

Vodacom Group Limited
Preliminary results for the year
ended 31 March 2010



Pieter Uys

Good afternoon everybody, or good morning, wherever you are. It's great to be with you today. I've got Rob Shuter also with me, our CFO and also Belinda Williams. We have our presentation also on the web. If you haven't managed to download it, it's the presentation that we gave this morning. It's a year now since we listed last year in May, and it's been an eventful year that we've come through. Not only did we become a public company, we also had Vodafone become the majority shareholder, 65%. The regulatory environment keeps on changing in most of the countries that we operate in. In South Africa we had two events. RICA, the subscriber registration, came into play last year in August. And more recently we've started taking down the mobile termination rate, and there is also draft regulation that will come into play this year. Also we had the tougher economic climate to operate in. In some countries it was tougher than other countries. Lastly, during the year we had really stiff competition in most of our international markets.

So in the face of all this that has happened in the last year we had to really refocus the Vodacom group and focus on the fundamentals of the business. And we've managed to deliver good growth across all our key measures. Some of the things that we've done I can highlight. Firstly we had to start offering increasing value to our customers to retain the customers that we have but also to become more competitive in the markets that we operate in. In order to support this we had to focus strongly on cost containment measures across the group, and we've had good success on those. So if I look at the last year and look at the results a couple of things stand out to me that I can say I'm really pleased with. First of all we've had good success in the South African market. We've continued to make gains on all the measures there. Mobile data was a definite success story, growing the mobile data revenue in the group by more than 30%. Also the integration with Vodafone is going well. A lot of hard work has gone into that and we're seeing some real benefits come from that relationship. A good, strong relationship.

Then the financial results themselves. Given all the challenges and changes that we had and the environment around us, I'm very pleased with them. So if I look at the results then, revenue in the group is up 5.6% to R58.5 billion. Group customers are now sitting at 40 million. EBITDAR, R20 billion, up 8.7% with South Africa up 14.5%. Good cash generation. Operating free cash flow in the group is up 55% to R13.5 billion, leading to the reported headline earnings per share up 2.3% to 510c. The balance sheet's financial position is strong, 0.6 times net debt to EBITDAR ratio. Then the final dividend increased from 40% to 60%, taking the final dividend to 175c, bringing the total dividend for the year to 285c.

A year or 18 months ago I also presented the Vodacom strategy and I described the four pillars that we focus on in our business. Over the past 12 months we have successfully executed against this strategy, and I will now take you through some of those deliverables and the things that we focus on going into the year ahead. Firstly, the first pillar in this strategy is to grow our core business. So if I look at the group customers it's 40 million. That was mostly impacted by abnormal events like RICA in South Africa, pressure on the gross connections. It went down to 260,000 in August when it started. The last quarter our distribution channels have managed to bring up the gross connections back to two million for the quarter. Also we saw in the DRC a disconnection policy change where inactive were also disconnected. The group traffic was up 11%, supported by the increased value offered, the tariff reductions that we had in all our markets. The international customers now make up a third of the group customers, growing by 13.7% to 13.6 million subscribers.

The service [?] revenue was robust, specifically in South Africa across all the quarters.

South Africa's service revenue growth was 7.5% for the year. Also contract customer growth in South Africa was very strong, up 14% in the year on 4.5 million. We've added a half a million contract customers during the year. Most of those are driven by value offers in the market, affordable handsets and also migrating prepaid customers to contract. So in South Africa we have been very successful. We have gained both revenue and EBITDAR market share, and if you look at data market share we are taking 58% of the market at the moment. We've also improved the offer that we have in all our other territories, so our market position over the last couple of months has improved in all our geographies.

The next pillar in the strategy is execution on our mobile broadband strategy. Here we've had the group data revenue up 32% to R4.5 billion. In South Africa it was up 33%, now making up 10% of services revenue. If you look at the customers in South Africa we have broadband customers and data customers. The active data customers are up 30% to just over 6 million active data users in South Africa. The broadband customers, those that buy a data bundle once a month at least is up 42% to 1.1 million. We've also during the year lowered the effective data prices. We introduced the carry-over at the beginning of last year. We've also introduced the first ever flat rate data tariff in South Africa where your in and out of bundle spend is the same, and from the 1st May we've reduced the data tariffs even more, some bundles up to 60%.

We also continue to take leadership in broadband and data devices. We're still the only provider of the iPhone in the country. We have also recently launched a netbook we call the Linkbook, and we're selling that for R199 a month with a data bundle included on a two year contract. We are going to continue to invest in our data network, expanding our 3G depth and width, adding more coverage and better quality data. We've also upgraded our 3G network. All the subscribers now have access to 14.4 Mbit per second. We also have 40 sites that are already on the HSPA Plus technology up to 21 Mbits per second. It's not just in South Africa where we focus on data. Also in Mozambique and Tanzania. Tanzania now has 430 active data customers with 3G launched recently in Mozambique.

The next pillar of the strategy is to expand the Vodacom offer into the converged ICT space. We've completed our metro rings. That has enabled us to offer more and more corporate converged ICT products into the market. We recently launched our Metro Ethernet product, and the sales in South Africa in this space, the guys have signed up contracts in excess of R800 million. So the last half of the year they've really gained momentum. Also in Africa we've taken the old Gateway business services and combined them with the product portfolio developed in South Africa, creating Vodacom Business Africa. Their revenue is in excess of R700 million. Good growth coming from this part of the business, 20% growth supported strongly by the Enterprise business in Nigeria. We've also had global wins, multinational contracts signed up together with Vodafone Global Enterprises working with the Vodacom business. One example is the DHL contract.

The last focus area in our strategy is our international business expansion into the rest of Africa. It has been more challenging there. We focussed a lot on our existing businesses to make sure that we are competitive and to change the underlying cost structures in the business to support the lower tariffs coming from the increased competition. We've also had lots of pressure coming from the regulatory side and increased taxes, but I think we've come out stronger at the end of the day to compete in all those markets. We've have evaluated several opportunities, but we've so far not found any opportunities that will create acceptable long-term value for the group. We continue to invest in the international businesses. We've invested almost

Speaker	Narrative
	<p>R2 billion of capex into those, slightly less than last year.</p> <p>If I look going forward we will continue with this strategy. We will continue to invest in the data network, continue to build on the product portfolio in the Enterprise converged business space, and continue to maintain or even improve our market positions. If I look at the next few years I see continued competitive and regulatory pressures in all the markets, and that will limit the revenue growth in the medium term to below the current levels. If we see the next wave of the interconnect happening earlier than originally expected there will be even more pressure on the interconnect resulting in low single digit revenue growth.</p> <p>However, with the good work that we've already done and our ongoing focus we will continue to improve our operational performance, so we expect in the medium term to continue with margin improvements. We will also continue to invest to improve our network quality, to expand our data network, to increase our offering in the converged space and continue to do capital investment. And we believe we can contain that between 11% and 13% of the group revenue. For example, this current financial year, 2011, we've got a capital budget of R7.4 billion, of which we've allocated R5.1 billion to South Africa. So the competitive landscape continues to change. In South Africa we will see Telkom Mobile come into the space. We're also seeing a new entrant into the Mozambican market. But I believe that the group is well positioned to operate and be competitive in all the markets with competitive offers in the markets and with the cost structures underlying it. We will now move into a Q&A session so I will hand you back to the operator.</p>
Operator	<p>Thank you, sir. At this point in time if you would like to ask a question please press star then one to join the question queue. If you decide to withdraw your question you can withdraw yourself by pressing star then two. I will repeat. If you would like to ask a question please press star then one. Our first question comes from William Kirby from Nevsky Capital. Please go ahead.</p>
William Kirby	<p>Thank you. Looking at other markets which have had big interconnect cuts we've often seen quite aggressive tariffs launched by smaller operators after that. Can you comment at all on the general pricing environment, and in particular Cell C, which might take that approach in the market? Thank you.</p>
Pieter Uys	<p>Yes. We've seen the first cut come through in March this year where we had a 30% cut in the peak interconnect rate. All the operators have come to the market with competitive, attractive offers, reducing the effective pricing. And that has happened in the prepaid and the contract space. We as Vodacom over the last couple of weeks continued the announced value offers. We've also got promotional specials. So yes, there has been movement in the tariffs. We haven't seen something dramatic happen. The next interconnect cut will be a further cut of another 30% down to 65c, and this is what is currently proposed by the regulator. We still have to go through the regulatory process, doing the comments and going to the public hearings. What we've done is we've focussed strongly to put programmes in place to offset some of the losses that will come from the cut in the interconnect. So yes, there is a competitive side. I believe we are in a good position to compete when that happens. But it is underpinned by strong cost programmes. And we announced this morning a R500 million cost programme that we will execute in this coming financial year.</p>
William Kirby	<p>Okay, great. Thank you.</p>
Operator	<p>Thank you. Our next question comes from Craig Hackney from BJM. Please go ahead.</p>

Speaker	Narrative
Craig Hackney	Hi, good afternoon. Looking in South Africa at your subscriber additions in the quarter to March [audio disruption] on the prepaid side. That contrasted to MTN where they did get some growth. Now, I appreciate it's difficult to comment on competitors, but could you maybe shed some light on the dynamics that could be at work in the market there?
Pieter Uys	If you look at the last quarter first I mentioned that our gross connections have picked up. We managed to get back to two million gross connections in the last quarter. That was up from 1.8 million in the previous quarter. You also have to look at our disconnection policies to do a real comparison. We've just done a review again of what we do with our prepaid base. We've analysed the behaviour of the subscribers and we've identified 3.2 million numbers that are on the network that receive calls but there is no person answering those calls. The call is just going through to voicemail. And in the month of April now we've deleted the 3.2 million numbers off the base. So it is difficult to really compare apples and apples, but I believe that we are taking our fair share of the prepaid market at the moment.
Craig Hackney	Do you think that it might be explainable by [audio disruption].
Pieter Uys	Sorry, there was some mobile interference.
Craig Hackney	Do you think that the discrepancy might be due to any changes you've made with regards to distribution incentives on your prepaid channel?
Pieter Uys	The reason I mentioned the disconnection rules and the apples and apples, what you really have to look at is the underlying revenue growth. So if you look at our quarter four prepaid revenue growth it was sitting at around 8%, which shows there is still strong growth in our prepaid for the quarter. We have not changed anything in the quarter on the distribution side, so there is no obvious reason why we would not have performed on our share of the market.
Craig Hackney	Okay. Thank you.
Operator	Thank you. Our next question comes from Cesar [?] from Morgan Stanley. Please go ahead.
Cesar	Hi, good afternoon. I would like to know if your reduction on your revenues in the DRC comes mainly from a loss of market share or only a decline of the tariffs.
Pieter Uys	In the DRC there are many issues. First of all the economy more impacted the DRC than any of our other territories. For example, the Congolese Franc went from 450 Congolese Franc to the Dollar to 1,000 in the period. We bill in Dollars, so that had an impact. If you look at the tariffs it was very competitive. Tariffs came down almost half in the year. We have a very attractive offer in the market now, so that has had an impact. Then the taxes. The taxes are not just bottom line taxes. They are many times sales related taxes. We've just in the last quarter had a new tax levied on the company, \$35 million extra added. Also if you look at the DRC we deleted the subscribers there because there was a new tax levied on mobile numbers that you use in the network. So we had to optimise and make sure that we only had active numbers on the network. If you take our gross subscribers, the normalised subscribers, we still have growth in the subscriber numbers. So all in all it's a combination of all of the above. Taxes, competition, tariffs coming down.
Cesar	Can you say the declining tariffs is only a function of competition or is it also a function of the reduction in mobile termination rates?

Speaker	Narrative
Pieter Uys	No, in the DRC it's purely competition.
Cesar	Purely competition.
Pieter Uys	Yes.
Cesar	Can you say how much the tariffs are down year on year?
Pieter Uys	42% year on year.
Cesar	Okay. Thank you very much.
Operator	Thank you. Just a reminder to participants on line, if you would like to ask a question please press star then one to join the question queue. Our next question comes from Alex Balakhnin of Goldman Sachs. Please go ahead.
Alex Balakhnin	Yes, hi. Two questions if I may. The first is do you see any risk to your revenue generation going forward as a result of cost control? Is there any risk that your cost control will sacrifice your marketing activity and hence you would lose market share to your competitors MTN and Cell C? And the second question, you mentioned that the mobile termination rate decline led to some lower tariffs. And clearly it's difficult to estimate, but do you think that these new tariffs or lower prices have the same gross margins as the previous tariffs or gross margin was sacrificed?
Pieter Uys	Okay. The cost programmes that we've put in place, we've already started more than a year ago with the cost programmes and we've now categorised it into four categories. Firstly we started on network operational expenditure, so one of the things that we've done is we've put in more efficient network equipment, bringing down the network opex. Then we will look at the distribution channels, and that was the one that you're referring to that you cannot just take a cut without taking into account what will happen in the distribution channel and in the competitive environment. So that one there is definitely room for improvement, but it takes a little bit longer for those direct costs to come down. Then on the employee side we are targeting not to employ or increase the number of employees in the company. There are pockets that we need more people in. we will continue to be more competitive by putting more resources into that area, for example the data where the growth comes from, the converged services. But we will move people around also in the company. Then the last one, marketing and advertising. That is also a big pool of costs sitting in the company, and we are planning to reduce that slightly. These all add up to R500 million a year. None of them are big in the bigger scale of things, and we will manage it in such a way that it doesn't have an impact on our competitive position. Our first priority is to maintain or improve our market positions in all the opcos.
Alex Balakhnin	And on the gross profitability of the new tariffs after the [unclear]?
Pieter Uys	Ja, so the cuts that we've introduced so far, if you look at in South Africa the first cut had to do with also rebalancing of some of the tariffs. We've always had a regime in South Africa where we have peak and off-peak tariffs with a lot of our traffic sitting in the off-peak. A lot of pressure coming from the regulatory environment from the government was on the cost of doing business. So we focussed mostly on the peak tariffs coming down. The impact on profitability, it's not an across the board tariff cut. What we've done is we've introduced new tariffs with new combinations of peak and off-peak. For example, the customers can choose what best suits their requirements.

Rob Shuter	<p>So we have not seen a big shift that all the customers have suddenly moved onto these. Then we also have half of our customers sitting on a tariff called Yebo 4 Less where they do not pay the top line tariff but they pay a discounted tariff. So we display through [unclear] price to those customers how much they pay or the discount that they get on the call. Rob, can you answer the direct impact on the numbers so far? We have not seen any.</p> <p>I think it's early days. The tariffs cuts have been around March, April of this year and we're sitting towards the end of May. So it will take a while to see what elasticity effect we get, particularly for the more recent cuts. But in general we think we can move the organisation towards improved margins rather than deteriorating margins.</p>
Alex Balakhnin	<p>Understood. Thank you.</p>
Operator	<p>Thank you. Just a reminder to participants, if you would like to ask a question please press star then one. Our next question comes from Herve Drouet from HSBC. Please go ahead.</p>
Herve Drouet	<p>Yes, good afternoon. Two questions. The first one is... hello, can you hear me?</p>
Pieter Uys	<p>We just lost the question.</p>
Herve Drouet	<p>Hello?</p>
Pieter Uys	<p>You're back.</p>
Herve Drouet	<p>Sorry, can you hear me?</p>
Pieter Uys	<p>Ja, we can hear you now.</p>
Herve Drouet	<p>Thank you. My first question is regarding spectrum challenge [?]. You say in one of your slides looking forward on the regulatory front you expect some spectrum challenges. I was wondering whether you could elaborate on that. The second question is on DRC. Can you tell us a bit more what are your investment plans and capex plans this year compared with last year? Thank you.</p>
Pieter Uys	<p>Okay, so spectrum. We strongly believe in the data opportunity and we will continue to invest in the data opportunity. In the short term we are still managing the data growth. We had 30% growth in data revenue; we've had 60% growth in data traffic on the network. If we want to grow this business past the next three years and continue with that kind of growth at some point you will need spectrum. Some of the additional capacity comes from building more network. Some of it comes from spectrally more efficient equipment. We've done a network upgrade now. We have the latest HSPA Plus technologies on the network. But there is a regulatory process currently underway and we expect the regulators in the next week or so a process that they will use to decide who will get additional spectrum. We will also form part of the queue applying for additional spectrum. So the challenges are more long term to make sure that the existing players also get access to additional spectrum. If I look at the DRC, Rob, can you answer how much capex we spent in the last year?</p>
Rob Shuter	<p>In the year to March 2010 obviously with the pressures we've had in that market we've spent mid 30s Dollars of capex. I think our outlook for the next financial year is we'd like to still be below that in terms of the growth additions. But we are encouraging the business there to look much more seriously at site sharing, at network efficiencies and capex efficiencies so we can still get coverage and capacity</p>

Speaker	Narrative
	rollout, but within a tightly controlled capex budget. So somewhere around the \$30 million mark for the year ahead is probably where we will end up.
Herve Drouet	You are going for flat capex in the DRC. Am I correct in saying that?
Rob Shuter	Flat in Dollar terms, but we'd like to see more effective infrastructure rolled out as we move more aggressively towards power sharing.
Pieter Uys	But you have to always see the DRC in the light of all the challenges that we are facing there. There are many issues. We've had some shareholder issues there. We've had additional taxes being levied on the company. So for us to continue to invest in that market you will need a more stable operating environment than what we've had in the last year.
Herve Drouet	Definitely. Do you see any solution coming in the short term on that front?
Pieter Uys	The issues are the economy. We are hopeful that the economy will turn. We're not seeing clear signs that it has improved. The Congolese Franc is still sitting at 9.60 to the Dollar. The mines have opened, but the foreign currency hasn't really started flowing into the country. On the shareholder issues we've recently had a shareholder meeting. We have agreed also to go into arbitration to deal with some of the differences that we have going forward. Funding is still one of the issues in the DRC. The competitive environment, we've put cost programmes in place and have a competitive offer so that is more okay to deal with. The tax side is very unpredictable at the moment. For example in the results there is \$30 million that we've made provision for that we did not know about a month ago, for example. So we will continue to engage, but if that remains unpredictable you just cannot run a business like that.
Herve Drouet	Okay. Thank you very much.
Operator	Thank you. We have a follow-up question from Craig Hackney from BJM. Please go ahead.
Craig Hackney	Just coming back to the spectrum issue, I'm not sure if it's possible to look at it like this, but if your data traffic continued to grow at 60% a year and you didn't receive any additional spectrum when would spectrum start to become a constraint to that growth?
Pieter Uys	We take a three year view, so all the plans we've put in place now definitely still has a three year view. If you don't get spectrum you will have to invest more in the capex side and build more dense network. So that's possible. If you put in the latest technologies, for example if we move to higher speed, we also get additional capacity onto the network. So those two things are happening. The spectrum will just make it more viable to continue to grow in the post three or four year period. So spectrum is not a crisis at the moment. We have three carriers of 5 MHz each. There are very few sites that we're sitting into the third carrier, so we can still add by just adding more carriers to the existing network. So spectrum is not an issue immediately, but for us who believe in the data opportunity we would definitely want as an existing player more spectrum, and so would the others. Because we can make a real difference to internet and data penetration in South Africa.
Craig Hackney	The 11% to 13% capex to revenue guidance, does that make provision for adding additional spectrum?

Speaker	Narrative
Pieter Uys	No, the 11% to 13% is without spectrum. This is as usual.
Craig Hackney	Okay. Thank you.
Operator	Just a final reminder to all participants, if you would like to ask a question please press star then one now. We will pause for a moment to see if we have any follow-up questions. We have a question from Richard Barker from Credit Suisse. Please go ahead.
Richard Barker	Thanks very much. Just a very quick one. We talked about your call forwarding problem, the three million semi-dormant SIM cards that you talked about earlier. You said that you eliminated them all during April. I just wanted to clarify that. Has that process actually been completed now? Are we going to see subscriber numbers drop by roughly three million next time you come to report?
Pieter Uys	Ja. So the 3.2 million, they are numbers without a person behind them. They're still driving revenue. Every couple of days there is a call going through to their voicemail. So the 3.2 million numbers have been deleted off the network in the month of April. So next time we report there will be 3.2 million gone.
Richard Barker	And in terms of the revenue just as you said it's a little bit of [unclear] interconnect revenues every so often.
Pieter Uys	It was just enough to keep them alive but it's immaterial.
Richard Barker	Okay. Thanks for that.
Operator	We have no further questions in the queue. Mr Uys, would you like to close the conference call?
Pieter Uys	Thank you very much. Thanks for joining us this morning or afternoon. So if I look into the future again, there are continuous competitive and regulatory pressures putting a pressure on revenue growth. We will continue to refocus and improve our efficiencies that we can operate in such an environment. So even if the revenue is low single digits our cost programmes should enable us to improve the margin in the medium one to three year term. We will continue to invest in the data because we really believe that the data opportunity is good. I believe that our data business makes up in South Africa 10% of the revenue growth and is a profitable business. We've got margins similar to voice, so we continue to believe in that. It's coming out of a tough operating environment during the last year. I think Vodacom is well positioned to benefit from a likely recovery in the economic conditions in all the markets which we operate in. And with that I leave you. Thank you very much.

END OF TRANSCRIPT