

Operating review

Vodacom continued to grow the core mobile and broadband businesses, which together with the management of costs and capital expenditure, underpinned the Group's results. Although competitive, economic and regulatory pressures intensified in most of the Group's markets, revenue rose 9.9% to R28.7 billion, supported by a 16.5% increase in group mobile customers and a 30.1% increase in group mobile data revenue (excluding messaging revenue). Normalised revenue growth was 4.7%.

While the South African operations expanded EBITDA¹ margins and lifted EBITDA by 11.1%, the group EBITDA margin declined from 33.2% to 32.6% as a result of the difficulties in the international operations and the inclusion of the lower margin Gateway² operation.

Since becoming a subsidiary of Vodafone Group Plc ("Vodafone") in May 2009, Vodacom has implemented projects to extract value from the relationship in many areas, including human resources, products and services, international roaming, technology, billing and finance. Efficiency benefits are already being realised in areas such as procurement.

Cash generation remained strong, with operating free cash flow up 26.2% to R5.2 billion. The Group invested R2.9 billion, including R1.0 billion in its international operations.

The Group incurred net impairment charges of R3.2 billion in the six month period, largely relating to Gateway. This resulted in a 98.4% decline in earnings per share to 4 cents. Headline earnings per share, which exclude the net impairment charges, decreased 12.4% to 219 cents, due to losses on the remeasurement of loans granted of R232 million and the reversal of a deferred taxation asset of R551 million arising from the reduced profitability of Vodacom DRC. Excluding the impact of these two items of 52 cents per share, headline earnings per share increased 8.4% to 271 cents per share.

Vodacom declared an interim dividend of 110 cents per share, supported by the strong cash performance of the Group.

South Africa

Vodacom SA³ delivered a robust performance, adding just over 579 000 new mobile customers in the six month period and growing the base 11.7% to 28.2 million customers from a year ago. Gross connections remained strong at 5.6 million but were impacted by the customer registration requirement of the Regulation of Interception of Communications and Provision of Communication-Related Information Act ("RICA"), which took effect on 1 July 2009. This resulted in significantly lower gross connections in August and September 2009. Churn reduced from 42.3% to 34.9%, primarily due to ongoing retention campaigns and loyalty programmes. Vodacom SA retained its market leadership with an estimated 55% share of mobile customers and was rated the second most popular brand in South Africa by the Markinor Sunday Times 2009 survey, behind global brand Coca-Cola. Vodacom SA extended its leading position in broadband with 53.5% growth in customers to just over 964 000.

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

² 100% of the shares in each of Gateway Telecommunications Plc, Gateway Communications (Proprietary) Limited, Gateway Communications Mozambique LDA, Gateway Communications Tanzania (Limited) and GS Telecom (Proprietary) Limited and their respective subsidiaries.

³ Vodacom (Proprietary) Limited (registration number 1993/003367/07), a private limited liability company duly incorporated in accordance with the laws of South Africa, and its subsidiaries and joint ventures.

Although revenue and ARPUs were negatively affected by the economic slowdown, focused price promotions reduced the average effective revenue per minute of mobile calls by 14.6% and supported a 15.7% growth in traffic. ARPU in the prepaid and contract market declined 3.0% and 6.0% to R64 and R452, respectively. Revenue increased 6.8% to R24 371 million with service revenue¹ increasing 7.7% driven largely by data revenue growth of 30.8%. EBITDA rose 11.1% to R8 609 million and EBITDA margins expanded to 35.3% from 34.0%.

Vodacom SA continued to invest in its network, with a further 122 new base stations, 195 3G enabled base stations and 9 of the 11 metro fibre rings completed in the six month period. The building of the national fibre optic network began with trenching work on the Durban to Germiston route. Some 540 base stations were upgraded as part of the radio access network ("RAN") renewal programme, with more than 1 000 planned for the remainder of the year. The upgraded base stations are more cost effective, delivering improved spectrum efficiencies at a lower operational cost.

South African mobile operators have come under considerable pressure to reduce mobile tariffs, specifically mobile termination rates. Vodacom Group is cooperating with the authorities to ensure that the termination rate reduction is dealt with in a responsible way.

International

The international operations continued to record strong customer growth of 28.2% to 13.4 million at 30 September 2009. However, revenue declined 11.0% to R2 965 million, as Tanzania and the Democratic Republic of Congo ("DRC") felt the impact of weak economic conditions, intense competition and higher excise duties. Revenue (excluding the impact of excise duties, foreign exchange and IFRIC 13: Customer Loyalty Programmes ("IFRIC 13")) was 4.9% lower than a year ago. Mozambique and Lesotho posted strong revenue growth of 31.9% and 28.0%, in SA rand respectively.

Vodacom has responded with significant price reductions to stimulate traffic and regain lost market share in both Tanzania and the DRC. In Mozambique, Vodacom successfully reduced churn and grew its market share to an estimated 45%.

In Tanzania, ARPU was 28.7% lower in Tanzanian shillings and in the DRC, 42.9% lower in US dollars compared to a year ago. This decline was as a result of constrained disposable income, tariff reductions and lower interconnection revenue in both markets. The period to date average Tanzanian shilling and the Congolese franc depreciated by 11.7% and 44.6% respectively against the US dollar, which reduced consumer spending power and drove US dollar and Euro denominated operating costs higher.

Despite the economic pressure, Vodacom continued to implement its strategy to offer total communications solutions. In Tanzania, Vodafone M-Pesa continued to gain momentum. In September 2009, Vodacom Business was launched in Tanzania.

The EBITDA margin in the international operations declined from 25.3% to 20.2% due to reduced profits from Tanzania and the DRC. Various programmes are in place in the international operations to adjust business structures to support lower tariffs, including the renegotiation of supplier maintenance contracts. Capital expenditure of R1 019 million was largely allocated to Tanzania and Mozambique.

¹ Revenue excluding equipment and non-service revenue.

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

Rm	Six months ended 30 September			% change	
	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		