Vodacom
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INTERIM RESULTS FOR THE SIX MONTH ENDED 30 SEPTEMBER 2010

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Pieter Uys	Thanks for joining us on this call this afternoon. I also have Rob Shuter, our CFO, with me as well as Belinda. I'm going to briefly take you through some of the highlights of the results and then we'll open up the call for questions and answers. First of all I must say a very good start to our financial year, and encouraging performance on most of the measures. And if I have to summarise the highlights into four or five points the first one is we have seen sustained high demand for our mobile broadband services. Customer growth has returned in South Africa after the RICA impact. We stimulated usage across all our territories, driving up through more competitive offerings. Our international operations returned to positive revenue growth. Our cost reduction programme is largely on track, and last but not least, we've delivered some shareholder returns. Now let's look at it in more detail. If I look at the group service revenue in constant currency it was up 4.4%. We had a very big negative impact from the mobile termination rate cuts in South Africa of almost R800 million in the period. Now, if I exclude this the service revenue in the group would have been up by 7.6%. The group data revenue growth also to a large extent offset some of the negative impact from the MTR, with group data revenue up 41%. The group EBITDA in constant currency was up 5.4%. The reported EBITDA was up 2.8%. The group operating free cash flow is up 22% largely as a result of improved working capital and also reduced capital expenditure. We will come back to that later. Headline earnings per share growth is strongly up, 38% to 303c. If I strip out some of the once-off items in the prior period the core earnings were up 11%. Now let me turn to the operational performance. Firstly, our delivery on the mobile broadband strategy is still seeing strong growth in data revenues from South Africa but also more and more from the other operations. The South African data traffic increased by 60%. One of the big drivers in this period was the greater adoption of smartphones. Smartphone numbers on the base increased by 65%. We now have 2.5 million smartphones on the network. Mobile connect cards are also up 45% to just under one million. We've continued to add value to our data packages and also launched promotional specials. We have a promotion running at the moment called Night Shift, driving down the price per megabyte 16% year on year. We are also leading with advances in the market both at the low end and the high end. One example is that we have the cheapest Android phone on the market at the moment. We launched at R1, 400 for this phone. Then to support the ambition to be the leaders in data we are continuing to invest in the network. We have so far in the six months added 350 3G base stations and we are on track to end off the financial year with another 650 3G base stations. To support the demand for data services and the 60% traffic increase in South Africa we are connecting more and more base stations with fibre. We are planing to have 1000 3G base stations connected with fibre by the end of the financial year. We continue to connect more and more of the base stations with our own transmission. 2,500 of the base stations now connect with our transmission. And this is to control the cost better, improve the quality and also to improve the feeds of the data service. If I now turn away from the data business and look at our core mobile voice business I'm pleased to say in South Africa we can largely say that the RICA impact is now behind us. We have so far registered 75% of the customer base, and that was at the end of September. The challenge is still the registration deadline at the end of December, but we have approached government to ask for an extension and hopefully within the next couple of days we'll get confirmation that we will get another six months extension. We've also seen gross connections return. In the

	month of September we had one million gross connections in South Africa. In the last quarter we added 712,000 customers, and of those 585,000 were prepaid customers. If I look at the three month active customers that we added in the quarter, 1.1 million up, effectively gaining market share from the previous quarter relative to our main competitor. I mentioned MTR. We've seen the MTR regulation published. We'll have another reduction in March next year, and thereafter a two year glide path down to 40c peak and off-peak over a two year period. We've largely offset some of this through our cost programme, but we've also stimulated the usage in the market to drive up traffic. If you look at the group traffic the group voice traffic is up 14%. Minutes of use in South Africa are up just short of 20% to 95 minutes per month. That was also boosted somewhat by the lower customer base. During the month of April we disconnected 3.3 million inactive customers that were kept alive by the call forward rule that we had in the network. Also through the increased usage we've seen the price per minute reduce by 17%. That was partly driven by a successful relaunch of the Night Shift promotion that we had last year where you can make an hour worth of free calls after midnight if you recharge with at least R12 in the week. We also saw the launch of the fourth mobile operator in South Africa. We will remain competitive. We will continue to offer the best value, the best products, and the most innovation to our customers in the market. Then I turn to the international business. The international segment, the traditional mobile business has returned to positive service revenue growth in constant currency for the first time in five quarters of decline. So that's a good story. The actions that we've taken in the international business to become more competitive are now paying off. We've seen tariff reductions of between 50% and 60% in our two biggest markets, Tanzania and the DRC. Traffic volumes are up 80% year on year, and we've added two million customers in the period. If I look at Tanzania, which has been driving most of the improved performance, traffic doubled after we had tariffs come down 60%. And we've seen elasticity come through and we've grown back into the revenue and we're now seeing positive revenue growth. The revenue growth in Tanzania has also been supported by revenue growth from the data side, but also we've also had a value-added services promotion in the last quarter. Turning back to the group, our cost programme is mostly on track. We announced the R500 million cost programme at the annual results, and we've seen firstly notable improvements in the contribution margin, 1% in the group. In South Africa the EBITDA margin expanded by 0.5% in constant currency. Most of the SA margin expansion has been offset in the group by forex impact, and we ended up with more or less a stable group EBITDA margin at 33.2%. Then shareholder returns. 60% increase in free cash flow, up to R3.6 billion. We have reduced gearing now in the group. Net debt is at 0.6 times EBITDA. And that was also supported by a R1 billion share repurchase. We also announced a 64% increase in dividends to R1.80 per share. If I look at the immediate future, the next two to three years, we will continue to see a good demand for our voice services as we continue to add better value into the market in the competitive environment. There is still a continued growth in data demand, and some of the voice usage increase and the data demand will offset some of this price pressure from competition and also from interconnection. So if I look at the next half year the revenue growth will probably be in line with the first half of 2010. The cost reduction programme is progressing well, with notable successes in managing our customer acquisition costs and also the distribution costs in the past six months. We expect to do more work on the network costs and the marketing costs in the next half. The group capital expenditure budget has been revised downwards. We

Speaker	Narrative
	had three months in South Africa where we didn't really invest in the network as a result of the World Cup, so we're revising the group capex down to R6.8 billion. During the second half the capex will more than double the R2.1 billion we spent in the first half. So in conclusion I can say it has been a good start to the financial year. Our strategy of focusing on our operational delivery is paying off with clear success delivering good, robust service revenue growth. The data story, mobile broadband strategy is playing out well. Improved performance also from the international business. And we're making good progress on the cost side of the business. So I will now hand you back to the operator; Rob and I will take questions.
Operator	Thank you, sir. Ladies and gentlemen, at this point in time if you'd like to ask a question please press star then one on your touchtone telephone to join the question queue. If you decide to withdraw your question you can press star then two to remove yourself from the list. I will repeat, if you'd like to ask a question please press star then one. Our first question comes from Craig Hackney from Religare Capital market. Please go ahead.
Craig Hackney	Hi. Good afternoon. Just looking at the segmental disclosure for South Africa, three line items. Firstly the equipment revenue up 22% year on year. If you could just explain a bit of the drivers behind that. And then secondly the direct network cost. If you take out the interconnect cost which you disclosed in the presentation it looks as if other direct network costs are up 60% year on year, which seems a bit counterintuitive given the work that you've been doing with regards to subscriber acquisition and distribution costs. Could you just speak a bit about that as well please?
Rob Shuter	So if we look at the handset side in South Africa we've had very strong growth in volumes. So volume of handsets up just short of 50%, but the average selling price has come down significantly. So that's where we get to an overall handset revenues is around 20% but actually volume up around 48%, with smartphones being an increasingly big driver of that. To your second question, one of the challenges we did talk about have been the challenges around bringing our transmission costs down. So you know that volumes over the network are arriving at 60%. And part of how we contain the cost of transmission is by rolling out our own infrastructure and then switching off the Telkom infrastructure. And we did not make as much progress as we had hoped in the first six months, which is why that particular line is running ahead of where we would like to be. But we do think we can pull some of that back in the second half.
Craig Hackney	Okay. Thank you very much.
Operator	Just a reminder to participants, if you'd like to ask a question please press star then one to join the question queue. Our next question comes from Herve Drouet of HSBC bank. Please go ahead.
Herve Drouet	Good afternoon. I've got two questions. The first one is on capex. I was wondering, the lower capex level you are guiding now, is it due to the Rand strength? Is there a currency impact that is pushing down your capex or is it some projects or items you are reducing your expectations in terms of spending? And I was wondering if you can give us the current percentage of capex which are in US Dollars. And the second question is the cost again. It looks like in the first half of this year the cost improvement, the cost savings have been slower than what we saw in the previous semester. You mentioned direct network costs, but it looks like as well on the wages

Speaker	Narrative
	there has been an increase of wages which was above revenue growth. I was wondering if there was something you are targeting there. And also as well in terms of the marketing. And I was wondering as well, when you put in other expenses in your PNL when you report what are the different items there. Thank you.
Pieter Uys	I'll answer your capex question and then Rob will deal with your second question. Firstly, there has definitely been a positive impact from forex of R200 million. We also had the three months in South Africa where we couldn't roll out any network during the World Cup period. It is difficult to catch up on that rollout. So it's not that we're cancelling the projects; we're just running late with some of those. We are trying to catch up as much as possible in the second half of the year on those projects. We will still see them through to conclusion. In Tanzania there was one project that we did push out for now, and that is to continue with our fibre build. We've done one leg of fibre build, but since then the market has changed where there is more cooperation and maybe sharing of transmission in Tanzania. So we've also put that project on hold.
Rob Shuter	Just to build on Pieter's point that the biggest difference in the original budgeted capex to what we're targeting now is the cancellation of the Tanzanian fibre. And then on top of that there have been some FX savings and some reductions in specific projects. But that would be the biggest component of it.
Herve Drouet	Does it mean you are very confident you will be able to do network sharing with the other operators in Tanzania?
Pieter Uys	There are two parts to the network sharing. The first one is on the fibre project that we've pushed out. There are lot more companies at the moment that are starting to put fibre in the ground, and it doesn't make sense to just build fibre on your own. So we've got one leg of fibre that is connecting our switches together but will share on the rest of the fibre. To talk about general infrastructure sharing, in Tanzania it is definitely on the cards and we are engaging with power companies and our two main competitors in Tanzania to find a suitable model for power sharing. With the tariff levels where they are at the moment infrastructure sharing becomes a necessity.
Rob Shuter	Just to talk a little bit about the costs. Firstly focusing on staff expenses or the wage bill across the company. You're right that overall staff costs are 4.6 but in fact in South Africa 12.7. The factors there were firstly we had wage inflation of 7%. We had very marginal head count increase. But we implemented last year a new share scheme for staff and the costs of that are coming through this year, which is distorting the underlying cost growth. We would ideally like to have a situation in South Africa where we have staff costs growing at wage inflation plus 1% to 2% for investment in head count in key growth areas. So we certainly want to bring that down as we move to the full year. In terms of other operating expenses most of what is in there is network opex. We also would have BBBEE charges and some other small amounts. And as I've said a little earlier one of our key challenges there is the fact that transmission is running ahead of plan, and we do think we can pull that back somewhat in the second half.
Herve Drouet	And when you say pulling it back will it be to a similar level to what we've seen in the previous semester?
Rob Shuter	Ja, so we would like to bring it back. Ideally it will come back to similar levels.
Herve Drouet	Okay. All right. Thank you very much for your help.

Speaker	Narrative
Rob Shuter	Sure.
Operator	Just a final reminder to participants on line, if you would like to ask a question please press star then one to join the question queue. We will pause for a short moment to see if we have any further questions. We have a follow-up question from Craig Hackney. Please go ahead.
Craig Hackney	Thanks. Looking at your international operations they've been through quite a difficult time. If we look three, four years out is it possible to give us any guidance of what you'd like to see from an EBITDA margin point of view from those businesses?
Pieter Uys	You have to look at those businesses all separately. They're all very different. But let me look at Tanzania, our biggest operation there. With the tariff cuts that we've seen over the last 18 months we had to really redo the way that we build the network, how we get capacity out of the network. We are doing similar things to what we're seeing in South Africa. I mentioned the fibre that we started putting in. And the EBITDA margin dropped below 30%. We are working hard to get that EBITDA margin back to the mid 30s or the levels that we are seeing in South Africa. Maybe not get quite to the number in South Africa, but close to that.
Craig Hackney	And then if we look at Mozambique, DRC and Gateway is it possible to give any indication there, Pieter?
Pieter Uys	DRC at the moment we still have the shareholder issue that we have to deal with. So what has happened in the last period in the DRC is we've seen tariffs come down. We responded with competitive offers in the market, but there is only so much that the cash generation from the business can support, additional capacity. And it is therefore important for us to resolve the shareholder issues to invest more in the network. So it is putting strain on the business and hopefully we can come to an agreement with the other shareholder before the end of arbitration. Mozambique, I would say in Mozambique we've had a difficult half year because we've had issues happening in the country, we've had transmission failures from our fixed line provider. So what have we done to turn those around? Firstly we started self-providing our transmission, so I'm hoping that the main link linking the south to the north where we've had transmission failures will be on our own transmission before the end of the calendar year, so that will take that uncertainty out of the business. Secondly, it has taken us about six months of negotiations to sign up one of the largest distributors to distribute for us. That deal has now been signed and during the month of October they started selling for us. So that will turn the business around. However, we will see the third operator come into Mozambique. We are engaging with the bidders for the license and we are putting on the table that we should definitely share infrastructure and see how we can work together to bring down the costs. So the first thing in Mozambique is just to turn the business profitable again. It should happen in the next year, so hopefully next time we will have better news on that. Gateway, we've now successfully split the business into two segments. We have the carrier voice business now a stand-alone business with margins more or less where they were last time. Still growing revenue there. I think we had 10% revenue growth in US Dollars. The Vodacom Business part of that Gateway business we're heading up out of Nigeria. We have a team in Lagos. They are now investing more into that business because there is definitely an opportunity in the market to grow that business. So in the long term in the carrier voice business there is ongoing pressure

	on those margins, but on the Vodacom Business side, the converged services side of the business, we should see margin improvement going forward.
Craig Hackney	Okay. Thank you very much.
Operator	Thank you. We have a follow-up question from Herve from HSBC Bank. Please go ahead.
Herve Drouet	My question is on mobile money which I think you are planning to roll out in South Africa. I was wondering what your current plan is in terms of timing and your expectation for M-PESA in South Africa. And my second question is again regarding your international business and potentially expansion. Are there some countries like Malawi you are looking at, or other Sub-Saharan African countries you are looking at in terms of expansion? Thank you.
Pieter Uys	We first launched M-PESA in Tanzania. It is doing well there, almost a million active customers out of 3.5 million registered M-PESA subscribers. We launched it about six weeks ago in South Africa. The thing that makes M-PESA successful is how many distribution points you have in the market. It's like a chicken and egg. So far we've registered 21,000 M-PESA subscribers that are active at the moment, and we are daily adding distribution points. We are also in talks to some of the big distribution outlets in the country, and that should quantum leap the number of distribution points that we have. We're also embarking on road shows during the rest of the year to educate subscribers to the benefits that they can have from M-PESA. A slow start, but we're very bullish about the M-PESA opportunity in South Africa as the distribution picks up.
Herve Drouet	If we have four, five years, how many M-PESA users do you think you can attract in South Africa and how much do you think they can add?
Pieter Uys	If I look at what's been happening in Tanzania the one lesson that we've had is you need thousands of distribution points. So we need to get distribution points to a few thousand in South Africa before it will really be successful. So the next six months is key to the success of M-PESA. We will probably not get to tens of millions, but if we can get to the levels that we've seen in Tanzania in the same period I think we will be very successful. Kenya has been very successful, but they have a very different banking set-up. Then on the African expansion. The last 12 months we really took to turn our international businesses around, getting to grips with the very competitive situation in those markets, redoing how we do business, bringing down the tariffs, offering competitive products into the markets. We had to rebuild our networks to support the higher traffic coming from the lower tariffs. That has largely been done now. We also have a new executive starting on 1st December to help with the international businesses. That should be up some time to see if there are opportunities on the continent. However, we will not do a deal to grow the footprint. We will only look at an opportunity if we can pay for it and add value to the shareholders. So there are opportunities, and we will look at all of them. There are opportunities.
Herve Drouet	Okay. Thank you.
Operator	Our next question comes from Nick Kershaw from the Deutsche Bank. Please go ahead.
Nick Kershaw	Good afternoon. Just a quick question. I think you mentioned that your average

Speaker	Narrative
	tariffs were down quite significantly year on year. If I do a simple calculation and I look at your mobile voice minutes revenues in South Africa and your outgoing minutes it actually looks like your average revenue per minute actually increased marginally. I'm just not sure how you calculate that or what basis you're calculating on when you talked about the big decline on a year on year basis.
Pieter Uys	It was from the end of the financial year. The 70% was down in the period. So it was from April this year.
Nick Kershaw	Okay. Thanks very much.
Operator	Mr Uys, we have no further questions in the question queue. Would you like to make any closing comments?
Pieter Uys	Just to summarise again some of those highlights. Firstly we continue to see sustained high demand for our mobile broadband services. RICA is mostly behind us. We're starting to see customer growth return in South Africa. We know what the MTRs are going to be in the next two and a half years, so we can manage around those. We continue to stimulate growth in the market to offset some of those, and also to offset some of the competitive pressures we're seeing on the tariffs. Our international businesses in constant currency returned to positive growth, so that's a positive sign. Our cost reduction programme is largely on track. And then the 64% increase in dividends and also the share buyback programme that we had during the period delivering improved shareholder returns. So thank you very much for joining us on the call this afternoon. We'll speak to you soon.

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