So, that's the focus on there.

Viwe had a question in terms of what are the dangers in the wicket. Well, I certainly would not put our entire risk propositions that we've identified the business in the public audience. But we've talked about the legacy migration in copper, and I think that was what I was trying to explain in that bridge. That is something that we have been intentionally driving out, and the legacy path for that, a significant portion of what is remaining in that is in the government premises. And we've indicated to the market that that's project that between Openserve and BCX they secured through CETA. There's about 6,800 premises, government premises, that we're in the midst of upgrading. A good 60% of that project has been completed, phase one. And by the end, we've set ourselves a target of saying within 18 months that project should be complete, which would then effectively mean that we've de-risked ourselves from that legacy copper.

So, what is the solution? Yes, it is a self-help and it's not a self-help in just isolating it to BCX. We've taken a One Telkom approach in that because we firmly believe that the future of BCX is not just in the IT solutions, but a combination of the IT solutions sitting on our robust connectivity network. And that is going to be the next silver bullet that really resurfaces or revitalises the BCX proposition. I hope I've covered you, Viwe. Thank you.

Nonkululeko Dlamini

Maybe, Kamo, before you come in, just to touch on the free cash flow, Myuran, on Serame's comments. You mentioned Vodacom as a benchmark. I imagine they've been in a paying position for quite a while. We have shown you progression in the dividend payment from 30% last year in the ordinary dividend to 45% this year. We've committed to a progression And we'll continue to look at progression. For us, it's critical that it is sustainable, it continues to progress to a better level. But I think it may well be premature for us to necessarily want to merge

Vodacom quite immediately. And we'll put this position before the board. And yes, then they will decide. But for us, progression is critical.

Kamohelo Selepe

Thank you. I'll take the last round on the teleconference, and then we will close it out.

Operator

Thank you. The question we have comes from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

Good morning and congratulations on a great set of results. Please could I ask just for some colour on IT capex, which looks like it has more than doubled year over year, and what system support that will bring for the business, and whether that's a multi-year project. And then also on fibre rollouts into lower income households, how are you thinking about that move in the market by some of your smaller competitors? And how much capital are you allocating into that segment of the market, given your assessment of returns there? Thank you.

Serame Taukobong

Thanks, Jono. So, the IT capex, yes, it's part of a multi-year project, significantly in the consumer business. So, it is upgrading to really make us future-proof for our digital ambitions. And I think that's a two to three year project. We will see that coming through in consumer. In the lower income, as we said, we are keeping a close eye on that. So, for us, the expansion, we are already, and we're building off the fact that we've got over 700 base stations already in most townships. For us to expand then, it is part of our connect-led strategy.

Where we see high volume usage in base stations in the townships, we offload those subscribers then to fibre. As we then offload those subscribers, it gives an opportunity to catch more homes in that ecosystem. So, it is part of the expansion plan in Openserve. We're not intentionally going for the super low end subscribers at this point in time, because it's really about maximising the footprint where we are protecting our LTE base and maximising the capex investment that we have in the ground. So, we're not intentionally going for the super low end. And the Openserve team has even introduced prepaid fibre in that market. I hope that covers you there, Jono.

Kamohelo Selepe

Thanks, Jonathan. That concludes the Q&A session. And thank you to you all for the questions and for the detailed responses from our Group CEO and Group CFO. Before I hand over to our Group CEO, if he has any closing remarks, I would like to thank you all for joining us today here at the Johannesburg Stock Exchange via BusinessDay TV and on our online platforms. Back to you, Ntate Taukobong.

Serame Taukobong

Thank you, Kamo. In closing, we are confident in what we have built. We are confident in where we are going. And once again, a quality morning to you all. Thank you.

END OF TRANSCRIPT