Gateway

The acquisition of Gateway was concluded on 30 December 2008, therefore Gateway is not included in the comparative numbers. Gateway has been fully included in the six month period. In the six months ended 30 September 2009, Gateway contributed revenue of R1 532 million and EBITDA of R144 million.

The carrier services division was negatively impacted by reduced mobile traffic on the continent and pricing pressure from operators. Given the poor trading performance in carrier services, the adverse changes in macroeconomic environment and business plan assumptions, an impairment charge of R3 039 million was raised in the period. Vodacom is currently transferring its international traffic to Gateway.

The business services division continued to post good growth particularly in the Nigerian market, although some corporate spending was delayed due to the economic slowdown. On 1 October 2009, Gateway Business was placed under common management with Vodacom Business, which will be responsible for converged enterprise solutions across Africa.

Financial review

Summary financial information

	Six months ended 30 September			% change	
Rm	**2009**	**2008**	**2007**	**08/09**	**07/08**
Revenue	**28 675**	26 090	22 891	**9.9**	14.0
EBITDA	**9 347**	8 654	7 600	**8.0**	13.9
Operating profit	**3 535**	6 430	5 714	**(45.0)**	12.5
Net profit	**59**	3 776	3 658	**(98.4)**	3.2
Operating free cash flow	**5 152**	4 082	3 080	**26.2**	32.5
Capital expenditure	**2 934**	2 976	2 289	**(1.4)**	30.0
Net debt before STC and dividends	**14 840**	6 062	6 149	**144.8**	(1.4)
Earnings per share (cents)	**4**	248	242	**(98.4)**	2.5
Headline earnings per share (cents)	**219**	250	241	**(12.4)**	3.7
EBITDA margin (%)	**32.6**	33.2	33.2		
Operating profit margin (%)	**12.3**	24.6	25.0		
Effective taxation rate (%)	**97.6**	34.6	30.6		
Net profit margin (%)	**0.2**	14.5	16.0		
Net debt/EBITDA (times)	**0.8**	0.5	0.4		
Capex/revenue (%)	**10.2**	11.4	10.0		

Revenue

Rm	Six months ended 30 September 2009	2008	2007	% change 08/09	07/08
South Africa	**24 371**	22 810	20 402	**6.8**	11.8
International	**2 965**	3 333	2 518	**(11.0)**	32.4
Gateway	**1 532**	–	–	**n/a**	–
Corporate and eliminations	**(193)**	(53)	(29)	< **(200.0)**	(82.8)
Total revenue	**28 675**	26 090	22 891	**9.9**	14.0

Other operating income has been incorporated into revenue to align accounting practices with the Group's parent. This resulted in a reclassification of R74 million for the prior period. Vodacom adopted IFRIC 13 from 1 April 2009, and now accounts for customer loyalty credits as a separate component of the sales transaction in which they are granted. Included in other service revenue is an expense of R140 million of which R119 million relates to the prior year.

Revenue rose 9.9% to R28 675 million, largely due to the inclusion of Gateway (which contributed 5.3% to group revenue), the 16.5% growth in mobile customers to 41.6 million and the 30.1% increase in mobile data revenue to R2 031 million.

Revenue from the South African operations of R24 371 million was 6.8% higher, contributing 85.0% (2008: 87.4%) to group revenue. Revenue from the international operations declined 11.0% to R2 965 million, contributing 10.3% (2008: 12.8%) to group revenue. Since March 2009, excise duty has been deducted from revenue as opposed to previously being included in direct network expenses. In the prior period, excise duty of R89 million incurred by the international operations was included in direct network expenses, but the comparative figures have not been restated. Group normalised revenue growth was 4.7%.

Operating costs[1]

Rm	Six months ended 30 September 2009	2008	2007	% change 08/09	07/08
South Africa	**15 820**	15 067	13 494	**5.0**	11.7
International	**2 367**	2 491	1 831	**(5.0)**	36.0
Gateway	**1 389**	–	–	**n/a**	–
Corporate and eliminations	**(189)**	(115)	(34)	**(64.3)**	< (200.0)
Total operating costs[1]	**19 387**	17 443	15 291	**11.1**	14.1

Group operating costs increased by 11.1% to R19 387 million largely due to Gateway. Excluding Gateway, operating costs increased by 3.2%.

EBITDA

Rm	Six months ended 30 September 2009	2008	2007	% change 08/09	07/08
South Africa	**8 609**	7 749	6 908	**11.1**	12.2
International	**598**	842	686	**(29.0)**	22.7
Gateway	**144**	–	–	**n/a**	–
Corporate and eliminations	**(4)**	63	6	**(106.3)**	> 200.0
Total EBITDA	**9 347**	8 654	7 600	**8.0**	13.9

EBITDA of R9 347 million was up 8.0% from a year ago, mainly as a result of revenue growth and the expansion of the South African EBITDA margin from 34.0% to 35.3%. EBITDA of R8 609 million from the South African operations was 11.1% higher, contributing 92.1% (2008: 89.5%) to group EBITDA for the period. EBITDA from the international operations declined 29.0% to R598 million, contributing 6.4% (2008: 9.7%) to group EBITDA for the period. Gateway contributed R144 million to group EBITDA. The group EBITDA margin decreased from 33.2% in September 2008 to 32.6% in September 2009.

[1] Excluding depreciation, amortisation and net impairment charges.

Operating profit

Rm	Six months ended 30 September 2009	2008	2007	% change 08/09	07/08
South Africa	**6 669**	6 052	5 417	**10.2**	11.7
International	**36**	327	320	**(89.0)**	2.2
Gateway	**(3 001)**	–	–	**n/a**	–
Corporate and eliminations	**(169)**	51	(23)	< **(200.0)**	> 200.0
Total operating profit	**3 535**	6 430	5 714	**(45.0)**	12.5

Operating profit decreased 45.0% to R3 535 million mainly due to the net impairment charges of R3 189 million and a 16.8% increase in depreciation and amortisation.

Net finance charges

Rm	Six months ended 30 September 2009	2008	2007	% change 08/09	07/08
Finance income	**48**	34	47	**41.2**	(27.7)
Finance costs	**(810)**	(734)	(289)	**10.4**	154.0
Remeasurement of loans	**(232)**	–	–	**n/a**	–
Gain/(Loss) on translation of foreign assets and liabilities	**142**	226	(135)	**(37.2)**	> 200.0
Loss on derivatives	**(259)**	(185)	(68)	**40.0**	172.1
Total net finance charges	**(1 111)**	(659)	(445)	**68.6**	48.1

Net finance charges rose significantly from R659 million to R1 111 million for the six months ended 30 September 2009. Finance costs for the period were R810 million compared to R734 million a year ago, mainly due to higher average debt. The average cost of debt reduced from 12.3% to 9.3% as a result of lower interest rates and the benefit of floating rate debt. Net finance charges were negatively affected by the remeasurement of loans granted of R232 million and the loss of R259 million mainly relating to forward exchange contracts.

Taxation

The taxation expense of R2 351 million for the period was 17.8% higher than in September 2008. The effective tax rate rose from 34.6% at 30 September 2008 to 97.6% at 30 September 2009, mainly due to the reversal of the DRC deferred tax asset and the Gateway impairment.

Earnings

Earnings per share for the period declined 98.4% from 248 cents per share to 4 cents per share, primarily due to the reversal of the DRC deferred taxation asset of R551 million and the net impairment charges of R3 189 million. Headline earnings per share, which exclude net impairment charges, decreased 12.4% to 219 cents per share.

Cash flow

Cash generated from operations grew 12.8% to R8 770 million. Net cash outflows used in investing activities increased from R3 708 million to R3 795 million. As a result of higher bank borrowings classified as financing activities, cash outflows from financing activities rose from R2 056 million to R3 103 million. Dividends were previously classified in cash flow from operating activities and are now included in cash flow from financing activities. Interest income was reclassified to investing activities and finance costs were reclassified to financing activities.

Operating free cash flow was up 26.2% at R5 152 million. Taxation paid decreased by 8.6% to R2 058 million.

Operating free cash flow

	Six months ended 30 September			% change	
Rm	**2009**	**2008**	**2007**	**08/09**	**07/08**
Cash generated from operations	**8 770**	7 778	6 821	**12.8**	14.0
Additions to property, plant and equipment and intangible assets	**(3 635)**	(3 731)	(3 745)	**(2.6)**	(0.4)
Proceeds on disposal of property, plant and equipment and intangible assets	**17**	35	4	**(51.4)**	> 200.0
Total operating free cash flow	**5 152**	4 082	3 080	**26.2**	32.5

Capital expenditure

	Six months ended 30 September			% change	
Rm	**2009**	**2008**	**2007**	**08/09**	**07/08**
South Africa	**1 839**	2 014	1 613	**(8.7)**	24.9
International	**1 019**	960	551	**6.1**	74.2
Gateway	**74**	–	–	**n/a**	–
Corporate and eliminations	**2**	2	125	**–**	(98.4)
Total capital expenditure	**2 934**	2 976	2 289	**(1.4)**	30.0
Capex/revenue (%)	**10.2**	11.4	10.0		

Vodacom's capital expenditure for the period was R2 934 million, 1.4% less than a year ago. Lower capital expenditure of R1 839 million (7.5% of revenue) in South Africa was largely related to the RAN renewal project, where recovered equipment was redeployed, resulting in lower purchases of equipment. Capital expenditure of R1 019 million (34.4% of revenue) in the international operations was 6.1% higher mainly due to investment in Tanzania and Mozambique.

Statement of financial position

Property, plant and equipment and intangible assets were negatively impacted by foreign currency adjustments of R1 667 million and R1 396 million, respectively due to the rand strengthening against functional reporting currencies of the international markets since 31 March 2009.

Net debt before dividends and secondary taxation on companies ("STC") rose to R14 840 million, compared to R6 062 million a year ago. The statement of financial position remains strong with the net debt to EBITDA ratio at 0.8 times at 30 September 2009, well within the target range. During the period, Vodacom refinanced the USD180 million loan in the DRC in the South African debt markets, with 93.4% of the debt now denominated in rand. R3 480 million of the debt matures in the next 12 months and 95.1% of total debt is at floating rates.

Net debt

Rm	As at 30 September 2009	As at 31 March 2009	Change	As at 30 September 2008
Cash and cash equivalents	**(729)**	(1 104)	**375**	(822)
Bank borrowings	**747**	2 203	**(1 456)**	3 364
Debt	**14 822**	14 008	**814**	3 520
Total net debt before dividends and STC	**14 840**	15 107	**(267)**	6 062
Dividends and STC payable	**–**	2 430	**(2 430)**	3 300
Total net debt (including dividend)	**14 840**	17 537	**(2 697)**	9 362
Net debt/EBITDA (times)	**0.8**	1.0		0.5