

Financial review

Summary financial information

Rm	Year ended 31 March			% change	
	2009	2008	2007	08/09	07/08
Revenue	55 187	48 178	41 146	14.5	17.1
EBITDA ¹	18 196	16 463	14 227	10.5	15.7
Operating profit	12 005	12 491	10 860	(3.9)	15.0
Adjusted operating profit ²	13 387	12 491	10 860	7.2	15.0
Net profit	6 192	7 958	6 560	(22.2)	21.3
Operating free cash flow	9 140	9 803	8 009	(6.8)	22.4
Capital expenditure	6 906	5 916	6 748	16.7	(12.3)
Net debt	17 537	8 663	6 027	102.4	43.7
Total assets	47 359	34 175	28 470	38.6	20.0
Headline earnings per share (cents)	417	528	426	(21.0)	23.9

Key financial indicators

	Year ended 31 March			% point change	
	2009	2008	2007	08/09	07/08
EBITDA ¹ margin (%)	33.0	34.2	34.6	(1.2)	(0.4)
Operating profit margin (%)	21.8	25.9	26.4	(4.1)	(0.5)
Adjusted operating profit ² margin (%)	24.3	25.9	26.4	(1.6)	(0.5)
Effective taxation rate (%)	39.5	34.1	36.9	5.4	(2.8)
Net profit margin (%)	11.2	16.5	15.9	(5.3)	0.6
Net debt/EBITDA (x)	1.0	0.5	0.4	0.5	0.1
Capex ³ /revenue (%)	12.5	12.3	16.4	0.2	(4.1)

1 Earnings before interest, taxation, depreciation, amortisation, profit/loss on disposal of investments and on disposal of property, plant and equipment, investment properties and intangible assets and BBBEE charges

2 Adjusted operating profit excludes the BBBEE charge of R1 382 million

3 Capital expenditure additions including software and excluding licenses

The financial results were impacted by a number of significant events: the broad-based black economic empowerment ("BBBEE") transaction, the acquisition of Gateway and the raising of new debt.

- In October 2008, the Group concluded its BBBEE transaction, selling a 6.25% stake to black partners, black public and employees. There were once-off BBBEE transaction expenses of R95 million which affected EBITDA in the year ended 31 March 2009. The BBBEE charge relating to the IFRS 2 share-based payment of R1.4 billion is not reflected in EBITDA but affected operating profit.
- The acquisition of Gateway was completed on 30 December 2008 and was financed through a combination of cash and existing and new debt facilities. The equity purchase price, including capitalised costs, was R5.7 billion with a fair value of net assets acquired of R281 million, resulting in goodwill arising from the transaction of R5.4 billion. The Group results include Gateway for the three months ended 31 March 2009.

- Vodacom Group more than doubled its net debt over the year, successfully obtaining long-term funding of R6.5 billion in October 2008, a further R3.0 billion in December 2008 and increased bank borrowings to refinance existing debt and to fund both the Gateway acquisition and capital expenditure. This has achieved a more efficient capital structure, but has resulted in substantially higher finance charges.

During the latter part of the financial year, the effect of the deteriorating global macroeconomic conditions were felt in all the businesses, particularly in the DRC where the dramatic impact on the economy of declining mineral resource prices and the closing of many mines affected revenue and profitability. The slowdown in the South African economy has to some degree filtered through to the mobile market. While the prepaid market in South Africa remained relatively resilient and showed increased usage, contract customer spending declined compared to the prior year.

The depreciation of the rand against the functional currencies of the international operations had a positive effect on the Group's trading results. The depreciation of the rand against the US dollar negatively impacted South African maintenance costs, handset purchases and capital expenditure, but to a lesser extent.

Revenue

Revenue rose 14.5% to R55 187 million, largely due to a 16.5% increase in the customer base to 39.6 million, the 28.8% increase in data revenue to R6 441 million and the inclusion of R808 million from Gateway for the final quarter of the year. Revenue from the South African operations increased 10.8% to R47 483 million, contributing 86.0% (2008: 88.9%) to group revenue for the year ended. Revenue from the international operations grew 29.9% to R7 003 million, contributing 12.7% (2008: 11.2%) to group revenue. Organic revenue growth for the year was 12.9%.

Group revenue

Rm	Year ended 31 March			% change	
	2009	2008	2007	08/09	07/08
South Africa	47 483	42 852	37 125	10.8	15.4
International	7 003	5 393	4 140	29.9	30.3
Tanzania	2 975	2 354	1 729	26.4	36.1
DRC	2 928	2 297	1 914	27.5	20.0
Mozambique	735	434	269	69.4	61.3
Lesotho	398	309	227	28.8	36.1
Mauritius and eliminations	(33)	(1)	1	-	-
Gateway	808	-	-	-	-
Corporate and eliminations	(107)	(67)	(119)	(59.7)	43.7
Total revenue	55 187	48 178	41 146	14.5	17.1

Profitability

EBITDA increased 10.5% to R18 196 million, mainly as a result of strong revenue growth offset by BBBEE transaction expenses of R95 million and margin pressure in the DRC. EBITDA from the South African operations was up 9.7% to R16 222 million, contributing 89.2% (2008: 89.8%) to group EBITDA for the year. EBITDA from the international operations increased 18.7% to R1 835 million, contributing 10.1% (2008: 9.4%) to group EBITDA. Gateway contributed R100 million to group EBITDA for the three months from the acquisition date. The group EBITDA margin decreased from 34.2% in the prior year to 33.0%.

Group EBITDA

Rm	Year ended 31 March			% change	
	2009	2008	2007	08/09	07/08
South Africa	16 222	14 790	12 904	9.7	14.6
International	1 835	1 546	1 238	18.7	24.9
Tanzania	1 049	765	591	37.1	29.4
DRC	743	745	603	(0.3)	23.5
Mozambique	(19)	(32)	(69)	40.6	53.6
Lesotho	189	139	97	36.0	43.3
Mauritius and eliminations	(127)	(71)	16	(78.9)	>(200.0)
Gateway	100	-	-	-	-
Corporate and eliminations	39	127	85	(69.3)	49.4
Total EBITDA	18 196	16 463	14 227	10.5	15.7

Operating profit for the year was down 3.9% to R12 005 million primarily due to the BBBEE charge of R1 382 million. Excluding this charge, operating profit increased 7.2% to R13 387 million, lower than EBITDA growth due to an increase of 17.3% in depreciation to R3 948 million.

Finance charges

Net finance charges rose from R424 million in the prior year to R1 749 million. Finance costs for the year ended 31 March 2009 increased substantially to R1 460 million, compared to R681 million in the prior year, due to increased borrowings and the higher effective cost of borrowings. The loss on the foreign exchange forward contract revaluation of R567 million includes R408 million in foreign exchange losses incurred in respect of the Gateway acquisition. The gain on the revaluation of foreign denominated liabilities of R228 million mainly relates to the gain on the revaluation of the minority shareholder's put option in the DRC.

Group finance charges

Rm	Year ended 31 March			% change	
	2009	2008	2007	08/09	07/08
Finance income	108	72	75	50.0	(4.0)
Finance costs	(1 460)	(681)	(369)	(114.4)	(84.6)
(Loss)/gain on foreign exchange forward contract revaluation	(567)	346	468	>(200.0)	(26.1)
Gain/(loss) on revaluation of foreign denominated liabilities	228	(162)	(642)	>200.0	74.8
Other	(58)	1	4	>(200.0)	(75.0)
Net finance charges	(1 749)	(424)	(464)	>(200.0)	(8.6)

Taxation

The taxation expense for the year was 1.6% lower at R4 045 million mainly due to lower profit before taxation and a reduction in the South African corporate tax rate to 28% (2008: 29%), partly offset by the disallowable BBBEE charge and non-deductible interest charges. The effective tax rate increased from 34.1% to 39.5%.

Earnings

Headline earnings per share decreased 21.0% to 417 cents for the year, compared to 528 cents in the prior year. Excluding the BBBEE charge of R1 382 million, headline earnings per share decreased 3.4% to 510 cents per share. The reduction in headline earnings per share is largely due to the substantial increase in finance charges resulting from the higher average net debt.

Group earnings per share

Cents	Year ended 31 March			% change	
	2009	2008	2007	08/09	07/08
Basic earnings per share	409	525	426	(22.1)	23.2
Headline earnings per share	417	528	426	(21.0)	23.9
Weighted average shares in issue (thousand) ¹	1 487 954	1 487 954	1 487 954	-	-

¹ Based on number of shares in issue at listing date of 18 May 2009

Cash flow

Cash generated from operations remained stable at R16 351 million, compared to R16 334 million in the prior year. Negative movements in working capital of R1 831 million offset the growth in EBITDA of R1 733 million. Working capital was affected by the once-off impact of normalising creditors payments for year end purposes, as well as the repayment of R602 million relating to a cancellation of a guarantee held for a distributor.

Group operating free cash flow

Rm	Year ended 31 March			% change	
	2009	2008	2007	08/09	07/08
Cash generated from operations	16 351	16 334	13 866	0.1	17.8
Additions to property, plant and equipment and intangible assets	(7 254)	(6 541)	(5 955)	(10.9)	(9.8)
Proceeds on disposal of property, plant and equipment and intangible assets	43	10	98	>200.0	(89.8)
Operating free cash flow	9 140	9 803	8 009	(6.8)	22.4

Net cash flows from operating activities decreased 18.4%, largely due to the higher finance charges. Net cash flows utilised in investing activities increased from R7 502 million to R12 750 million mainly due to the R5.3 billion for the acquisition of Gateway and increased capital expenditure. As a result of the debt raising activities cash flows from financing activities increased from R3 234 million in the prior year to R8 873 million.

Capital expenditure

Vodacom Group's capital expenditure for the year ended 31 March 2009 was 16.7% higher at R6 906 million. The increase in South African capital expenditure to R4 627 million (or 9.7% of revenue) largely relates to continued investment to improve coverage and increase capacity for both the voice and data networks. The increase of 58.4% in the capital expenditure in the international operations to R2 406 million (or 34.4% of revenue), was mainly due to expanding coverage in Tanzania and Mozambique.

Group capital expenditure

Rm	Year ended 31 March			% change	
	2009	2008	2007	08/09	07/08
South Africa	4 627	4 252	4 993	8.8	(14.8)
International	2 406	1 519	1 573	58.4	(3.4)
Tanzania	1 355	713	957	90.0	(25.5)
DRC	693	658	506	5.3	30.0
Mozambique	267	111	85	140.5	30.6
Lesotho	91	36	25	152.8	44.0
Mauritius and eliminations	-	1	-	-	-
Gateway	14	-	-	-	-
Corporate and eliminations	(141)	145	182	(197.2)	(20.3)
Group capital expenditure	6 906	5 916	6 748	16.7	(12.3)
Capex/revenue (%)	12.5	12.3	16.4	0.2	(4.1)

Balance sheet

Total assets grew by R13 184 million to R47 359 million as at 31 March 2009, largely as a result of the increase in intangible assets from R4 224 million to R11 794 million, with goodwill comprising the largest element at R5 533 million, attributable mainly to the acquisition of Gateway.

Net debt rose to R17 537 million as at 31 March 2009, compared to R8 663 million at 31 March 2008. Debt was raised to refinance debt, support higher capital expenditure and acquire Gateway. Net debt as at 31 March 2009 includes the final dividend and related STC of R2 430 million paid to Vodacom Group's shareholders on 8 April 2009. 93% of the total debt is at a floating rate and R5 692 million will mature in less than a year. R2 977 million of the total debt is denominated in foreign currencies. The balance sheet remains strong; with the net debt to EBITDA ratio at 1.0x at 31 March 2009.

Group net debt

Rm	At 31 March			% change	
	2009	2008	2007	08/09	07/08
Cash and cash equivalents	(1 104)	(978)	(771)	(12.9)	(26.8)
Bank borrowings	2 203	2 597	879	(15.2)	195.4
Current liabilities	5 692	503	501	>200.0	0.4
Non-current liabilities	8 316	3 032	2 054	174.3	47.6
Net debt before dividends and STC	15 107	5 154	2 663	193.1	93.5
Dividends and STC payable	2 430	3 509	3 364	(30.7)	4.3
Net debt (incl dividend)	17 537	8 663	6 027	102.4	43.7
Net debt/EBITDA (x)	1.0	0.5	0.4		

Operational review

South Africa

Vodacom SA revenue grew 10.8% with customer growth of 11.3% or 2.8 million additional customers to 27.6 million. A record 13 million gross connections were achieved and churn was down 2.2 percentage points to 40.1% as a result of the focused retention campaigns and loyalty programmes. Vodacom SA maintained its market leadership position with 53.0% market share of mobile customers as at 31 March 2009.

Contract and prepaid customer revenue grew by 4.2% and 16.5% respectively. Prepaid ARPU increased 9.7% to R68 per month, driven by the introduction of more affordable products and lower denomination vouchers. Yebo4Less, the dynamically priced prepaid product, attracted 4.8 million customers, representing 20.4% of the prepaid customer base. Contract customer ARPU was 2.5% lower at R474 per month due to the growth in low-end hybrid contract customers and customers not exceeding their bundles.

