Conference Call Transcript

11 November 2013

INTERIM RESULTS

Operator

Good afternoon, ladies and gentlemen, and welcome to the Vodacom Group Ltd interim results conference call for six months ended 30th September 2013. Vodacom Group CEO, Shameel Joosub, will host the conference call. I will read the forward-looking disclaimer before handing over to Shameel Joosub.

This announcement which sets out the interim results for Vodacom Group Ltd for the six months ended 30th September 2013 contains forward-looking statements which have not been reviewed or reported on by the group's auditors with respect to the group's financial position, 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 conditions, 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 or 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 and presentation it is available on the investor relations website at www.vodacom.com. Please note that all participants are now in listen-only mode and there will be an opportunity for you to ask questions after the presentation. If you should need any assistance during the conference then please signal an operator by pressing star and then zero. Please also note that this conference is being recorded. I would now like to hand the conference over to Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Thank you. Good afternoon and good morning to those in the US. Thank you for joining us for our interim results call. Our CFO, Ivan Dittrich, is here with me as well as our group executive of investor relations, TC Ralebitso, who joins us on the call for the first time. Richard Boorman from our media relations team is also here with me.

Before we go into detail I'd like to summarise five key messages. Firstly, I'm pleased with our results. The standout features for me from a group perspective were firstly strong customer growth. We added more than 3.2 million customers to 53.8 million customers across the group under very challenging conditions.

Secondly, the demand for data services remains strong. We've increased the number of group customers using data by 20% to 21 million customers which represents 39% of our active customer base.

Network leadership remains a critical part of our strategy and a key differentiator. We accelerated our capital investment, spending 13.2% of revenue to expand coverage, capacity and quality across all our markets.

Fourthly, In South Africa we saw improved service revenue and customers following a series of declines the prior quarters as we have executed well on our strategy and our pricing transformation programme. And lastly, the international segment has had a solid performance again despite the increased intensity of competition in all of our markets.

If we now have a look at some of the group financial highlights, we delivered good growth across all of our key financial measures. Our group revenue grew by 6.6% to R37 billion for the first half, and reported service revenue growth was 2% in line with our guidance of low single digit growth.

Excluding the sale of Gateway Carrier Services which was sold last year service revenue grew by 3.2%. Our data revenue grew by 29%, which is due to our sustained efforts at growing the segment.

Our EBITDA grew by 9.6%, at the top end of our guidance, and the group EBITDA margin expanded by one percentage point to 36%. Our capex investment of R4.9 billion was 13.2% of revenue, slightly ahead of our guidance.

Our headline earnings per share increased 10.9% to 439 cents per share. Lastly, the board has approved an interim dividend of 395 cents, up 11.3% on the prior year.

If we take a look at our two reporting segments I will start with South Africa. In South Africa we are seeing improved trends despite consumers being under pressure. We achieved flat service revenue growth in this period following declines in the prior quarters. Excluding the impact of MTR the service revenue grew by 2.9% year on year.

The positive result was the result of successful execution of our pricing transformation through customer value management. We successfully migrated 42% of our customers on contract who were previously on voice-only plans to new integrated plans which combines voice, SMS and data in one bundle.

Through these plans our customers have largely maintained their average monthly spend but they have gained an increase in the amount of voice minutes, data and SMS allocated thereby driving down the price of their usage.

From a prepaid perspective our new prepaid bundles have had the effect of reducing our price per minute by nearly 17% to 59 cents. And they came down even further in the quarter to 54 cents. The result has been a 19% increase in minutes of use following the declines in the prior quarters. And 25% of our prepaid customers are now on these plans with a large number of customers buying bundles. Also we had a net addition of 927,000 prepaid customers in the period.

Looking at our results going forward it is now important to track overall revenue in South Africa and not just service revenue as we start expanding in other segments, due to the fact that handset financing is becoming more prominent in our business. Overall revenue in South Africa is 6%, boosted by a 41% increase in equipment revenue. And the equipment revenue now contributes 20% to our overall revenue.

Our take-up of data has also done really well. Data customers in South Africa grew 13.4% to 15 million customers. That is 50% of our active customer base now using data services. Our data revenue in South Africa grew by 20.6% year on year on the back of strong data usage with total network traffic up 69.2% as we doubled the number of bundles sold and grew the average usage per customer by 78.9% to 220 MB per customer.

Our handset financing programme supported the 24% increase in smartphones to 6.6 million smartphones now active on the network. Our data revenue contribution to South African service revenue increased to 21.5% from 17.8% a year ago. The massive demand for data requires a substantial investment in our network, which speaks to the next point of discussion.

We maintained a higher level of capital investment in South Africa. We invested R3.1 billion in our network to increase our coverage capacity and improve quality for voice and the data network. We plan to spend R7 billion this year in South Africa. We are seeing strong growth in data traffic. We also invested heavily in our transmission and radio network to meet the demand.

We have increased our 3G coverage to 89% of the population and increased our LTE coverage to 727 sites. We have swapped out our radio network to single radio access network which is LTE and 4G ready, and the entire network is expected to be completed swapped by financial year end.

We have increased the number of base stations connected to a high speed back wall to over 6,600 sites. That is 68% of the sites that have the required fibre for us to switch on LTE on a much larger scale. The only missing ingredient for us now is spectrum. That is one of the attractions, obviously, in Neotel. Independent tests rate our network to be the best. Our smartphone customer experience has the fastest download speed. And we lead clearly in quality and in coverage.

We continue to maintain a strong discipline on cost containment. We achieved flat opex in the period. This is commendable in a 6% inflationary environment in South Africa, and considering that this is the second year that we have achieved flat opex. Some of the key savings came through lower network running cost from the radio access renewal programme, our increased self-provisioning of backhaul transmission and a reduction in our customer care calls.

Our opex as a percentage of revenue improved to 22.4% in the period. Over the past two years we have improved our opex as a percentage of revenue from 23.8% to 22.4%. EBITDA grew 5.9% year on year with a stable EBITDA margin of 37.9%. Margins were maintained despite the increased contribution of the low-margin handset business.

If we now move on to our international operations, we have again achieved strong growth across all the markets despite the highly competitive environments in our international markets. Our response, which has been to focus on providing better value through bundles, financial services distribution and network quality, and obviously expanding coverage capacity, has strengthened our position.

Consequently the international segment has also achieved some key millstones in the period. We have achieved a solid service revenue performance in our international OpCos in the first half. Underlying service revenue growth was 17.2% but the reported service revenue increased by 34% excluding Gateway Carrier Services due to a boost in the foreign exchange. This underscores that our international portfolio really served as a good Rand hedge.

The international segment contribution to service revenue increased from 19% to 21.6%, reflecting a strong underlying growth in the business. Our customer propositions which combined increased coverage and higher value and higher quality services resulted in a 22% increase in active customers and a 44% rise in outgoing traffic. This has offset the impact of reduction in the effective price per minute in all our markets.

Data has also become a strong contributor to our international service revenue growth. Our data revenue in our international OpCos has doubled in the first half on the back of strong data growth across all our operations. Data customers grew 41% to 6 million customers. 25% of our customers use data services. Data now contributes 15% to our international service revenue from 8% a year ago.

In Tanzania more than 50% of customers use M-Pesa. M-Pesa contributed 18.7% to Tanzania's service revenue compared to 12.6% a year ago. We now carry $1 billion of transactions on M-Pesa in Tanzania every month. We have extended the M-Pesa ecosystem to include banks and more transaction capability. The additional benefit has been that nearly 20% of all airtime is now purchased by M-Pesa which carries consequent cost savings and also increases the reach of our distribution network.

We now have the formula for extending M-Pesa right. We have launched the service in all our markets during the period and the service is gaining good traction whilst we expand on distribution in each market.

Our cost containment in the international OpCos has resulted in EBITDA margin expansion. EBITDA grew 39.2% if we exclude Gateway, with EBITDA margin expansion of 1.8% to 26.9% as a result of the reduction in opex as a percentage of service revenue. Importantly, the EBITDA margin of the MNOs was higher at 31.3%. EBITDA contribution of the international segment increased from 11.8% to 13.7% of group EBITDA.

We have also had a significant increase in the level of capital investment in our international OpCos to capture more growth opportunities and to entrench our differentiation. Capital expenditure in our international portfolio was up 74% to 26.5% of revenue. We mainly invested to accelerate our rollout plan. We added 318 3G sites and 438 2G sites and built more fibre. This is already paying off, especially in Mozambique and DRC where we continue to close the coverage gap to our competitors, resulting in a 34.9% and 31% growth in customers respectively in the two markets.

On our ambition to enter additional international markets, it still remains a priority for us. We have explored a few opportunities in the period, however due to the size and complexity of the options we have these will take time. We are still active in the key targets which we have. There has been a lot of stop start, but we still remain positive about growing internationally.

We continue to grow our enterprise business, which now represents 16.7% of total group service revenue. It is with this in mind that we have entered into negotiations with the shareholders of Neotel, the second fixed line operator. The transaction, if concluded, could stimulate greater competition and accelerate provision of high speed data links in the country. Acquiring the Neotel business gives us the opportunity to expand our combined product range, including fibre to homes and to corporates.

On the mobile termination rate issue, ICASA, the regulator, announced proposed cuts to MTRs on 4th October which are planned to take effect from 1st March 2014. ICASA has started a period of consultation and indicated final publication of the new rates in the third quarter. The proposed new rates are significantly lower than the rates which were published in previous years and a higher degree of asymmetry.

The new rates will require adjustment of our capital investment and operating expenses if approved in the current year. we are, however, encouraged by the discussions that we have been having with the regulator and really putting forward that a more balanced approach is taken to mobile termination rates and that we continue on a similar vein to what we've had currently.

We are also positioning it from the perspective that we are on a particular path currently, and that path is increased level of investment in the market. We are using the increased investment to grow data coverage and capacity on the one side, and increasing the capacity on voice. We are using that to drive down prices and pushing for a requisite uptick in both minutes and data usage to offset it.

That strategy has worked well and has resulted in us delivering flat average revenue per user in the South African market. What we are putting to the regulator is if the mobile termination rate comes through to an extent that is being put forward we have to reconsider that position. We will have to reconsider the level of investment that we want to put into the South African market, but at the same time we also need to look at what the unintended consequences of that is, which means that we have to cut opex a lot more aggressive, which could lead to people cuts and so on. But at the same time we need a balanced approach. I think that message has been very well received.

In summary, South Africa has delivered a solid performance, seeing a reversal of negative growth trends in prior quarters. This has been mainly from a strong data performance as well as a good execution of our pricing transformation programme which led to strong growth in subscribers and traffic.

In South Africa we have driven down prices well below that of what some of our competitors have shouted about, and we have increased our market share back up to 2010 levels. Our international operations are still showing strong growth despite regulatory headwinds and intensified competition.

The results of the past six months show that we are on track to deliver on our medium term guidance of low single digit service revenue growth, mid to high single digit EBITDA growth and capital intensity of 11% to 13% communicated in May 2013.

I think it is important to mention that it is the intention of the board to accelerate its capital investment for the group with the aim of establishing clear market leadership in the markets in which we operate. The group intends to invest in new services, further enhancing the network and accelerating coverage rollout.

This accelerated capital investment is expected to increase capital intensity over the medium term to 14% to 17% capital intensity which will result in increased revenue and EBITDA growth. This potential capital acceleration plan will be informed by the growth prospects in each market as well as the outcome of the MTR process in South Africa.

The board maintains our dividend policy of paying at least 90% of headline earnings per share. That concludes my comments and we are now ready to take questions.

Shameel Joosub
Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask a question please press star and then one on your touchtone phone. If you then decide to withdraw your question please press star and then two to remove yourself from the question queue. Our first question comes from JP Davids of Barclays. Please go ahead.

JP Davids
Thank you. Good afternoon. I will start with two questions please. You mentioned that it is a priority to expand internationally. If you do both the Neotel transaction and the accelerated capex programme do you think you will have enough balance sheet to take advantage of these international opportunities? That’s question one. Question two, on M-Pesa you mentioned in the

presentation this morning that you have signed on some banks in Tanzania to help with the rollout. Maybe you can talk us through the revenue and also EBITDA implications of including the banks in the ecosystem. Thank you.

Ivan Dittrich

JP, it's Ivan speaking. I will talk about the balance sheet capacity. You will see that at the half year reporting period our net debt to EBITDA ratio was only 0.5 times. And to be able to remain investment grade we would be able to take that up to 2 times EBITDA. So that's not to say that we would want to gear up to that extent, but we have basically got substantial capacity on balance sheet to fund the accelerated capex programmes, to fund the potential acquisition of Neotel and to do some bolt-on acquisitions in Africa.

Shameel Joosub

Okay. On the M-Pesa question, JP, basically what we have managed to do in Tanzania is get the banks to see M-Pesa as a conduit to accessing the customers. So your ability to move money from bank to M-Pesa is there, but also to move money from M-Pesa to bank is something new that we have introduced. Effectively you put money into a transactional account for a few days and earn interest. This has all resulted in M-Pesa growing. So we have managed to grow M-Pesa to 5.5 million customers and it now contributes 18.7% of the Tanzanian service revenue. So we are seeing a bigger portion of revenue now coming from M-Pesa. So it is some really good growth there.

Shameel Joosub

Thank you. Just some quick follow-ups. Firstly on the international side. You are saying that leaves you scope to do some small deals. I guess in a market like Angola, or for that matter Ethiopia, how would you approach something like that? Then coming back to M-Pesa and opening up to the banks. Is that the consumers demanding that of you or do you think that is just best for the long-term sustainability of the product, i.e. opening up to the banks or including them in the ecosystem? Thanks.

Ivan Dittrich

In terms of the smaller bolt-on acquisitions we have been stating for some time now that we would be looking at countries with a population size of 10 million plus people. So yes, we would be interested to enter there. In Ethiopia the situation is obviously a bit different and a lot of people are entering that market at the moment.

Shameel Joosub

To be frank, JP, I think every man and his dog is interested in Ethiopia. Yes, we've opened an office in Ethiopia. Yes, I've been there personally and engaged with government. So have our competitors as well. We are definitely in the hunt with Airtel and so on. I think it will be an interesting market once it opens up. But you have to put the requisite investment in. you have to help with the current situation there in terms of building trust and so on. So yes, we see it as a market that we definitely want to be in in time to come. It is one of the bigger untapped opportunities in Africa if you like. I think it is a longer-term gamble. On M-Pesa itself, I think working with the banks has really helped to basically improve the ecosystem. And the fact that the banks have embraced that has contributed to the success. I think there are a couple of things that help. Obviously if the banks embrace it that's one part. Secondly, if you can get government to start utilising it for social grants and so on, that also guarantees the success. In markets like the DRC the soldiers and the nurses are now being paid by M-Pesa. That's quite encouraging. I think as time goes on we will see more traction in the other markets as well.

JP Davids
Super. Thanks to both of you.

Operator
Our next question comes from Chris Grundberg of UBS. Please go ahead.

Chris Grundberg
Hi guys. Thanks. I just wanted to come back to the MTR again. I just wondered, given the comments you've just made, whether you could be a little more explicit about what the impact to your capex and opex planning might be if the MTR regime went through as proposed. If you could put any kind of quantification around that, that would be very helpful. And then a further question on a similar theme with ICASA, just on the spectrum front. Can you give an explanation as to why you have confidence that ICASA might approve the transfer of Neotel's spectrum to Vodacom? Thanks.

Shameel Joosub
Just to answer the first question on mobile termination rate, the current mobile termination rate net of interconnect is R1.3 billion. So if there is a 50% decline it will be about R650 million to R700 million in the first year. So what does it mean to our capital investment programme? I think what it means is that we've got to basically go back depending on what the final rates are. We can't give more colour on that at this stage, Chris, but effectively it means we have to deliver a certain amount of cash to our shareholders. And effectively what that means is we will have to rebalance the pot. If we are looking at the increased capital investment programmes that we were looking at it was still planned in mind that we have to deliver a certain level of cash as a return to our shareholders. So effectively what that means is to the extent that the cuts are deeper than what we thought it would be that would mean rebalancing the pot. I think that is essentially what we're saying.

In terms of spectrum I think where we stand is that you've got to look at the Neotel transaction as a complete transaction, meaning that the spectrum is very much integral to the deal itself. I think for government, for everyone concerned, it is very positive from the fact that if we acquire Neotel we can fund it properly and effectively create a more functional, more successful SNO. And really the combined entity will have the scale to be able to compete more effectively. So I think there are a lot of positives in it for government. At the same time there's access to spectrum. Why is it important for us to get spectrum? Because I think it gives us a bit more breathing space. It takes a bit of pressure off government by us requiring it. I also think that there would be other available spectrum that is out there. If I were MTN I would be pursuing the other entities that are sitting with spectrum, but that's just me. But I think it is key that the big players have access to spectrum so that they can continue to expand the networks and also deliver on the broadband strategy of the country.

Chris Grundberg
That's really helpful. If I could just ask one last one. The national broadband policy, I wondered what your impressions are on the draft that was announced a couple of weeks ago. What do you think is the feasibility of a national JV style wholesale network, especially one that would receive the entirety of the 800 MB spectrum freed up? Would you buy into that?

Shameel Joosub
No. I think what has been spoken about is the alternative to the existing operators of having another wholesale network. In terms of having another wholesale network, no issue. But I think where we are at the moment MTN and Vodacom have the capital investment, the networks are already swapped, we already have technology out there which is all LTE ready. We should capitalise on that opportunity given the spectrum and help to grow. Taking the smaller operators, I don't think it is a bad idea to consolidate the investment and basically be able to compete on a bigger path. So

instead of splitting your investment into a number of different pieces or giving spectrum to a number of smaller players, it is better to put it into a wholesale network and run it together. But I think from a government perspective it is better to balance it against your existing players who have the capability and introducing competition through a wholesale network for smaller players. Those comments have been well received by government.

Chris Grundberg
That's really helpful. Thank you.

Operator
Our next question comes from David Lerche of Avior Research. Please go ahead.

David Lerche
Good day, gentlemen. Just two quick ones please. Firstly, in the last couple of years we've had some fairly significant differences between cash capex and accounting capex. Could you give some guidance on what that difference will be for FY14? And then secondly on the opex in South Africa, I mean obviously you guys have done fantastically to keep that flat over the last two years, do you expect to be able to keep that flat going forward from here?

Ivan Dittrich
Okay. On the first question, the main differences between cash and non-cash capex arose from the Rand swaps that we embarked on over the last few years, as well as in certain periods differences between the cash components of the capex credited. For FY14 the non-cash capex component is expected to be about R740 million. Can you just repeat the second question?

David Lerche
Sure. Regarding the opex in South Africa, you've obviously done very well to keep it flat for the last couple of years. Do you believe you can keep it flat going forward?

Ivan Dittrich
We agree that it has been quite a commendable performance to keep opex flat for two to three years in an environment where inflation is running at 6% plus. We are very tightly controlling our opex and will continue to do so. If we do accelerate or when we do accelerate our capital investment in South Africa there will be some impact, some uptick on our network-based operating expenses, which is the single biggest ticket item that has driven down our costs over the last two years as we continued to reduce our leased line expenses as we continue to build our own transmission.

Shameel Joosub
I think we can see very low single digit expense growth.

Ivan Dittrich
Yes, but we would still expect some operating leverage and we would expect costs to grow lower than revenues.

David Lerche
Fantastic. Thank you, gentlemen.

Operator
Our next question comes from David Hackney of Noah Capital Markets. Please go ahead.

Craig Hackney
Good afternoon. It's Craig Hackney. Just looking in Tanzania over the last two quarters, you've had really good ARPU growth there, 15% to June and then 12% now. Could you speak a little bit about the ARPU growth that is coming through, the drivers there and sustainability of that please?

Shameel Joosub
Okay. So what we have is a big uptick in ARPU in Tanzania off the back of our bundles and continuing to put our bundle strategy in place. We think it will start to come off a little bit for the remaining part of the year as we try to rebalance between revenue and EBITDA.

Craig Hackney
That's great. Thanks very much.

Operator
Our next question comes from Ziyaad Joosub of JP Morgan. Please go ahead.

Ziyaad Joosub
Hi everyone. Thanks for taking my question. Just a quick one on South African data. It looks like data slowed down very slightly to 19.6% in quarter two. You've seen good usage growth, but if I recall correctly I think price per MB guidance in Q1 was for high single digit declines. It looks like we've seen a bit of an acceleration in tariff cuts, particularly price per MB cuts. Could you maybe give us some guidance on that and what's the outlook for that going forward?

Shameel Joosub
I think on data specifically what we're seeing is price per MB coming down by about 16%, data traffic growing by 70% and overall data revenue growing by 20.6%. The reason why you see a slight slowdown in the previous quarter – I mean we don't really consider it a slowdown – is really the fact that we've also gone back and gone through all our data users that were using dongles and effectively increased the contribution they were having. And we have seen a very positive result on that. That has helped us to reduce the churn that we were experiencing on dongles. So just to give you some colour, previously a few years ago customers were paying R149 for 500 MB. Today the same thing costs you R49. So what we did was we wrote to all of them and said you've been a loyal Vodacom customer, have 2 GB for yourselves. As a result our NPS per customer went up quite heavily, churn dropped and it sorted out the issue of having other competitors trying to target that base. So you immediately captured out of bundle usage on those products for a short period of time as people now go into the bigger bundle if you like.

Ziyaad Joosub
Thank you. That's very useful. Thanks a lot.

Operator
Our next question comes from Thato Motlante of Citi. Please go ahead.

Thato Motlante
Hi. Two questions from me. The first one is on equipment revenues in South Africa. A big spike in the second quarter close to 50%. Can you give us an indication of where you expect the ranges to settle in the next few quarters, especially given the strong second half last year? And then my second question comes back to the clearing issue. You mentioned you've got headroom of 2 times EBITDA, but it sounds like you're not quite comfortable with that. Where would you be comfortable in terms of that gearing ratio?

Ivan Dittrich
Let me take the gearing ratio first. Theoretically we would be able to get to the 2 times EBITDA level. We haven't guided specifically what level we would be comfortable with, but it is not expected to get close to the 2 times mark. And then on the equipment revenue, we've had equipment sales growth of over 40% in the first half. And you're quite right, you pointed out that the second half is coming off quite a high base in terms of equipment revenues because we had quite a ramp-up in H2 last year on our financing deals. So in the second half we would expect to come in at about maybe 20% or so.

Thato Motlante
That's useful. Thanks.

Operator
Our next question comes from Davide Barbuscia of Debtwire. Please go ahead.

Davide Barbuscia
Good afternoon. I wanted to ask is it possible to have an indication on your capex?

Ivan Dittrich
Sorry, you broke up there.

Operator
My apologies. He has disconnected. We now have a question from Steven Pettifer of Bank of America Merrill Lynch. Please go ahead.

Steven Pettifer
Thank you for the opportunity. Just a quick question on Tanzania. I wondered if you have any comment on how the recent taxes have impacted the growth there, and if you could give us an update on your thoughts about that recent sim tax and how your discussions are going with the government to appeal that. Thank you.

Shameel Joosub
So where we are on the sim taxes is effectively we have not implemented the sim taxes so it is difficult to tell you what the impact will be. However, what we have done is we have provided for the impact of it. We are still in negotiations with government. We have also put a joint application from all the operators on this particular issue. And we think that there is potential to resolve the issue. If so we will be able to reverse it. The impact is quite heavy or will be quite heavy to a customer. If you convert it into Rands it is almost R6 per customer per month, which when you take it off an ARPU of R45 is quite dramatic. So we think that the initial discussions with government were positive, but the case is still going on and there is a disconnect between the tax authorities and the department of communication.

Steven Pettifer
Thanks. Just as a follow-up, can you tell us how much you've provided in this past period for that?

Ivan Dittrich
We have provided $16 million in the six months that we've just reported on.

Steven Pettifer
$16 million?

Ivan Dittrich
$16 million.

Operator
We have Davide Barbuscia back from Debtwire. You may ask your question now, Davide.

Davide Barbuscia
Sorry about that. The line just dropped. I wanted to ask you very quickly if you could give me an indication on your capex for international operations for the coming year. And is it possible to have an indication on a figure in terms of debt raising plans out of this capex? Finally, I would also like to know if you plan to approach international banks for debt raising plans for the coming year, and if you are considering both bonds and syndicated loans. Thank you very much.

Ivan Dittrich
So let me start with your third question. In terms of our capital raising programme obviously we've got access to capital both in South Africa and internationally. So we have pretty much got a global pool of capital which we can tap into. And we can also look at potentially funding from Vodafone, so it could be a combination depending on the level of debt. I mean it could take various forms and we've got various options. On your first question, the capital intensity for our consolidated group was just over 13% in the first half. South Africa was just over 10% and our international portfolio was about 27%. Now, we haven't given specific guidance for the acceleration of capex or a specific split of the guidance for the group. But our previous consolidated guidance was between 11% and 13% for the group and we have now increased that to 14% to 17% with the final allocation still to be determined between our various territories. Was there another question or have I answered all your questions?

Davide Barbuscia
No, you've answered all my questions. Thank you very much.

Operator
Our next question is a follow-up. It comes from JP Davids of Barclays. Please go ahead.

JP Davids
Two more questions please. You mentioned having a look at the top-up segment and refreshing the tariffs there. If you could tell us how you guard against contract customers potentially seeing the opportunity on the prepaid side to maybe spin people to top-up contracts? The risks and opportunities. And then just finally on churn in South Africa. Post-paid churn is up a percentage point from the last quarter. Anything specific to flag there? Thank you.

Shameel Joosub
Maybe to start off with the top-up plan. I think what we've managed to do is create the integrated plans in top-up. We have created two suites, one suite which is integrated but very similar to the voice plan – and to be frank we don't mind if customers move from the one to the other, specifically because if it is a downward migration they get charged. If it is an on-par migration, meaning the monthly spend is the same, then effectively the migrations are free. So that does protect against downward migration if you like. That's the first part. We actually encourage some customers to move to the integrated top-up because it allows them to control their spend and effectively go and buy prepaid and consume that. So you find customers have the option to be able to buy and then utilise better.

Just to give you a little bit of colour, in contracts when you put a limit on it, when you reach the limit it stops. And then you have to call the call centre and you have to go through paths to extend the limit. Whereas on top-up you can continue to spend by just buying another voucher. So we actually see sometimes a better deal by using the top-up customers in that way. The important thing is to control the migration. From a prepaid perspective we constantly run campaigns where we look at the financial viability of customers moving from prepaid to contract. And although that gives us a little bit of an ARPU dilution in the short term it does help us to create more loyalty and lock that customer in the longer term. So we constantly look at that and every month we run campaigns and look at shifting good paying customers into contracts. What we do very carefully is we balance the amount of outbound campaigns that we do. So that's the one thing.

In terms of churn what we have seen is a slight uptick of churn on the low end, but we've put in very good, aggressive programmes specifically coming from where they were getting free vouchers and so on in the past. So more price-sensitive customers if you like. And we have put in some programmes to defend against that. At the same time for instance in data we have taken proactive moves to what we call toxic plans to our new plans. Toxic plan for is are anything that indexed the normal level of churn. What we do is then we go to these customers and give them more value. We did half a million data customers. We are seeing the benefits coming through. And we will see that coming through in the future quarters as well. But at the same time doing that also for voice packages and so on.

JP Davids
Thanks again.

Shameel Joosub
Just to add, one of the things we are doing much cleverer than our competitors is really based on the Vodafone experience on the one side, but also having been in Europe, is the slow customer value management programmes that we've implemented and imported skills to the consumer business unit and international to make sure that we have sole capability in each area to execute that. And that is making sure that we can manage the destination of customers when they walk into stores when it is time for an upgrade, so we can put them on the right plan and manage the ARPU dilution. That's the one thing. But also proactively dealing with proactive upgrades, churn management, toxic plan management and so on. I call it managing the inflows and outflows.

Operator
Our final question comes from Ziyaad Joosub of JP Morgan. Please go ahead.

Ziyaad Joosub
Hi. Just a quick question on net interconnect evolution in South Africa. In full year 2013 it was quite a big driver for margin expansion. Do you have any guidance on what is happening with net interconnect in H1, maybe also a bit of colour on on-net traffic percent? Thank you.

Ivan Dittrich
Net interconnect for H1 was about R520 million.

Shameel Joosub
I think what we're seeing is that net interconnect for the prior year was something like R1.3 billion. That has reduced to R520 million for the first half. The traffic. Are there any other questions?

Operator
My apologies, sir. There are no further questions. Do you have any closing comments?

Shameel Joosub
No, I think just to say that it has been a solid set of results. And I think just to basically give us the confidence that we are starting to manage the mobile termination rate discussion as best as we can. But also we think what is quite encouraging is the fact that off the back of project spring we can invest more both in South African entities as well as the international entities and see the requisite revenue and EBITDA growth whilst continuing to pay dividends.

Operator
Thank you, sir. On behalf of Vodacom that concludes this conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT