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Conference Call Transcript

10 November 2014

VODACOM INTERIM RESULTS

Operator

Ladies and gentlemen, welcome to the Vodacom Group Limited interim results conference call for the six months ended 30th September 2014. Vodacom CEO, Shameel Joosub, will host the conference call. I will read the forward looking disclaimer before handing over to Shameel.

This announcement which sets out the interim results for Vodacom Group Limited for the six months ended 30th September 2014 contains forward-looking statements which have not been reviewed or reported on by the Group's auditors with respect to the Group's financial position, results of operations and businesses and certain of the Group's plans and objectives.

In particular such forward-looking statements include statements relating to the Group's future performance, future capital expenditures, acquisitions, divestitures, expenses, revenues, financial conditions, dividend policy and future prospects, business and management strategies relating to the expansion and growth of the Group, the effects of regulation on the Group's businesses by governments in the countries in which it operates, the Group's expectations as to the launch and rollout dates of products, services or technologies, expectations regarding the operating environment and market conditions, growth in customers and usage and the rate of dividend growth by the Group.

If you do not have a copy of the results announcement and presentation it is available on the investor relations website on www.vodacom.com.

Shameel Joosub

Thank you. Good afternoon and good morning to those in the US. Thank you for joining us to discuss our interim results. Our CFO, Ivan Dittrich, is with me as well as our Group Executive of Investor Relations, TC Ralebitso. Richard Boorman from Media Relations is also here with me. Firstly I am pleased with our relative performance in the period. We achieved good underlying growth in very difficult competitive and economic conditions. Importantly, we made substantial progress with our strategy.

We invested R5.9 billion, which is 15.7% of revenue, as part of our accelerated capex programme. We attracted 3.5 million new customers in the six months across our operations to increase Group active customers by 13.3% to 61 million customers. The number of Group customers using data grew 27.6% to 25.9 million, which represents 42.4% of our active customer base.

In South Africa our segmented pricing transformation strategy is on track. We migrated 70% of our contract customers to our integrated bundle. As a result we reduced our contract churn by 1.9% to 10.2% and stabilised ARPU at R380.

Our international operations had a solid growth and now contribute 24.0% from 21.6% to Group service revenue and 16.8% to EBITDA compared to 13.7% a year ago.

If we now look at our financial performance, we achieved positive underlying growth in the half. However, our reported numbers were impacted by a 50% cut in mobile termination rates in South

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Africa and also partially by our increased capital expenditure. Group revenue increased 2.3% to R37.5 billion and service revenue grew 1.7% to R30.7 billion. If you exclude the impact of mobile termination rate cuts in South Africa both Group revenue and service revenue increased by 5.0%.

We again achieved strong growth in Group data revenue of 24.7% to R7.6 billion. This was driven by a 93% growth in data traffic. Data now represents a quarter of Group service revenue and we are well positioned to increase data contribution further.

Our Group EBITDA declined by 1.7% to R13 billion with an EBITDA margin of 34.6%. To highlight the impact of lower mobile termination rates in the period, Group EBITDA increased 2.7% excluding the cut.

Group free cash flow and headline earnings per share were impacted by higher capex depreciation as a result of our accelerated capex programme. And our earnings per share came down 5.5% from 439 cents to 415 cents. The impact of mobile termination rates was 40 cents, which took almost R1 billion off the revenue line, and 19 cents came off from increased depreciation as a result of our accelerated capex spend. So on a like for like basis earnings would have been up 8% pre-tax or 4.3% post-tax.

Lastly, the board has approved an interim dividend of 375 cents, in line with our dividend policy of at least 90% of headline earnings per share.

Let's look at our two reporting segments in more detail. I will start with South Africa. Let me reiterate our strategy in South Africa. Our strategy is to increase investment by adding capacity for voice and data, but also to create clear network differentiation and to invest in new areas of growth. Secondly it is to bring down prices smartly by creating products that give you near to one elasticity and to offset the inevitable decline in voice with a massive increase in data.

Please note that we have had a change in our accounting estimates relating to revenue recognition of un-recharged vouchers resulting in a once-off positive adjustment of R325 million to service revenue reflected in voice. Overall service revenue declined 1.3% year on year. Excluding the impact of mobile termination rates service revenue grew to 2.9% year on year.

Service revenue was supported by customer growth of 8.2% to 32.6 million. This is a very good growth considering the intense competition we experienced during the period. We achieved this growth by reducing our blended effective price per minute by 19%. We also achieved a 17.6% increase in our total outgoing traffic.

Prepaid customer revenue increased 4.7% to R10.2 billion. We continued to increase the number of customers engaging bundles to 6 million, selling over 40 million bundles a month. Contract customer revenue declined slightly, 1.1%, to R3.5 billion. Importantly, 68.9% of our contract revenue is now in bundle and we have migrated 70% of our contract customers to our integrated plans. This has reduced our churn by 1.9% to 10.2% while ARPU declined by only 3.3%, or 1.1% if we exclude the impact of the mobile termination rates. We are also seeing good adoption of our new hybrid plan with 36.9% of top-up customers on our new UChoose plan.

Our data revenue continues to offset declines in voice revenue in line with our strategy. Our data revenue recovered from slow growth in Q1 to increase by 21.6% for the half. Data contributed 26.4% of South African service revenue, up from 21.5% a year ago.

Through our bundling strategy we reduced data prices by 30.4% year on year, which is flat quarter on quarter. That led to a doubling of data bundles sold from a year ago and a 17.4% increase in

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data customers to 16.7 million. 51% of our customers now use data services. Our data traffic was 75% off strong growth in data use per device. Smartphone usage increased 55.4% to 336 MB while tablet usage increased 28.9% to 879 MB. 90% of all our data traffic is now in bundle, which is extremely good.

In line with our strategy of putting data devices into people's hands we have now launched a sub R550 smartphone which we are buying at a cost of $40. We have also introduced a smart tablet which now retails below R1,000.

We have made substantial investments as part of our accelerated capex programme. We invested over R4 billion in South Africa to increase our 3G coverage to 94% of the population, to double the number of LTE or 4G sites to almost 2,000 sites. Our 4G network now reaches over 30% of the population.

We also continued to invest in our transmission. 76% of our sites are now connected to our own high-speed transmission network. We completed our six year radio access network renewal programme, which means that our entire network is 4G ready. So in theory we can switch on 4G countrywide once we have the spectrum.

Our EBITDA was impacted by the lower mobile termination rate in South Africa, but tight cost control remained a priority. Our reported EBITDA declined 5.1% as EBITDA margin contracted 2% to 35.9% in South Africa. Excluding the impact of mobile termination rate, which had a 5.2% drag, EBITDA was flat, up 0.1%.

We achieved savings in publicity and transmission expenses. These were offset by increases in parallel due to wage inflation and network operating costs as a result of expenses not denominated in Rand and a forex loss of R155 million. Overall opex as a percentage of service revenue excluding the impact of lower MTR was flat at 22.3%.

Let's take a look at our international operations. We delivered good service revenue growth of 13% in our international operation. Service revenue grew at a lower rate in this period, impacted by competition especially in Tanzania. In the DRC a lack of adherence to pricing regulations by some of the competitors remained a challenge. Despite these challenges we executed well on our commercial strategy.

Active customers grew 19.8% to 28.4 million and we continued to invest substantially in our networks to increase our differentiation. Through our bundle strategy we reduced the effective price per minute in each market, stimulating a 61% increase in outgoing traffic through the portfolio. Our mobile data revenue excluding M-Pesa increased 52% due to data traffic more than doubling from a year ago.

Active data customers grew 51.5% to 9.2 million, representing 32.4% of our active customers. Similarly to South Africa we also launched a low-cost smartphone and tablet in most of our operations and we are seeing good traction. Overall our international operations contributed 24% to Group service revenue compared to 21.6% a year ago.

Demand for our mobile financial services remains strong in our markets. We continued to expand our M-Pesa footprint. Our active customers increased 25.9% to 7 million customers across all our markets. More than half of the net additions in the period came from our new M-Pesa markets.

In Tanzania where more than half of our active customers are using M-Pesa, we launched M-Pawa, which has the ability to do savings and loans with a mobile platform in partnership with the

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Commercial Bank of Africa. We already have 300,000 customers using this service. We remain confident of the overall contribution that M-Pesa will make to our business in the future.

The international operations increased their EBITDA contribution to 16.8% compared to 13.7% a year ago. The operations delivered EBITDA growth of 21.2% with the overall EBITDA margin improving 2% to 28.9% as the business grows in scale. The mobile network operators achieved an improved EBITDA margin of 30.5%.

We maintained consistently high levels of investment in the network. The total international capex intensity in this period was 23% of service revenue. We also increased our 2G and 3G sites by 43.8% and 29.5% respectively. We continue to see our network differentiated. As an example, we were first to launch LTE in Lesotho..

Being first with technology deployment and substantial coverage and capacity sets us up well to capture the strong data growth that is emerging in all our markets. This concludes the review of our performance for the six month period. I will now hand over to Ivan.

Ivan Dittrich

Thanks Shameel. If I move firstly to MTRs, during the period ICASA announced the final MTR regulation with a new three year glide path which commenced on 1st October 2014 and which will end 30th September 2017. In year one MTR will be 20 cents with a 55% asymmetry, and this will glide to 16 cents with 50% asymmetry. And in year three it will end at 13 cents with a 46% asymmetry.

We previously communicated that the old MTR regime will have a net impact of approximately R1 billion to our EBITDA figure. The 2015 financial year has seen the biggest impact of MTRs and we expect the pressure to ease going forward and interconnect revenue is now only 4.5% of service revenue in South Africa.

With regards to our medium term guidance, conditions are expected to remain challenging in the short term for the Group, particularly in South Africa where the continued impact of low mobile termination rates, constrained consumer spending and intense competitive pressures are all factors.

Given the difficult environment we have performed well. The conclusion of the MTR process has now resulted in certainty over the next three years. The Group will continue with the three year accelerated capital expenditure programme. As a result of the significant impact of the change in MTRs the board has revised its medium-term or three-year EBITDA guidance to mid single digit growth from the mid to high singe digit growth previously announced.

Medium-term guidance for service revenue of low single digit growth and capital expenditure of between 14% and 17% of revenue remains unchanged. It is worth noting that all of our guidance numbers have been prepared on an organic basis. In other words, it doesn't factor in the potential impact of Neotel.

Our dividend policy has not changed and the board maintains its dividend policy of paying at least 90% of headline earnings per share as a dividend.

With regards to Nashua, on the 29th September this year the South African Competition Tribunal unconditionally approved the Nashua Mobile customer acquisition transaction. The transaction will be accounted for on the successful migration of the customer base, which is expected to happen over the next few days. We will migrate approximately 395,000 subscribers to our billing and customer care environment, the majority of which are enterprise business unit subscribers. The

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acquisition will expose these subscribers to new services that they didn't previously have access to, including a 24 hour call centre and self service options.

On Neotel, following submission of the Neotel application to ICASA and the Competition Commission in July we continue to engage with both authorities for approvals. We remain hopeful that the process will be completed by the end of March 2015. This concludes our introductory comments, and we are ready to take questions.

JP Davids

Good afternoon. I've got three questions please. Firstly, on voice traffic in the second quarter for South Africa. It looks like the growth has remained positive but it has slowed quite considerably from the first quarter in terms of outbound traffic growth. Is that something that is of concern to you or really reflective of the macro backdrop? The second question is on your post-paid migration to smart tariffs. You mentioned in the presentation this morning that will be done by March 2015. Do you see that as a catalyst for improved revenues from the contract base into F2016 year? And then finally a question for Ivan on the financing of Tanzania, the Vodafone loan. Can you talk us through a little bit of the interest and potentially tax savings of financing that internally rather than going external? Thank you.

Ivan Dittrich

Okay, great. I think lets' start with the loan. The financing of Tanzania, we financed that through Vodafone. And it was financed on an arms-length basis so the rates are competitive and similar to what we would have achieved in the market in South Africa. Obviously the cost of putting the finance together in terms of professional services etc. is a lot lower if we do it within the Group as opposed to going externally. But the interest rate that we pay is essentially JIBAR plus a margin, and it was a very competitive rate.

Shameel Joosub

Basically on the post-paid migration and the voice traffic, I think what we are seeing in the second quarter is a slow-down in the voice. That is effectively coming from the bundles. It is really coming from two sides. With 70% of contract customers now having shifted onto bundles initially you see a big uptick as that starts to slow down. And secondly, your prepaid bundle uptake from Q1 to Q2 has slowed. The rate of uptake in Q1 was obviously much faster so you saw more year on year growth when you basically look at the previous year. Bundles started sometime last year and your denominator gets bigger on the one side. And then obviously quarter on quarter there is a slowing in the number of bundle uptake. Because of Power Hour we are now consistently seeing 40 million plus bundle sales per month.

In terms of the migration for post-paid, yes, I would say that once you've completed the voice migration it does leave more potential for growth in the contract space. I also think that there will be a little bit of lapping, because essentially what the contract transformation is about is giving customers more value for the spend and holding onto the spend. They then have to grow into those bundles. So with 70% of the customers already having moved effectively by February or March we will have completed it. So most of next year you will start to see customers now increasing and going a little bit out of bundle. And with the big increases in data traffic I think you start to see a little bit out of bundle data spend or bigger data growth coming through. It also gives us a little bit more leeway if you like because the hybrid plans will be finished by November, and then we will have a little bit more leeway to figure out transformation on prepaid.

JP Davids

Thank you for all those answers. One quick follow-up on the voice traffic. The explanation is very clear. Just in terms of whether that is something that concerns you or not, that the pace of voice minute growth is slowing or at least moderating. Is that something that worries you, particularly in light of your strategy to lead price transformation in South Africa?

Shameel Joosub
It actually doesn't because effectively the massive increases you were seeing was the shift from price per minute into bundle. Now you're seeing a 40 million bundle sales per month. Actually we ended the quarter at about 45 million bundle sales. So we are confident that we are still seeing the transformation that we needed. Remember if you are buying an hour of talk time for the day and you're basically not growing the utilisation but you're paying your R5 or your R10 for the hour. That's great because we get a better effective rate. But at least you know you've got worry-free pricing and you're paying 6c or 7c per minute.

JP Davids
Thank you very much.

Thato Motlanthe
Good afternoon guys. I've just got two questions on South Africa. The first one is a point of clarity. The R325 million adjustment to voice revenue, am I correct in understanding that going forward the Q2 base that excludes that R325 million would be the proper base to be looking at in terms of quarterly revenues going forward.

Ivan Dittrich
Yes, that is correct. The R325 million was a once-off adjustment.

Shameel Joosub
Obviously you would have the positive from the change in accounting rule going forward as well every quarter from now on in. So some of the R325 million would relate to the current quarter, but yes, the adjustment is a once-off.

Thato Motlanthe
So just looking for direction on some of your costs. The first one on your staff costs. I see that the head count actually went up during the half. I'm looking for what the dynamics were there and where you see that going forward. And secondly just on your other operating costs. With capex ramping up further can you give us some guidance on the trajectory of the cost increases there?

Ivan Dittrich
So firstly just on payroll costs. There has been a slight increase in head count, but those increases were mainly in some of our core growth areas like financial services and enterprise etc. And then obviously we had wage inflation which also pushed up the payroll cost. In terms of modelling payroll costs going forward I think you can assume flat head count with moderate wage inflation. And then with regards to your other operating costs, in that bracket is obviously the network operating expenses. And in there we had some further savings in our leased line expenses as we continue to build more and more of our own transmission. Clearly with the increase in our accelerated capital expenditure some of the cost savings that we obtained managed to offset some of the increased network operating expenses with the accelerated capex. I think very importantly just remember in our interim results in the other operating expense line is where we've seen our foreign exchange impact. In South Africa we had an FX loss of R155 million in the half. And we have the impact of about R167 million on non-Rand denominated expenses. The FX impact on South African opex was

over R300 million for the period. We obviously are looking to optimise our opex as much as possible. We're looking at every single line of expense, as I said in the presentation earlier today. We are still continuing to procure more and more through the Vodacom procurement company, so we benefit from global scale. We've reduced publicity costs during the period. We are looking to rationalise some of our property expense and as always we will be very vigilant on our payroll costs. It is really important to not disregard the impact that forex has had in this six months.

Thato Motlanthe
Just as a quick follow-up, so would you say that then going forward the absence of those forex losses in future costs would offset some of the upside that you see on the capex related opex increases?

Ivan Dittrich
Yes.

Craig Hackney
Thanks very much. Just to come back to the South African outgoing voice revenue and traffic issue. If I try and calculate the elasticity there for last year I get 0.85 and for this period it seems to drop to 0.4 which is a massive change in price elasticity. Now, I guess there are two possible reasons here. One could be the impact of the bundling as we've spoken about. The other could be that your offers in this period weren't as competitive as they were previously. Then thirdly there is the macro-economic impact. Could you just talk about those three in the context of that big change in elasticity please?

Ivan Dittrich
I'm not sure where you get the 0.4 from.

Craig Hackney
I was comparing outgoing MOU, which seems to have increased 8%, versus outgoing average rate per minute, which seems to have come down 19%.

Shameel Joosub
Okay. I think what you are finding is that customers essentially...I think firstly look at the total traffic. Total traffic is up 17.6%. And pricing is down 19%. Remember it is part of the whole bundle strategy. So one has to take the total traffic versus your price per minute decline. Because remember when you calculate your price per minute you're dividing by the total outgoing traffic.

Craig Hackney
I just want to do it on a per subscriber basis as opposed to an overall basis.

Shameel Joosub
It's a little bit more complicated than that. We can obviously work with you on that. Essentially we had about a 0.9 elasticity.

Craig Hackney
Okay. And did you see that as being materially different to last year?

Shameel Joosub
Yes, because last year we were using one to one. And there has been a slight weakening on the elasticity side. And I think that has come from a couple of things. Firstly, as you penetrate the base

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you get to the lower segments. You get your early adopters and once you move down the value chain you are probably not achieving that same one to one elasticity. Secondly you are also finding the consumer is under pressure, so a little bit of optimisation I would say is coming into play as well.

Craig Hackney
Okay. And then just a last question. Is it possible to get the Rand interconnect costs for South Africa and international, or alternatively just the net interconnect for each of those?

Ivan Dittrich
Look, the interconnect for the half overall was positive R110 million in South Africa.

Shameel Joosub
I think that's why you will find that the mobile termination rate impact after this year becomes a much smaller impact in our life, because the dramatic decrease which takes you down to the R110 million is obviously what is causing the drag on the figures.

Ivan Dittrich
For international that figure was R270 million.

Shameel Joosub
Remember your termination rates generally in the markets are very low.

Craig Hackney
Yes. Okay. Thanks very much.

Guy Peddy
I just wanted a big picture for your updated guidance. You've kept revenue guidance roughly where it is, but clearly slightly toned down EBITDA. Can you talk about the mix impacts in your business initially going forward? Are you suggesting therefore that there is going to be more revenues from your international properties which obviously have a lower margin, or is it because the cost of business is going up in South Africa? If you could just talk about some of those things it would be helpful. And on a more technical thing, you suggested there would be a R1 billion hit because of MTRs and you've done just under R600 million in the quarter. Does that suggest that in the second half we should be looking at a lower MTR impact? Thank you.

Ivan Dittrich
Thank you. Firstly on the MTRs, it was short of R600 million for the first half and we do expect a lower impact in the second half due to the reduced or significantly reduced asymmetry that will kick in with effect from 1st October. Then in terms of the guidance, yes, mix does come into play in terms of international being at a slightly lower EBITDA margin portfolio compared to South Africa. But I would say one of the issues that we are dealing with in South Africa is clearly a difficult macro environment. We are dealing with significant pricing pressures and price competition. And MTR has had a significant impact as well on our EBITDA guidance going forward. Now, the guidance that we've given from a service revenue perspective is low service revenue growth. We kept that unchanged. And if you were to for example put a definition to low service revenue growth it could be anywhere from 0.1% to 3%. I think that would be the rule of thumb in terms of what is considered to be low service revenue growth. With the macro environment and the pricing pressures there is also some softness in terms of service revenue which then obviously falls through to EBITDA.

Shameel Joosub
And just to add, there is a deliberate strategy in South Africa to complete the voice pricing transformation. We did say that we would take three years to do it, and I think we are in year two of that three-year period with contract finishing in February or March, hybrids in November next year, and I would say a big focus on prepaid.

Guy Peddy
Thank you.

Mike Gresty
Good afternoon guys. Thank you for the opportunity. Just two things from my side. First of all, it looks like there was a very sharp slow-down in equipment revenue in South Africa in the last quarter. I suppose to some extent that was expected. But could you give a bit of colour on what is going on there, in light of the Rand having weakened and what have you? Why did it fall so quickly? And then the other thing, there has been some press comment about pressure to list the Tanzanian operation. I'm just wondering what you're thinking about that please.

Shameel Joosub
Okay, so I will start off with the Tanzanian one. Effectively where we stand at the moment is there is a draft regulation calling for the local listing. But it is just a draft regulation, and effectively us and the entire industry are pushing back on that one and effectively pushing the angle of the talks to local shareholding. The Telecommunications Act actually talks about local shareholding and not necessarily a local listing. And so we are pushing back against that requirement. And we've also taken legal opinion on the matter, and I think there is enough protection in the constitution and in the Investment Act and the Telecoms Act in general to protect against a forced listing if you like. What we are really pushing for is local ownership can be done in other ways. And also previously it has always referred to should we want to list. And I think that is really the part that we are kind of...it should be voluntary and incentives should be given to people to encourage listing.

Ivan Dittrich
At the end of the day it should be at the discretion of the company whether or not to list. Mike, just on the equipment revenues, it was a bit lower in Q2 this year. There was a slight reduction in our handset financing deal. But if you look overall at H1 this year versus H1 last year it was at reasonably similar levels.

Mike Gresty
It does look like it slowed in the last quarter. Unless I managed to mess it up it looked like it actually went backwards in the last quarter. I may need to check my numbers there. Is that not what you are getting?

Shameel Joosub
We got 4.5 million sales in the half in terms of devices. Effectively I think what you will find is basically we will sell close to 9 million handsets this year. And so there isn't really a...you're not seeing a big massive growth on the 9 million year on year sales, which is I think more or less what we expect.

Ivan Dittrich

There is one further technical reason as well. In Q2 last year we had a once-off promotion where we sold quite a bit of extra BlackBerry handsets which if you look at it from a comparative perspective sort of distorts the quarter a little bit. But half on half it is pretty similar.

Mike Gresty

Great. Thank you very much.

Arnaud Mischler

Good afternoon guys. Just a quick question. I was wondering if you could give us any guidance on tax rate in future years.

Ivan Dittrich

I would model the tax rate based on the rate that we've seen in the last two or three years, which is around 30%.

Ziyad Joosub

Good afternoon everyone. Just a quick question on SA pricing. I'm not sure what impact the R325 million change in revenue recognition had on prepaid pricing, but it looks like pricing in prepaid in Q2 slowed quite significantly. It is closer to 15%. If you adjust for the R325 million it is closer to 20%. On the high court ruling on MTR asymmetry in September could you give us guidance on how you see pricing evolve, particularly in the prepaid space over October or the first bit of Q3?

Shameel Joosub

Okay. So I think if you look at your ARPUs in prepaid your ARPU was down 10.8%.. Effectively your pricing decline was 18.6%. There was a bit of a slowdown in prepaid but obviously it was offset by an increase in overall minutes. So there has been a slow-down. Prepaid customer revenue was up 4.6% for the half.

Ziyad Joosub

In terms of competitor price moves in October are you seeing them be a bit more cautious, particularly Cell C after the asymmetry ruling? Or is it too early to tell?

Shameel Joosub

I think the big challenge this year has not actually come from Cell C. I think there is more rationality in Cell C. Effectively the competition has come from MTN. I think it is fair to say that we had a bit of an advantage in that MTN wasn't doing too much in the last 18 months or two years. And now they are back in the market and competing more effectively. So the market is a bit tighter. What we have seen is that they have gone for a bundle strategy as well as opposed to going for straight price cuts. I think the pricing regime or the 79 cents and the 69 cents have effectively slowed down quite substantially. It is now moving to more bundles. I would say the most impactful offers in the marketplace at the moment is Power Hour and the MTN R60 for R6.

Ziyad Joosub

Okay. Thanks very much.

Chris Grundberg

Thanks guys. Just a couple of quick ones. I just wonder if you could give and update on spectrum in SA and any engagement you've had with ICASA and the DOC on possible issuance of the 2.6GHz

spectrum. Any updated expectations or a timeframe for that would be interesting. And then as a second question just around the point you made on direct costs, management costs, we've seen some quite big contracts being signed by some of your competitors in that regard in terms of outsourcing network managing to some of the network vendors. I'm just wondering if that was something you had considered, would consider to do currently for any portion of your network specifically in South Africa. Thanks.

Shameel Joosub
Let me start with spectrum. I think there have been some noises about allocating of 2.6GHz spectrum and possibly 800MHz spectrum as well, and invitation to apply to come out later this year or early next year. Now, I think the difficulty is going to be the 2.6GHz spectrum will probably be allocated. The 800MHz one doesn't seem to be coming available in the short term. However, if it is allocated or auctioned quickly I think the big thing is that it gives us a chance to forward plan. So if it becomes available we can ensure that the networks are ready for that date so that we can basically flip a switch and turn on the 4G services country-wide based on availability. So clarity even if it is allocated at a later date will give us a better chance to plan. I think the 2.6 spectrum will give us a little bit of relief in the interim, but it doesn't solve our issue from the perspective that it is the 800 or 900 or 1800 spectrum that will be more worthwhile specifically for covering larger areas and building the 4G network to an even larger extent. That's the one side. I think that is why I say the Neotel deal and to some extent the Telkom MTN deal is the industry making a plan. Cell C on the other hand has capacity because it is not getting anywhere near the numbers that us and MTN are getting on our networks.

In terms of network management costs what we are doing at the moment is looking at more opportunities with the different network operators to see how much we can share. Everything from sharing a head office site as well as sharing things like fibre as well as sharing costs and so on. So I think much more aggressive sharing as we go forward with anyone who is willing to share. And then obviously from a branded perspective we are not looking to outsource a lot of things. But obviously we constantly look at optimising our business. So if there is a cheaper way to do it, yes, we will capitalise on that opportunity. A fair amount of our services are outsourced today. The important thing though is to make sure that you don't outsource what I call the intelligence layer.

Chris Grundberg
That's very helpful. Thank you.

Maddi Singh
Yes hi. Thanks very much. I just wanted to understand what you are seeing in the international markets, especially given that you have some new competitors coming up in these markets. What kind of outlook are you seeing for revenue growth and margins? And also can you comment on the performance in the second quarter. Did you see the competitive outlook getting better or worse, and so on? On the Neotel deal I just wondered what stage the deal is exactly in. I see that you say it is expected to be closed by end of year. I'm just wondering exactly what stage you're in. Thank you.

Shameel Joosub
Let me start with Neotel. I think essentially where we find ourselves is the applications are before the Competition Commission and the regulator. There have obviously been a lot of requests for information and so on. We are engaging constantly with them and providing information. There was a public process that ICASA conducted for comments and that type of thing. I think a lot of progress has been made on it. What we are saying is that we're hopeful that the transaction will be concluded

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by March. I think it is crucial that it happens by then, because the longer we hold out the more pressure we are putting on Neotel, firstly from a retention of people perspective, secondly from an ability to fund the business properly. They have really accelerated growth. The sooner we can take it over the sooner we can basically put some serious capex behind it and accelerate the business. I think we see that we should be able to take our combined fixed businesses and be able to grow it in the 20s. They do about R4.5 billion. We do about R1.5 billion in South Africa. That's a R5.5 billion to R6 billion business we can constantly grow in the 20s.

I think where we find ourselves is we're still confident that we can grow the international segment in low to mid teens. And we can improve our margins in the business. We have to make sure that we continue to invest in the markets specifically to capture the data growth opportunity. I think a lot of investment is going in. What we are seeing is specifically in Tanzania in terms of growth rate, and we should see a much better second half compared to the first half because the pricing decreases happened last year and there has been a couple of sequential price increases since then but we are getting to the stage where we are lapping last year's lower growth.

Ivan Dittrich
From an EBITDA margin perspective during the half we reported an EBITDA margin for the international segment of just over 29%. That includes our enterprise business in Africa. So the margin for our MNO businesses was 30.5%. There is still some good possibility or good room to improve these margins going forward over the medium term as we start to benefit more from scale in these operations.

Maddi Singh
Thank you. Can I have a follow-up question on the dividends? Given that you maintained your policy of 90% payout does that mean that absolute dividend for the full year also could go down and there would be no support on the downside of the dividend?

Ivan Dittrich
Our policy is to pay 90% of our headline earnings per share, so the policy is to pay a ratio of the earnings. And then it depends on what your view on the second half and the full year is. Seasonally our second half has been much stronger than the first half. We do expect a better performance in H2 relative to H1.

Maddi Singh
Thank you.

END OF TRANSCRIPT