Vodacom
22 July 2010

Conference call script

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TRADING STATEMENT FOR THE QUARTER ENDED 30 JUNE 2010

Operator

Welcome to the Vodacom Group Limited trading update conference call for the first quarter to 30 June 2010.

Vodacom Group CEO, Pieter Uys will host the conference call.

I will read the forward-looking disclaimer before handing over to Pieter Uys.

This announcement which sets out the trading statement for Vodacom Group Limited for the quarter ended 30 June 2010 contains 'forward-looking statements' 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, revenue, financial positions, dividend policy, and future prospects; business and management strategies relating to the expansion and growth of the Group; the effects of regulation of the Group's businesses by governments in the countries in which it operates; the Group's expectations as to the launch and roll out dates for 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.

Pieter Uys

Thank you. Good afternoon. Good morning. Welcome to our quarterly update call. With me is Rob Shuter, our CFO, and also Belinda Williams. So I'm going to take you through some of the highlights. I'll be covering the revenue and performance driven mostly from Africa. I'll cover our customer indicators, and I'll spend some time on our mobile broadband progress that we've made over the quarter. I'll start with the South Africa business.

Service revenue is up 4.4%. We've definitely seen some indications that there is economic recovery happening. We've also had a small boost from the World Cup, the soccer that was here. For example, on the Vodacom network we had additional revenue of about R50 million from visitors either roaming or buying a prepaid card while in South Africa. We had the impact of the MTR cut that started in March this year. This had a R250,000 impact on the revenue. If I exclude the impact of the interconnect service revenue was up 8.2%.

If you look at the voice revenue traffic was up 4.6%. If I normalise and take out the effect of Night Shift, which was the free minutes promotion we had at the beginning of last year, revenue was up 4% versus the 4.6% in traffic. If we look at the subscriber numbers they were impacted by two things. The one was the disconnection rule changed, and I announced it at the end of the full year. We deleted 3.3 million SIMS, inactive SIMS off the network.

If I look at the quarter we added just under 200,000 net customers in the quarter. Most of them were contract customers. So if I look forward in the coming quarter we will also be positive on prepaid connections, which were impacted up to now by RICA. So gross connections are back post the disconnections up to the levels of churn. Taking the total subscribers in South Africa to 23.2 million. If I look at the contracts where the good growth was, it was up 16% to 4.7 million subscribers, making up 20% of the base now.

Data revenue in South Africa continues to be a success story. If you look at the normalised data revenue it was up 34%. And when I say normalised, in the beginning of last year we introduced the carry over. And if I take out the financial impact of that carry over it brings the 43% headline data growth down to 34%. We've had continued good growth, and it's mostly driven by our focus on building the network. We've added 230 new 3G base stations, taking the total to 3,600 now. We've introduced new speeds into the network. All our network is now on 14.4. We've also in selected high capacity areas introduced 21 megabit technology, HSPA Plus.

Also we're focussing on the devices. We introduced our first Linkbook where we have a Linkbook on a contract for two years selling at R199 per month with the data card and the 350 megabyte data bundle included. We're also focussing heavily to up-sell smartphones to our base. We've had good success in the quarter. Smartphones were up 56% and the total smartphones on the network now are 2.2 million.

If you look at data cards we're up 45% on last year up to 835,000. We also measure active data bundles in the network, and we've also aligned our data bundle numbers with Vodafone now. So included in this number in addition to what we previously had we've included Blackberry and also data cards using reverse billing or reverse APN billing into corporates, which takes the active data bundles to 1.6 million.

If you look at the total number of customers using data on the network it's sitting at 7 million customers. And we are actively up-selling data to that base. Data traffic increased 55% on the network. So you can see the value add coming through. We reduced the tariffs in the quarter, so the effective price per megabyte came down almost 9% to 10%. The SA data revenue now makes up 12%, and this is the pure data part, of service revenue. If you look at total data including the messaging revenue it's now 19% of service revenue.

If I move on to the international part of our business now, last time I announced that we have added more value to the customers and reduced our tariffs. We've seen dramatic growth in traffic. If you take DRC and Tanzania the traffic volumes have almost doubled on last year, and this is mostly because of the tariff reductions in these two big markets of between 50% and 60%. The net effect of this is we're more competitive. We are taking more net customers, so one million net adds in the quarter, taking the non-SA subscriber numbers to 14.6 million. Service revenue was mostly impacted by the weakening currencies and strong Rand. It was 15% down. But if I take out the impact of the currency it's more or less flat.

So the highlights then from these results. South Africa saw strong service revenue growth, especially if I ignore the impact of the interconnect. Data is still continuing good growth, data revenue up 34%. And the international business we're continuing to add more value to our customers. We've improved the performance of those businesses and we are working hard to make them also perform better. So that concludes my introduction. We will move into a Q&A session. Thank you.

Operator	Ladies and gentlemen, at this point in time if you'd like to ask a question please press star then one on your telephone to join the question queue. If you decide to withdraw your question you can press star then two to remove yourself from the list. I will repeat, if you'd like to ask a question please press star then one. Our first question comes from JP Davids from Barclays Capital. Please go ahead.
JP Davids	Hi, JP here from Barclays Capital. Thanks for taking the questions. Firstly a question on data in South Africa and then one on the international business. On South Africa and data, can you help us reconcile the active data bundles up-sold from a million the last you reported to 1.6 million? How much of that is just the change in disclosure and how much of that is organic up-selling of bundles in the market? That's on the data side. On the international side it looks like both you and Millicom are starting to report growth in the DRC in terms of ARPU. Has there been a tangible change in the pricing environment in that market? Obviously you said it's pretty good, but have you seen something change in the market of late? Thank you.
Pieter Uys	The first one is the number of data bundles. The last time we had 1.1 million active data bundles. The two things we've added are Blackberry and APN reversed bill users. And then there was some other adjustment. So if I strip that out the organic growth for the quarter was 150,000 taking you to the 1.6 million. So that's the first question. The second question is the DRC. If I look at the activity in the market there, the competitiveness, tariffs have come down more or less 50% year on year. Minutes of use have gone up 60%. So a very different business to what we had a year ago, Tigo and Vodacom being the main competitors at the moment.
JP Davids	Okay. And are you seeing any stabilisation in the competitive environment in the DRC?
Pieter Uys	Ja, a lot of these things have happened in the last quarter. We've definitely seen a turnaround for us. It's not going backwards any more. We still have the shareholder issues to sort out, which we are working on. And I think till all of these things have stabilised business would not be where it was previously because we are holding back with big investments till we have resolved all the shareholder issues.
JP Davids	Thank you. That's very helpful.
Pieter Uys	Thank you.
Operator	Our next question comes from Nick Kershaw from the Deutsche Bank. Please go ahead.
Nick Kershaw	Hi, good afternoon. I've got three questions. My first question is could you give us an indication of what the interconnect expenses

	were in South Africa in the period? My second question is the R45 million to R50 million revenue from the soccer World Cup, was that in this quarter or more the June/July period? And then my third question is could Rob give us an idea of what's happening with the cost programme you are implementing throughout this year?
Pieter Uys	The first one is the interconnect. We spent R400 million on the revenue line. If you look at the EBITDA impact of R400 million on the revenue probably R30 million at the EBITDA level. If I look at the period of the World Cup the question is was it just the June number or was it the total. The R50 million was the impact in just June of the World Cup. It excludes July. And of that there's a part roaming, but then also prepaid that was sold in South Africa. So Rob, if you want to speak to the last question.
Rob Shuter	Obviously the focus on a quarterly call is on revenue and subscriber numbers, but what I can say on the cost programme is that we're making good progress. We're on track and we will report more detail at the half year.
Nick Kershaw	That's all I needed. Thanks very much.
Pieter Uys	Nick, thank you.
Operator	Just a reminder to participants, if you'd like to ask a question please press star then one to join the queue. Our next question comes from Sean Gardiner from Morgan Stanley. Please go ahead.
Sean Gardiner	Thank you. I might have missed some of your introductory comments, but did you give a revenue growth for your prepaid revenue in South Africa? Just remind me. And then secondly just on Nick's question, can you just run through those interconnect numbers again? I didn't quite understand what you were referring to.
Pieter Uys	Okay. So the first one is the service revenue from prepaid and contract. If I exclude the impact of interconnect they were both growth at between 8% and 9%. If I look at interconnect at the revenue line it was R393 million. If you look at the EBITDA impact its R127 million for the quarter.
Sean Gardiner	EBITDA went down by R127 million.
Rob Shuter	The negative effect of MTR reductions on EBITDA was R127 million.
Sean Gardiner	Okay, thank you. And maybe finally just on your leading indicators. Can you just talk about some of the tangible signs you've seen up there in terms of international roaming activity just for the recovery in the South African market?

Pieter Uys	Last time we reported we do look at bad debt, percentage of handset sales. We've not seen big signs of improvement. They've all improved slightly. So voluntary churn, bad debt, handsets, they've all had small improvements. So we're continuing to see an economic recovery, but it's not major yet.
Sean Gardiner	Okay. Thank you.
Operator	Our next question comes from Craig Hackney from BJM. Please go ahead.
Craig Hackney	Hi. But just looking at ICASA and the whole spectrum allocation process they seem to be sticking with the 30% historically disadvantaged requirement. Can you give us an indication of what implication that could have for Vodacom South Africa in light of the deal that you did last year?
Pieter Uys	We did our BEE deal two years ago. We sold 6.5% I think to BEE shareholders in South Africa. The requirement as per the law to get access to additional spectrum is that you need 30% BEE shareholding. And the other requirement is you cannot have a holding in a company that's already got spectrum. And that's one of the reasons why we're selling off our investments in WBS. But for us to be able to apply we'll have to create a separate company with either our existing black shareholders or another BEE partner where it functions as a complete stand-alone entity having its own business, own spectrum, own license. So that is the way that we would approach it at the moment. I don't know if you saw yesterday that ICASA sent out a notice where they've pulled the process for now until they've had more discussion with the industry. And one of the comments that we've put through to them previously is that the license call for spectrum application was biased towards a WiMAX license and they first need to harmonise the band to also allow LTE players, which seems at the moment to be the preferred technology going forward. That's one of the reasons they've put a hold on it now. They've not given a new date, but they will engage with us. But the one thing that won't easily change is the 30% requirement because that's part of the law.
Craig Hackney	And are you quite well underway in terms of setting up that separate company, because I presume you'd have to move quite quickly once ICASA do finalise how they're going to do this?
Pieter Uys	We have our existing partners in South Africa, so the preferred way would be to do it with them. Ja, we've had discussions with them. We've also got a license. That's the other requirement. The entity that applies for the spectrum needs an electronic communication services licence in South Africa. So all those things are in place to apply when needed.
Craig Hackney	Okay. Thank you.

Operator	Our next question comes from Rhys Summerton from Citigroup. Please go ahead.
Rhys Summerton	Hi, afternoon. I've just got two or three questions on your subscriber base. Firstly – I think I've asked this question before without an answer – do you have any long-term guidance on what percentage of your base you would like to see as being post-paid? And just following on from that, if you could maybe highlight to me how many of your post-paid subscribers that you've added are existing subscribers, in other words pure conversions from prepaid to post-paid as opposed to new subscribers that you've got onto the network? And then just on a different point, if you could maybe clarify now or later, if I had to adjust your subscriber base for the year end number in terms of your ARPU would I be looking at a number of about R85 or R86 on prepaid? Could you just confirm that? Thanks.
Pieter Uys	It is definitely part of our strategy to up-sell to our high spending prepaid customers converting to contract because it gives us two year contractual certainty of the life of that customer. So we're sitting at 20% of the base on contract. Now, if you look at the quarter of the 175,000 adds, half of those would typically be an up-sell of prepaid, an existing customer that we're up-selling to a contract. ARPU, Rob, do you have those numbers? Rob's just shown me here your number is correct. It would be R84, R85.
Rhys Summerton	Okay. So 50% of the base would be the existing subs, right?
Pieter Uys	50% of the adds would come from existing customers.
Rhys Summerton	Excellent. Thanks a lot.
Operator	Just a reminder, if you'd like to ask a question please press star then one to join the question queue. Our next question comes from Jonathan Kennedy-Good from Investec Securities.
Jonathan Kennedy-Good	Good afternoon. I just have two questions. Could you give us a quick update on where you see the mobile termination rate reduction? Any guideline. I know you were asking for an extension to March. Is there anything new to look for there? Secondly on network capacity. Obviously with the data growth being that strong I think there were comments at your year end results that capacity was an issue at some point in time. Are you still experiencing excess capacity on your network or are you happy with the guidance that you gave at year end? Would you stand by that number in terms of SA capex?
Pieter Uys	Okay. So the first one, Jonathan, is the MTR. Since last time we've had the written submissions that we did. Then we had the public hearings where we participated. We also had the press release from ICASA where they've given their intentions of where they want us to go. And there are two factors at play here. The

	one is the absolute number that it should go down to, and the next one is the timing thereof. We had the 30% cut in peak interconnect on the 1st March this year. ICASA wants the number to go down to 40c over a two year period. So our number is a little bit higher, but the 40c is not way out. So we're not going to put up a big fight against the 40c. The big difference of opinion is the first cut. We're also not unhappy with the two year glide path. It's just the glide path is front-end loaded and it seems like they have not given us credit for the initial voluntary cut. So our proposal is that from when they do the announcement that they give us at least a six month gap before we implement the first cut. So the six months, then a two year, then down to the 40c. Then the network capacity. Building up to the World Cup we put in a lot of capacity into the hot spots. And we will redeploy some of that into the network now so not all of that investment is wasted. Also we continue on the broadband data side to self-provide transmission, because that's where a big chunk of the costs sit. So we last time said we want to do 1,000 new 3G base stations. We've done 230 of that and we're on track to finish the rest. We also said we want to do 1,000 of the 3G base stations connected to our own transmission. We are also on track to achieve that. So the R5 billion guidance we gave last time for capex in SA is still on track and there's no change on that.
Jonathan Kennedy-Good	Thanks, Pieter. Just one last question on that. That six months gap you talked about in terms of MTR, would you litigate against ICASA if they try and force you to reduce those rates at the rate they want to?
Pieter Uys	No, it depends on how bad it is. We're not far off, so I don't think it ever will go to that. 40c is in the ballpark. The two years is in the ballpark. It's just the initial cut. But we will not go for an aggressive stance. We'd rather work with them.
Jonathan Kennedy-Good	Okay. Thanks.
Operator	Our next question comes from Jacques Conradie from Peregrine Capital. Please go ahead.
Jacques Conradie	Hi, good afternoon Pieter and Rob. Congrats on what looks like a solid quarter in South Africa. I just quickly want to ask two questions. One is just to get an idea of how much the World Cup affected the local population with regards to their call volumes? Can you give us an idea of roughly what your service revenue growth was in April/May compared to June? Can you just give us an idea of what the run-rate is excluding World Cup?
Pieter Uys	Ja. If I look at the World Cup the first surprise we had was a lot of the capacity that we put into the stadiums... we had provisions based on earnings from Germany for voice. Halfway through the first game we had to reprovision that and switch a lot of capacity

	to data. Probably because of the vuvuzela nobody could make out what was being said in the matches. And in June SMS volume was up 40%. Data was up also a little bit more than 40% in June. So the World Cup was good for us on the messaging and data side.
Jacques Conradie	Okay. And then just maybe do you have any feel for what happened with your revenue share in the South African market during the World Cup?
Pieter Uys	MTN were one of the big sponsors of the World Cup and they had very good presence in South Africa during June and July. During the period of the World Cup we pulled back a bit, and leading up to the World Cup we had our own campaign supporting Bafana Bafana. I would guess in the period during the World Cup it's possible that we lost some market share. If you look at the current situation this last Sunday we went out with two value promotions that we're going to run through to the end of the year. We brought back the Night Shift promotion that we had last year. We also introduced Night Owls where if you buy a gig of data in the month we will give you an extra gig that you can use after-hours. We've also launched our new TV campaign, Daddy Cool. So we're back with force in the local market.
Jacques Conradie	Great. Thank you very much.
Operator	Just a reminder to participants, if you'd like to ask a question please press star then one to join the question queue. Our next question comes from Johan Snyman from Nedbank Capital.
Johan Snyman	Good afternoon. I have two questions. I just want to get a bit of colour on mobile messaging. It seems that the year on year increase was quite modest. Am I correct in that assumption? And then secondly in terms of Gateway, revenues in Dollar terms around the $94 million, flat year on year. Could you maybe just give a bit of colour around the carrier and business services segments? Thank you.
Pieter Uys	If I look at the volume of the SMS it was up 22%, whereas the revenue was up 12% in the quarter. With Gateway, Rob, can you help out on that one? The Gateway numbers are now included in the international portfolio.
Rob Shuter	Yes, I think the revenue was largely flat quarter on quarter. We are expecting a better performance in the months ahead, particularly as in Nigeria we roll out the broadband wireless network. But generally Gateway is on track in terms of the plan we set for them. In fact, they're tracking slightly ahead of it.
Johan Snyman	On the business services side is that tracking a bit better than the carrier business?
Rob Shuter	Ja, it's better, but at the moment they're both better than we had

	in our impairment plan of last year. But business is where we are putting all our focus and investment, for example in Nigeria.
Johan Snyman	Thank you.
Operator	Thank you. Our next question comes from Steve Minnaar from Abax Investments. Please go ahead.
Steve Minnaar	Good afternoon gents and Belinda. My question is with reference to the table you show quarter on quarter going back to December 2008. What strikes me there even if you do a bit of a thumb suck adjustment there for seasonal trends is that the number of minutes you've carried for the network has stayed relatively flat at 6.4 billion minutes per quarter. And this is now for a period of 18 months. And yet at the same time you've spent a fair whack of capex in South Africa. So basically one can look at it and say you didn't really need the capex for voice; you needed it to carry all this great data that you're now growing. Then it actually looks like a reasonably poor return that you get for all that investment for data. Or am I missing in that argument?
Pieter Uys	Let me just look at that.
Rob Shuter	Maybe I can kick off. Certainly the returns on the data business if we look at them from an operating margin or an EBITDA margin perspective that EBITDA margin is very similar to the overall group margin. So I think the first response is that we do see the data business as profitable and as contributing a decent margin at similar levels to the overall margin.
Pieter Uys	A lot of the investment we're doing now is to also make sure that the data model is sustainable. That's where the investment in transmission comes from. So that is a big chunk of building the fibre backbone to the base stations. And we're also continuing to expand the 3G footprint. So a big portion of the 1,000 base stations is also not just for capacity but to grow the data business horizontally.
Steve Minnaar	Okay, just following up on that, where do you see those voice minutes going? Do you think this is as good as it gets, roughly speaking?
Pieter Uys	If you look at the volume quarter on quarter it was up 4.6% as I said during my introduction. So there is still some growth with the service revenue of 4.4% off the 4.6% traffic growth.
Steve Minnaar	Okay.
Operator	Just a final reminder to participants, if you'd like to ask a question please press star then one. We have a follow-up question from Craig Hackney. Please go ahead.
Craig Hackney	Hi. Just looking at contract churn in South Africa, this is the third

	consecutive quarter that churn has increased. Could you just give a bit of colour on what could be behind that please?
Pieter Uys	Churn below 10% is always good for us. It's also seasonal. It was up at the end of last year, it goes down during the year and then it goes up again. So we always try and manage it below the 10%. So the investment that we're putting into retaining customers keeps it below 10%.
Craig Hackney	Okay. So if it does look like it's going to go above 10% you'd be more proactive about keeping it down?
Pieter Uys	Ja. As it goes up we start putting in more money to bring it down again. Our strategy is to keep it below 10%.
Craig Hackney	Okay. Thank you.
Operator	Mr Uys, we have no further questions in the question queue. Would you like to close the conference call?
Pieter Uys	All in all South Africa had good revenue, 4.4% up; stripping out the MTR, 8.2% up. If you strip out the effect of last year's data carrying over into the next month we are 34% up in line with full year growth last year. International, hopefully we've stabilised the bleeding and we'll continue to make sure that our offer in the market is as competitive as possible. We are changing our cost models in those markets to support it. And I'm still positive that we can turn those around going forward. Thank you very much for joining us on the call this afternoon. Goodbye.

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