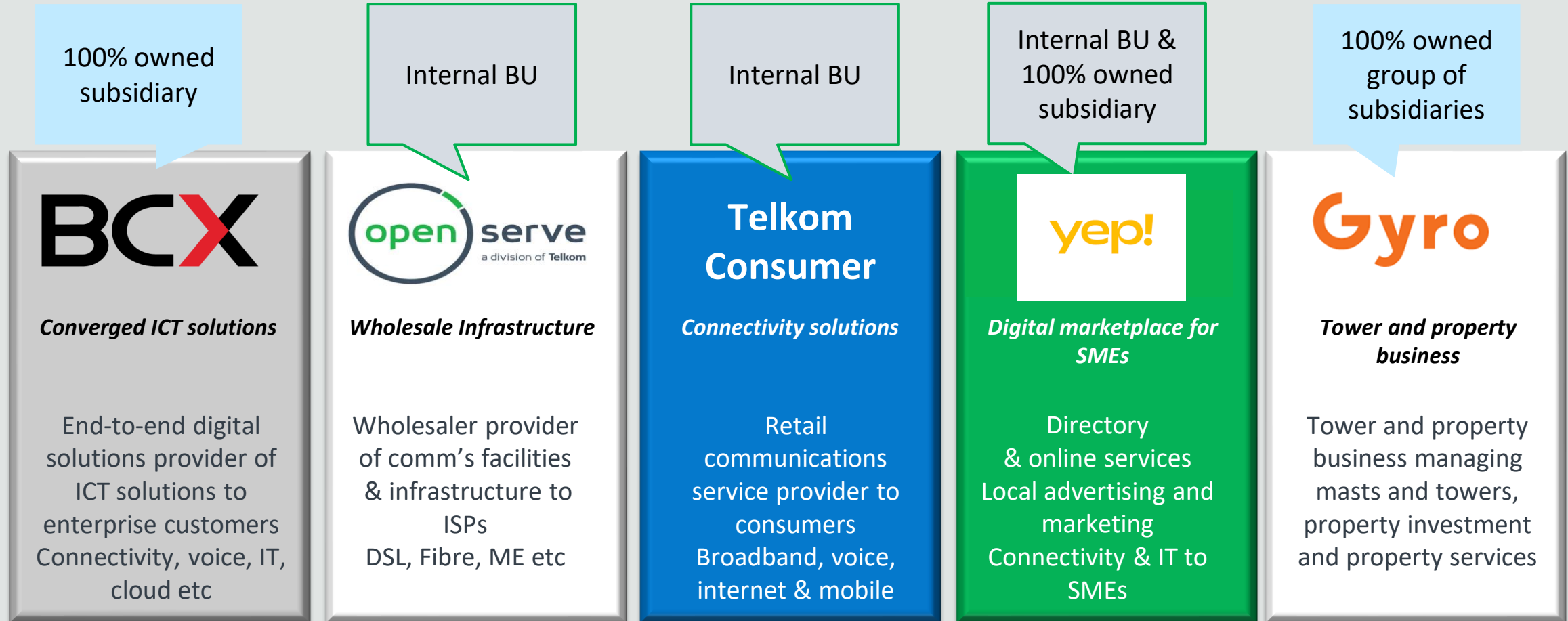




IFT Commodity Services

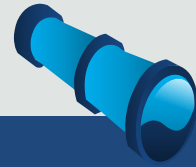
30th March 2022

The Telkom Group provides integrated services in the ICT converged market in South Africa, managing a specialised portfolio of companies with ~R43.2bn revenues and employing ~12,039 people*



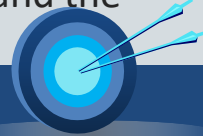
CREATING SHARED VALUE THROUGH TELKOM FUTUREMAKERS

- FutureMakers was launched May 2015 as the Enterprise and Supplier development program of Telkom



Purpose

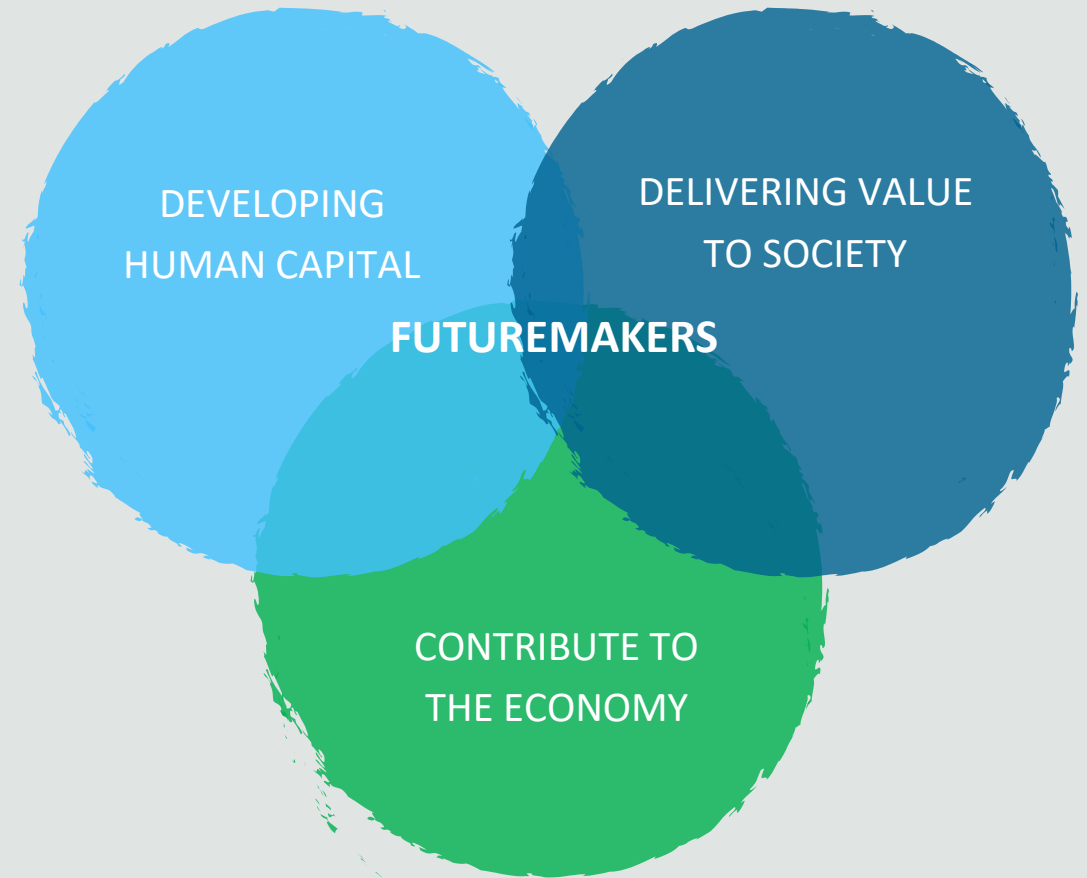
To grow the digital economy by developing and investing in a generation of black-owned high growth enterprises that create the most jobs and economic outcomes within society and the Telkom Group.



Vision and Mission

By developing leading entrepreneurial programmes that:

- Invest in and incubate ICT businesses
- Provide access to market through our supply chain
- Work with youth and female-owned businesses, and
- Promote inclusive innovation
- Promote localisation



TELKOM GROUP INVESTMENT IN FUTUREMAKERS



Leading provider of end-to-end digital solutions



South Africa's leading broadband and data services business



Fastest, most reliable, value data infrastructure provider in South Africa



Leading digital, platform-led ecosystem for SMMEs.



South Africa's leading towers and masts and property management business

INVESTMENT IN FUTUREMAKERS' STRATEGIC PILLARS

The Telkom Group has invested **R450 million since 2015** in supporting black-owned ICT enterprises
R250 million in Capital and **R200 million in Operational Expenditure.**

Access to Market
and Supply Chain Diversity

Innovation and
Incubation

Economic Inclusion

Investing in SMMEs
and Start-ups



IMPACT ACHIEVED BY FUTUREMAKERS



R1BN

Revenue generated by businesses on FutureMakers through our Supply Chain



2500

A mixture of start-ups and small businesses in the ICT sector and our Supply Chain



27 000

Direct (700) and Indirect jobs (26 300).

Launched in 2015.

This is how we measure **OUR IMPACT**.
Since 2015.

THE INDEPENDENT FIELD TECHNICIANS (IFT) PROGRAMME



PURPOSE

- Established in 2015
- Out of a restructuring
- Through Openserve's supply chain, contracts to provide ADSL fault repairs were awarded to qualifying companies



PARTICIPANTS

- 3 companies with 4 technicians each were the first cohort.
- The programme grew to 45 companies with 804 technicians.
- Currently, there are 33 companies with 599 technicians.



KEY OUTCOMES

- Over R700 million procured in services from IFT by Openserve since 2015.
- Extension of scope from ADSL fault repairs to Fiber Connection roll-outs.
- Average annual procurement of R100 p.a.
- Extension of contracts by 5 years.

HOW FUTUREMAKERS SUPPORTED THE IFT PROGRAMME

Over R40 million of support provided by FutureMakers to IFT Beneficiaries since 2015

01 Incubation at inception 2015

- Business training through SNG Grant Thornton for 3 years.
- Technical training
- Back-office support

02

Working Capital and Funding

- Grant funding of material up to 12 months: R10 million
- R28 million in working capital loans
- ADSL tools provided – R2 million

04

Extension of contracts up to 2022

- Committed to providing further support when contracts extended

06

Conversion of loans to grants - 2022

- Due to changes in technology, working capital loans were converted to grants – R15 million

03

Extension of scope and training

- Fibre training skills to diversify declining ADSL volumes.
- Partnered with Department of Environmental Affairs and 520 youth trained on ADSL and fibre skills

05

Equipment support 2021 - 2022

- Enabled further work by providing splicing machines – R4 million and material R1 million

ECONOMIC OUTLOOK

THE SOUTH AFRICAN ICT MARKET

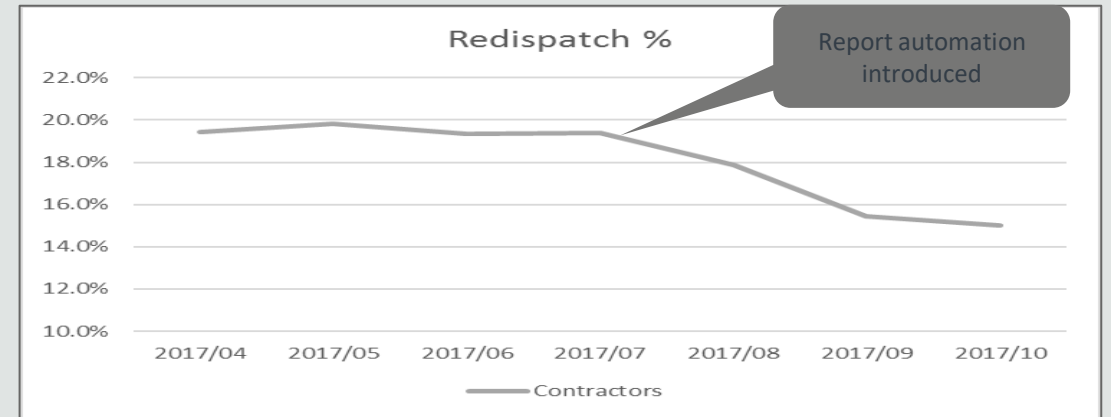
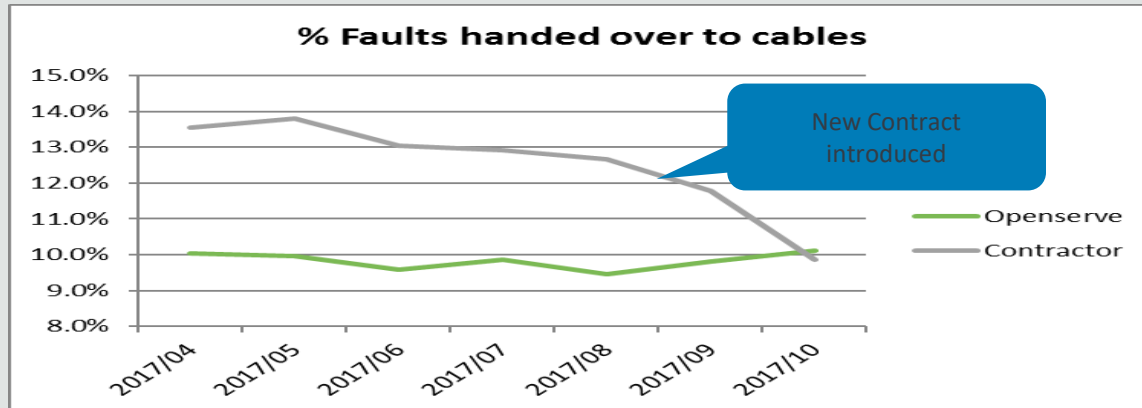
- The market conditions have made the business environment operationally challenging
- There is increased competition, with competitors coming into the market with strong pricing strategies that offer connectivity at highly competitive rates
- Over the last couple of years, there has been a fibre land grab and Openserve is no longer the largest fix access line provider and share the access market with other dominant players all providing fibre-based access services
- The cumulative FTTH homes passed in South Africa amongst all the operators are more than 3.0 million, and connected FTTH homes currently stands at around 1.2 million. **This brings along opportunities for SMME's and SMB's.**
- The unprecedented time in our history with the uncertainty brought by the Covid-19 pandemic, with regulations impacting business operations and global supply chain challenges

OUR BUSINESS

- Decline in Copper Fixed Access Lines – move from legacy broadband and voice towards wireless and fibre-based products
- Drastic decline in assurance - trends correlates to the decline in legacy access lines
- Fibre to home network growing and we currently have more fibre than copper customers
- Memos were sent to all IFTs that we were experiencing a decline in copper related services, and that they should adjust their resources accordingly and seek work from other network providers as per their training



BACKGROUND TO CONTRACT IMPLEMENTATION



2015/6 contract implementation:

- Increased repeat fault rate, unnecessary handover to cable (Core Network Infrastructure) and huge amount of diverts, resulted in uncontrollable spend
- Openserve average round-about 20% repeat faults*

2017 contract renewal

- Contract negotiation started in May 2017 and concluded 1 Sep 2017 and all service providers were again briefed in a roadshow in December 2017:
 - ✓ Service Level Agreement was introduced to align operational behaviour (benchmarked against internal technicians)
 - ✓ Improve quality workmanship
 - ✓ Minimize repeats
 - ✓ Avoid unnecessary diverts
- Payments increased to compensate for improved operational behaviour

Significant improvement were realised and service provider technician performance was brought in line with Openserve technicians - redispatches were minimised



REPEAT FAULT ANALYSIS

REPEAT FAULT ANALYSIS

- Majority (70%) of repeat faults are fixed at the second call out i.e the second technician manages to resolve the issue
- Majority (40%) of repeated faults are re-submitted to a technician within 48 hours

OUR COPPER NETWORK

- Copper network is old but can be fixed
- In progress to replace with fibre
- Repeats can be caused by different network elements or Theft, Breakage and Incidents and IFTs are not penalised for these faults.
- On a daily basis our Dispatch Centre split network faults from customer repairable faults. Only repairable faults are dispatched to IFTs

A **repeat refers to any faults that was send back to field to restore within 7 **days**, for whatever reason and Only **the last Supplier** or Telkom technician that repaired that fault will receive payment*



PAYMENT ALIGNMENT

- Internal reference point – Our Openserve technicians have been doing it for years
- Rates are benchmarked against the industry, and we work together with the service providers in developing the scope and cost
- Openserve's pricing paid to service providers is much more favourable than that of our competitors
- We have aligned our payment rates from a consolidated all inclusive blended rate item into a more equitable fair compensation rate where we pay the service provider based on the scope work (standard installation cost plus cost for additional trenching or work that needs to be performed)
 - *Example if longer lengths of trenching is required the service provider is compensated accordingly and in cases it is much more than the previous blended rate.*

ENGAGEMENTS AND RESOLVED DISPUTES

- **2018** Dispute logged on Centre issue was identified related to FTTH faults that incorrectly routed to technician relating to voice-service issues.

Openserve waived FTTH FFR (First Failure Rate) penalties levied to service providers for FTTH Voice

- **2019** Dispute logged on penalty clause
 - Non-payment for Repeat faults (RRR) older than 30 days
 - Penalty for unnecessary handover to Openserve team
 - Penalty for First Failure Rate (FFR) for Fulfilment tasks within 30 days
 - SLA for the RRR, FFR, Net Promotor Score (NPS) and for not completing work on time
 - Service providers claimed that they were excessively penalized.

Openserve wrote off all outstanding SLA penalties and stopped the enforcement of SLAs as well as the FFR penalties up to 2019/03/01. Estimated cost of R31.5 mil

- **2020** Contract terms amended to reduce RRR days from 30 to 14 days and FFR 30 to 7 days as of 1 Dec 2020
- **2021** Amended RRR days from 14 to 7 days that took effect 1 February 2021

ENGAGEMENTS AND CURRENT DISPUTE

2020 Dispute raised to the Dept Small Business Development (DSBD)

- 11 IFT companies raised concerns to DSBD
- Service providers returned all non-payments with Openserve reasons for non-payment which included:
 - Clear cases of duplicate payments
 - Repeat faults within hours
 - Repeat faults where the comments clearly state the fault was due to poor workmanship
- Resolution could not be reached with all complainants at the time
 - Insisted to investigate each and every fault not paid the past 3 years (~110k faults).
 - Refused to consider the contract terms and pricing philosophy
 - Insisted to be paid for all non-payment claims submitted

6 of the 11 IFT Companies that logged the dispute has requested to be recused from dispute

OTHER ALLEGATIONS

Unfair work allocation:

- Openserve use a Field Technician scheduling tool called Click that distributes work as far as possible automatically. Manual intervention required when technicians overrun/ don't arrive for job
- The centre constantly balances workload with demand to align the Click dispatch algorithm. Require accurate shift information and technicians to be available as planned
- Click uses these algorithms to allocate and distribute work randomly to technicians and IFT service providers

Work allocated to “White owned” companies

- Only 7 companies of the companies on the service provider list are not 100% black owned
- Total work allocated to these 7 companies is around 5%
- Work allocation purely based on number of available technicians

PLATFORM FOR DISPUTE RESOLUTION

After many engagements at the Department of Small Business Development, the following was implemented:

- Set up a task team to investigate issues raised by the IFT in terms of payment
- Constitute a committee known as the Supplier Compliance Management Council (SCMC) as an escalation channel to address any future issues
- The SCMC has been tasked to investigate, consider and make recommendations to resolve disputes that may be lodged by any aggrieved Openserve supplier, which would include the IFTs.
- Senior representatives from business, supported by internal legal, audit and forensics representatives within the Telkom Group have been appointed to form part of the SCMC.
- The IFTs have been invited to individually lodge their disputes with the SCMC, together with supporting evidence, for consideration and, where possible, appropriate recommendations. To the extent possible, the recommendations will include possible solutions that may resolve the relevant individual disputes. Some IFT's have already taken advantage of this process and we have written references that reveal they are happy with the way the process unfolded and the resolution thereof and have recused themselves from this dispute.
- Notwithstanding the formation of the SCMC, Openserve reiterates that any supplier, including any of the IFTs, who feel aggrieved by any action or decision, are always free to assert their rights in terms of the contract in place and may approach any appropriate authority to seek any redress to which they feel they are entitled.

IN SUMMARY

- **The Futuremaker (IFT) program enables the development and growth of qualifying black-owned businesses SMME's in the ICT sector**
 - The program was initially created in 2015 as an incubation platform to assist the IFTs for a period of 3 years, grooming and supporting them to be able to solicit further work from the industry (Telecoms, Banking, Government etc.) for the skills that they have attained
 - 45 Businesses were created employing 804 technicians
 - Initial support for 4 technician per company
 - Free material support for one year
 - Financial support through IDF assisting with loans
 - Grants
 - Financial and non-financial support for 33 companies still active and ongoing
- **As South African ICT Market evolved from Copper based network to a Fibre based network**
 - Openserve trained and supported IFTs on fibre-based technologies, and now they perform fulfilment and assurance work on fibre for Openserve
 - The IFTs are an integral part of our dispatch eco-system on daily workload balancing and scheduling
 - The IFTs are further enabled to service the entire fibre-based network ICT industries
- **Contracts, Engagements and Disputes**
 - From initial contract implementation in 2015/16 we have implemented the contract after 4 months of negotiation in 2017
 - Since contract implementation we have a process in place to log disputes/complaints. We've managed to engage and resolve major disputes and in 2019 wrote of R31.5m of SLA and FFR penalties. IFTs with issues use this platform to resolve issues, and complaints are positively resolved.
 - As most of the 'repeats faults' due to possible workmanship issues occur within 7 days, we have aligned the RFR and FFR both to 7 days
 - Since October 2021, we also created the Supplier Compliance Management Council (SCMC) to investigate complaints and/ or claims by any supplier/IFT that could not be resolved via any other processes
 - The aggrieved individual IFT companies do not want to engage in good spirit considering contract terms, conditions and pricing philosophy



Thank you