

Conference Call Transcript

15 May 2017

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd results conference call for the year ended 31 March 2017. Vodacom Group 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 results for Vodacom Group Ltd for the year ended 31 March 2017 contains forward-looking statements. These statements 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 positions, 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 and 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 or results presentation it is available on the investor relations website on www.vodacom.com. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you need assistance please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Thank you. Good afternoon everyone and good morning to those joining the call in the US. I'm joined by our CFO, Till Streichert, and Sean Van Biljon, our Head of Investor Relations. I will start off with the first part of today's exciting news. As many of you are probably aware by now we have announced this morning that we will be acquiring a 35% stake in Safaricom in Kenya in a deal concluded around R34.6 billion. Safaricom is the premier telco operator in East Africa and a prize asset on the continent, and we are very excited to be doing this deal. I will go through some more details on the transaction later during the call, but first let's go through our annual results which were also released this morning.

I am pleased with what we have achieved this year. Our South African operations continue to deliver good results with good growth and improvement in margins and supported by strong customer additions. With regards to our international operations this was always going to be a tough year for us following the customer disconnections that we had in the prior year. We were going to have to claw our way back. Our teams have worked hard to make sure that the new customer registration processes run smoothly and efficiently and we are seeing improvements in customer inflows.

Our results show that we continue to make great progress against the strategic priority of network differentiation, offering customer more value through segmented and personalised offers. Our bundle strategy and first client offers are delivering good results. In this year alone we sold 1.5 billion bundles in South Africa. And finally when we look at the results of our customer experience metrics we are seeing an increase in the gap in scores to our closest competitor in South Africa and an improvement across our operations. This is an endorsement by our customers that we are delivering on our promises.

So let's talk about this and how it has translated into our numbers. Before getting into the results there will be some instances where I talk about normalised growth. This is in reference to currency normalisation, so on a like for like basis. This is important as there was quite a bit of volatility in exchange rates this year affecting the translation of our international operations. Group revenue was up 1.5% in the year and service revenue grew at 2.3%. Normalised growth was up 3.4% and 4.4% respectively. The growth in service revenue was supported by a 5.5 million increase in customers and data growth of 16.4% as our network differentiation continues to deliver both customer growth and sustained data revenue growth. Revenue growth was also impacted by a 4.4% decline in equipment revenue as a result of slightly lower device sales, mainly impacted by weaker currency for most of the year.

EBITDA was up 2.9% to R31.2 billion and 7.1% on a currency neutral basis with the group EBITDA margin expanding by 0.5% to 38.4%. The expansion in margin was achieved despite a R331 million net foreign exchange loss with a net gain of R383 million in the prior year. South Africa expanded their margin by 1.2% to 41.4% with most of the improvement achieved from the contribution of margin improvement. The margin in the international operations was somewhat under pressure due to the slowed top line growth. We took a number of mitigating actions in these operations to limit impact on margin, and the team executed well. Once we see revenue growth improving in these markets we should start realising scale benefits again.

On group capital expenditure our group capital expenditure declined from the prior year as we have come out of the acceleration programme. However we still invested R11.3 billion in the group or 13.9% of revenue. Operating free cash flow was up 18.4% to R19.6 billion boosted by the growth in EBITDA and lower cash capital expenditure. HEPS was up 4.5% to 923 cents per share. Finally, the board has approved a dividend of 435 cents per share in line with our dividend policy of paying out at least 90% of our headline earnings. This takes the total dividend to 830 cents for the year.

Moving to the segments and starting with South Africa, the sustained strong performance in South Africa delivered 5.6% service revenue growth. This was achieved through strong customer additions and increased demand for data and enterprise services. We added 2.7 million prepaid customers and 218,000 contract customers in the year. We attribute our success in prepaid to our personalised Just 4 You offers, successful launch of our youth proposition and engaging summer campaign. Total prepaid bundle sales increased 35% with 1.4 billion bundles sold. This is unlocking more value for our customers and effective reduction of 13.7% in the effective price per minute in prepaid. By giving customers value bundles as appropriate for their affordability overall usage increased and more customers have started using our services. This resulted in a slowdown in voice revenue declines to 3.7%.

Our contract customers continue to choose us for our superior network and differentiated customer experience and are staying with us for longer. Contract churn fell to an all-time low of 4.2%. Contract ARPU improved to R408 driven by data demand. Data revenue now contributes almost 40% to service revenue and grew at 19.7%. We continue to expand the number of customers using data by 8.3% to 19.5 million through wider network coverage and access to affordable devices and

price plans that are appropriate. Bundle sales are performing well as we sold over 495 million data bundles, up 45% year over year. Our bundles are our key strategy in giving customers better value. Price per MB has reduced by 16% year on year and 44% over the last three years as we focus on addressing out of bundle pricing and providing more value to our customers.

Our vision of investing heavily in 4G is continuing to show benefit. There are 5.1 million 4G customers on our network as we focus our data strategy on increasing 3G and 4G device uptake. ARPU for these customers increased by 25.5% on average as customer transition from 3G to 4G. This remains strong and is very encouraging as we continue to gain greater mass with customers. Usage was strong with the average MB per smartphone increasing 25% to 560 MB with high-end smartphone usage growing by 32% to 1.6 GB.

Enterprise continues to deliver on the scale that they have been building on. Revenue growth was up strongly at 9.4%. We secured the national and provincial departments' mobile voice and data communications contract for a period of four years which will enable us to support great innovation. The customer migration is expected to commence in the first quarter and is not in the numbers that we've published.

We saw strong growth in EBITDA of 7.2% as we delivered well on cost-saving initiatives with a specific focus on contribution margin. We have improved contribution margin through incentivising for better behaviour across our channels as well as steering subsidies towards 3G and 4G data enabled devices. This results in our margin expanding by 1.2ppts to 41.4%. Our capital expenditure of R8.5 billion allowed us to widen our 3G and 4G coverage, improve voice quality and improve data speeds. 4G coverage is now 75.8% up from 58.2% a year ago, and 92% of our sites are high speed transmission.

We are focussed much more on our IT capabilities in order to achieve our big data objective. We have completed the development of new customer management and billing systems for the contract customer segment to future-proof our operations. We have also entered into commercial agreements with WBS that will enable us to roam on their 4G and 4G+ network.

If we now look at the international segment short-term pressures still remain with customer registration processes and a slowdown in DRC offset by signs of improvement as well as consistent execution in Mozambique and Lesotho. Our translation of non-Rand-denominated subsidiaries and the improvement of the Rand has impacted reported growth as well. Service revenue declined 5.6% year over year but was up 2.2% on a normalized basis. Customers increased 9% to 29.7 million as we saw improvement in positive net additions during the year. We are still adding to our customer numbers to achieve the levels prior to the disconnections.

EBITDA declined 15.6% while the margin contracted by 3.1ppts to 26.2%. There was a bigger focus on cost containment especially in network operations in the period which assisted us in limiting margin compression from lower revenue growth. M-PESA continues to be one of our success stories in these operations with M-PESA revenue growing 90.4% with a revenue of R1.9 billion fuelled by continued success in Tanzania and boosted by a strong uptake in the rest of the operations. Tanzania is the blueprint of success for the rest of the operations. 63% of total customers now use M-PESA and it now contributes 27% to Tanzanian service revenue. During the last quarter Tanzania launched an M-PESA app that has unique features to improve customer experience such as QR code payments, easier access to contacts and predefined amounts.

The number of customers in DRC has reached more than 2 million and 48% of the base is using the service in Mozambique as well. In Mozambique we have over 2 million customers that are using M-PESA. In total there are 12.9 million M-PESA customers, up 40% from the prior year. We have

implemented a new M-PESA platform with enhanced technology which has significantly improved stability resulting in increased trust with customers. Our capex investment in these markets was 16.3% of revenue. The focus remained on increasing both coverage and capacity, thereby adding 284 4G sites, 888 3G sites and 536 2G sites since March 2016. That concludes our highlights on the two segments. Let's move over to our medium targets and provide an update on priorities.

Our group medium targets have been updated with group service revenue targeting mid-single-digit growth. So that's a change. It was low to mid before; we have now changed it to mid-single-digit growth. Another update has been the change to EBIT measurement criteria from EBITDA as this reflects a change in management's short-term incentives and an increased focus on optimising capital allocation across the business. The group capital intensity target remains the same at 12% to 14% of group revenue. We are confident that our investment to differentiate on network experience, proactive pricing transformation and improving our service to customers will continue to sustain service revenue growth. Data demand remains high and we will continue to bring down the barriers to entry by providing coverage everywhere and reducing the cost of devices. There are some macro, regulatory and competitive challenges that persist, particularly the pressure in the macro environment in the DRC which we will be monitoring closely.

With regards to the focus on the rest of the financial year firstly the ICT white paper. Vodacom is committed to following the objectives of the white paper which is to make broadband more accessible and affordable for all South Africans. We have had a number of meetings between the Minister and industry. We have come up with a unified proposal between the main operators which we have presented to the Minister. That is the six operators in South Africa. The proposal outlined the operators' vision of creating a wholesale network whilst still allowing current operators the opportunity to access high demand spectrum. The Minister is taking the proposal under consideration and we await his feedback. For now the IT process initiated by ICASA for spectrum auctions has been halted pending a review by the courts.

On the Tanzanian listing we are closing out on the allotment of shares for our Tanzanian listing and are on track to list by 6th June. Our focus remains squarely on areas that will deliver future growth. Data demand continues to grow and we are looking at new and innovative ways to monetise this usage while empowering customers to manage their usage. Enterprise growth is expected to continue as more and more businesses take their IT environment to the cloud. Our strategic partnerships will continue in assisting the delivery thereof. We will also start migrating customers in terms of the government contract which we won earlier in the year. New services include our IOT business, M-PESA, insurance business and fibre to the home business. Executing on the joint venture to install fibre remains one of my key objectives for the year. Till will continue to focus on delivering on our cost programme and optimise the returns on the investments that we've made over the past two years. That concludes my comments on the results. I will now give you some further detail on the transaction with Safaricom.

We have published the announcement on www.vodacom.com including a presentation on the background to the transaction. The deal is valued at R34.6 billion and Vodacom will acquire this stake through the issue of new shares in Vodacom in settlement of the transaction. We are acquiring the shares from Vodafone who will retain a 5% stake in Safaricom. The transaction is strategically important to us. It is an opportunity to acquire a significant interest in a quality telco asset. It is the market leader in Kenya with a 71% market share with a well invested, state-of-the-art infrastructure and spectrum. Safaricom pioneered mobile money and has Africa's most successful mobile money platform in M-PESA with 19 million customers today in Kenya.

It is amongst the best in class in operational performance from a margin and growth perspective. This is a unique opportunity for us to diversify Vodacom's economic exposure and earnings profile

in a single transaction. Safaricom will contribute around 15% to our earnings before amortisation of intangibles on acquisition. The Kenyan market is highly attractive as a critical market in East Africa and a higher growth outlook than South Africa, and is contiguous to our existing footprint. It is financially attractive and we are acquiring it at a discount of 5.9% to Friday's closing price. Acquiring it through the issuance of new shares will keep our balance sheet unencumbered for other growth investments. We see scope to create further value through closer cooperation between companies including best practise sharing and replication of Safaricom's success in M-PESA in Vodacom Group's other territories and the creation of a new pan-African enterprise solution in continuous markets in East Africa.

Let me give you an overview of the Kenyan macro environment and more specifically Safaricom. The Kenyan economy is projected to grow at 6% per annum over the next five years according to the International Monetary Fund. Kenya has a mobile penetration of 88% which is well below South Africa's mobile penetration of 146%. Kenya has emerging middle class with an appetite for high-value goods and services and a high potential for further growth in mobile penetration. Safaricom is the largest mobile operator in Kenya with approximately 71% customer share and serves over 28.1 million customers. Safaricom is the leading data network in Kenya and is well placed to capture the strong growth in data revenues going forward. They pioneered commercial mobile money transfers globally through M-PESA, the most successful service of its kind anywhere in the world. Launched in March 2007 M-PESA now has over 19 million active customers and over 135,000 M-PESA agents countrywide.

The company benefits from well invested, state-of-the-art infrastructure. It is the only operator with a nationwide network which currently provides 85% 3G population coverage. In FY2017 Safaricom's revenue was KSh 213 billion or R29 billion. It's EBITDA was KSh 104 billion or R14 billion with a 48.1% adjusted EBITDA margin. By way of comparison Vodacom's EBITDA is 38.5%. Over the past five years revenue has grown at a CAGR of 14.8% and EBITDA at a CAGR of 22.5%. M-PESA revenue has grown even more strongly at 28.6% over this period. Although we will be accounting for the investment as an associate I would like to give you an idea of the proportionate size of this transaction. 35% in proportionate service revenue equates to around 12.6% of the combined group service revenue. In essence we are creating a more diversified revenue portfolio with South Africa contributing 66%, international operations 21% and Safaricom will represent 12.6%. And this is similar for EBITDA.

It enhances our growth drivers with a large portion of the revenue contribution now coming from M-PESA and data. The structure of deal well set out in the announcement and in the presentation which is available online. There are a number of conditions that will still need to be met as always before the deal is concluded. Most notably there will be a shareholder vote for the transaction. A circular will be distributed to shareholders and a general meeting will be set up on about 15th August for this purpose. We are aiming to conclude on this transaction before Stepper of this year. That concludes my comments. Till and I are ready to take your questions.

Operator

Thank you very much sir. Ladies and gentlemen, at this time if you wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the question queue. Our first question is from Cesar Tiron of Merrill Lynch. Please go ahead.

Cesar Tiron

Yes hi. I have two questions. Sorry about it. The first question would be if you can share more information that will help us assess the pace of potential recovery in your international cluster. The second one, if you could please discuss the change in management KPIs and guidance from

EBITDA to EBIT and if I should conclude from this that there's an incentive to decrease capex and therefore DNA for management over time. And then finally on the Safaricom transaction you said very good things about Safaricom. But equally you showed in your release that the transaction is 5% dilutive to earnings for 2017. So how can I reconcile that? And also do you expect to see some synergies from the transaction in the future? Thank you.

Till Streichert

Okay, let me take the first question on the international recovery. The way to think about that is we have had the impact of customer registration in this fiscal year's numbers. Remember 15 months ago we have disconnected a number of customers to comply with customer registration requirements. If you compare the numbers year over year we have pretty much reached the customer base levels that we had 15 months ago, hence my expectation is that going forward across the international portfolio we're going to see in essence a rebound in terms of service revenue growth throughout the year. So that's the answer to the first question.

On your second question on EBIT and EBITDA in essence it does focus a bit more on quality of capital allocation and return optimisation. I would not read into that a direct correlation to capex intensity. Remember our guidance covers as well capex intensity. Service revenue, EBITDA and capex intensity, and then capex intensity specifically. We have confirmed as a three year target 12% to 14% of group revenue. So I think that's fairly straightforward and clear.

On the Safaricom side let me first deal with the technical question and then we will go a little bit into the aspect of synergies. You will make reference to the pro forma numbers. And in essence on FY2017 numbers in fact it would be headline earnings per share dilutive. That's correct. But what I would like to remind you of is that this is carrying a preliminary amortisation charge of the intangibles on acquisition. If you add that back you would be in essence seeing a slightly accretive picture for the last fiscal year.

Cesar Tiron

Thank you. And can we expect to see some synergies mainly on M-PESA or anything like that?

Till Streichert

Let me just give you a few points on how we think about it and what we see. In essence Safaricom is the absolute leader in M-PESA. We certainly can learn a lot from them. Our best market in terms of M-PESA is Tanzania with about 63% penetration of our customer base there. So I do expect that we can learn a lot from how Safaricom has done that across all our markets, which I think is fantastic. At the same time we certainly have shown over the past two years substantial progress and results in our financial number from big data analytics, from CBN enhancements and Just 4 You type campaigns, so personalised offers. That is certainly something that we can bring to the table. And the third topic that I could think of is clearly about enterprise. Enterprise is already today a pan-African play and of course intensifying the cooperation with Safaricom would be of good use and benefit for Safaricom and Vodacom.

Cesar Tiron

Thank you for your detailed answer. Thank you.

Operator

Thank you very much. Our next question is from Jonathan Kennedy-Good of Standard Bank. Please go ahead.

Jonathan Kennedy-Good

Good afternoon. I just wanted to clarify your medium-term guidance. Is that still a three-year guidance from commencement FY18 or does it incorporate FY17, the year that is just passed?

Till Streichert

We are updating this on a rolling basis going forward. So what we previously had was in fact a fixed three-year period. And a year ago we have changed that to a rolling one. So when I talk about the medium term targets I'm talking about three years going forward.

Jonathan Kennedy-Good

Thank you.

Operator

Thank you very much. The next question is from Craig Hackney of NOAH Capital Markets. Please go ahead.

Craig Hackney

Thank you. Just two questions on the Safaricom transaction please. We've got an ongoing investigation of dominance issue in Kenya at the moment regarding Safaricom. How have you dealt with this in assessing the attractiveness of the deal? And what sort of comfort can you give to Vodacom shareholders that the operating environment for Safaricom will not become materially tougher pending the outcome of this investigation? And then secondly I just want to clarify a comment from the presentation this morning. Did you say that dividends from Safaricom would get passed straight through to Vodacom shareholders over and above the normal dividend? Actually I suppose I answered my own questions because it will still be 90% of HEPS and it will be in the HEPS. Am I understanding that correctly?

Till Streichert

Let me deal with your technical question first. On the dividend policy which we have put also into the announcement the way to think about that is look at our group results. And we are confirming on our group results excluding the attributable net profit or loss from Safaricom and any associated intangible amortisation from it, and we are paying out 90% of that. And in addition we intend to in essence pass on the dividend that we receive from Safaricom onto our shareholders. In essence that is the most favourable way to think about a dividend policy with Safaricom.

Shameel Joosub

On the dominance issue I think where we're at is basically firstly I think government has come out strongly saying that there will be no separation between M-PESA on dominance and so on. But we have also baked into our plans certain regulatory changes that we thought would be not full dominance but that could be negative. So we did build those things into our plans as we looked at the value of Safaricom. And I think it's important also to realise that in every market operators face regulatory considerations. The good thing about Safaricom is that government is part of it. So that's why I stressed the point that it's a good relationship this morning because anything they do to hurt Safaricom hurts them as well.

Craig Hackney

All right. Okay. Thanks Shameel.

Operator

Thank you very much. Ladies and gentlemen, again if you wish to ask a question please press star and then one. Our next question is from Alistair Jones of Newstreet Research. Please go ahead.

Alistair Jones

Hi. Thanks for the question. I just wanted to talk on the EBITDA margins. In South Africa you reached 42% in the second half of the year and you're obviously looking for further margin expansion in terms of your overall guidance for the group. In terms of the upside from margin is that going to be predominantly focussed in international as you talk about a recovery there, or do you think there is scope for further margin improvements above the 42% level in South Africa? That's the first question. The second one is just on the voice revenues. I think you mentioned in your opening comments about the voice revenue declines were easing. But if you look at the back end of this year they have actually been deteriorating a bit. I was wondering what is really driving that and whether we should see more stabilisation going forward or if that's the level to use. And then just finally if I could, I would be interested to hear your thoughts regarding the Safaricom transaction. If you look at the rest of Vodafone's assets they've obviously got Ghana in their ownership. And I was just wondering on what your view is on further purchasing of other assets across the region and particularly in relation to Vodafone's holdings. Thank you.

Till Streichert

Okay. Let me deal with the first two questions on EBITDA and on voice revenue. On EBITDA margin I highlighted earlier this morning as well I do expect that the international markets to rebound driven by top line growth and continuation of good cost focus that we've introduced over the last two years. And hence on margins I do expect that there is a positive contribution on margin expansion from the international segment. Equally in South Africa we continue to target slight EBITDA margin expansion going forward. And it would come indeed from continuation of our successful fit for growth programmes and in essence good cost discipline.

On the voice revenue side I'd just like to highlight two main effects. One effect is from the prior year. Remember one year ago in our disclosure we highlighted that we had a once-off pre the acquisition of Autopage of our service provider there. And during that clean-up of the customer base the deferred revenue balance got released in Q3 and Q4 and that gave last year's number a little bit of a boost on the voice revenue, hence we are battling against a slightly harder comparative. And the second element is really commercially driven. We are also battling against prior year anniversary of a big take-up on Just 4 You voice campaigns and voice revenue in there. So going forward on voice revenue I would expect that we are continuing to see a less than 5% decline in South Africa.

Shameel Joosub

And I think as long as we can keep that decline to below 5% and continue to expand data in the late teens then effectively you start to see the top line continuing to perform strongly. On the question about the rest of Vodafone's assets I think we look at it on a case by case basis to be honest. Not to say that Vodafone is ready to do anything, but if they were it would have to make sense for us and for our shareholders. So it would be very much price dependent I would say. But I think what's clear is that all the East African and Southern African assets are under us. I think we need to bed this one down from an investment perspective. I think we need to start the Fibre Co in South Africa, and that's where we need to put additional investment in. And then effectively if there are other opportunities I think African assets are becoming a bit cheaper or more reasonable. There are quite a few things up for sale and there is opportunity to cherry pick one or two quality assets provided that the prices are right. So it doesn't have to be Vodafone in other words.

Alistair Jones

Thanks.

Operator

Thank you very much. Ladies and gentlemen, again if you wish to ask a question please press star and then one. Our next question is from Madi Singh of Morgan Stanley. Please go ahead.

Madi Singh

Hi. Thanks for the call. Just a couple of questions. Firstly following the transaction I was wondering because it is a non-cash transaction it shouldn't have any impact on the dividends. And as your capex is coming off should we expect any increase in the pay-out ratio as well going forward, or we should still continue to expect only 90%? In fact FY2017 looked slightly below 90% pay-out. And secondly just following up on the data revenue trends in the international businesses as well as South Africa. There seems to be a bit of slowdown in the fourth quarter, specifically South African data revenues grew only about 18%. Is that a slowdown or is that seasonality? Can you please provide some details there? And in the international businesses the data revenue growth seems to be quite weak. Can you just explain? Is it simply the same regulatory issues and SIM disconnections which is driving that or is there any other factor behind that? Thank you.

Shameel Joosub

Okay, so firstly, are you serious 90% is not enough? You've got to leave some money for us to continue to grow the business. The answer is no, and a very strong no. I think basically if you look at the dividend policy that we've communicated today in that 90% will be continued to be paid from South Africa and we will pass on the cash that comes through from Safaricom. I think that shows strong intent in terms of increasing the dividend policy. We could have included Safaricom's dividend into our dividend policy and that would have landed up with a lesser pay-out. So I think the 90% is quite punchy already. So that's the first part. And also we add on the Safaricom part. I don't see more being paid out.

Madi Singh

Sorry to interrupt, Shameel. The HEPS we will get after including Safaricom, that would already be higher. So you're saying that 90% of that higher HEPS plus any dividend Safaricom pays?

Shameel Joosub

No, we're saying that the normal Vodacom Group HEPS will be paid out at 90% and whatever comes from Safaricom will be added to it.

Madi Singh

Okay. All right. Sure.

Shameel Joosub

So it's better than paying 90% or even paying out 95% of the HEPS because if you're getting all the Safaricom money you're actually in a much better position.

Madi Singh

Okay. And on the data revenue side?

Shameel Joosub

On the data revenue side I think where we are is... Let me start off with the international. I think in the international part clearly one of the things was the customer deletions and so on. So that did play a role. However the traffic is still growing quite nicely. There is a price repair issue in the international that needs to be dealt with, but that's a monetisation issue that we are focusing on. So in the international we need to monetise data better. Part of it is price-ups. Part of it is controlling the freebies. So there is some work to be done there in fairness, but we do see a recovery coming through in the international data revenue growth going forward also by increasing the number of customers and also increasing the number of data customers.

In the South African context remember you are battling against a stronger and stronger base as you go forward. And when you look at the fourth quarter of last year it was a very strong quarter. You must remember that data is now almost 40% of our service revenue. So I think it's only normal to expect that there is going to be a bit of a step down in terms of the growth rate. It can't grow in the 20s forever. So it will step down into the teens. And I think that's just realistic because it is becoming a bigger and bigger part of the base.

Madi Singh

Thank you. That makes sense. Thanks.

Operator

Thank you very much. Our next question is a follow-up from Cesar. Please go ahead.

Cesar Tiron

Hi. Just on the countries in Africa in which you would be interested, is Nigeria on the list?

Shameel Joosub

No.

Cesar Tiron

Thank you.

Shameel Joosub

No, look to be honest where we are at the moment is when you look at Nigeria there are assets up for sale, but really one is not happy with the macro. And I just think you're going to go into a market like that which is going to be tough all round. I'd much rather do Safaricom and have a prize asset with a good economic outlook and so on, because I think the currency in Nigeria stays weak for a long time to come. I mean we have a business in Nigeria, and to be honest it's struggling. It's a little fixed business. It is struggling and it is struggling because of the currency impact. A lot of your costs are still Dollar denominated. And ours is small so it doesn't really show up in our numbers. But I think all telco's are feeling the pressure and all businesses in Nigeria are feeling it. So I don't think it's the right time to invest into a country like Nigeria.

Cesar Tiron

Thank you Shameel.

Operator

Thank you very much. The next question is from Nkosi Moyo of Byo24News. Please go ahead.

Nkosi Moyo

Good day gentlemen. How are you? I just wanted to check with regards to the lawsuits that we have in DRC and also the Makate issue in SA do you have any new information on that? Maybe if you can throw more on the DRC issue.

Till Streichert

On the DRC I suspect you are asking a question around the M-PESA topic in the DRC. I think Shameel has answered that question earlier today. There are a number of court steps that we are going through. To be frank the M-PESA matter as such I think is very clear who owns the copyright respectively, who owns the M-PESA side. So in essence this patent infringement topic I think is without grounds, and we are going through all the steps that are necessary there. That's the DRC side. On the Please Call Me Makate topic the Makate party elected in November last year to

interrupt the negotiations and go to the constitutional court with a direct application to clarify aspects of the previous constitutional court order. The constitutional court has dismissed this direct application and has sent the Makate party back to the negotiation table. And hence negotiations have resumed. And I hope that over the next couple of weeks we will come to a fair and reasonable outcome in line with the constitutional court order.

Nkosi Moyo

Okay. Thanks.

Operator

Thank you. Next is a follow-up from Jonathan Kennedy-Good. Please go ahead.

Jonathan Kennedy-Good

Hi Shameel. I just wanted to flesh out your rather emphatic comment on not investing in Nigeria. I mean the macro issues are quite well known and look like they're bottoming out. I just wanted to try and understand. Do you believe that market doesn't represent the growth opportunity that people think it might be? In your experience with the business there do you believe that the regulatory environment is too unstable? Is it simply that past events have put yourselves and Vodafone off, or is there something else you might see in that market?

Shameel Joosub

Look, on the Nigerian part I think firstly its market structure. I think the player of reference in the Nigerian market is MTN, and I think they have done really well – and all credit to them – in that market. Let's set aside the fines and so on. But I think they have run a pretty good shop there with the result that everybody else has struggled. And also the price for going into the market because of the level of investment that these players have put into the market is very high. Now, there are a couple of folds. So your price point to enter the Nigerian market. It's not that there is anything wrong with the Nigerian market per se, because let's be honest, we also have challenging markets. The DRC has got its own issues and so on. So each market has its own issues. But I just think if we look at the price points for what people want for their assets. The currency has decreased significantly. The entry point is just too high.

And also it's a bit late in the day to now go in and do it, because the market structure is very much established. MTN has got the lion's share of the customers and so on. So the difficulty is what would you buy? I suppose the only thing worthwhile is Airtel and maybe Glo. And that's about it. And also it would take a very big capital investment, and you're putting all your eggs into that one basket, whereas I think doing a Safaricom diversifies our revenue. And the structure that we've always taken in fewer markets, well capitalised, is better than lots of markets poorly capitalised. And I still strongly believe that's true. So I think there will be some opportunity where there are other assets that will come up that are up already. And you can cherry pick because basically besides us and MTN there is lots of other stock up for sale. The two players that are [unclear], Vodacom and MTN. And the third one is Orange. So it is Vodacom, MTN and Orange that are there to stay on the African continent.

Jonathan Kennedy-Good

Thank you.

Operator

Thank you. Our next question is from Ziyad Joosub of HSBC. Please go ahead.

Ziyad Joosub

Hi everyone. Just two questions please on South Africa. On your other service revenue line that has been accelerating quite well over the past three quarters and it is adding quite nicely to incremental growth. I know it is made up of insurance, internet of things, fixed lines, roaming agreement etc. What has been the driver in the past 12 months for the improved performance in that particular line? And then also could you maybe give us a bit more colour on your data subsidy management and how that's progressing?

Shameel Joosub

The data what?

Ziyad Joosub

The 3G.

Shameel Joosub

The subsidy part?

Ziyad Joosub

The subsidy part.

Shameel Joosub

Okay. I think on the other service revenue line essentially it's all of the above that is growing to be honest. We are seeing very strong growth in insurance, 12.4% growth. 19% in the internet of things. The roaming arrangement continues to grow. So it is all the different services that are adding up. So there is good double digit growth in all of them. And I think that has proven to be very healthy for us.

Ziyad Joosub

And for the next 12 months you have still got a constructive outlook on all of those going forward?

Shameel Joosub

That's correct. Those are clearly the areas we would like to grow further, specifically the internet of things and our insurance business. One of the things that we're doing is we are taking some of these businesses, putting more focus on it, putting the right people in place, almost giving them their own P&Ls to run and effectively creating focus in that way. There are a number of gems sitting in Vodacom that we have not really put focus on. An example would be in the financial services play. What we have decided to do instead of launching M-PESA locally we've looked at M-PESA and said, what are the things that we could replicate without the heaviness of M-PESA? Remember M-PESA really is a big infrastructure, big distribution play as well. An example would be our airtime advance product. We do over R2 billion of advances to customers and we make about R250 million profit a year. To be honest we haven't advertised it for years. It just grows on its own.

What we are now doing is we have put some focus. And the big strategy that we're doing is we are taking these different services and using this big data platform that we've built with Just 4 You and so on, and effectively using that into those services as well. For example in loans if you would be giving a R10 loan can we extend it to a R20 loan? Those types of things. Do you allow a customer to pay it off over a period versus all at once? So there are a multitude of different things that we're doing, but a lot of it is going to now be informed by the same logic that we've put into Just 4 You. And that will transport into our content services and all of that. That for us is one of the big strategic plays going forward. So in the internet of things our internet of things network has gone live last week. So all the big cities will have narrow band IoT network this year, which allows us to open up to offer services to new industries and new players. So these are things that we are putting a lot of focus on to grow.

In terms of 3G and 4G subsidies one of the things that we are doing... And it is strange that a lot of networks don't actually realise this. There is a direct correlation of the phone to the usage. Obviously you need to have the network for it. But the first part of any data strategy should be to change the device. It's as simple as that. So what we're doing is we're pushing down the price points for 3G and 4G, managing carefully to get the volumes up. That's why you've seen an 87% increase in 4G users. So we want to continue to grow both our 4G base and our 3G base. And we are directing subsidies in certain areas to be able to do that. So if we know we've got 4G coverage and we don't have enough 4G customers on the network we are putting a little bit of subsidy into that, because we do know that we're going to get a 25% ARPU uplift in terms of the customer when he migrates. So that kind of targeted approach is helping us to go into a particular area and get the usage up. And also targeting away from 2G devices to be frank, because you've got to control that inflow and try and decrease the amount of 2G devices with a future outlook in terms of saying you need everybody to be on 3G and 4G devices.

Ziyad Joosub

Got it. And just one more quick question please. The partnership with IBM and Gijima, that has been in place for a few months now. How is that scaling up? Would you have an update for that possibly, what the outlook for that is?

Shameel Joosub

Basically it is in the process of going live. It is just going live now. We will now go off and sell the product and so on. So it is still early days to be honest, but at least now the platform is up. Everything is ready to go.

Ziyad Joosub

Okay. Understand. Thank you.

Operator

Thank you very much. Ladies and gentlemen, a final reminder if you wish to ask a question please press star and then one now. We will pause a moment to see if we have any further questions. We have a question from Richard Majoor of Macquarie. Please go ahead.

Richard Majoor

Good afternoon Shameel. It's Richard Majoor speaking here. I'd just like to find out about the South African smartphone market, how it is going with producer price inflation coming from more expensive Samsung Galaxy S8 and Apple models. I didn't see any numbers of sales in the results. It just said that smart device sales are slightly down. If you could give any guidance on that part of the market please. Thanks.

Shameel Joosub

Sure. Basically what happened was we sold 10 million devices during the year. Call it 10.1 million devices in the year, down from 10.4 million devices the previous year. And that was because the exchange rate at the beginning of the year was particularly weak. So you had a decline in the number of sales on the one side and secondly a slight change in mix. But still quite strong in terms of 6.6 million of the devices were smartphones.

Richard Majoor

Thank you.

Operator

Thank you very much. Gentlemen, we have no further questions from the analysts.

Shameel Joosub

All right. Thank you very much and thank you for joining us on the call.

Operator

Thank you very much. Ladies and gentlemen, that concludes this conference and you may now disconnect your lines.

END OF TRANSCRIPT