

Conference Call Transcript

21 May 2012

ANNUAL RESULTS FOR THE PERIOD ENDED 31st MARCH 2012

Operator

Good day and welcome to the Vodacom Group Ltd's annual results conference call for the year ended 31 March 2012. Vodacom Group CEO, Pieter Uys, will host the conference call. All participants will be in listen-only mode and there will be an opportunity for you to ask questions after today's presentation. If you should need any assistance during the conference then please signal an operator by pressing star and then zero. Please note that this conference is being recorded.

I will now read the forward-looking disclaimer before handing over to Pieter Uys. This announcement which sets out the annual results for Vodacom Group Ltd for the year ended 31 March 2012 contains forward-looking statements which have not been reviewed or reported on by the group's auditors with respect to the group's financial condition, results of operations and business 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 policies and future prospects, business and management strategies relating to the expansion and growth of the group, the effect of regulation on the group's businesses by government in the countries in which it operates, the group's expectations as to the launch and rollout dates for 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 at www.vodacom.com. At this time I would like to hand the call over to Pieter Uys. Please go ahead, sir.

Pieter Uys

Thank you. Good afternoon and also good morning to those in the US. I have Belinda with me. Belinda is standing in as the Acting CFO and there is also the investor relations person. Before I go into the details let me just summarise the three key messages. Firstly, the good set of results, stand out features. Firstly, targeted activity underpinned commercial success.

Starting with customer numbers, growing 30% in the group, closing at 48 million customers, adding 11 million in the group, 5 million of the 11 million coming from the international operations. The second important point is that we've maintained our number one position as measured by the Net Promoter Score ('NPS') in South Africa. We also implemented it in three of the other operations; two of these are also currently measured Number one.

The next point, we've made a substantial increase in investment into our network. Group capex increased 37% on the prior year up to R8.7 billion. That gives you a capex intensity

of almost 13%. In that number there is around R850 million capex additions that is non-cash. They relate to for example the RAN swap project, also the self provisioning of the transmission of own sites. Data services delivered good results during the period. We lowered our data costs around August/September last year. The underlying demand remains strong.

And the last key feature is our international segment where the growth momentum continued. For the first time they delivered positive operating free cash flow. That was a highlight for me.

Moving on to some of the financial highlights, group service revenue growth was 8% year on year. That was ahead of our guidance of low single digits. EBITDA grew just over 10% ahead of the overall revenue growth with margins expanding to 34% for the Group. Last year it was 33.7%.

Group free cash flow, 24% growth, supporting a higher dividend, resulting in a total dividend increase of 54% on last year to R7.10 per share. The final dividend was a 51% increase to R4.50 per share.

On the Group level highlights let me look at two segments, firstly South Africa. Firstly, service revenue growth was 4.4%. If I strip out the downward drag of the MTR on the service revenue it would have grown by 6.8%. EBITDA growth in South Africa was 8% with the EBITDA margin now at 37.3%. If I strip out the foreign exchange EBITDA grew at 9% and the margins expanded by 0.8 percentage points.

So the EBITDA margin was positively impacted by our continuous focus on cost containment initiatives, putting more efficient equipment into the network and refocusing our publicity spend.

That leads me to the customer growth, adding 27% customers in South Africa to 29 million. That was a growth of 6 million customers for the year. One of the big drivers behind this strong customer growth was the strong competition in the retail channels, selling ultra-low cost handsets. We sold 1.6 million of the low-cost handsets in the year, probably 20% of the 9 million handsets sold.

Also we put in continued promotions into the voice space. We had the Mofaya promotion during December, bringing the effective price per minute down for the year by 14%. Data services continued to grow strongly. The demand remains there and also against fierce competition in the data space in South Africa.

Data revenue was up 24% year on year, a 35% increase in the active data customers. We now have 12 million customers in South Africa that use the internet. 4 million of the 12 million are buying data bundles on a regular basis. That number is up 60% on the prior year. Data now contributes 16% of the service revenue in South Africa.

We see more and more shifts from dongles to smartphones as the key driver for data growth. We saw smartphones growing in South Africa by 55%. We added \approx 2 million,

closing the year at 5.1 million smartphones in SA. That now represents 20% of all of the active handsets in South Africa. That number was 13% in the prior year.

Another interesting number to note is that the smartphone average usage has also doubled from 38 megabytes per smartphone to almost 100 megabytes per smartphone. Another interesting statistic is that the smartphone data traffic, in other words a smartphone with a data bundle connected to it, moved to 40% from 26% a year ago.

Competition as I said grew in South Africa. We had a lot of promotional activity. We reduced our tariffs in August and September last year. This has led to an 18% reduction in the price per megabyte year on year.

We increased the capex by 37% to R7 billion in South Africa. That's a capex intensity of 12%. Most of that went into the 3G network, adding 1,000 3G base stations, bringing our total 3G base stations now to 5,300. We also continue to self-provide transmission. We connected 1,700 more base stations during the year with our own transmission. The total self-provided sites now just over 4,300.

I mentioned the RAN renewal is continuing. It is probably 60% of the RAN swap in South Africa. We should be done in the next 18 to 24 months in South Africa swapping the rest of our businesses outside of South Africa. That is pretty much South Africa in a nutshell.

If I move on to international this really had a good year. Their growth momentum is continuing. The service revenue is up 28%, driven by strong customer growth. International non-SA customers now make up 40% of the Group's 48 million customers. They added 5 million customers, closing off international at 19 million customers. This was a 36% increase.

Profitability has also improved in the non-SA businesses. EBITDA was up 74%. If I strip out the Gateway business the EBITDA margins increased from 17% to 24% outside South Africa. So that is also one of the highlights for me on the international business. It is becoming more profitable.

Data revenue. The next highlight from international is data growing more than 100%, R540 million data revenue. We connected 2 million new customers, making the total number of customers 3 million in non-SA. This was as a result of better 3G coverage but also more accessible data pricing and products.

Next is M-Pesa. We connected 2 million new M-Pesa customers in Tanzania, bringing the total to 3 million. A third of the customer base in Tanzania is now using M-Pesa. What is interesting to note is the revenue contribution has grown from 3% of service revenue to 8.5% of service revenue in this financial year.

As I said the international segment generated positive free cash flow for the first time this year. That is very much the international part.

If I look at our medium-term targets, we are reconfirming our medium-term targets which we indicated last year. Service revenue remains single digits. EBITDA, a pretty incremental

margin improvement there. We are continuing to invest in the network. Capex intensity guidance remains at 11% to 13%.

I think we will take the questions and then I will continue again with a summary at the end. Dylan, back to you for questions.

Operator

Thank you very much, Pieter. Ladies and gentlemen, at this time if you'd like to ask a question please press star and then one on your touchtone phone. If you then decide to withdraw your question please press star and then two. We will pause a moment to see if there are any questions. Our first question comes from Richard Barker of Credit Suisse. Please go ahead, sir.

Richard Barker

Yes, thanks very much. Two very quick ones, please. Can you just update us on what your plans are for M-Pesa in Mozambique? I'm assuming it hasn't been launched because I haven't heard anything along those lines, but please enlighten me if that's not the case. Secondly, in terms of depreciation I just wondered if there was any non-recurring element in the charge in the second half of the year or whether there is any accelerated charge due to the RAN swap that you can maybe tell us about and we can normalise the run rate there. Thank you very much.

Pieter Uys

The M-Pesa we are prepared to launch in Mozambique. It is planned for later this year. We haven't got a fixed date yet, but Mozambique is definitely the next country that we're launching in after the success that we've seen in Tanzania this year.

Belinda Williams

Thank you. The depreciation, Richard, obviously it was stronger in the second half by R300 million odd on a Group level. I think that is largely due to the ramp-up in capex from R3.5 billion to R5.2 billion in the second half. There are no once-off items or any changes in the depreciation charge. I would highlight that the RAN swap actually has the opposite impact on depreciation. In fact our depreciation in RAN is slightly ahead of budget, mainly because the RAN swap ran behind plan. So as we swap out the radio network and put the new equipment in we take it out of network at book value and then depreciate it again over a longer period. So that actually has the impact of slowing depreciation. But the ramp-up in the second half was very much just because of the capex ramp-up.

Richard Barker

That's great. Thank you very much.

Operator

Ladies and gentlemen, a reminder that if you'd like to ask a question please press star and then one now. We will pause a moment to see if there are any further questions. Our next question comes from Johan Snyman of Renaissance Capital. Please go ahead.

Johan Snyman

Good afternoon. Pieter, maybe just a little bit more colour on Vodacom Business if you don't mind. You did allude to some revenue growth FY12 over FY11. If I have to eliminate the Gateway business just to give us a sense of margins within the business segment of Gateway and then for Vodacom Business in SA itself. Thank you.

Pieter Uys

Hi Johan. So in SA the converged business on the revenue side grew by 40%, around R500 million revenue coming from that segment. Outside South Africa it was a similar number from there. Both of those segments are not profitable, inside and outside of South Africa. We're hoping that it will be profitable in this financial year and then start contributing to EBITDA. We are using it very successfully in retaining our corporate customers when more and more of them want a converged total solution. We have a portfolio that can match anything that any of the big competitors in the country are currently offering. So I'm very pleased with their performance.

Johan Snyman

Thank you.

Operator

Sir, we have no further questions. Would you like to make some closing comments?

Pieter Uys

Okay. Thank you. I was expecting more questions. This is our first year as the red Vodacom and if I look back at it we had our lows but the year ended off on a high. This year was a big success. We made good progress on our five strategic focus areas. Putting the customer first, good customer growth, data continuing to be a focus area for us.

Our service revenue surprised on the upside. We're ahead of our guidance of low single digits.

If I look at the broadband strategy a large chunk of the capex will go into strengthening our data network, building more 3G sites, connecting more sites with our own transmission. The demand remains high. Competition in the data space remains high.

So I conclude that it was a good year. We are already a month into the new year and are looking forward to another successful year. Thank you very much.

Operator

Thank you, sir. On behalf of the Vodacom Group Ltd that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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