Vodacom Annual Results

for the year ended 31 March 2009

19/05/2009

Speaker	Narrative
Pieter Uys	To all my new investors, my ex-shareholder Telkom, the analysts, the media, it's good to have you here. We're not at Vodaworld this time. We picked a new venue. It's easier to get here. We thought this time we'd come to you. So thank you for sharing the morning with us. Since the last time we presented in November a lot of things have happened to us and also in the world around us. The whole economic situation in the world has changed, and we've got a new President, we've got a new government. So these are all things that happened. Yesterday we listed after a very eventful weekend. I was very pleased that yesterday finally happened. And I believe almost ten million shares traded hands yesterday, so today is the first set of results as a listed company. This is Belinda's disclaimer slide, so you can find that at the end of your handout. Then as I said the economic situation in the world has changed, but if you look at South Africa it has been a little bit more resilient against the global downturn, but not completely immune. So I will highlight some of those. But all in all I believe it's a good set of results, and I will show you some of those highlights. Johan will go into more of the financial detail. I will also give you a brief update of our strategy and how we are executing against that. Also we concluded the Gateway transaction at the end of last year, so what has happened with that. At the end after Johan I will come back and give you some outlook of where this might all be going. Then we will do some Q&A. So starting with the group highlights, good growth in all our measures and metrics, supported by substantial cash generation from the group. R55.2 billion revenue, 14.5% growth in that supported by good customer growth, a 16.5% growth in the group customers to almost 40 million now, also supported by good data revenue growth. Our second pillar of growth, data revenue, and I will come back to that. EBITDA growing to R18 billion, 10.5% up, impacted mostly by the BEE transaction that we concluded last year. Also one other thing that I can point out that slowed down the EBITDA a little bit is the DRC operations, but I will tell you more about that. The EBITDA margins in the group were relatively stable, and as I mentioned we continued to generate a strong cash flow despite some once-off impacts on working capital. Johan will tell you more about that. Operating free cash flow after capital expenditure then was R9.1 billion in the group. Some of the key developments that happened in the world around us, first of all we did the BEE transaction last year, selling 6.25% of Vodacom South Africa to BEE partners, the public and also our employees. That's also had a big impact on our financial with the IFRS charge of R1.5 billion coming through. Also we've worked more on our BEE rating according to the DTI codes. We're now sitting on 70%, which makes us a level four as measured by the codes. At the end of December 2008, in fact 31st December, we concluded the Gateway Communications deal. That now gives us a physical presence in a lot more countries and exposure to growth on the continent. Not only does it give us exposure to growth, it also operates in the environment where penetration levels are low. But also if the economic environment has an impact in Africa it will also have an impact on Gateway, and I will deal with that later on. Another thing we did towards the end of last year, we restructured our balance sheet substantially. We doubled our debt, but the balance sheet I must say remains strong. The weaker economy I have mentioned a few times, but specifically in the DRC it has impacted our business, and to a lesser degree also in South Africa. We listed on the JSE yesterday. But the important fact coming from that is Vodafone has now become a 65% shareholder, the majority shareholder, and I no longer have to ask Ruben for permission.

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	The next slide is how we deliver on those strategic objectives that I showed you last time. We had the four strategic pillars. The first one is to focus on our existing businesses. So just to look at that, we added 5.6 million customers in the operations that we have. We have maintained our leadership position in all the markets, South Africa, all of them. In Mozambique we will soon become the market leader there. Our leadership position in broadband. We now have 720,000 broadband connections in South Africa, and it must clearly make us the broadband leader. In the consumer and business segment we continue our development of converse services, but not just on the corporate side, also on the consumer side. We will continue to focus and add value and defend our business, but also find new revenue opportunities, new services, and non-mobile. The SAFARICOM business in Kenya launched [unclear], doing very well. We took that product and we adapted it and launched it in Tanzania. 250,000 customers on that. Very successful. We will take that product and roll it out to all our other businesses. So today the contribution from the businesses outside South Africa is just over 30%, and Gateway creates the platform for us to grow this business even more, giving us exposure to some of the markets that we have never been in. Take Nigeria. Gateway has an office of more than 150 people operating in that market. Next I will spend some time on South Africa. South Africa is firstly characterised by healthy competition, and I'll have a look at some of the highlights and the performance of the South African business. This is the highlights slide. In South Africa we've really delivered a strong set of results across all the metrics of operation. South Africa remains the core driver to our business. 89% of EBITDA comes from the South African business. There was 11% growth in revenue, driven by an 11% growth in subscribers and strong data revenue growth. And I'm particularly pleased with the team for delivering on the EBITDA margin. They maintained the EBITDA margins. And if you take out the BEE transaction charge and if you take out the start-up cost of starting the Vodacom business, about R200 million, we've actually improved the EBITDA margin in South Africa. So what's happening in and around the company in South Africa? We're operating as I said in a very competitive environment, but also a regulated environment. So looking at the economic environment it's not had a huge impact like in the DRC on the business. We've seen some increase in bad debt - it has gone up by 50% - but it's still immaterial, only R109 million. Contract customers have shown a slight slowdown, but there is good news of the prepaid side. Competition has definitely intensified in the South African market. MTN and Cell C are good competitors, and we have responded with clever price promotions. You have seen these come out in the last few months. We had the March Madness. We have the Night Shift at the moment. On the regulatory front the regulator has been very busy, not just on the last weekend but in the first three months of the year as well. He issued 350 new licences, ECNS, ECS licences. So we also received our new licence. The new licence fee regulations were finally finalised. That is now set at 1.5% of gross profit, and that is effective from the start of this financial year, 1st April. Then the last part of the RICO act. I don't know if you can remember, RICO started a couple of years ago. One part of RICO now allows the government to listen into your calls. They can't easily do it; they have to get permission to do that. But the second half will have a more dramatic impact, or could have if not managed well. And that will come into play the second half of the year, and that is the subscriber registration. We have not got a final date, but the President has signed that part of the act into effect. We've still got a leading market share, not just in subscribers but also revenue, 53% of the

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	subscriber revenue market share in South Africa. By the way, on the EBITDA market share we have 58% market share. We've added 2.8 million subscribers in South Africa in the year, but interestingly 1.2 million of that was added in the last quarter. So these initiatives that we've put into the market, the competitiveness in the market, has allowed us to produce 1.2 million net adds just in the one quarter. Vodacom South Africa's total subscriber base now is 27.6 million. That makes mobile penetration to over 100%. So that isn't subscribers, that's SIM card penetration. 54 million SIM cards, 49 million people living here last time I looked. And I think this number can grow even more because as we go along you will have a SIM card in your fridge, in your car. And that is in the telemetry segment, and we will also focus on that. Again to come back to the robust activity, especially also as seen the last quarter, a record number of gross connection in the year, 13 million in the last financial year. In the second half had a 19% year on year increase. Also the sale of Vodafone ultra-low-cost handsets. These things are now available below $15 a handset. We've seen a 30% increase, and we've also taken that into the rest of the continent to drive penetration and drive the cost of getting connected down. And 20% up overall handset sales. Also we expanded our distribution channel, adding lots of new distribution outlets. 1,900 new national chain outlets, 4,400 Yebo traders, 168 new dealers and franchise shops. Interestingly, the total churn is down 2.2% to just over 40%, and this is definitely as a result of the focused retention campaigns that we've put into the South African market, but also the loyalty programmes that we've launched successfully. In the second half of the year the prepaid churn actually reduced to 42.5% where in the first half it was 48.1%. How did we achieve this? How do we stimulate the market? We introduce more affordable products to our customers, both on the contract and the prepaid side. The outgoing traffic grew by 8%, and 58% of calls now stay on the Vodacom network. Contract revenue grew 4.2%. Prepaid customer revenue grew 16.5%, while the prepaid subscriber base grew by 11.3%. Prepaid ARPU is up 10% to R68 per month. This was driven by a few initiatives that we introduced into the market. First of all, the R5 voucher. You don't have to first get R12 before you buy a recharge. If you have R5 you can become active on the network and make a call. Yebo for Less, a clever tariff band where you get discounts. This is not just on-net. Off-net you can get a discount of up to 99%. We had now at the end of the financial year 4.8 million customers on Yebo for Less. I think it's up to 6 million today, representing more than 20% of the prepaid base. Contract APRU was slightly down by 2.5% to R474. And this was mainly as a result of the economic environment where a lot of the customers don't now call out of their bundle – they're much more cautious. They have a car to look after, a house – but also a growth in the lower end hybrid contract customers. Growth is our second pillar of focus. We've extended our leading position in data and broadband services in South Africa. Data revenue including SMS grew about 28% to R6 billion in the year. If you exclude messaging revenue it actually increased by 70%, and this was largely as a result of an 80% growth in the number of broadband connections. And I mentioned 720,000 of these connections now. By the way, we now every month ship around 300 kilobytes of data, and that's a 100% increase on the previous year. So we had to build lots of infrastructure, and that was also one of the reasons why we had to start self-providing. We introduced new data packages if you look at the prepaid side. Innovative. You can now have the same data tariffs on a prepaid plan that you have on the contract side. And today there are more than 200,000 prepaid data customers, up from 43,000 the previous year. Mobile internet is very exciting. On your phone. We had the software developed with

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	Vodafone. You can now load software which squeezes the web page and displays it on even a low-end handset. And just through that initiative we've had the number of active internet subscribers grow to just short of 5 million. We have a million active email boxes on the network. That must make us the biggest ISP in the country. 3G mobile penetration as I said grew by 80%. We have now 3 million handsets on that network, and that gives us another opportunity. I mentioned the 720,000 data cards. But what if we can take these 3G phones and also make them connect to the internet? We've done just that. And we've got a product you can download. It's very easy, even Belinda can do it. You can load the software, and it's called Vodafone Connect, via the phone. It allows you to configure your PC in seconds to use your 3G phone to become a broadband customer. The third pillar of strength and one of our strategic focus areas is the converged ICT space. And again I must highlight this is not just the corporate side of the business. This is also the consumer side of the business. And I'll just show some of it. We launched Vodacom Business. We had a big [unclear] of R200 million in the last financial year for Vodacom Business, but it was a start-up business. We had to get new talent, so we took some of the top talent in the industry and we put them in the team. These are new things that we did not know, did not have the expertise. So we've got those skills now. We developed a product set. We have 28 products now that we can take to market. So from the beginning of this calendar year we now are actively selling. And I must say the Vodacom Business sales team have done some really good numbers, but we will tell you more about that next time. The state-of-the-art data centre that we launched, the NPLS data network that we've built in the country, all those things contributed to the cost of the start-up business, but now we will start seeing the returns. We've got a link all the way to New York and London so we can end-to-end control the quality of the offering to our corporate customers. I mentioned mobile internet where a normal subscriber can now experience the internet, the email boxes. But we've done new things. Mobile advertising, social networking, things like Facebook on your mobile. And interesting one that we launched in the year is called The Grid. It was developed locally with one of our partners, and it actually won a prize in December for the best new telecoms service. This was during December in Dubai. And we are exporting this product, and we're selling it to Vodafone. Continued capital investment, and as the business grows we have to continue investing in CAPEX. But if you look at last year's CAPEX it is slightly distorted because during the year we decided to change our strategy around our supplies on the radio [?] network. It took us six months to decide what will be our next supplier for radio technology, and the reason why we're doing it is first of all we now pay ten times less for the same equipment that we put into the network 15 years ago. The equipment is ten times smaller. It uses ten times less electricity. If you use less electricity you don't need as much air conditioning. It's much more efficient to run, so it's got an operational benefit to the company. But also it comes with new features. All the new equipment that we now put into the network is LTE ready. LTE is the next thing that comes after 3G which is going to blow our minds away with 100MB per second and also lots of VoIP on there. Then we've continued to build our existing infrastructure. We now have 7,500 2G base stations. We now have 2,900 3G base stations. We've built a WiMAX network, 150 base stations that we've built together with WBS. This is mainly in the metropolitan areas like here in Sandton. So where we have a corporate that requires access to the Vodacom optic fibre network we can use WiMAX quickly to self provide onto that network. We've also agreed to sign an agreement with MTN and Neotel to build a national fibre. So we are now working together to control the costs even better going forward. So we will in the next two

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	years build a fibre link from here to Cape Town down the coast all the way back up to Pretoria. But we will continue cooperating with other networks even more going forward because it is not wise in these times to build everything three times. So you will also see us work together on building towers, not just here in South Africa but also in the rest of the continent. Just to summarise on CAPEX then, I think the guidance is still that our CAPEX spend of revenue is somewhere between R10 to R12. International. North of the Limpopo, what does it look like there? The contribution from our non-South African business has increased from 11% the previous time to 13% for this last year. Revenue is up 30%. If you look at the EBITDA margin it has a decline, mostly because of the DRC profitability and its slow-down. The economy in the DRC really took a slump, and mostly because of the price of resources. A lot of the economy in the DRC is driven by mining, especially in the south-easterly area. So 50 mines closed. The Congolese Franc has had a 48% worsening, over $1 billion, so that has an impact on what the customers can spend on our network. We've had some negative tax impacts, a $9 million year on year difference because our tax concession ended there. But if I look at the other international businesses outside the DRC, all their EBITDA margins actually improved. Market developments. I've mentioned the DRC, the excise duties, the tax concessions. But if we look at the others, in Tanzania competition is fierce. When I say competition is fierce there are first of all lots of competitors. Where it took us three years in South Africa to get the Electronic Communications Act these guys read about it and they do it in three weeks. So in many of these countries we have ten competitors. So we will also focus on getting these new generation licences. So if there is a WiMAX licence we will get a WiMAX licence. But it has increased the competitiveness, so a lot of these smaller competitors, the way that they get into the market is to offer free calls. And we can't just sit back, so that has put margin pressure on us. Also the excise duties in Tanzania went from 7% to 10%. Interconnection revenue has also been impacted. A lot of these countries with the new players that come in that offer the free calls, the first thing the subscriber will do is get two or three phones. So whenever there are free minutes he just switches phones and has different SIM cards. But we still had strong growth from customers in all the markets. The subscriber numbers are up 31%, and as I said they now make up 30% of the group numbers, 12 million of them. Growth connections were 33% higher and sitting at just short of 8 million. The growth was driven mostly from the group's new innovative products that we've launched, aggressive sales and marketing campaigns in the competitive environment, but also we've increased our network coverage. Churn is interesting. We've managed to maintain the churn levels constant, but if you look at the second half of the year specifically the churn improved in all the countries. We also introduced loyalty programmes, Tuzo Points and Tuzo Draw in Tanzania is similar to Yebo Millionaires that we have in South Africa. So we're getting the synergies. We're exporting some of the things that we put together in one country to other countries. So with the strong competition and weaker economy we have to do things to keep on stimulating the connections and be competitive. But if you look at the ARPU it will have an impact on ARPU in local currency has seen a decline. The Congolese Franc is 50% down. There is growth in subscriber numbers, good subscriber numbers, but also the lower end subscriber's impact on the ARPU. Competitive pressure. Lots of the competitors launched discounted tariffs, free calls, free on-net calls. Mozambique is a sign of light. We have positive news with ARPU`s going up 9%. We had some tariff increases there, but also competitive promotions driving up usage. Capital in

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	Africa. We had a capital expenditure of R2.4 billion, primarily for expanding our coverage. We built 400 base stations. Most of those were in Tanzania with 214 base stations. But we are also taking Mozambique seriously and want to turn the corner soon, so we built almost six times more base stations there than the year before. So we are committed to continue expanding in these African businesses and driving the growth. The next one is Gateway. We concluded the transaction end of December last year. Gateway is now a 100% subsidiary, so the last three months' results from Gateway are consolidated into the group and we've also started integrating the business. What we are driving as well are synergies into the business, so we are consolidating some of the business areas where we're moving things from Vodacom to Gateway and from Gateway to Vodacom. Also what we're doing is when there's a synergy to the group it does not always mean something good for one of the two, so when we move things around you might see margin pressure in Gateway while there's an upside in the group. So also to compare apples and apples going forward will become more difficult, and we will have to find a way of reporting on that. Highlights in Gateway. They've increased their customer reach and expanded their network. They have also opened new offices in Kenya; they have now new offices in Uganda. They launched new products. We've taken all our satellite bandwidth, and the bigger your satellite bandwidth the more customers you can put on it. So there will be synergies from it. They have launched clever products to compress the satellite bandwidth more to squeeze more customers onto it. One of those, Africa IPJetDirect, added 20 additional transponders. And this is an important point to note about Gateway. When you buy satellite transponders first of all you want to do a big volume deal so that you can get the benefit, but you have to commit for a long period. So if there is an economic downturn you cannot just manage the costs down as well. These are fixed costs. I mentioned the integration. We're doing well on the integration. For example in South Africa more and more of our international traffic we are handing over to Gateway to deliver to the rest of the world. If you look at the KA [?] services this is the segment of the business which is the traditional voice interconnect part of the business. So if the world economy has closed down and there are fewer calls coming into the continent that's where we are most exposed. So we've seen that. But because penetration levels in Africa is still 30% we still see a good upside of this part of the business and will continue to grow this. The inbound voice making up the largest slice of the revenue, but the outbound traffic is also continuously growing and more and more of the companies and operators are giving Gateway their outgoing traffic as well. Margin pressure from all the mobile networks in Africa has definitely put pressure on the volume of business that is coming through Gateway and has been given to Gateway. If I move on to the next segment, Business Services, this is the most interesting and important one, together with the data services. This is where we have seen the best growth in the business. This is also where we have seen the best margins, and this is where we want to take the business going forward where we see ourselves becoming a total communications provider across the continent. And most of this growth has come from Nigeria. Nigeria is, however, a very competitive market, so margins are also slightly reduced compared to the rest of the continent. Business and Data Services is now contributing 30% of the revenue in Gateway, as I said with much higher margins than voice. The Business Services' gross profit grew by 22%, driven by a 37% increase in revenue. But because a majority part of that growth has come from Nigeria it has put pressure on the gross margin. What I will do now is I'm going to give over to Johan, who can deal with some of the detail.

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	Then I'll come back and just summarise, and maybe give you a little bit of an outlook into the future. Then we will do Q&A. Johan.
Johan van der Watt	Thanks, Pieter. Good morning, ladies and gentlemen. Before we move onto the numbers I would like to mention the financial impact of some of the significant events which Pieter has highlighted. Firstly, the BEE transaction, which we concluded during this financial year, resulted in a R95 million BEE transaction charge which impacted on our EBITDA. We also had to account for a R1.4 billion IFRS2 share-based payment charge, which was not reflected in EBITDA but did affect our profitability. The acquisition of Gateway was finalised at the end of December 2008. This provided a small boost to our top line and EBITDA growth, as well as the balance sheet was altered due to a large amount of goodwill as a result of this transaction. This amount was R5.4 billion. During the financial year we increased our net debt more than double. We successfully raised long-term funding of R6.5 billion in October 2008. We raised a further R3 billion in December 2008. This has achieved a more efficient capital structure, but as a result has substantially higher finance charges. The appreciation of the Rand against the functional currencies in our international operations has resulted in a positive impact on our group results. On the other hand, depreciation of the Rand against the US Dollar has impacted on our South African operations. It has got a negative impact, but to a lesser extent, and that is mainly related to maintenance costs, handset purchases and capital expenditure. The performance of the DRC is a direct consequence of the global slow-down and certain segments in the South African business have been impacted by a more cautious consumer spending pattern. Here is the summarised income statement, which you will have seen in our results announcement this morning. I will now walk you through how the key corporate actions have impacted on our results. And I'm going to start with the headline earnings per share. We've reported a decline in headline earnings per share of 21% to 417c. This is directly attributable to the BEE transaction as well as a decision to restructure our balance sheet. Our earnings grew by 22% due to the growth in EBITDA. However, this was offset by higher depreciation charges as a result of growth in our capital expenditure, the increased finance charges as well as the BEE transaction. Moving on to group revenue, group revenue rose by 14.5% to R55.2 billion. This is on the back of a 16.5% growth in subscriber numbers to 39.6 million customers. Still the majority of the growth came from our South African operations, contributing R6.4 billion of the total revenue, and this is a 10.8% growth as mentioned by Pieter. This was driven by customer growth and strong data revenue growth. The international businesses contributed R1.6 billion of the growth, and that is growing at 29%. Excluding excise duties which we netted off our revenues, you would have seen a 34% increase in revenues. This is mainly related to our Tanzanian operations, and the reason is that we had to align ourselves with the Vodafone accounting principles. These resulted in an organic revenue growth of about 12.9%. And the contribution from Gateway for three months is R800 million to the top line. South Africa now contributed 86% of total revenues. Just to look at EBITDA, the EBITDA increased by 10.5% to R18.2 billion, mainly as a result of strong revenue growth. But this was offset by the BEE transactional expenses, the margin pressure in the DRC as well as the impact of Vodacom Business. EBITDA in South Africa was up 9.7% to R16.2 billion, and that is contributing 89% of total EBITDA for the group. The EBITDA from international operations grew by 18.7% to R1.8 billion, contributing 10.1% as opposed to the 9.4% in the previous financial year. The group EBITDA margin declined by

Speaker	Narrative
	1.2%. It's now standing at 33%. And despite the increase in costs as the result of the depreciation of the Rand against the South African operations, the BEE transaction expense and the related cost of establishing Vodacom Business, the EBITDA margin in South Africa was fairly stable at 34.2%. And like Pieter mentioned, it actually expands if you ignore those items. The international EBITDA margin declines to 26.2%, and this is mainly as a result of the DRC. EBITDA margins in all the other international OpCos has increased. If we look at finance charges, net finance charges rose from R400 million to R1.7 billion. Finance costs for the year increased substantially to R1.5 billion. This was due to increased borrowings and a higher effective cost of borrowings for the year. The loss in foreign exchange forward contract evaluation of R567 million includes an amount of R408 million, which is a FEC loss related to the acquisition of the Gateway group of companies. The gain on the evaluation of foreign denominated liabilities, a positive of R228 million, mainly relates to the gain on the evaluation of the minority shareholders' PUT option in the DRC to the amount of R392 million. If you look at the tax, you can see the tax payable decreased by 1.6% to just over R4 billion. This was due to a lower profit before tax, a reduction in South African corporate tax rate to 28% as well as another secondary tax on companies as a result of our lower dividend payout for the year. Just a quick look at the tax reconciliation. If we look at the effective tax rate it has increased to 39.5% from 34.1%. Some of the major items in the tax reconciliation is the disallowable expenditure. This relates to the Gateway funding and the unproductive interest on that funding. There are also expenses on shareholder loans in the DRC which are non-tax deductable. And then also the BEE charge of R1.4 billion increased the effective tax rate by 3.8%, with STC increasing it by 5.1%. A quick look at the cash flow. Vodacom's business model has to date provided stable and predictable cash flows, and Vodacom is demonstrating a track record of cash flow generation. Typically our cash generated from operations equals our EBITDA as you can see in the slide. However, this year it was impacted by three once-off movements in working capital. The first was a repayment of R602 million relating to the cancellation of a guarantee held for a distributor. And that was included in trade payables. The second item was an early settlement of debtors in the previous financial year of R390 million. And the last one was approximately a R450 million payment in an attempt to normalise creditor payments for the current financial year. This year's balance sheet looks slightly different, and this is largely as a result of the following. The increase in intangible assets due to goodwill of R5.4 billion relating to the Gateway acquisition has affected our intangible assets. The creation of a non-distributable reserve as a result of the IFRS2 share-based payment charge relating to the BEE transaction, and the increase in debt to enable us to restructure our balance sheet has also had a big impact on interest bearing liabilities. I would now like to spend a moment on our net debt situation in a bit more detail. Our net debt rose to R17.5 billion at the 31st March 2009 compared to R8.7 billion in the previous financial year. Debt was raised firstly to refinance existing debt, secondly to support higher capital expenditure and thirdly to acquire Gateway. Net debt at the end of March includes the final dividend and related STC charges of R2.4 billion which was paid to our shareholders on 8th April 2009. 93% of our total debt is now at a floating rate. We can also see that R5.7 billion of our total debt will mature in the next financial year. We have made good progress re-evaluating our re-financing options, and we are comfortable that it is well within our capacity. Despite the increase in our net debt position, Vodacom still remains relatively lowly geared with a net debt to EBITDA multiple of one.

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	And just lastly on dividends. If you look at our shareholder distributions we paid our shareholders a R5.2 billion dividend in the past financial year, with a final dividend of R2.2 billion in April. As a private company Vodacom Group has historically paid out equal to approximately all of its free cash flow on a semi-annual basis. Going forward as a listed entity we will pay out approximately 40% of our headline earnings. We expect our first dividend to be the interim dividend for 2010. Thank you. I will now hand over to Pieter.
Pieter Uys	Thanks, Johan. So if I look in summary at what has been said today, a high note for me is the South African business that has, taking out those special charges, improved its EBITDA margin and performed very well in the current economic environment. But if I look at what will go forward, just to take the last quarter, there were 1.2 million connections and I'm hoping we can maintain that activity in the market. That should hopefully be fuelled also by lower interest rates, lower inflation, fuel prices that should hopefully not run away again with us. But if you look at the business segment of the market, the other segment of the customer base, it is a little bit more difficult to predict what will happen because there will be more job losses going forward. If I look at the international markets, I highlighted that the DRC is difficult. We have been trading under difficult circumstances. We have put in extra special management effort to stop the bleeding, and I can report to you now that things are not getting worse in the DRC. And we are hopeful that with help from the copper price – and we're watching it closely – that things can improve. But we will continue, and we've got CAPEX set aside of about R8 billion to invest into the business to grow the business. But we will be cautious. If things get worse we will not just go out and spend all R8 billion next month. We want to continue our market leadership in all of our operations. We will continue to lead in the broadband space, not just in South Africa. We will use the Gateway business; we will use our other operations to become leaders also on the continent. And we want to definitely next time deliver on the Vodacom Business promise and have some good revenue to come into that start-up business. Also the integration of Gateway, we will focus on that to really make a success and create a platform for us to grow into the rest of the continent. I mentioned Nigeria. It's a market we are now exposed to. Vodafone is coming in as the majority shareholder. With it comes benefits, and I've mentioned some of them. They are procuring for 30 countries around the world, 300 million customers, so there should be some benefits. Innovative products. They have lots of smart people there. Not only are we exporting some of our products to them, we are definitely getting a lot of benefit from them coming to us as well. So as we look at the continent, apart from Gateway as there could be potential consolidation and as prices become more realistic, we will cautiously look at any opportunity that presents and present back to our board on the continent. But lastly, our group's strong cash flow and good balance sheet will provide the flexibility, both for us to invest prudently where it makes sense and fits our strategy going forward, but also to return cash to our shareholders on a sustainable basis. So with that, thank you for listening and I will now get Johan to answer any difficult questions and I will answer the rest.
Jonathan	Hi Peter, Jonathan here from Investec. I just wanted to ask you a quick question on capex for next year, R8 billion. Could you give us a split between South Africa versus other Africa, and does that include WBS, any planned investment there? And then following on from that, you mentioned LTE. Do you think you are going to be rolling out that technology in the next two years or are you going to hold back on those issues?
Pieter Uys	First of all, CAPEX is split R5 million and R3 million, and it does include all the investments

Speaker	Narrative
	that we're planning to make in the group. So it includes an investment into WBS. Just on the WBS side, it's a WiMAX network and we've got a good footprint now where we needed it. And it is to support our Vodacom Business as well, because if you build a fibre [unclear] that does not take you to the corporate's doorstep. You still have to put in more fibre. But sometimes you have to move quickly, so we will also use that investment for that. So yes, we're planning to spend a little bit more, but a lot of the CAPEX spend going forward will be in line with the growth of the underlying businesses. If I look at the rest of the continent we had good growth in our footprint in most of the territories and we will continue to grow that.
	What was the last part? LTE. Yes, that's why it took so long last year to decide who the supplier will be. So Huawei is now one of our big suppliers going forward. So the first thing we said to Huawei is you can become a supplier but anything you deliver to us has to be LTE ready. So the stuff we're putting into the network now can do LTE. Will LTE be here? Ja, as soon as it's commercially available and as soon as we can give you something to use the network with we will make it available. However, where everybody will have a LTE terminal it always takes a long time. You have the equipment, but there is a chicken and egg situation. When do the handsets and terminals come? But LTE is also a very different animal. There is nothing like a true voice call like today. It's all data calls, so we also have to get our head around that. So it may be a couple of years before it will have a big impact, but on the corporate side I would like to have LTE as soon as possible because they're talking about big numbers on the speed side.
Vaughan Henkel	Thanks very much, Pieter. It's Vaughan Henkel from Credit Suisse. Just two questions. The licence fee that's changing now, could you give us an idea of what the positive contribution would be if that licence fee was for the whole of this last year? That's the one question. And then the second thing, if you could give us more colour on the working capital changes. Obviously there were good reasons for that. If you could just give us some more detail on that, please.
Pieter Uys	Okay. The change in licence fee could have a positive contribution to the company's performance in South Africa. However, I can't commit to that because there are lots of other things happening in the environment around us. With the low licence fee suddenly we also have much more competition. The landscape is very different. It's not a complete apple to apple. [Inaudible background comment]. Last year? I don't know that number. R900 million, I don't know. [Inaudible background comment]. No, no, it's not apples and apples anymore so it's difficult. I can't get to a number now. The definition has changed and the percentage has changed.
Vaughan Henkel	And working capital? Working capital, Johan?
Johan van der Watt	On the working capital the one item is the normalisation of the creditors. We extended our payment terms every year when we finalise our financial results, so we're trying to normalise that so that we don't have to do that in the future. The second two items are relating to the Smartphone Group acquisition which we held a deposit for as a guarantee. And we just sort of paid back the guarantee. That had tax implications. And the previous year was more or less the same thing, but we just netted off the debtor against the debt.
Pieter Uys	Then on the left at the back there.
Reece Summerton	Pieter, it's Reece from Citi. I just have two questions actually. One is on your bundles. Once again I think we had the situation where your minutes of use are only showing marginal

Speaker	Narrative
	growth, 1.5%, and last year they were negative. But your overall minutes are growing at about 7% and your outgoing at about 8.1% or 8.2%. I just wanted to understand a bit more. It seems that your bundled minutes are the driver of your growth, and yet in your commentary you're indicating that it's moving to lower denomination charging that's actually driving your growth. So just a bit more colour there. And then also one of the other selling points of Vodacom is the fact that you're going to try and expand into Africa. I just wanted to know a couple of things. One, what kind of capacity do you think you have on the debt side, and secondly, have you seen the prices of potential acquisitions decline sufficiently for you to be able to execute on that?
Pieter Uys	Okay, the minutes of use. That's a tricky one, and I think we should also clarify that in reporting going forward because it's about the definition of what's in those numbers. If you look at the one number that you mentioned, those are outside the bundles. If you look at the other one, it's the total minutes on the network. So the two are very difficult to bring together. [Inaudible background comment]. In the current difficult economic times, we don't see as much growth outside the bundles. Everybody stays within the bundles.
Reece Summerton	Yes. So, what I'm trying to get to is, what are you seeing within the bundle? Are you up-scaling contract subscribers to have greater minutes of use within their bundles?
Pieter Uys	I think at the moment there's just cautious spending by everybody. There's not a lot of upgrading. It continues to happen where we up-sell from the bottom prepaid to the lower hybrid customers and up, but there's not a big shift currently, because of this in the minutes of use. Belinda, do you understand the minutes of use?
Belinda Williams	I think the growth is really driven in traffic by prepaid, so, we say minutes of growth [unclear] which includes the minutes outside of the bundles. So, all minutes in prepaid grew by 12%, whereas contract was 4%. So, I think, yes, they haven't spent outside of the bundle, but as we pointed out earlier, the growth is really driven by the prepaid market.
Reece Summerton	And so, on your acquisitions?
Pieter Uys	Acquisitions; we will continue to look at all opportunities that are presented to us and I mentioned that there, and maybe I've mentioned this there, should be consolidation, because suddenly, with the converged licenses there are many more licenses and the trading conditions in Africa are difficult, so, I'm expecting that there will be consolidation, but the levels of EBITDA expectations, multiples that we had a year ago, I've not seen any recent transactions to prove to me that they have come down, but you can't trade at 15 times EBITDA when the rest of the world trades at 4 times EBITDA. So, I'm also expecting for some sense to come into their expectations. I've not seen that.
John	Just a quick question. It's John from UBS. What were the losses that came through from Vodacom business at the EBITDA level?
Pieter Uys	Is that the R200 million, Johan?
Johan van der Watt	No. It's about R240 million.
John	Thanks.
Craig Hackney	Hi, it's Craig Hackney from BJM. Just as a follow on to John's question, can you give us any guidance regarding how you would expect Vodacom business to trade this year in terms of

Speaker	Narrative
	any potential reversal? Then also, just looking at the corporate market in South Africa. If you look at these first two months of the new financial year, have you seen any acceleration or any worsening of trading or has it stabilised, or is it too early to tell?
Pieter Uys	First of all Vodacom business, anything on zero is like a 1,000%, so, there will be a huge improvement and we've now had three months of good trading in the market, so at least the products that they are selling are accepted by the market. So, I'm expecting that business to really turn around in the next 12 months.
Craig Hackney	Are you positive?
Pieter Uys	I'm not sure about positive. We initially predicted that it would be a three year business and we are now into the second year, but it's growing according to my expectations. And then the second one was?
Craig Hackney	South African corporate market?
Pieter Uys	The corporate market. If you look at the traditional cell phone business that's where you're contract customers are mostly from. So, it's not getting worse and it's too early to say if it's going to improve, so we're cautiously optimistic that things can only get better.
Belinda Williams	A question from Nick Kershaw, from our webcast, just on the second half, very strong growth adds. If you could just give us some details around the campaigns that were run and whether this included free minutes and other discounts?
Pieter Uys	Campaigns always include free stuff as well, and one of them, for example, is the March Madness, which was in the period, where we had, when you recharged, a 20% addition on your recharge value. During the year we had the Yebo for Less. Many of those are to add more value to the customer. Free minutes after hours, discounted calls, and so, what we've done is, and you can see that we were successful in containing it, is to manage our costs in line with those things that we do. Look at when the network is not busy, look at where we can add something but contain the costs. Johan, can you add to that?
Johan van der Watt	Pieter, I think you have mentioned most of it, and I think the campaigns also show us that we are actually improving our usage and pushing up our revenues, so the campaigns have had the desired impact.
Pieter Uys	So, the minutes of use increase, but through managing the costs there's definitely an upside to the customer and to us.
Ernest Kaplan	Hi Pieter. Just regarding Gateway. The way we calculate you paid round about 14 times EBITDA for that, given what you just said a few minutes ago. How has that performed, because we haven't got enough history here, and is it to your expectation, and how do you see that performing going forward?
Pieter Uys	As I mentioned, it also came at a time that was not the best in the world, so, segments of the business are not to expectation, and, for example, the Voice, if the whole of the African continent's mobile telecommunications business is suppressed you will see an impact on the carrier side of that business. The other side is performing to expectation and that is where we are focussing a lot of our attention to get the synergies there, add to the products set, the 28 products that we have here; roll it out, open up new offices, so the 30% of the revenue is where we are focussing at the moment. That is delivering to expectations, but as

Speaker	Narrative
	soon as the slowdown is ending, because penetration levels are still low, there is still in the short to medium term a bit up-fight for us, even in that segment of the business.
David Logie [?]	You've put in all this fibre around the country and you're planning to do some more with MTN and Neotel; can you give us an indication of the savings you will generate by using your own network rather than Telkom's network?
Pieter Uys	I can't give you an absolute number but I'll tell you some of the logic behind it. First of all, because of the huge growth that we've seen in data, we had to speed up some of the supply. It was just growing faster than anyone expected and could supply. Secondly, to be in charge of our own destiny we have to control certain key elements of the end to end solution, and again, that was another reason for self providing, but one of the big reasons is, and this specifically comes from the data business, if I take 3.6 megabits per second and I double the speed, like we've done now to 7.2, in the old days I would have had to go to Ruben and say, Ruben give me twice as many links, but now, in the backbone, once these links are in, these fibre pipes are so big that you can really throw anything at it. So, some of that cost, we've put a ceiling to it, so the absolute number, savings, will only be realised as the network grows through controlling some of the expenditure. So, I can't give an absolute number.
Johan Snyman	Johan Snyman, JP Morgan. Against a backdrop of very high levels of gross connections maybe there's some colour on your subscriber acquisition costs, especially on post-paid.
Pieter Uys	Johan, do you have those numbers?
Johan van der Watt	I think our costs to connect are still in line with previous years. We haven't increased that significantly, so, we didn't doing anything different from the previous years. It's probably on the same levels.
Belinda Williams	I have an obligation. Just another question from Sean Gardner, from Morgan Stanley. Are you able to provide us with any revenue or EBITDA guidance for the year ahead?
Pieter Uys	If you look at revenue, the last quarter should be an indication of where things are going at the moment. Subscriber numbers drive the revenue. Quarter 1.2 net additions of the 2.8 million pot that we have in South Africa for the year. Churn under control, coming down. ARPU`s on the prepaid side, where we are focussing a lot of our efforts, are still at good levels. So, I would say that the last quarter, and I am confident, is a signal for us as to where we're going. On the EBITDA side I would really like to maintain our EBITDA margins. We've put a lot of things in the last six months when the economy started slowing down, we quickly did a lot of things to be able to manage our costs, and those numbers now start showing where South Africa's EBITDA margin is going up. So, I would be surprised if we can't maintain those. In the rest of the business it is more… we've stopped the bleeding, we took a knock in the DRC and we can only improve from that.
Frances Daniels	I have two questions. Frances Daniels, Anibark [?] Research. Firstly, what are your target ideal churn rates? And the second question is, what is the contribution of the E-transaction expenses to your EBITDA margins since you highlight that as one of the reasons for the change in EBITDA margin?
Pieter Uys	The first question, churn?
Frances Daniels	Right. What's the target churn rate to which you're working?

Speaker	Narrative
Pieter Uys	Just to improve it. So, we are now sitting on 40, so, whatever we can do to not make it worse. So, if we have high growth connections then we can at least maintain the churn and that is a positive on the on-net side. We've definitely, for the first time in a long time, seen an improvement in churn. How much more it can improve? I have to look at what's happening around the world, so churn in the 40s seems to be what prepaid settles out in. So, if we're now sitting at 42, that's a good level of churn. Contract; we've always been below 10%, it has gone up and I must contribute that to the difficult economic times. We're still below 10%, but it is worse than it was, so I would like to improve that again. Prepaid I'm happy with. The second question was the EBITDA hit.
Johan van der Watt	Obviously the R95 million is the impact on the EBITDA. It's a transactional cost. The R1.4 billion share base payment charge is not included in EBITDA, so it's basically the R95 million, which, if you exclude that, pushes up the margin by probably 0.1% or 0.2%. But then you also have the impact of Vodacom Business and that was what Pieter was referring to as improving our margins, if you should exclude Vodacom Business.
Pieter Uys	So, it's the 100 plus the 240, more or less?
Male Speaker	I have two questions. One is around your Mozambique operations. I see your EBITDA margins improved, were reversed quite substantially from a negative to a quite a decent one this year. What's the reason behind that, and you were speaking about moving to number one in the market? What have you put in place in Mozambique specifically seeing as that's quite a large reversal in that operation? And then secondly, in terms of the data revenues coming out of the rest of Africa, especially Tanzania, where you have a 3G network already in place, the arrival of the SEACOM cable; what impact do you think that's going to have on your data revenues out of places like Tanzania?
Pieter Uys	The first thing we did was to stop colonising Mozambique. So, we previously had a 98% Vodacom shareholding there but we were not perceived as the local investor, so we now have three local shareholders, and that has really made a big swing in how we operate in the country. We've become much more local, and those shareholders are adding a lot of that value as to how we operate in the Mozambican market. It is still a very competitive market; we are competing against the state owned mobile operator, MCell, but the things that we've done in the last six months have really been to improve the ARPU`s, improve the EBITDA and we're now EBITDA positive on a monthly basis, so, if we can get to the operating profit level positive in the next year to 18 months, that will be really good news, and, I think, we are well on the way there. Our connection as well; the market share that we have is growing on a quarterly basis, so that again, is heading in the right direction. So, all the signs are there for a turn around. And, I also think the other big thing that happened was that we decided deliberately, last year, to take the business seriously and make it work. Previously we did about ten sites a year, because we were not sure if we were going to make it, but then we said we can never be successful if we're not serious about the business. So, that was the other thing, we invested a lot more CAPEX into the business to get coverage, compete more aggressively.
Belinda Williams	You haven't answered the second part of the data question.
Pieter Uys	The data question. What was the question?
Belinda Williams	Tanzania.

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Pieter Uys	Tanzania. We've got the 3G network, but it's not a big network. It is also, initially, like we did here with the Vodacom business, to defend some of our corporate business, so we haven't done what we've done here, democratise data. But, that is the next step. Tanzania is a market where SMS penetration initially was much higher than anywhere else on the continent, so I'm expecting the same trend to come through in the data connectivity also, so now we are focussing much more. We also have, on the corporate side, a WIMAX network and we're rolling that out, so we're taking data seriously. Mozambique as well. We are going to roll out a 3G network there and the status is that we have to become a broadband player on the continent. We are executing on those. DRC? I'll wait to see what happens next and then we'll make that commitment as well.
Belinda Williams	Two more questions from the webcast, from Sunil [unclear] from PIC. First question, Johan. Why are staff expenses up 21.6%? The second question is what is the bulk of the increase in the debt incurred on or after the Gateway acquisition?
Pieter Uys	On staff expenses I think the South African operations it didn't increase that much It was more closer to 13%,14%. Most of the staff expenses are in international operations where we are still growing quite well and it is related to ?? cost staff increase numbers. Second question is?
Johann van der Watt	The debt that we raised was 6.5 billion that was in October so that was before Gateway and the 3 billion we raised in December 2008 was related to the Gateway acquisition to fund it.
Pieter Uys	Thanks Johann. Middle right
Richard Hurst	Richard Hurst, IDC South Africa. You mentioned that you expected RICA to come online in the second half of 2009, can you give us some idea on how that would impact on the impact of your subscriber growth and perhaps churn.
Pieter Uys	The RICA has not happened overnight we have had a lot of warning about RICA so we have done a lot of thing in the market to be ready for when it happens. You have to do two things you have to register all new subscribers and then you have to register all existing subscribers, so new subscribers yes it will be more difficult to connect the customer because you have to check their ID number and do all those things, but we have now done it in the DRC and we have seen that you can actually do it. It costs you a little bit more but the connections are still coming through. The systems that we have put in place we have developed them we have to roll them out. There will be a slow down in connections but I believe once the systems are entrenched and people understand then we can get back to the levels. On the existing subscribers it is going to be difficult for those subscribers because they have to go in somewhere you have to show you face when you register so possibly it will have a positive impact on churn. It is just more difficult to chuck your SIM card away and get a new one. OK no more questions. Thank you very much and I will see you soon.

END OF TRANSCRIPT