Conference Call Transcript

14 November 2016

RESULTS ANALYST PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd results conference call for the six months ended 30 September 2016. Vodacom Group CEO, Shameel Joosub, will host the conference. I will read the forward-looking disclaimer before handing over to Mr Joosub.

This announcement which sets out the results for Vodacom Group Ltd for the six months ended 30 September 2016 contains forward-looking statements. These statements have not been reviewed or reported on by the group's auditors with respect to the group's financial condition, 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 positions, 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 and 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 it is available on the investor relations website on www.vodacom.com. All participants will be in listen-only mode and there will be an opportunity for you to ask questions later during the conference, if you need assistance during the call please signal an operator by pressing star and then zero. Please also note that this call is also being recorded. I would now like to hand the conference over to the CEO, Mr Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Thank you Chris. Good afternoon everyone and good morning to those joining us from the US. I'm joined by our CFO, Till Streichert, and Shaun Van Biljon, our Head of Investor Relations. Before we look at the numbers let me tell you what stands out for me in this set of results. I would like to summarise the performance as follows. South Africa has delivered a very good performance despite the weak economic environment. Our strategy of best network and below the line value campaigns through Just4You are delivering on this growth. In our international operations short-term pressures remain but we are starting to see signs of improvement. As expected the change in customer registration processes and customer disconnections in Q4 last year has impacted growth. Our price transformation is bearing fruit. We are seeing good ARPU uplift in contracts and our customers are recognising the value from our bundles with more than 696 million bundles sold in the six months, and also increasing our customer base by 5.7% in South Africa.

Finally when we look at the results of our customer experiences metrics we are seeing a wider differentiated gap to our closest competitor in South Africa ever and improvements across most of our operations, an endorsement by our customers that we are delivering on our promise. From an overall perspective I am very happy with what we have achieved so far this year. Let’s unpack it a bit.

Before getting into the numbers there will be some instances where I talk about normalised growth. That is in reference to currency normalisation, so on a like for like basis. Group revenue was up 4.1% in the six months and service revenue grew at 5.3%. Normalised growth at 3.5% and 4.4% respectively. The growth in service revenue was supported by a 1.5 million increase in active customers and data growth of 18.7% as our accelerated capex investment continues to deliver both customer growth and sustained data revenue growth. Total revenue growth was offset by a 4.9% decline in equipment revenue as a result of lower sales volumes mainly impacted by weaker currency and reducing affordability for customers.

Our first half EBITDA was up 4.1% to R15.3 billion. The group EBITDA margin was impacted by a R250 million forex loss in the first half of the year. The prior year had a loss of only R7 million. South Africa expanded their margin to 41.2% due to good commercial execution and optimising our channel and subsidy investment. Margin in the international operations was somewhat under pressure, but the team did a great job in containing costs to limit the margin contraction to 2.2%. Once we see revenue growth returning in these markets we should start realising scale benefits again.

As we exit our accelerated investment programme from the past two years our group capital expenditure declined from prior year. However we still invested R5.7 billion in the group or 14% of revenues. Operating free cash flow was up 39.4% to R8.1 billion, albeit boosted with delayed payments in our Mozambique and DRC operations where we are experiencing some Dollar liquidity challenges.

Moving to HEPS, this was flat at 440 cents per share. There were once-offs which impacted this number, a tax adjustment in Tanzania of R257 million, a re-measurement of intergroup shareholder loan in Mozambique with a net impact of R326 million, a R177 million loss from associates in relation to HTT recognised in the prior year which will not reoccur. The combination of these factors had a 34 cents per share impact on HEPS which resulted in adjusted growth of 3.5%. Finally, the board has approved an interim dividend of 395 cents per share in line with our dividend policy of paying out at least 90% of headline earnings.

Moving to the segments and starting with South Africa, the good performance of 5.6% service revenue growth was aided by strong customer net additions and increased data demand. We added 1.4 million prepaid customers and 131,000 contract customers in the six months since March. In prepaid we have seen the success of the next evolution in our bundle strategy. Moving from our micro bundle strategy to the personalised Just4You offer has seen value perception improvement in customer satisfaction scores. Total prepaid bundle sales increased 33% with over 624 million bundles sold. These have more relevant value for customers which saw a 15.4% reduction in our effective price per minute in prepaid. This has helped to support lower voice revenue declines overall with voice revenue declining 2.1% only.

In contract our customers continue to choose our superior network and differentiated customer experience. Contract customer churn fell to 5.1% and contract ARPU improved to R408 driven by data demand. Data now contributes 39% to service revenue and grew at 19.5%. The growth was as a result of increased bundles sold, greater data coverage and customers migrating from 3G to 4G devices. Bundle sales are performing well. We sold over 223 million bundles, up 47% year over year. The price per MB reduced 13% year on year as we continue to move more and more customers to in-bundle usage to improve notification journeys. Data effective prices are down 61% over the last four years as we focus on improving the value offer to customers.

Our vision of investing heavily in 4G is continuing to show benefit. There are 3.6 million 4G customers on our network, and as devices continue to get more affordable this number is set to grow. ARPU grew by 17.9% on average as customers transition from 3G to 4G. This is very encouraging. Usage remains strong with average MB per smart device increasing 14.4% to 629MB with high-end smartphone devices usage growing by 33% to 1.6GB.

Enterprise revenue growth was strong at 8.9%, normalising for Autopage and XLink acquisitions. In this space we won significant contracts from corporate customers as well as in the public sector. Most notably has been securing national and provincial government departments' mobile voice and data communications contract for a period of four years. Just to emphasise that the winning of his tender is not yet in our numbers and we should see some of it into the second half and very strong into the next year.

The strong EBITDA growth at 6.1% was supported by good revenue growth and cost efficiencies achieved mainly in direct cost savings. This resulted in our margin expanding 0.9% to 41.4% as we benefited from channel efficiencies, commission savings and improved stock management, and received a once-off boost from bad debt recoveries.

Our capital expenditure allowed us to widen 3G and 4G coverage, improve voice quality and improve data speeds. 4G coverage is now at 69%, up from 37% a year ago, while 3G now reaches pretty much the entire population at 99.2% coverage.

Let's move on to the international segment. Our international operations were impacted by the disconnection of customers in Q4 last year where we deleted 4 million customers before we started the financial year. It has taken a while for the channels and customers to adjust to the changes in customer registration which is normal when you do customer registration. It takes a good couple of months to get used to the new processes. However we are seeing a recovery of that in the second half with net adds almost returning to normal levels.

On translation of non-Rand denominated subsidiaries the improvement of the Rand has impacted reported growth as well. Service revenue grew 5.4% year on year with voice and data increasing 5% and 15.5% respectively, both rates down as customer inflow remains low during this half. EBITDA declined 2.2% while the margin contracted 2.2% to 26%. There was a vigorous focus on cost containment especially in network operations in the period which assisted us in limiting margin compression from lower revenue growth. Customers declined 11% to 27.9 million due to the customer disconnection of close to 4 million customers in the last quarter of the prior year.

The changes in customer registration processes impacted new customer acquisitions. However we are now seeing an improvement in the monthly acquisition trend, resulting in positive net additions of 791,000 in the six month period, 1.2 million customer additions in Q2 alone. M-PESA continues to succeed in these operations with M-PESA revenue growing 6.8% with a revenue of close to R1 billion fuelled by continuous success in Tanzania and boosted by a strong uptake in the rest of the operations, now close to an impressive R1 billion.

The number of customers in DRC has more than doubled at 38.4% and customers are now using the service in Mozambique. In total there are 10.9 million active M-PESA customers, up 19.3% from the prior year. We have implemented a new M-PESA platform with enhanced technology which significantly improves stability, resulting in increased trust with customers. Our capex investment in these markets was 17.9% of revenue. The focus remains on increasing both coverage and capacity, thereby adding 304 2G sites, 775 3G sites and 284 4G sites since March. That concludes our highlights on the two segments.

Let me just reiterate our medium targets and provide an update on priorities. We are confident that our investment to differentiate on network experience, pricing transformation and improving our service to customers will continue to sustain revenue growth. Data demand remained high and we will continue to bring down the barriers to entry such as reduce coverage everywhere and reducing the cost of devices. We had some macro, regulatory and competitive challenges that persist in particular due to deteriorating macro environments in Mozambique and the DRC which we will be monitoring closely. We will maintain our targets over the medium term by targeting average group service revenue growth of low to mid-single digits. Average group EBITDA growth of mid to high-single digits and capital investment of 12% to 14% of group revenue.

With regards to our focus areas for the rest of the financial year, as most of you are aware the Minister of Telecommunications and Postal Services in South Africa recently released a new policy white paper. The policy proposes a telecommunications ecosystem that is untested and unproven anywhere in the world. Let me give some context in terms of where we are in the process on this and what it means to Vodacom. Firstly I would like to say that Vodacom is committed to the objectives of the white paper which is to make broadband more accessible and affordable for all South Africans. The white paper as it currently stands is basically an intent of how government would like to achieve these objectives.

For this to take effect a number if laws and regulations would first need to be changed to give this legally binding effect. The process could take anything from 18 to 24 months. As it stands there are currently a number of grey areas within the policy paper and these are still open for debate. As part of the process we will have the opportunity to engage, but just to be clear on our stance we feel that the white paper will not achieve the objectives that are set out. So we have a problem in the how it gets implemented. What we would recommend is a hybrid model, the hybrid model being basically to say let the current networks and the investment that needs to be put in continue to happen, but let's set some spectrum aside for open access so that we don't become the guinea pig for the world but at least we can give smaller players access to spectrum whilst allowing the bigger networks to continue to flourish and to cover rural areas.

On the opposite side obviously is ICASA. ICASA's invitation to apply for auction of high-demand spectrum is still ongoing. It has been momentarily halted by the court pending further review in the first calendar quarter of next year. Although the white paper could influence this process, the process will still continue following the court's review. Spectrum remains key for us in terms of network and investment planning. It is also imperative for us to secure spectrum in all our markets, and in particular in South Africa where data demand continues to grow rapidly.

Fibre is also important to our future. We have secured a number of wholesale agreements and continue to roll out our own fibre network. We still have an objective which is to have a co-build in South Africa, and what we are doing is we are busy preparing for that and we will be inviting parties to join us in a co-build. The reason for that is because of the long pay-back periods in fibre.

On the Tanzanian listing in Tanzania the Minister of Finance passed the Finance Act of 2016 which requires the listing of a minimum of 25% of Vodacom Tanzania's issued share capital. We are working towards complying with the listing and a prospectus will be made available shortly. We expect that the listing will probably happen somewhere in the first quarter of next year.

We will focus on execution of our key areas of growth which is enhancing our content offering through the execution of video and content services, growing our enterprise base and product offers, and expansion of new revenue streams such as financial services and the Internet of Things. We will continue to focus on delivering on our cost programme and optimising the returns from the investments that we've made over the past two years. That concludes my comments. Till and I are ready to take your questions.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you wish to withdraw your question please press star ad then two to remove yourself from the queue. Again if you wish to ask a question pleased press star and then one now. Our first question is from JP Davids of JP Morgan. Please go ahead.

JP Davids
Hi. Good afternoon. Two questions to start with from my side, the first one on messaging. It looks like a particularly weak quarter for international and a reasonably strong one for South Africa. Anything to highlight around mobile messaging revenues? And then switching gear to foreign exchange. This one is probably more for Till. Can you remind us approximately how much of the opex base is in foreign currency across the international segment, and if you are seeing these foreign currency shortages impacting your ability to roll out your networks in the market? Thank you.

Till Streichert
Okay, JP. So on the messaging side generally we see basically messaging coming down as the traditional SMS service being replaced by some of the over the top players, which is basically them showing up in our data revenue. Specifically with regards to what you highlighted looking like a weaker international performance, last year we had basically promotional activities in the international markets which has driven up the messaging revenue in the international markets. So I think you've got a general trend which is going downwards for messaging, traditional messaging services, but the comparative for half one last year is a little bit influenced by stronger performance in half one prior year. I think that's the first one.

On the opex and capex and foreign denominated challenges that is particularly relevant for Mozambique where the local currency has devalued by as much as 85% on closing base. In the international markets our foreign denominated opex is – I'm now estimating the figure – probably about 20% or 30% in that range. To your question to what extent currency affects our ability to spend our capex and roll out we are always of the view that we need to invest in our markets properly to drive network expansion. Of course when it comes to the availability of liquidity challenges in those markets we highlighted that some of our creditor balances have moved up in DRC and Mozambique. And in essence our strategy is to convert as much as possible of our foreign denominated spend into local currency to have a matching between inflow and outflow. And to that end we are in essence trying to maintain strategy and continue to roll out and to invest into our network.

JP Davids
Thank you very much, Till.

Operator
Thank you. Our next question is from Alexander Balakhnin of Goldman Sachs. Please go ahead.

Alexander Balakhnin
Good afternoon. Two questions from me. At the presentation today you mentioned that your proposal to the regulators would be some spectrum allocation to the common access network and some operators may bring their spectrum to this common access network. I was wondering do I read that correctly that the outcome of your proposal would be the creation of a fifth network in the country but at the same time there are some [unclear] for the consolidation in the end?

Shameel Joosub
Just to be clear I think what we would propose is that give spectrum to the existing networks from the perspective where either you allocate it with obligations or basically auction it or charge for it or whatever the case may be. Then take that money, utilise that to basically enhance telecoms or universal access if you like. That's the first part. The second part is then to say set aside a set of spectrum for open access so that the smaller players who want/need access to spectrum have the ability to do that. Would that create a fifth network? Potentially. But at least they have access to spectrum. These parties can then build together. I think what we are proposing is a hybrid model. Today what we compete on is not just price and product and distribution but we also compete on capital investment. By us investing the way we have in the last three years we have also upped the ante, which has forced MTN, Cell C and so on to up their level of investments as well, which has in turn created a lot of jobs.

Alexander Balakhnin
Thank you. Just a follow-up here. What do you think would be the right way to spectrum allocation? Is this equal allocation? If 100 megahertz is distributed among five operators everyone gets 20. Or do you think the size of the network should be taken into account as well?

Shameel Joosub
I think you will find that some of the bigger operations would probably want the spectrum. The others would probably be happy to go into an open access part, which will mean that the open access network lands up with a bigger chunk anyway of spectrum. So they can then utilise that together. I think the mechanics of how it is done one would have to determine. The white paper seems to be anti-auction. We are not pushing to pay for spectrum. So if it is allocation and they would want to link obligations to it we'd be okay with that. The idea is to leverage… If you look at it the 4G networks today are already built. We are sitting at close to 70% 4G coverage now. And actually to make the adjustment to 2.6 and 700 or 800 is merely adding radios and in some cases changing to active antennas.

Alexander Balakhnin
Understood. Thank you.

Operator
Thank you. Ladies and gentlemen, a reminder, if you wish to ask a question please press star and then one. Our next question is from Craig Hackney of NOAH Capital Markets.

Craig Hackney
Thank you. I also have two questions please. Just staying on the whole spectrum issue, if we assume that no additional spectrum is allocated in South Africa let's say for example for two years, what impact would that have on the current three year guidance that you've given us? Secondly just around your fibre deployment in South Africa I'm just trying to get a better understanding of the dynamics of that market. If you look at the homes passed to homes connected, that ratio, what do you see as being a target ratio to get to an acceptable return on investment if you're doing it on your own? And then how does that dynamic change if you go with a partnership or a co-build strategy? Thanks.

Shameel Joosub
Okay. So I think firstly on the level of capital investment on spectrum if we don't get spectrum in the next two years I think firstly there is potential to do commercial arrangements with other networks that are sitting with spectrum and not fully utilising it. So that's one option. So I think what will

happen is that industry will start to pursue those opportunities as we go on. That's one part. I think the second part is that your level of investment will still stay within guidance, but we will probably go towards the upper end of guidance if we don't get access to spectrum.

Craig Hackney
And on the revenue guidance…

Shameel Joosub
So revenue guidance will not change. And also what will happen is that we will spend more money in intensifying capacity as opposed to more and more rollout if you like. In terms of fibre we are looking at similar returns than what we are currently experiencing on mobile. It is just that the payback periods in fixed are much longer. So you are looking at five to six year paybacks in the fixed space versus nine months in mobile. So there is a big differential between that. That is why we think it is imperative so that we don't lose our advantage in mobile that we look at co-build and so on for the fibre part. Now, those co-builds will probably be centred around… we prefer financial investors. But that will depend on the level of interest to be frank. And we hope to have concluded that model before the start of the new year.

Craig Hackney
Okay. So where you're sitting at the moment you're building on a sole basis and then you're hoping to have this co-build partnership model going by the end of the current financial year.

Shameel Joosub
So what we've got is we've got the sole build. And one of the things that we're looking at is just picking up what we call the low hanging fruit. So where we've already got fibre running down the road and we've got estates if we can just pick up some of the houses nearby. So that's the one part of it. But we want to do all big future builds in a co-build scenario, which will just allow us to make that capex go a lot further and give us a bigger portfolio. Secondly, we are strengthening and building a bigger sales environment which will allow us to sell more effectively both on wholesale and retail. And secondly we are looking at how we can integrate some of the fibre offers into our mobile offers.

Craig Hackney
Okay. Great. Thanks Shameel.

Operator
Thank you. Our next question is from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam
Hi guys. Thank you for taking my call. I've got a couple of questions. The first one is on network quality. It is clearly something that has worked for you in the past, the gap between your network quality and the next large peer. But it seems to me that more recently they have been upping their game in terms of capex spend and general network management. Are you seeing that on the ground or is there still that big differential in the quality, throughput, drop rates, things like that?

Shameel Joosub
I think for us firstly from a perception perspective I think the gap is still very big. But I think also in reality when we do a lot of the tests there is still a big difference between us and our competitors in terms of network quality. So we have a clear advantage in that respect. We do see that some of that will narrow as MTN puts more money into its network, but I think the good thing is that we are also always thinking ahead. And I would say that we also get held to a higher standard with Vodafone

constantly pushing in terms of performance and so on. And Vodacom being Vodacom, we don't just want to win. They come down and do independent tests which we get incentivised on. But we don't just want to win it for South Africa. We want to win it for the whole Vodafone. So I think that does hold us to a benchmark which I would venture to say some of our competitors don't have.

Myuran Rajaratnam
Thanks. And the second question is about the Cell C Blue Label deal. The way I look at it, if the recapitalisation made sense on its own, standalone without Blue Label being involved, then surely Saudi Oger would have done it, right? The fact that Blue Label is part of it means there is a plan afoot to nibble at the margin, or even more than just the margin, at Vodacom and MTN. I just want to get your view on this deal. Are you still blasé about it or is it a little bit more than that?

Shameel Joosub
I don't think we have ever been blasé. But I think let me put it to you this way. I think for Blue Label it's a good deal from where we're sitting in that what Blue is trying to do… You have got to remember that the margin differential that they gained from Cell C is about 18% and the margin in the market on prepaid vouchers is about 4% to 5%. So there is a big distinct advantage that Blue Label needs to protect. It then uses that margin to increase the discount on Vodacom and MTN vouchers. So actually truth be told Cell C actually subsidises Vodacom, which I think is fantastic. But Blue Label needs to protect that, because once that disappears that's why Blue Label had to buy. That's the first part.

The second thing is from what we can see is Blue Label's intent is to take a lot of the procurement contracts into Blue, so devices, phones, financing, that type of thing. I think there is a clear case for Blue. The question for me is how does that affect the industry? Now, Blue would like us to believe that it's business as usual. It is all going to be hunky dory, and we are all going to love each other, and they are going to continue to grow Vodacom and Cell C. And actually the loser is going to be MTN. Do we fully believe that? No. So I think we will be looking to change the contracts to be more performance based. My view on these things is very simple. Show us the results. If not, suffer the consequences.

Myuran Rajaratnam
Okay. The third question is on the BEE code, the ICT charter that came out. Am I correct in interpreting that there is still no requirement to do an additional BEE deal from the equity ownership point of view?

Shameel Joosub
As far as spectrum is concerned there is no need to do a further BEE deal. But there is a requirement to comply with the codes, level four in totality, albeit that that was the old codes. I think what we now need to do is to see where ICASA sits on the new codes in the event of a spectrum auction. That's one. And what that rating would be. That's the first part. And then the second part is to ensure that we comply. That said I think our BEE deal does come up in 2018 so we will have to do something on BEE within the next two years.

Myuran Rajaratnam
Okay. My final question if I can. If they revitalise MTN with more money, more capex in the ground, and then revitalise Cell C with Blue Label money and Net1 money behind it, and there is still Telkom out there, how do you see the competitive dynamics developing especially in data going forward? It seems to me like it is quite a competitive environment at the moment for earning good returns. Just your thoughts on that if you can.

Shameel Joosub

My view is very simple. Your investment into your network generally goes into being able to get more benefit out of your existing customer base. Monetisation of your own customer base I would say is probably where most of your benefit lies. So I would say each of the networks need to invest to be able to keep up with the pace and demand of their existing customer base. That's the one part. So where do we sit on it? I don't see MTN starting a price war. I do see them putting more capital in and trying to close the gap between us, which I think they have allowed to become too big. So I do think they will try to close that gap. Will that cause pressure? No. I think here is the big issue. If anybody starts a price war the biggest issue is that the impact is on yourself. I think that's the danger of starting a price war. So I don't really see a price war coming.

On Cell C I don't see it the way you do because I think they have managed to reduce the debt, however the first ask for capital and for them to keep pace they are going to have to invest R4.5 billion plus. That just means the debt starts to rise again. So unless they can basically improve their profitability to be able to fund the capex they are going to find themselves in a difficult position again. Blue entering doesn't really change that. And I think you have got to accept Net1 has come in via Blue. Net1 is not directly investment. But telcos are about capital investment. So I think Cell C will do okay but I don't see a big challenge from there. I think being now private equity if you like or with Blue as management is actually going to force them to be more responsible if you like.

And then if we look at Telkom I think Telkom is an interesting equation. It needs to decide where it puts more money in. Does it put more money into mobile to become a serious challenger? It is trying to do it a little bit with pricing but it needs to do it to improve its network. Or does it put money into the fixed network and capture the fibre market ahead of everybody else? I think that's the difficulty of Telkom and where it puts its capital. That said I think especially on fibre there is enough for everybody. On mobile I think there is enough for everybody to show decent growth provided you are investing in your own network.

Myuran Rajaratnam
Great. Thank you so much. That was very good.

Shameel Joosub
Thank you. We have got a follow-up question from Alexander Balakhnin. Please go ahead.

Alexander Balakhnin
Good afternoon again. A quick one from me. You mentioned your data usage on the network grew around 40%, 38% to be precise. And deflation of the data pricing was 13% I think, 15% average for the last four years. My question is do you expect this usage trend to continue? I think Cisco projects around 40% data growth across the globe. Do you think South Africa will be much different from that? And on the pricing do you see any fundamental reason why the deflation rate of the per MB price should actually increase?

Shameel Joosub
I think yes, traffic continues to grow and I think traffic will continue to grow close to 40% a year in my view. What we are trying to do to ensure that that keeps up is to increase the reasons to consume. So our video platforms, music, but also we have put a special focus now on content where the intent is to create more of an ecosystem to partner more to enhance the reasons to consume, allowing people to charge, to bill and these type of things. And also I think device affordability is one of the big things that we are working on. And we still continue to see a healthy uplift of conversion from 3G to 4G of close to 20%, and 18% on 2G to 3G conversions. I think there is still a lot left in data growth. Does the price decline increase? No, I think the price decline will probably be around similar levels. But obviously that is subject to competition and a number of different elements. But I think also one of the big pressure points if you look at it has been from out of bundle to in-bundle. And I

think what is encouraging is that number is becoming smaller. So out of bundle decreased by 46% from last year to this year. So your vulnerability that is contributing to the price decline starts to reduce.

Alexander Balakhnin
Thank you. That's helpful.

Operator
Thank you. Our next question is from Sibonginkosi Nyanga of Momentum. Please go ahead.

Sibonginkosi Nyanga
Afternoon gentlemen. I just wanted to check if you've got the banking license.

Shameel Joosub
We don't have a banking license. We have a financial services license. And we have an insurance license. So we are not a deposit-taking institution. Let me put it that way. What we have done is in the past where we had those types of products, like when we had M-PESA in South Africa, is we partner with the bank.

Sibonginkosi Nyanga
Okay. With the insurance licence what products do you have in the market, or is it just a license?

Shameel Joosub
We have actually got a thriving insurance business, close to a million policies, 35% up year over year. Mainly handset insurance. So basically we generated R296 million in the six months from insurance. It is about a R600 million a year business, growing quite strongly, almost 17% growth. So I was quite pleased. We have introduced funeral and life. And to be frank with you I think with a little bit more focus there we should be able to continue with the growth in that area.

Sibonginkosi Nyanga
And then the other thing is if I'm looking at data contribution I think it currently sits at an average of 38% or thereabouts. It contributes 38% to your total revenue. Where do you think data contribution will be say in the coming year or two years? Will it be contributing 40%, 45% or more? Where do you want to take it to?

Shameel Joosub
I think within the next two to three years it goes closer to 50% contribution coming from data.

Sibonginkosi Nyanga
50%?

Shameel Joosub
50%.

Sibonginkosi Nyanga
Okay. Thank you.

Operator
Thank you. Our next question is a follow-up from Craig Hackney. Please go ahead.

Craig Hackney

Thank you. Just looking at your content agreements with ShowMax and DSTV, in terms of those commercial arrangements do you have to pay a fixed annual fee for access to that content or is it on a per usage model that as the subscriber accesses the video content that's when some kind of revenue share kicks in?

Shameel Joosub

They are all revenue share based basically to be able to provide the content. I think just to stress there are a couple of things in the video platform that I think are quite strong. So one is the distribution platform. So you are distributing content as opposed to trying to have your own service. So you will have ShowMax, you will have Netflix and anyone else who wants to come. That's the first part. The second part is that you will have transactional services like Box Office where you can buy on demand. And the third one is we will complement that with content also from third parties but packaged where effectively you will be able to buy a box set for the weekend and so on.

So we will bring a lot of our thinking of what we have done in some of our products with what I call the dailies, the weeklies and the monthlies into the video part as well. The big thing is the data will be included in the package. And we will have [unclear] data as well which I think will [unclear] the success. [Overtalking]. Remember the margins on these things don't compare to the margins we get. They are lower margin stuff. The real reason we are doing it is we increase the reasons to consume. I think that's what we should be focussing on. That is why we have created now special digital sections which will focus on what I call the reasons to consume, building those partnerships, those ecosystems, which will increase the reasons to consume and keep the traffic growth above the 40%.

Craig Hackney

Okay. Understood. And then just a last one if I may. Looking at your international operations if we look in Tanzania and Mozambique despite the return to subscriber growth you were still able to get quite nice local currency ARPU uplift. And that is quite surprising given the macroeconomic overlay. What is driving hat? Is that an M-PESA story or what is driving that ARPU uplift?

Shameel Joosub

I think ARPU in the international obviously M-PESA is definitely playing a role. So that has been quite nice. But also I think the personalisation part is also playing a role in that respect. And data growth. Data growth in Mozambique is quite strong. And then obviously let's not forget that we had the disconnections. So when you disconnect customers and you are taking out 4 million customers across the footprint it does also push up your ARPU. You are deleting low-end customers or zero-value customers.

Craig Hackney

Right. Okay. So we should be a little bit cautious about extrapolating these sorts of ARPU increases into the next three or four quarters if you start to get back to a normalised subscriber growth story. Is that what you're saying?

Shameel Joosub

Agreed. Because the rates are… 32% or 33% increases in ARPU is not going to happen. It is going to be a lot more modest.

Craig Hackney

Okay. Thanks very much.

Operator

Thank you. Gentlemen, we have no further questions at the moment. Do you have any closing comments?

Shameel Joosub
No, no closing comments. Thank you for joining us

Operator
Thank you very much. Ladies and gentlemen, on behalf of Vodacom that concludes this conference. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT