# Conference Call Transcript

31 January 2018

## Q3 2017 RESULTS ANALYST

### Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd results conference call for the quarter ended 31 December 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 quarter ended 31 December 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 condition, 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 it is available on the investor relations website on [www.vodacom.com](www.vodacom.com). Please note that 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 from an operator please press star and then zero. Please also note that this call is being recorded. I would now like to hand the call over to the group CEO, Shameel Joosub. Please go ahead, sir.

### Shameel Joosub

Thanks Chris. Good afternoon everybody 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. Most of you would have already seen our results announcement for the quarter. For this call I will take you through a few of the highlights on the announcement and discuss a couple more topics and trends that have emerged during the period in greater detail. As a reminder, these results are limited to key customer KPIs and revenue and service revenue performance. Safaricom is not reporting on quarterly results and we will therefore not be disclosing an update on their performance during this call. And none of the numbers that we are quoting have Safaricom included in them.

We have produced very good results this quarter delivering solid gains in customer numbers in South Africa and a continued improvement in growth trends in our international operations. I'm pleased with the overall results given the backdrop of negative sentiment and uncertainty in South Africa leading up to the ruling party's elective conference as well as managing the out of bundle data pricing transformation and continued economic pressure in the DRC. From a group perspective group revenue was up 6.7% with sales revenue up 5.5%. Currency plays less of a role in these numbers than it has done in the past owing to much more stable currencies across most of our markets. We have seen strong customer growth of 13% and we now have more than 73 million customers in the group.

Looking at the segments in a little bit more detail, our South African operations continued to deliver good results supported by strong customer additions and growth in data and enterprise services. Our bundle and segmentation strategy is playing a big role in attracting new customers. We added 1.5 million new prepaid customers during the quarter to close the quarter of 41.6 million customers. That is a growth of 14% over last year. This quarter alone we have sold almost 600 million bundles, up 42% on the same quarter last year. 62% of these bundles are being sold through our deep machine learning platform, Just 4 You that presents customers with personalised offers.

On post-paid customers increased by 81,000 which is showing good progress. We are seeing a quarter on quarter improvement in the ARPU trends as a result of the changes we made on contract deals. You will recall from our interim results that there were two items that mainly affected contract ARPU. The first was an increase in discounted subscriptions due to the use of more financing in the previous quarter which resulted in savings on acquisition costs but affected service revenue. We have taken action at the beginning of October to amend the deal structures and this resulted in an improvement in inflow revenue and contract ARPU trends. The second was with regards to migration of customers to our new tariffs which had a bigger allocation of voice and data but it didn't increase price. The problem is that customers have had to grow into these bundles and don't consume all of it in the first month. The effect is a higher deferral from unused data and voice as customers grow into the increased usage. So the money gets deferred to the balance sheet. The good news is that the money is there. The bad news is that it takes a little bit longer to materialise and has to wait for the expiry date if not fully utilised.

This will still affect our ARPU numbers negatively. 36% of the base has migrated to these packages, up from 25% in the second quarter. Adding to this in the third quarter is the reduction in out of bundle data pricing which negatively affected ARPUs. We reduced our out of bundle data prices by as much as 50% from the 1st October. This reduction was the reason for the slowdown in data revenue growth. The elasticity has improved in the quarter with most of the decline being made up through increased usage. The good news is that the out of bundle has reduced to 12% of data revenue.

I am encouraged by the growth trends in the in-bundle data revenue which has remained strong in the past couple of quarters. The underlying metrics remain strong with data customers up 6.4% to 20.5 million customers. Total data traffic has increased 44% in the quarter. The reason for the reduction from the last quarter was because we cut a lot of the free traffic. We have also made some adjustments during the quarter to reduce the previous promotional data that we were giving away and made some price adjustments to our bundles. This has resulted in us exiting the quarter stronger at above 13% data growth rate. That is for the month of December. And we believe that the trend will continue into the last quarter.

Enterprise revenue continues to grow strongly supported by increases in wholesale revenue and fixed. The mobile side is a bit slower due to the slow-down of new departments as part of the government tender we won. Our international operations continue to gain momentum. Tanzania has performed very well and is delivering on its turnaround strategy. Customer registration is still topical as we continue to improve the quality of the base registered. This is consistent with what we have said in the past. We have ramped up our efforts on customer registration as regulators are now focussing on ensuring all operators' customer bases are fully compliant. Going forward we still expect a slight drag on service revenue from this.

DRC has improved as the currency and economic environment starts to stabilise and we are seeing growth trends improving in the quarter. There is still some pressure in the market and we expect this to stabilise more once elections are completed. Mozambique is growing strongly with further encouraging trends with macro and stable currency. We are pleased with the strong commercial performance in Mozambique. Lesotho also continues to grow strongly.

MPESA in all our markets is really taking off. We continue to add more products and services, widening the reach of our ecosystem. In Tanzania our merchant system has grown to 6,000 merchants and we have initiated bulk payments and further billing options. MPESA grew by 414,000 customers to 14.4 million in the quarter. That is excluding Safaricom. And revenue grew by 33% in the quarter.

On the regulatory front on the white paper amendments to the Electronic Communications Act in South Africa disappointingly the amendments do not fully reflect proposals previously submitted by the industry. We are submitting our response to these proposed amendments as part of the department's public participation process today. We will continue to work with government to find an appropriate solution that achieves the objective of reducing the cost to communicate and widen broadband access for all. The main point around the submission is for the implementation of the hybrid proposal which we still support.

On out of bundle rates we remain focussed on the pricing in South Africa to improve the customer experience and have demonstrated this through the reduction of our out of bundle rates. We will continue to address data pricing by reducing these rates in a controlled way to manage the impact on growth and profitability. It will be a bit of a balancing act of being able to continue to invest capital in extending our network and increasing coverage while we continue on our stated intention of reducing the cost of data.

Finally let me move over to our medium term targets and provide an update on priorities. Our group medium term targets remain the same. Mid-single-digit growth for group service revenue, mid- to high-single-digit growth for group EBIT, and capex of 12% to 14% of group revenue. The reduction of out of bundle rates creates some short-term pressure on data revenue growth. The effects of this will be managed through driving higher uptake and elasticity to compensate for this price transformation, and we are seeing this coming through in December. The international markets are back on healthy growth trends. Data and MPESA are key areas of growth in our international markets. This concludes my comments and Till and I are now 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 queue. Again if you wish to ask a question please press star and then one now. Our first question is from JP Davids of JP Morgan. Please go ahead.

**JP Davids**
Good afternoon. A couple of questions from my side please. The first one is just on the ECA and the direction of regulation. Maybe you can give us a little bit of insight as to some of your verbal discussions with the Department of Telecommunications since that was published, and whether you have maybe changed or moderated your viewpoints at all around the hybrid solution. So any more give-ups from your side. And very specifically on that, I see Telkom is putting up its hand and saying it will be a shareholder of the wireless open access network. Is that also a position you would be comfortable taking? And then switching gear, I appreciate you don't provide any EBITDA numbers at this set of results, but maybe just a little bit of colour. So some of the big growth drivers in the

quarter were on fixed service revenues, other service revenues and non-service-revenues in the South African business. Can you talk a little bit about the gross margin of those particular line items i.e. whether you expect those to be accretive or dilutive in broad terms? Thank you.

**Shameel Joosub**

Okay. So let me start with the ECA. I think where we are is today we submit comments on the Bill itself. It's fair to say that the Bill did not represent the discussions. As you can imagine a lot of us kicked up a fuss. There will be hearings being held later in February we have been told on the particular topic. The department still seems willing to find a middle ground as they know it will be challenged if a middle ground is not found. So that's the one part. We have not given up any more, because I think the proposal that we put forward is sound. A lot of the essence of what we discussed was captured, but not properly. And that was what was frustrating. So it does say that there is going to be a hybrid model. It talks about spectrum being given to the one. But then it says the industry may get spectrum, but then it says the industry will buy capacity. Now, the industry is not going to buy capacity if you don't get anything in return. So there are these types of things. The arguments that we have put forward, the report that we have put forward is a very strong market analyst report or rather an economic consultant's report as well as an academic report on the issues provided. We provide strong comments on each of the sections, accepting what makes sense, challenging what doesn't make sense, and making proposals on what could make sense.

That said I think also there is a strong sense which was basically put forward by treasury in the mid-term budget speech and by all accounts should probably flow through to the March budget speech as well, which is the auction on spectrum. And that's why you're starting to see your smaller players starting to fluster in terms of if there is going to be an auction what is the price and so on. And so there is still a need for the new leadership to put its mark on this issue first and foremost. And secondly I still think if you look at where government is today the reality is to cover the shortfalls in the budget in my view they've got three real options. One is to put up taxes. Two is to auction spectrum. And three is to sell something. And I don't think they have much to sell especially since the share price of Telkom has taken such a beating by the overhang created. So I think realistically they are going to have to make a call on spectrum and they are going to have to make it soon if they want to do it. But they need to align the departments because you've got communications which is not aligned to telecoms ministry. You have got ICASA which is not aligned. Remember that fight is still going on. So the new leadership will have to put its mark on this topic and obviously I'm sure industry players will be having various discussions with the new leadership to be able to find some reasonability on this.

**Till Streichert**

JP, let me just take the question on the margin. A couple of points on that. So you alluded to in essence fixed line and other service revenue which has grown pretty well. Fixed line services grew 65%. The other service revenue line grew basically 13%. So indeed some of those lines like the wholesale revenue is slightly lower margin. That is correct. Equally we have highlighted that the Rain agreement that we've got to buy capacity. Of course it changes slightly the geography where basically capacity cost sits now in EBITDA. However if you look at the trends that we are on both in South Africa and equally in the international markets where we've had pretty good top line growth, MPESA growing rapidly. MPESA is clearly an accretive service from a margin point of view. In essence if I look back at the results where we were on group level basically flat on EBIT we are on track to achieve our expectation that the second half is a lot stronger than what we were at the interim results from a profitability, EBITDA and EBIT point of view.

**JP Davids**

That's very clear. Thanks Till. Thanks Shameel.

**Operator**
Thank you very much. Our next question is from Cesar Tiron of Merrill Lynch. Please go ahead.

**Cesar Tiron**
Yes. Hi, good afternoon and thanks for the call and the opportunity to ask questions. I have two questions please. The first one, could you please share if data growth has accelerated further in the beginning of this year? You mentioned in the press release that it was 13% in December. Do you think it is realistic to see data growth getting back to the 18% or 20% level later in the year? Then the second question going back on to the spectrum issue. The question I have is how long do you think you can sustain the current growth in data traffic which is about 50% at current capacity utilisation ratio without the additional spectrum? Thank you.

**Shameel Joosub**
Okay. So firstly the trend improving in December of 13%, we are not obviously quoting the numbers for January yet because to be honest we don't have them yet. But I mean we obviously have forecasts for the month. But as we said we see the trend improving into the last quarter because of the adjustments that we made exiting December and also because of the recovery in elasticity to offset the decline. So it takes you approximately three to four months to basically offset the decline in the price with additional data traffic. So that's the first part. The second part is that data now constitutes 42.6% of service revenue in South Africa. So obviously it is quite material. So I think the days where it grew at 16% and 18% plus are probably gone because it has become such a sizeable part of revenue and you are growing off a bigger and bigger base. I do see it growing in the teens still, but probably low to mid-teens more than the upper teens purely because it is such a big part of the base now. If it was still growing at those percentages our top line growth would have really accelerated to unbelievable levels, but unfortunately I don't think that's going to happen especially while we are also busy with various transformational initiatives.

In terms of spectrum basically what is happening at the moment is the digital migration is planned to happen with the latest announcement June 2019. My personal view is that it will probably be January 2020 or so. The only spectrum that is available to allocate at this stage is the 2.6. So even if spectrum was auctioned it would have to be allocated or made available at a future date with the 2.6 being available right now. You will remember that we did a deal with WBS or Rain in terms of buying capacity from them. That provides us with road in terms of making sure that we have sufficient capacity to go forward. And what we're doing at the moment is what we call smart capex allocation. So effectively on the network itself we try to utilise our own sites as much as possible and we're using artificial intelligence and big data now to analyse where we put the traffic.

We also use all types of modulation and technology to ensure that we can utilise it. So tools like using LTE 900, LTE 2100, EMTS 900, so refurbish spectrum and basically coping with the volumes of traffic. When it reaches a certain point we automatically hand over where there is Rain network available. We immediately have a dynamic model where we basically then say now we need to start using the Rain network. So we do a cost efficiency benefit analysis. And then there also comes a point where it is better to go and build a new site, and then we will decide whether we build a new site. Obviously we can't do it everywhere because Rain doesn't have network everywhere, but where they have network. And generally their network is in the areas where we have the most traffic loading. So we balance these things. So I'm not concerned that we run out of road in the next couple of years because of that deal that we've done which basically for us I think was a very good strategic move.

**Cesar Tiron**
Thank you. Very helpful.

**Operator**
Thank you very much. Our next question is from Chris Grundberg of UBS. Please go ahead.

**Chris Grundberg**
Thanks guys. Just a couple of quick ones if I may first I wonder if you could give different colour around the data growth in the quarter. I'm just wondering heading into it whether the 9% was what you were anticipating or whether it was softer than you expected. I appreciate your point about it rebounding through the quarter and into this year, but I'm curious to know how much of it was in your plan and how much was reactive. And then the second question is maybe you can give a bit of an update on your thoughts re BEE, what your plans are for this year. I think you mentioned in the past that you would like to line something up ahead of the current scheme expiring. I just wondered if you could update us on your latest plans and thinking there.

**Shameel Joosub**
Okay. Thanks Chris. Look, I think from a data growth perspective what we've seen most of this year is the contract stuff I've mentioned in terms of the bigger bundles and so on that we were dealing with. The other trend that has been obviously quite aggressive and quite successful, and sometimes also we are a victim of our own success, is the massive uptake that we've had on in-bundle sales. So the bundle sales, what was happening was because we had such a massive growth in bundle sales, which has a number of positive effects, churn lower, healthier customers, less out of bundle rates and so on, what it does do is it does cause a bit of a dilution when people migrate to some of the bundles which have lower effective rates. What we've had to do is to introduce what we call yield management. So the artificial intelligence part is well controlled which in the quarter is about 62% of sales. When you have the open bundles also growing so significantly you've got to balance between the two. This is obviously mainly on the prepaid side.

So what we have tried to do better in the quarter is the yield management. Effectively we cut the out of bundle rate which we anticipated would drop the growth in data revenues in the third quarter. So I think most of it honestly was anticipated. Some of it was purely because we are a victim of our own success. These bundles are working so well. What we are now doing is I've got the team writing an artificial intelligence tool to control the artificial intelligence. What that means is AI to control AI. What we're going to do is we're creating a tool that can look at the effective rate based on the rate of sale of the bundles. We can look at that on the one side, compensated with the Just 4 You bundles, look at the effective rate and make dynamic adjustments where it needs to be able to give us a desired outcome or desired growth rate which we plan. So we're trying to use technology to basically do the yield management and do it dynamically so that we don't encounter the pressures.

**Till Streichert**
And just underpinning it with the numbers that you've seen in our announcement, we're quite pleased with the in-bundle growth as Shameel has highlighted. And we have in essence achieved strategy of reducing the out of bundle portion within the data space. And remember we have achieved now just 12% out of bundle data revenue, and a year ago we were basically still north of 20%, which I think is a very good delivery of reducing the out of bundle data revenue dependency respectively the pricing which we took down 1st October.

**Shameel Joosub**
The other big change obviously was that we put a much stronger handle on some of the free traffic that was coming from the Meg your Day promotion and even the Shake promotion in the early part of the quarter. And so the actions that we took through the quarter essentially made sure that we exited the quarter at a much stronger growth rate. On the BEE we will try to make an announcement closer to the end of March or just thereafter on the BEE deal. Just to provide a little bit of clarity, the deal that we're envisaging is a renewal of the current BEE deal. There is no PIC deal. There is no

new big public offer and so on. The deal structure will also look to take advantage of the value that is creating in the existing deal and giving our existing BEE partners a chance to reinvest into a new deal which will more than likely be at the group level and will result in South Africa – which is obviously the biggest cash generator – becoming 100% owned again. We will provide numbers and clarity as soon as we can. We are in the process of finalising numbers. We are aware that there is some nervousness around it and obviously we are trying to make sure that we provide clarity and also manage the fact that people are overestimating the deal. We're not doing a 30% BEE deal or anything of the sort. And there is no movement on PIC, and I don't think there is going to be any movement with the PIC until the new leadership is further entrenched. And so the BEE percentages remain intact.

**Chris Grundberg**
And if I can just follow up on that then, you have no concerns despite not hitting the 30% threshold in this process around any qualification for spectrum allocation?

**Shameel Joosub**
The point is the 30% is not clear yet. So if there is a requirement then we need to consider that as and when it becomes final. But as you know the process is ongoing. And if you look at the regulator's part and what was required there, there was not a 30%. The invitation to apply did not include a 30% requirement.

**Chris Grundberg**
Great. That's helpful. Thanks.

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

**Madhvendra Singh**
Yes, hi. Just some follow-ups on the voice trend in the quarter. The decline was much better than what we saw in the second quarter. How sustainable is the improvement in voice trends and what was the driver behind that? Also if you could share what is included in the other non-service-revenues? Thank you.

**Shameel Joosub**
Okay. Basically the stabilisation in the voice trend is also coming from the success of bundle sales. And effectively what we've had is -3.5% in the voice trend. So we have seen a step down. And I think part of that is using the machine learning and so on to be able to offset any potential declines.

**Till Streichert**
Yes. Just adding to that, you see resilience in the voice decline trend, a notch better than it was in Q1 and actually a little bit better in Q2. Clearly there are the Just 4 You voice bundle sales that sit behind that. To your question of sustainability of that, look, it will be there or thereabout. We said basically around about 5% in terms of voice revenue decline. It is probably around that mark, perhaps a notch better. But that's what we are looking at in the voice segment. Now, on your question with regards to the non-service-revenue, in essence the element that sits in there – and I've highlighted that before – is basically the Rain agreement where we've got obviously the costs sitting and the corresponding element. Just to remind everyone we've got of course an income for the service and the facility leasing agreement which is sitting in our other non-service-revenue as well.

**Madhvendra Singh**
So just on the voice trend again, there is a quite big difference in the 3.5% and 5% decline because voice is still quite a big component of the overall revenues. So I'm wondering whether it's going to be more towards 3.5% or more towards 5% in your planning at least.

**Shameel Joosub**
I think we've clearly said that for a year we want to keep trying to manage it to under 5% and I think as you can see the trend is improving. So I think we have been successful in the way we're managing it.

**Madhvendra Singh**
And also a follow-up on the capex. The quarter was quite heavy on capex. So where is the capex going now and how does that fit with your strategy with the Rain lease?

**Till Streichert**
Capex obviously came off network, a key priority. No surprise if you look at what is happening in the market and also with MTN. We are out there. We are making sure that our network is the best network. We are investing into it. But at the same time we've had decent investment on the IT side on the theme of artificial intelligence platforms and enablement that allows us actually to operate a lot smarter with utilising machine learning.

**Shameel Joosub**
We will stay within the guidance on capex. So your third quarter generally is a higher quarter for us purely because we prepare for December traffic as well.

**Madhvendra Singh**
All good. Thank you.

**Operator**
Thank you very much. The next question is from Jonathan Kennedy-Good of SBG Securities.

**Jonathan Kennedy-Good**
Good afternoon. Just a couple of questions from me firstly on your prepaid subscriber growth. I think this trend started in the first quarter and you put it down to some kind of channel movements I think at the time. And yet it has continued for the last six to nine months. I'm just wondering what exactly is happening in the channel. And I think at first half you reported distribution commissions up quite substantially on the back of this growth. Should we expect that to continue into the second half? And then just a follow-up on an earlier question. I think it related to margin on fixed and enterprise revenue being higher if I understood that correctly. I just want to make sure that was the case and you weren't referring to group EBITDA margin.

**Shameel Joosub**
Okay. I think on the prepaid customer base essentially the measures that we've taken to try and control the amount of SIMs being sold in the market has produced some success. We have seen a clear step-down in the number of SIMs that we're putting into the market. Would we like to see it being more? Yes. And what we're trying to do is to bring down the gross adds and essentially try and get a better yield in terms of the numbers that convert into real customers. We're still cautious in terms of saying that there will be additional churn coming through from prepaid for some of these sales. And although it has stepped down I would also say that there is also some good real growth that has come through in the one month active customer growth and so on. So we are definitely

seeing a good improvement in our prepaid base which is also helping to contribute to the better revenue. We are cautious in terms of saying that you can take the quarter's 1.6% and the half's 2.6% that all of that will result in us having 5 million or 6 million net adds in the year. So there will be some churn and I think the fourth quarter we will have some of that churn coming through. So it will probably taper down a bit in terms of the net adds.

**Till Streichert**
Okay. Then on margin what I said was we are tacking actually into areas of growth that are slightly less margin accretive like the area of wholesale revenue or fast-growing transit revenue. This is typically lower margin business. But again we are participating basically in a growth opportunity that comes with it. On the fixed side it's not a secret. You can look at it basically on the FTTH or FTTB side pretty much as a typical fixed line P&L, high cash up front, typically good EBITDA margin as well, but again relatively long payback.

**Jonathan Kennedy-Good**
Thanks. And just to follow up on the distribution commission in the prepaid channel. Are those continuing to be a bit stubbornly high as they were in the first half given your prepaid growth?

**Shameel Joosub**
Look, I think just to be clear prepaid commissions are a direct result of revenue. So as the prepaid revenue grows your commission has to grow by the same percentage or slightly less because of efficiencies that we have introduced. What we have cut back on is the allowances or marketing allowances and those types of things where we have introduced much tighter controls from the second half onwards. And that is what is helping what we call like for like activations. So you don't just get a marketing allowance. You have to achieve a certain amount of growth and the allowance matches the amount of revenue that you are generating, whereas before the fact that you've got a bigger marketing allowances created a bit of arbitrage and fictitious SIM cards in the market. So we have taken measures to control that more tightly. We obviously need to do it in a responsible manner because if you remember we did do something a couple of years ago and it backfired a little bit. So we watch this carefully. So it will continue to grow as prepaid revenue grows.

**Jonathan Kennedy-Good**
Thanks.

**Operator**
Thank you very much. The next question is from Mike Gresty of Citibank. Please go ahead.

**Mike Gresty**
Good afternoon guys. Thanks for the opportunity to ask a couple of questions. First of all just on the ICASA priority markets review I'm not entirely clear in my mind to what degree that overlaps with what they're busy doing to look at data pricing. Is it different or is it part of the broader regulatory change that you are trying to pre-empt now through your out of bundle data pricing changes you have put through? And do you have any sense of the process and timelines around this priority market review? And then just to follow up on Chris' earlier question on BEE. Shameel, you said it is not your intention to do a 30% deal. I just wanted to clarify. Certainly as I understand it, it was never going to be a 30% deal based on what your ownership was likely to be after the maturity of the current deal. So you were never going to do 30% anyway. But is it correct that the deal you do will not result in you reaching 30% qualifying black ownership in South Africa? Is that the way we should interpret it? A lesser percentage you would be comfortable with.

**Shameel Joosub**

Yes. Maybe let me start with the ICASA priority markets review. Basically what the ICASA priority market review is a regulatory activity that regulators conduct all over the world. And basically what they do is part of the process of a priority markets review is firstly to define the markets. So that ICASA is saying they will have done by end of March. So you have basically got to define the market. In South Africa there are about 21 different markets as an example. So you define the 21 different markets. The data market could be one market. Wholesale is another market. International calling is another market. So those types of things. So you've got a variety of different markets. The process then is once they have identified the markets to decide which markets they are going to prioritise for study. Those studies can take anywhere up to two years to finalise.

But essentially what it is, you do a study within the market and you look at whether the market is comparative, is there any anti-competitive behaviour, and does it require any regulatory intervention or not. Obviously if it doesn't you give it a tick and you move on. If it does you have to define the failure. You have to produce what we call a chapter ten review. Define the failure and then come up with adequate remedies to solve for the problem that you've identified. So it's a well-defined process which is massive because obviously being managed through the regulator. Not that we never have disputes with the regulator or difference of opinion, but at least it's a better managed process with comments and all these types of things in the way that the regulator should do. We participate. Obviously bringing down things like out of bundle rates and so on does help the overall storyline. When they review that market it helps to contribute to the success of that, because you also benchmark it against the world to see what prices are and so on. So there is that part. But here we also try to deal with the end user subscriber charter where we plan to proactively bring data prices down in a phased approach. So we are almost seeing it like a mobile termination rate cut and our plan is that every October we will try and reduce data pricing, though the out of bundle rates a bit more. So that's the one side.

In terms of BEE you're correct in saying that we are not trying to get to 30%. We will not achieve 30% with this deal. Our current black ownership percentage is what we are trying to retain, which is not at the 30% level. So effectively we work very hard to be at level four. We have a clear intent to try and move that to level three. And we obviously over index on all the other measures to be able to ensure that there is level four. You will remember previously that the ICASA recommendations or requirement is that you lead the level four.

**Mike Gresty**
Great. Thanks Shameel. That's pretty clear. Thank you.

**Operator**
Thank you very much. The next question is from Ziyad Joosub of HSBC. Please go ahead.

**Ziyad Joosub**
Hi everyone. Thanks for the questions. Just two questions please. On the fixed service revenue could you maybe give us some colour on the acceleration from 45% growth year on year in H1 to the 65% growth in Q3? What are the drivers behind that? And also a more medium-term question. If we assume that the Rand stays at R12 or slightly below given that 40% roughly of your capex is dollarized would you relook your capex guidance or is the plan for you just to reinvest any savings you make on the capex side of things? Thank you.

**Till Streichert**
On the fixed line side what have we got in the portfolio of fixed line? It's in essence cloud and hosting, IPVPN, leased lines, access customer revenue and basically the broad category of connectivity revenue. And in essence we've seen pretty strong growth rates in the access customer revenue, but equally cloud and hosting continue to grow pretty well. So all in all the category still

continues to accelerate across basically all of those components pretty similarly. Just on the capex side, of course a strong Rand from the South African point of view is helpful obviously from a translation point of view with international markets, the calibration of it. Capex guidance remains as it is. And we are anyway trying to maximise… you remember our discussions two years ago when the Rand was a bit under pressure what tools we employed to basically manage that. And that helped us basically getting through it. Of course we continue to use those tools to maximise and also manage risk in potential currency volatility. But we're just taking the benefit and we will invest and strengthen our network.

**Shameel Joosub**
So just to emphasise we will reinvest the money back into the network and stay within guidance.

**Ziyad Joosub**
Understood. Sorry, just a quick follow-up. So the fixed service revenue growth, is a lot of this contractual in nature? Is it lumpy? How should we look at this growth going forward? Obviously it is at a very high level now. Should it turn downwards at what sort of rate?

**Till Streichert**
Look, there is a bit of lumpiness in that. So I think you should not assume a steady acceleration that you have seen from the one quarter into the other quarter. There is a little bit of lumpiness in that.

**Shameel Joosub**
There is a portion that is energy based and there is always a portion that is deal based. So you have a mix of the two. Also remember that in the fixed revenue now is fibre to the home and that segment because it has been growing off a small base will always grow strongly.

**Ziyad Joosub**
Okay. That is very clear. That makes sense. Thank you.

**Operator**
Thank you very much. Our next question is from Neil Venter of Investec. Please go ahead.

**Neil Venter**
Thank you. My questions have been answered.

**Operator**
Thank you very much. Then our last question is from Richard Majoor of Macquarie. Please go ahead. Your line is open, Richard. Would you like to ask your question?

**Richard Majoor**
Hello Richard here. Can you hear?

**Operator**
We can hear you now, sir.

**Richard Majoor**
Okay. Good afternoon gentlemen. Two questions. I see that your South African interconnect revenue has jumped quite a bit. I don't know if that's a traffic thing or a pricing thing. Are you winning market share maybe in the wholesale market? If you would like to comment. The other thing more a technicality. I'm a little confused. The fixed service revenue on page two which you

initially quoted was at 23.6% growth and then in the table we get the 65.4% growth. I don't know if that's the same figure or it is different periods please.

**Shameel Joosub**
Okay. So on the MTR question I think there are two impacts that are coming through. One is remember that from October onwards there is no MTR decline built in. So the current glide path ended end of September. So this quarter doesn't have an MTR decline in. So that's the first thing. Then that will be the case for the fourth quarter and probably the first and second quarter of next year as well with ICASA going through a review of MTR rates. There was however a positive win for the industry just to show you that sometimes it takes a couple of years to materialise, but it does. We managed to change or get the regulator to approve after three or four years of battling to separate what we call ITRs from MTRs. ITRs are international termination rates where effectively we were getting 1 US cent and we were paying anywhere between 12 and 15 US cents to terminate a call in another country. That has changed and all international termination rates are now down at a much higher rate. Most of the companies are around 12 US cents, that type of thing. So there has been a massive increase in the ITR revenues for all operators that took effect in this quarter and will continue through the year.

**Till Streichert**
And Richard, just quickly answering the question on the different numbers. What is basically quoted at the 23% is just the fixed line of the enterprise growth for fixed. The 65% is the entire fixed line category.

**Shameel Joosub**
So the one is the enterprise and the other one is total.

**Till Streichert**
That's right.

**Operator**
Thank you very much gentlemen. We have no further questions.

**Shameel Joosub**
Thank you for joining us. Good afternoon.

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

END OF TRANSCRIPT