



MTN SA

**Transcript of investor call on South African
spectrum auction outcome**

Date: 18 March 2022

MTN SA

Spectrum investor call

18 March 2022



Speaker

Narrative

Operator

Good day ladies and gentlemen and welcome to the MTN SA spectrum investors call. All participants are currently in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please also note that this event is being recorded. I would now like to hand the conference over to Thato Motlanthe. Please go ahead.

Thato Motlanthe

Thanks Chris. Good afternoon to everyone. This is Thato Motlanthe, Head of Investor Relations at MTN. It's my pleasure and my privilege to welcome you to this call just to discuss some of the MTN issues around the South African spectrum auction that concluded yesterday. On the call with me today I've got a number of our executives. I've got Ralph Mupita, our Group CEO. I've got Tsholofelo Molefe, our Group CFO.

I've also got Charles Molapisi, who is the MTN SA CEO, and I've also got Dineo Molefe, who is our MTN SA CFO. So between them they will address some of the issues. Ralph will run you through the agenda. In terms of the running order of this call we'll have our speakers speaking and then we'll have a short Q&A at the end. We do anticipate that this call will conclude after 45 minutes. With that short introduction, let me hand over to Ralph.

Ralph Mupita

Thanks Thato, and a very good afternoon to everybody who joins this call. We are at our 14th Avenue campus in Johannesburg. We felt it important that we provide you with a bit of context on this much awaited spectrum auction, the very first auction ever in South Africa. And it has been 17 years since the last assignment of spectrum in South Africa and to MTN SA. As is well known to all of you on the call, MTN SA is our second largest market business in the Group and actually it has the lowest spectrum holdings in the Group.



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After the spectrum auction closure yesterday I think Charles and his team now probably from a spectrum holding point of view are middle of the pack. But it is good progress nonetheless that we were able to secure the 100 MHz of multi-band spectrum yesterday. The spectrum crunch I think is a matter that's well known to investors, that we've had to do extensive refarming of existing spectrum, innovate, densify the network, which has had an adverse impact on capex ratios, quality of service and cost to the customers. And obviously with more spectrum, better spectral efficiencies, over time this is obviously very positive and return accretive for providers of capital.

So in terms of the agenda I'll start off providing a bit of context on the auction process and provide you with a bit of colour about how we went about our own bid strategy and preparation. Charles and Dineo will provide details on the outcome of the auction and pro forma implications for MTN SA. I think it's important to note its pro forma impact on the P&L that Dineo will cover. But important to note that we do expect efficiencies in the near term once we've fully deployed the spectrum that we would get benefits coming to network opex and capex efficiencies. But Charles and Dineo will take us through that.

Tsholo Molefe will then provide you with a view of how we are funding this and the context of the group capital allocation framework. And she will also reaffirm our guidance specifically to South Africa as well as to Group and touch on the Holdco leverage. I think there have been one or two notes released today that cover expectation of what happens to Holdco leverage, and Tsholo will cover that. And then I'll come back and wrap up before we move to the short Q&A.

If I just start with the process, I think by now you are all familiar with some of the detail. But suffice to cover some very specific points, the auction process started with an opt-in round on the 8th March where only four applications that ICASA had classified as tier two could bid, so just Telkom, Rain, Cell C and Liquid. Telkom and Rain emerged as winners in this opt-in round. The main auction started on the 10th March, and MTN and Vodacom as tier one operators joined the other four. The main auction phase was conducted on a simultaneous multi-round ascending auction that took 58 rounds to conclude over six days.

The way we went about planning it, we set up a bid team that walked through a multi-year business plan. We had a valuation team and a bid team with the internal subject matter experts as well as external experts in economics, frequency valuation, finance, game theory and regulatory. We used a company that I think is familiar to some of you, Coleago. They were our advisors throughout this entire process.

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So the way we went about the bid strategy was obviously having assessed our own sense of demand over the next 10 plus years as well as our network strategy. As MTN we felt that the most optimal strategy coming into this auction, given the complexity of the auction in of itself where there were also caps in the low band, overall caps of spectrum we could acquire, we set from a bidding strategy point of view what we called a '2-5-4' strategy. Two lots of sub 1 GHz spectrum was our preferred bid strategy, five lots in 2600 and then four lots in the 3500.

This was informed by valuation as well as how we saw our network strategy evolving. Charles will talk to that network strategy evolution over time. We did look at a fall back scenario if we felt that there was going to be a lot of excess demand particularly in the 2600 and 3500. We looked at '280', so two 800 or 700. We were quite agnostic about the 700/800 because over time the majority of the data traffic coming through 5G actually 700 and 800 are much of a muchness. But we thought about the two of 700 or 800, or eight lots of 2600 and zero of the 3500.

We didn't really like that strategy because we felt the 3500, which is the anchor band for 5G, it is too risky for us to be depending on third parties for 5G anchor band. And as much as many may have a view that 5G will come very slowly in our market, and we've learnt this lesson very well in a market like Nigeria where we thought 4G would take a lot of time to come, and actually it came through very quickly. The idea of having zero or a sub-optimal amount of 3500 was not the strategy that we wanted to execute.

The first point was we were going in two lots of 700 or 800, agnostic about specifically which one, five 2600 and four 3500. We also took a view that although this was one auction, we needed to think about it as two auctions in one given the limitations particularly around the 3500. So we saw a sub-auction in sub 1 GHz and we took a strategy of sincere bidding between 700 and 800 until we got to the valuation point. We started with 700. We were comfortable to end at 800. That was one sub-auction that we saw.

We anticipated – and this actually played out – that there would be a lot more demand in the mid bands. That was in of itself another auction. So we did split our valuation between sub 1 GHz. And I think you see that in the effective results from the main auction where in the sub 1 GHz we ended up with 800. 800 obviously is more valuable than the 700, and the average pricing US Dollar cents megahertz per pop was 0.162. And we were very comfortable to be able to get the 800 in that way.

So when we started the auction we executed our '2-5-4' strategy until round 15. And at round 15 we started to see that there was actually quite a lot of excess demand in the 2600, and that was driving pricing up. We took a decision at the end of round 15 to strategically reduce demand and



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execute a '2-4-4' strategy, which is the outcome we ended up with. And by the time the sub 1 GHz auction had ended we were two lots on the 800. And we executed from rounds 16 to 58 a very consistent strategy and only bidding where we had lost positions in the 2600 and the 3500 for the four lots in each band that we wanted, and bidding at the minimum incremental value for the next round.

So we continued with this strategy all the way to the end of round 15. And as I said, we are very pleased with the outcome. As you look at your own views or external benchmarks, effectively where we came out we felt very confident that we had created value and the bands that we had were the right bands given the strategy. Particularly we felt that we needed four lots of the 3500. And Charles will give you a sense of where we are with 5G already. That gives you a sense of some of the bid dynamics we went through. I think you know what the other MNOs that bid what their results are. We don't need to go through that in detail.

Ultimately from our perspective we felt that we had the right outcome of optimal mix of frequencies as well as getting a decent valuation. We certainly believe that our action to reduce demand in round 15 ended this auction in a reasonable place where excess demand, particularly in 2600, would have made this pricier pretty much for all parties. With that as a bit of background and context, let me pass over to Charles and Dineo. Charles will also introduce his team. He has got members of his bid team on. He will take us through the bid outcomes as well as how we've been thinking about the network strategy. And Dineo will also cover aspects on a pro forma basis how we think the impacts are on the P&L on a pro forma basis. Charles, over to you.

Charles Molapisi

Thank you so much, Ralph. Just before I start I have on the call Marco Gagiano. Marco is the Head of Strategy and Transformation, part of the management team at MTN SA. He was a leading captain for the bid team. I also have Graham de Vries. Now, Graham has been with the organisation for about 26 years. He has been championing the programme for spectrum. He is our Head of Legal and Regulatory, and he has done a sterling job for us to get us this far.

We also have our CTIO, Michele Gamberini, who has just joined us about a month or two ago. He was very instrumental in giving us insights and lessons coming from Telecom Italia over 25 years of experience in helping us to be able to achieve what we have achieved. So we are very proud I think about the achievement of the team and also the strength and experience of the team. And of course Ralph mentioned Dineo Molefe, who is the CFO at MTN SA, will also come in during the conversation.

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I guess the first point that one wants to make is that even with the spectrum crunch that we as MTN SA experienced over the years, we are still quite capable of delivering the best network in this market. We are still quite capable that over a period across different measures we managed to achieve the best network. And I think that talks about the capability and the strength of the network team that we have built so far.

In my talk I will cover maybe just largely around the spectrum allocation, and I also want to talk about the rollout. What does this mean in terms of the network rollout? I will also cover a little bit around capex implications. I would like to think there might be interest to understand what the implication is for the capex profile of our business post the spectrum discussion. So I'll cover that. Medium term what does it mean? Obviously the entire evolution of our business on a network level, what does it mean with the spectrum that we've acquired? I will then later on bring in the CFO, Dineo. She will cover the P&L implications of the spectrum acquisition.

As I start I think Ralph has covered the fact that we went in very clear as a team with the '2-5-4' formation. And we were quite excited that we went in looking for '2-5-4' and we came back with a '2-4-4'. This for us talks about the consistency of our strategy. We were very clear in terms of what we wanted to achieve. And it also largely aligns with the temporary spectrum allocation. So we came back with 2 x 10 in the 800 MHz. And also just to make a point that we are fully aware that the 800 is dependent on the digital migration exercise. But what excites us about this band is it's a true band that will help us in terms of LTE.

Then also on the 2.6 we came back with 40 MHz. We're very excited about this because again this reinforces our plans and ambitions in terms of fixed wireless access rollout on the LTE layer and also mobile LTE. We will cover that and the number of sites we have rolled out so far. Then on the 3.5, which is really the anchor band of 5G, we managed to get 40 MHz. This plays very clearly in terms of the ambition that we have for mobile, 5G and of course fixed wireless access in the medium term, and of course the evolution of 5G going forward.

Strategically as a team we're happy about the execution. We believe that the auction largely played out as anticipated from our side. Ralph spoke about the fact that we sacrificed 10 MHz and eventually came back with 40 MHz on the 2.6 layer, but we are comfortable that the usage of the 20 MHz channel that we need to deploy on the LTE is sufficient to help us deliver our ambitions. So we are not under any pressure because we didn't get the 10 MHz that we were supposed to get on the 2.6.



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Let me maybe just frame it up with the competition and for instance our key competitor acquiring a thick layer of the 2.6. We believe that we don't require as much capacity on the 2.6 to be able to compete as we have the golden band on 3.5. And also one can highlight the fact that we secured 40 MHz of the 3.5, whereas the competition ended up with just 10 MHz on the 3.5. This is quite important.

I think with the allocation coming in on Tuesday because we were the highest bidders on the 3.5 we had the first option to be able to pick the placement of the 3.5, which means we have the opportunity to place our network quite strategically. So depending on how ICASA is going to play the placement, a single 10 MHz lot in the 3.5 can end up being quite isolated from a usability perspective - so this is just to provide some context.

Again we said this was an optimal way of spectrum acquisition for us. We believe that our approach was quite balanced. Like I indicated, this was in alignment with our strategy and the temporary spectrum allocation. And also I think if we look at the rollout that we have done so far on our network we have delivered over 1,000 5G sites on the 3.5. The ambition is very clear this year that we will deliver 25% population coverage, and by 2025 we aim to take the population coverage on 5G layer to 60%.

Again the point that one would want to make is that this implementation of spectrum of course we need to still deploy radios. So even as the spectrum has been acquired both on the 2.6 and the 3.5 there still needs to be a deployment of fleet furniture to be able to make sure that the spectrum is actually usable. But again the point I'll make is that this deployment is well within the capex plan that we have from now until the next three years. So there is no capex acceleration from our side that is expected.

There is no capex reduction at the same time in terms of the framing that we have from a business plan perspective. Any capex acceleration that might come in will be purely based on commercial acceleration. It will not necessarily be induced by the fact that we've got the spectrum that we've acquired. So disciplined capex rollout, very clear within our plans, and the acquisition that we've got plays very clearly on the formulation of the business plan that we did last year.

I guess there might be a question around what we refer to as the 'toxic lot', lot 9 on the 800. Maybe in relation to the cost of that lot why then did MTN not participate in that lot? We believe that the coverage obligations on that lot make it quite challenging and unprofitable for us. That's why we refer to it as a 'toxic lot'. So we didn't participate in that. We believe if we look at the population

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density of our country that will be a little bit difficult for us to participate in lot 9 of the spectrum acquisition.

I want to talk a little bit about the dollars per megahertz. I think Ralph touched on it, but I'll just cover it a little bit. This for us is well within the global benchmarks. On the sub-1 MTN paid 3% more for the 800 that we secured, vs the 700, which was a function of the pricing of the bands. I think that was covered by Ralph. For emphasis, this is 0.162 US cents versus 0.157 cents. And largely, as mentioned, is because the 800 band is more valuable simply because this is a band that one can use immediately, available to use for LTE. That's of course subject to the band being cleaned up for digital migration. I think just to emphasise why the cost differential on the 800.

Then again on the mid-band, pretty much on the same, 0.031 cents that everybody would have essentially paid for their respective lots. But the total bucket in terms of the cost structure we say 0.057 US cents for MTN's overall allocation and any difference you would see is as a result of the 800 vs 700 bands secured.

I spoke about the issue of network rollout. Our network evolution is very clear. We expect that by 2025 or 2026 we need to start to look at the switching off and decommissioning of the 3G network. That decommissioning of course will bring with it the level of utilisation of that spectrum that you're going to use now on the 5G layer or even on the 4G. We see 4G technology as a bit of a long term. We think that if you look at our network evolution the coexistence of both 4G and 5G for a larger period.

And again the point of emphasis is that the entire spectrum ecosystem that we have, be it on the 800, 900, 2100, 2.5 or 3.5, all those spectral assets eventually become available and usable for 5G rollout. But if I have to focus to say should there be any need in the future maybe for further capacity on the 3.5, are there any potential partnerships that we are looking at? The answer of course would be yes. But there are a number of options on the 3.7 particularly that we are looking at. That is not an urgent matter because we believe with what we've acquired we are able to compete. We are able to roll out 5G and 4G quite comfortably. But in the longer term of course we will look at the options around the 3.7, as I said, and capacitate ourselves for our much longer-term requirements .

I think overall from the MTN SA side we are comfortable with how we played. We are comfortable that our planning and how we assessed the requirements of spectrum worked exactly the way we wanted, barring of course the 10 MHz. And we believe we have the required level of spectrum to compete, deliver fixed wireless access on both the LTE layer and also on the 3.5. With that I'll hand

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over to the CFO, Dineo. She will cover the P&L impact and then I'll take it from there. Thank you, Dineo.

Dineo Molefe

Thank you very much, Charles. Just from a P&L perspective I want to just outline how we see the impact playing out of the acquisition of the spectrum. The spectrum costs themselves will be amortised over a 20-year period, which is in line with the term of the licence. The annual value of the amortisation will increase depreciation and amortisation charge in our income statement and therefore reduce EBIT. From an opex perspective when we developed out business plans for the coming year we had anticipated that we would obtain this spectrum. Therefore the spectrum fees have already been anticipated in our business plan.

When it comes to finance costs we are anticipating a neutral impact because we planned to finance spectrum from the proceeds of the tower sale transaction. Therefore from a profit after tax perspective there will be a reduction by the after-tax impact of amortisation because we will be able to deduct for tax purposes the cost of the amortisation. Therefore with the impacts that I've outlined and based on 2021 numbers on a pro forma basis we see the impact on EBIT and on profit after tax margins to be expected at less than 0.5%. And this would be at the level of MTN SA. Of course at a Group level this would be a much less impact.

When you look at our outlook we had previously guided service revenue outlook at a mid-single digit range of 4% to 6%. This will remain. From an EBITDA margin perspective we had previously guided a range of 39% to 41%. Again this will remain. Therefore our mid-term guidance will remain intact. So in summary the impact really is on profit after tax margins, which I expect to be at less than 0.5% using 2021 as a pro forma. Back to you, Charles.

Charles Molapisi

Dineo, thank you very much. I'm now going to hand over back to Ralph. But also to mention that we do have Graham de Vries, our Head of Legal and Regulatory. Maybe in the next set of questions he will be able to come through. Ralph, over to you.

Ralph Mupita

Thanks very much, Charles and Dineo. Let just hand over to Tsholo to talk about funding. I think Dineo pretty much covered it, but I think it would be good for Tsholo to also emphasise how this fits with our capital allocation framework.

Tsholo Molefe



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Thank you Ralph. Maybe just from a funding perspective I think as we've been saying, as we communicated last week at our results, firstly I think we are pleased with the outcome and how it fits into our capital allocation discipline really of prioritising investment in our network first and foremost. This will essentially be funded from the proceeds that we expect to get from the SA tower sale over the next few months. If you recall, we did indicate that we expect to receive proceeds of about R5.2 billion net of tax. And coincidentally we will be paying R5.2 billion for the spectrum.

Just to reiterate that this was actually factored into our plans and into our medium-term target from a Holdco leverage perspective of less than 1.5x which we did communicate during the results. And I think as we've indicated, we are still awaiting the proceeds to come through and there has been an approval from the Competition Commission subject to certain conditions which we are working through and we are comfortable will be met.

But in the meantime, should we have to pay over the next 30 days for the spectrum before the proceeds come through we are comfortable that we have sufficient cash at Holdco. If you recall, we indicated during the results we've got R20 billion in cash balances at Holdco level. But we also have committed facilities of R34 billion, so sufficient liquidity to be able to support as bridging in the meantime while we wait for the proceeds from the tower sale transaction. Thank you. Over to you, Ralph.

Ralph Mupita

Thanks very much Tsholo. Maybe just to wrap up before we take questions, I just wanted to leave investors with four key summary points. I think the first one is we executed the strategy that we felt was optimal for MTN within a valuation envelope and we were successful. I think that's the main point. Our '244' outcome is informed by our own strategy network planning. So I think that's the first point in summary. The second one is I think it's important in the medium term that we've now got an optimal mix of frequency for delivering growth in LTE and 5G and creating the network headroom.

Charles did mention that beyond the medium term we will need to continue to look at opportunities to acquire more spectrum. I think we know now that on the 80 MHz set aside for the WOAN there is some re-thinking from the government. So we will need to wait for that. But there will be room for the type of deals that we've done with Liquid in the past. I think that's also an important message to leave investors with.

The third is this has been value accretive for MTN. There is lots of headline press that says ICASA expected x, y, z. We did a robust valuation model and as we look at that valuation model the

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outcome here is value accretive for MTN. The final point I would raise is that our medium-term guidance for MTN SA and Group remains intact. You heard the numbers there on a pro forma basis from Dineo. That's on FY2021.

But obviously with a full network rollout spectral efficiencies should ultimately come into network opex as well as on a normalised basis where you're not accelerating capex because you're seeing profitable growth. Obviously we will get some efficiencies there. So with those as closing summary points, let me hand over back to the operator and then we can take some questions. The team here will do our best to answer questions. I think we have ten minutes of questions.

Thato Motlanthe

We've got about ten minutes left. I think that was a fairly comprehensive outline. I'm half hoping that there will be radio silence, but we can hand over to the operator for Q&A.

Operator

Thank you very much sir. Ladies and gentlemen, if you do wish to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you wish to withdraw your question, please press * and then 2. Our first question is from Preshendran Odayar of Nedbank. Please go ahead.

Preshendran Odayar

Hi everyone. Congratulations on getting this across the line. It has definitely been a long haul. I've got a few questions from my side. Firstly, Charles, I just wanted to clarify. You mentioned medium-term use of the additional spectrum on enhancing your fixed wireless offerings. I just want to clarify, is that correct? And what are your capex plans to meet the coverage obligations? Because you acquired more sub 1 GHz spectrum and from what I remember there are some coverage obligations from that. How does that affect your capex profile?

The second thing that you mentioned was the extra 10 MHz of 3.5 spectrum that your competitor has. I think you said they can't really use it. I just want to know why you would say that.

And then lastly, I think this might be for either Dineo or Tsholo. From what you said about the funding this shouldn't change your gearing that you guys reported a couple of days ago. So your Holdco and Group gearing is still going to be around 0.4x and 1x respectively. That's it from me. Thanks.

Ralph Mupita

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Charles, why don't you take your questions? I think Tsholo can cover the leverage one. Let's start with Charles.

Charles Molapisi

Thanks Ralph. Let me start first with the point I made about the 10 MHz that was acquired by our competitor. This is also subject to the placement discussion that's happening on Tuesday. But because we are the highest bidder on the 3.5 we have the first right of positioning of choosing which blocks we can utilise or we want to be deployed at. Now, you can't really deploy the entire 5G on the 3.5 radios only for 10 MHz.

10 MHz will not give you anything to justify the investment and the radios required. The only way you can use that is if you are next to a partner who has additional spectrum. Then you can actually pool that 10 MHz and utilise it with your partner. Then you can make use of that 10 MHz. But on its own it's actually a stranded lot because you can't deploy 3.5 radio that are hugely expensive to leverage only the 10 MHz that you have on that band. That's the point we are making about that band. Should this not be positioned next to a partner, it doesn't help much.

Now on the capex plan let me say first of all that we have over 99.1% pop coverage on 2G. So we have the infrastructure deployed. We've got sites that have already been commissioned to do that. The additional sites that will be required will just be the deployment of radio network. And of course what we've been doing in the last three years is we've been driving a programme called Modernisation of Network SA, the MONZA programme.

We have used that MONZA programme over the years to actually create readiness on our network on the base bands, build the capacity on that layer. The only thing we have to worry about is the deployment of radios. And we are comfortable that within the capex envelope and the projections that we have on our business plan we will be able to deliver the required level of population coverage, which is about 97%. So we should be able to deliver that.

Let me talk quickly about FWA, or fixed wireless access. FWA is the fixed and wireless mobile, basically the home router solution, the little CPEs that one has in the home. This solution that we have now of having the 3.5 will give us strong capacity for us to be able to do that. In the past in the South African context it has only been Telkom who had the 2300. And that's why they were so strong on home connectivity. But with what we've acquired now we are able to deploy fixed wireless access solutions and put home router CPEs and being able to drive home connectivity than we have ever been able to do in the past. That's the point I wanted to make. Thank you Ralph. That's all I wanted to cover.

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Tsholo Molefe

Just on your question regarding gearing, so there will be no change because this had already been factored in our medium-term targets. So 0.4x in terms of the Group net debt that we communicated, net debt to EBITDA, as well as the less than 1.5x from a target perspective. But no changes on where we ended in terms of the Holdco leverage.

Ralph Mupita

Maybe just to close on that question, I think we might just be lucky that we have financial close on the towers transaction more likely April, maybe at extreme May. So the timing of the funds flowing in and flowing out I think will be pretty much aligned. Should we take the next question?

Preshendran Odayar

Thanks very much.

Operator

The next question is from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam

Good afternoon. Thanks for the opportunity. I'm trying to understand how different is the '244' that you won compared to the temporary allocation that you had? I'm just trying to understand what the immediate benefit might be where you don't have to add any radios. What is the delta in that sense?

Ralph Mupita

Charles, do you want to pick that one up? I think it would also be helpful to clarify on the temporary spectrum what we actually used. I think there is an assumption that everything we had was actually used, but we actually couldn't use on the low band side. But go for it, Charles.

Charles Molapisi

Thanks Ralph. We were allocated 50 MHz initially on the 3.5, but when this was reviewed last year then we came back with 40 MHz on the 3.5. We were allocated 50 MHz on the 2.6 when the temp spectrum was initially allocated. But when it got reviewed then we were allocated 40 MHz. So we were allocated also 10 MHz on the 700 and then the 800. But to be very clear, if you map the temporary spectrum and you map with the allocation that we have on the medium band, it's exactly the same. So the 40 MHz we have on 3.5 and the 40 MHz we have on the 2.6 is exactly what we have currently on the temporary spectrum.

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We have deployed today 1,000 sites on the 3.5. We will accelerate that this year to 25% population coverage. We have deployed right now 2,000 sites on the 2.6 for LTE. Nothing changes for us. The only thing that might just be an effect is that the positioning of the spectrum on the band itself, on the range, might be in a different position. There is no capex required to migrate. All the 2,000 sites that we have will use exactly the frequency that we have, but we might have to spend a week or so moving them around. But that's like two weeks of labour. Nothing in terms of capex implications. Maybe just managed services cost that we have to deploy.

Now, on the sub 1 GHz we never used any of that, practically because you can't use the sub 1 GHz at the moment, the 700 and 800. Why? Because it is still not clean. So the sub 1 GHz was never utilised. That's why what ICASA is saying is that we will only use this when it is cleaned, or our payment will be proportional to the timing of the usage of the spectrum. So no implications on the sub 1 GHz. We never deployed any capex there. Nothing to worry about. The mid-band 2.6 and 3.5 are completely aligned. We've got exactly what we are using today, pretty much aligned. The only thing will be to shift the usage within the band. But I'm talking about two weeks or three weeks of work, and we're done. Thank you.

Myuran Rajaratnam

Thanks Charles. That's a comprehensive answer. Thank you so much.

Thato Motlanthe

Thanks. Operator, I think we've got time for probably one more question.

Operator

Thank you sir. Then the next question is from Samantha Hartard of Ninety One. Please go ahead.

Samantha Hartard

Thank you. I have two questions please. The first is how you foresee Telkom's legal challenge impacting the outcomes of this auction. And the second is when do you actually anticipate the analogue to digital migration being completed? Do you have any idea about how many households need to be moved across? There are a lot of different numbers being thrown out at the moment. Thanks.

Ralph Mupita

Thanks Samantha. Graham, do you want to have a go at the two? These are in your domain.



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Graham de Vries

Certainly. Thank you Ralph. In terms of the Telkom court case, the Telkom court case obviously is to review and set aside the decision of ICASA to publish this 2021 ITA. And the court hearing is set down for the 11th to 14th April. Now, what is so interesting is Telkom was in fact an active participant in both the opt-in round as well as in the main auction. And on top of that they were actually ultimately successful in winning 20 MHz of 800 and 20 MHz of 3500 with an overall payment or charge of about R2.1 billion.

So what is very interesting is to see what Telkom is going to do with that because some very difficult decisions lie ahead for Telkom where they will have to consider paying for the frequency on the one hand and utilising the much needed frequency which they have also claimed that they need especially in the sub 1 GHz versus continuing with their court case that may actually ultimately mean that they won't be able to use that very frequency. I think some very serious discussions are now taking place internally to Telkom, and it will be very interesting to see what Telkom decides to do in the next few days because the 11th April is coming along quite rapidly.

And then in terms of the digital migration the current Minister, Minister Ntshavheni, is very clear that she is targeting 31st March for the digital switch off. But you are quite right that there are many numbers being thrown about. And even in some areas where according to all the information that we received the frequencies in 700 and 800 have been switched off, we found that in fact it hadn't been switched off. That is also one of the reasons why we didn't roll out any in the 700 and 800 band. So it's going to take a little bit of time to understand fully where we are in the digital migration process. Thank you Ralph.

Ralph Mupita

Thanks very much. I think we have gone to the 45 minute time slot. Just to thank all the investors for dialling in. We appreciate you jumping onto this call at very short notice. But I think as you can take from our feedback and stance I think we feel that we've come out of this auction as we wanted to from the mix of frequencies, the ones we need for our network in the medium term, valuations benchmarking well, creating value.

And we are very well positioned to expand our 4G and 5G rollout now that we've got another 100 MHz of frequencies that can help us have more efficiencies and drive profitable returns while at the same time reducing the cost to communicate for the broad mass of South Africans. So we just want to thank you for joining us. Any follow-up questions please pass them through to Thato who will obviously bring them to the management team here. Thanks very much for joining us.

MTN SA

Spectrum investor call

18 March 2022



Speaker

Narrative

Operator

Thank you very much sir. Ladies and gentlemen, that then concludes this event and you may now disconnect.

END OF TRANSCRIPT