

# Conference Call Transcript

21 July 2017

## Q1 2017 RESULTS

### Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd results conference call for the three months ended 30 June 2017. Vodacom Group CEO, Shameel Joosub, will host the conference call. I will read the forward-looking disclaimer before handing over to Shameel.

This announcement which sets out the results for Vodacom Group Ltd for the three months ended 30 June 2017 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 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 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](http://www.vodacom.com). Please note that all participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to the Vodacom Group CEO, Mr Shameel Joosub. Please go ahead, sir.

### Shameel Joosub

Thank you. Good afternoon everyone and good morning to those joining us on the call from the US. I'm joined by our CFO, Till Streichert, and Shaun Van Biljon, our Head of Investor Relations. As per our previous quarterly disclosures we'll only focus on revenue and key performance indicators today. Overall I am pleased with the results with strong performance in South Africa and growth improving on a normalised basis in our international segment. South Africa continues to perform well in the challenging economic environment supported by good progress on data, strong customer gains as well as enterprise revenue growth.

The international operations have also turned the corner. Currently volatility is however still negatively impacting translation of these results. Our results show that we continue to make great progress against the strategic priorities of differentiation, offering customers more value through segmented and personalised offers across our footprint. Our brand transformation strategy continues to deliver great value for our customers. The 9.1% drop in effective voice pricing and a 19% decline in effective data pricing over the quarter reflects our commitment to drive down the cost to communicate in South Africa through our bundle pricing and personalised offers platform.

The data initiatives have delivered good results and in this quarter alone we sold 553 million bundles in South Africa. That's a run rate of over 2.1 billion for the year. You will remember this past year we did 1.5 billion. More interesting though is that 17.8 million customers are now purchasing these bundles. We have now introduced the Just 4 You platform across all our operations and we are aiming to extend the success beyond the South African operations. So let's talk about this and how it has translated into our numbers.

As mentioned at the start of the call currency is still quite volatile in a number of our markets. I will therefore mainly quote normalised growth rates to give you a view of our underlying operational performance. This will neutralise the translation effect from our international operations. Group revenue grew 3.9%. Normalised growth was 7.7% and group service revenue grew 1.7% with normalised growth at 5.9%. The growth in service revenue was supported by normalise data growth of 18.3% as our network differentiation continues to deliver both customer growth and sustained revenue growth. Revenue growth accelerated this quarter underpinned by a 16% increase in equipment revenue reflecting the successful delivery of our strategy of driving the uptake of data-enabled devices while benefitting from better Dollar exchange rates in this instance.

Moving to the particular segments and starting with South Africa as normal, the sustained strong growth in South Africa delivered a 5.6% service revenue growth. This performance was supported by continued growth in our customer base and strong demand for data. We added 2.3 million prepaid customer and 2,000 contract customers in the quarter. We attribute our success in prepaid to our segmented offering and personalised Just 4 You offers attracting greater volumes of customers in the value seeking segment. Some channels were also driving connections in anticipation of improvements in the customer registration process. We therefore expect this trend to slow later in the year. I want to emphasise this point because I don't want people extrapolating the first quarter growth and then assuming we'll do more than 8 million net adds for the year. I think we need to be assuming that we would do our normal run rate in the year. So these higher gross connections due to the changes that we are making in customer registration will also work its way out with increased churn later on in the year.

The contract side has shown net additions of 2,000 in the quarter. Included in this were 40,000 customers that we deleted as part of a new customer rehabilitation programme. The programme which was introduced in November allows customers who have trouble paying to go onto prepaid while catching up on payments. This significantly improves customer experience and we have seen great success on customers settling their debt and being rehabilitated.

Customers are loving our bundle strategy. Momentum on bundle sales has continued, increasing 68% with 553 million bundles sold in the quarter alone. This is unlocking more value for our customers with the effective reduction of 9.1% in the blended price per minute and further declines in the data price per MB of 19%. By giving customers value bundles appropriate for their affordability overall usage increased and more customers have started using our services. This resulted in a slowdown in voice revenue decline which remained low at 4.2%.

Migration to our new more data contracts which have a larger data allocation accelerated during this period as customer demand for data continues to decrease. And these trends have therefore been made our new default selection in store and online. Contract ARPU declined by 2% to R393 due to a higher rollover of unused bundle allocations as customers grow into fully utilising these larger bundles while securing slightly higher committed spend from customers. I think this makes us more recession proof as we are basically getting a higher committed spend.

Data revenue increased 18.1% contributing 42.2% of service revenue and for the first time is more than voice revenue. We added 463,000 4G customers in the quarter, reaching a total of 5.5 million

as we focus our data strategy on increasing 3G and 4G device uptake. Active smart devices on the network increased by 18.4% to 16.6 million as devices become more affordable as a result of an improvement in the exchange rate. Our bundles are our key strategy in giving customers more value. Price per MB has reduced by 19% as we focus on addressing out of bundle pricing and providing more value to our customers. Data usage was strong with the average MB per smart device increasing 15% to 734 MB with high-end smartphone usage growing by 36% to 2 GB. So your highest smartphones are using 2 GB of data.

Enterprise continues to deliver on the scale that we've been building it up to. Revenue growth was strong at 9.4%. We have commenced with the migration of customers from the mobile voice and data communications contract that we secured last year with South Africa's national and provincial government departments. We continue to invest in our network to maintain our lead with wireless coverage and the fastest internet. We are now focusing capex on enhancing our IT capabilities in order to achieve on our big data objectives which is critical to achieving our strategic ambition of becoming a leading digital company.

On the international segment underlying growth trends in our international operations have improved with a better performance in Tanzania and sustained growth in Mozambique and Lesotho through strong commercial execution. Improvement in the DRC reflects the lapsing of customer deletions in the prior period. However economic weakness and the decoupling of the Congolese Franc from the US Dollar continues to impact consumer spending. On translation of non-Rand-denominated subsidiaries the improvement of the Rand has impacted reported growth. Service revenue declined 8% year on year but was up 8% if we normalise for currency. We added 281,000 customers in the quarter reaching 29.9 million customers. That's just shy of 30 million customers now in our international segment.

We continue to improve our customer registration processes working closely with regulators to ensure full compliance in all our operations. MPESA continues to be a gem and one of our success stories in all our operations. MPESA revenue is growing 24.9% on a normalised basis fuelled by continued success in Tanzania and boosted by strong uptake in the rest of the operations. Data demand remains positive in our international operations with data revenue increasing 18.9% on a normalised basis supported by an increase of 810,000 data customers to 13.8 million data customers. This has resulted in data traffic increasing 87% year on year. Action plans to improve monetisation are now in place across all operations starting with the implementation of the Just 4 You platform. Our capex investment in these markets is focussed on strengthening network and service differentiation and to support data growth and wider voice coverage.

That concludes our highlights on the two segments. I will now round up what our focus areas are for the rest of the financial year. Firstly the ICT white paper. As previously communicated during May 2017 a high level agreement was reached between the ministry and the industry stakeholders that provides for not returning assigned spectrum as originally contemplated in the white paper, license fees committing to buy a set minimum capacity from the wholesale open access network to ensure its viability, the ministry conducting a study to determine the appropriate quantity of high demand spectrum that will be necessarily for the wireless open access network to roll out a 4G network, and the remaining high demand spectrum after allocation to the wholesale open access network will be assigned to the existing licensees through an allocation process yet to be determined with a possible inclusion of rural coverage obligations. Subsequently the ministry appointed the CSIR which is the Council of Science of Industrial Research to conduct the study on the spectrum requirements for the wholesale open access network. We await the outcome of the study for the minister to announce the next steps.

In terms of the Tanzanian listing following the changes in the Electronic and Postal Communications Act and directives received from the Capital Markets Authority in Tanzania we have extended the offer by a period of three weeks with the listing expected to take place on Tuesday the 15<sup>th</sup> August 2017. This extension is to facilitate participation by international investors following recent changes approved by parliament allowing international investors to participate in the IPO which will lead to a more successful IPO and I think a more sustainable IPO for the future.

In terms of Safaricom as you are all aware we announced an intention to acquire an effective 35% stake in Safaricom at our results announcement on the 15<sup>th</sup> May. I'm pleased to confirm that at the AGM on the 18<sup>th</sup> July shareholders voted unanimously to approve this transaction which we expect to be effected on or about the 1<sup>st</sup> August 2017. This transaction is strategically important for us as we invest in a quality telco asset and we are very excited to bring the Safaricom family to Vodacom. We believe it will create value over the long term to shareholders, customers and employees. There has been an issue reported in the newspapers in the last couple of days. We have received a relatively small fine in Tanzania for customer registration infringements. This was as a result of tests performed by the regulator in December 2016 on 144 SIMs. We continue to improve processes in all our channels to avoid any future infringements. All of the industry were fined and we landed up with the smallest fine of all the entities. Till and I are now ready to take your questions.

### **Operator**

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

### **JP Davids**

Hi. Good afternoon guys. A couple of questions on Tanzania and then one on South Africa please. So on Tanzania firstly just following up on your comment, Shameel, around the fine. I guess from my perspective the tone of the regulator's letter was quite hostile and even a bit aggressive. Is that the end of it or are you worried of further regulatory ramifications or a witch hunt from the regulator around the industry? Separate to that maybe you can just discuss the slightly improved performance in Tanzania in the quarter. Is it just a function of easier comps or are you starting to see an improvement in your NPS score and the overall market? And then switching gear to South Africa, just on the voice traffic side, you're starting to see a bit of a slowdown in the rate of growth over the last few quarters. Is that something that concerns you guys or are you pretty relaxed around the balance between prices stabilising here on voice and traffic growth and revenue growth on voice? Thank you.

### **Shameel Joosub**

Okay. Let me start off with the first one which is the issue around compliance and the fine. I think let's be a little bit crude. One of the things that is happening is government we expect were looking for some taxes, if we can call it that. And so the issue of non-compliance became a bigger issue than what it was necessarily supposed to be. It's not the first time we've received a fine. They have been testing and so on. And we are also working closely with the regulator to fix it. So basically there is a committee that exists between the industry and the regulator and we work through the compliance issues together. But every couple of months they do a test to see whether things are working as designed. And if they find anything they ask us to correct it and close those gaps. And two is obviously if there is an opportunity to raise funds then they take it. So I don't think it's an increase in hostility of sorts, but I think we are pushing to make sure that the quality of our compliance in market especially on new activations where this is centred around is working much better and so on. One can never say that you'll never have issues. I think that's just the nature of

customer registration. But obviously we need to make sure that we have minimized any potential issues. And that's what we're working towards and have been since this issue came up in December last year.

I think in terms of the underlying performance in Tanzania what we are seeing is an improvement in the overall Tanzanian performance. And so it's not just the comps. The active customers have increased, so we're seeing a nice increase in active customers. It increased almost 5%. So that's been quite strong. We've seen an improvement in ARPU in local currency, which has also been quite strong, and we've seen a decline in the price per minute which has been quite strong. Also a better improvement I would say in data usage as well in the period. So overall very good and also an improvement in NPS basically for the quarter as well. So all these factors are showing better improvement and we are quite confident that it will be a better year shall we say in Tanzania compared to what we've experienced previously and we're definitely in recovery mode. I think it's also fair to say that you are seeing weakening of two of the competitors. Let's say there seem to be more for sale signs up on some of the entities and obviously two entities continuing to invest which is us and the Vietnamese. In terms of voice MOU in South Africa I think there is no reason to be concerned. I think it's an issue as it relates to basically prepaid where effectively you have had the bigger comp in terms of customer base. That's obviously giving rise to the dilution in MOUs and obviously dilution in ARPUs. It will work its way out. As you add 2.2 million customers in the quarter I think you basically have to expect that.

#### **JP Davids**

Got it. I was just looking at the overall outgoing traffic. That growth also looks to be moderating a bit. But it seems like you're still comfortable with delivering growth within expectations. Is that right? The South African voice revenue growth.

#### **Shameel Joosub**

Yes.

#### **JP Davids**

Okay. Thank you.

#### **Operator**

Thank you very much. The next question is from Chris Grundberg of UBS. Please go ahead.

#### **Chris Grundberg**

Thanks very much. Just a quick one on the SA regulation and spectrum landscape. You have set out in the release how the proposals are made from the ministry and we've seen comments from the government about deadlines and timetables. I just want to confirm the reading of the situation that really the earliest we can expect any spectrum to be issued now is before the beginning of 2019. Is that the best read?

#### **Shameel Joosub**

Look, I think basically we've got to separate it into two buckets. You've got to separate it into the 2.6 bucket and you've got to separate it into the 700 / 800 bucket. I think realistically the 700 / 800 bucket will not happen before 2019 because the digital migration is only now getting focussed. The new minister is putting focus on it and putting a task team to be able to get digital migration. So it's probably the most action we've had on the topic for quite a while. So I think that's the one part. But the 700 / 800 can be allocated faster. I suspect what will happen is that the 700 / 800 will happen sooner. To be honest I can't give you an exact date because we're still trying to see how this thing all ties out. Basically the deadlines are for the CSIR in the next couple of weeks to come up with how much spectrum the WOAN needs. After that the question is how they bring ICASA and the

reconciliation between the ministry and ICASA on side to be able to give effect to what government wants to achieve, which has still not happened to be frank.

### **Chris Grundberg**

Great. Thanks. Just as a follow-up on that then can you talk us through your network capacity plans and maybe how the Rain or Multisource agreement plays into it conscious of this continually shifting spectrum story?

### **Shameel Joosub**

I think as said before I think one of the big strategic moves that we made was to do the deal with Multisource. There are over 1,000 sites already live. There will be 2,000 sites live at the end of the year. So we're in a good position. We're using that obviously to help us manage the volumes and so on in the densely populated areas where obviously the spectrum crunch could potentially play a role. And so that's working quite well for us in that respect and I think gives us a lot of road whilst the issue of spectrum and the delays that we're experiencing currently are in place. So we could go on for at least a couple of years in this respect. Obviously the preference always is to get own spectrum. We continue to also as we are experiencing an onslaught from MTN. MTN seems to be putting more of their capital into the big cities. I think they have given up on the battle of trying to win the national fight if you like. So what they are trying to do is to compete more heavily with us in the big cities. So we are diverting capex and so on to make sure that we keep abreast. You know we are constantly at the Advertising Standards Authority proving that we do have the best network and that the best network is also an evolution from speed into speed, coverage and quality where if you take all three measures into account we lead quite nicely. On speed we are seeing an improvement in the MTN speed, but we are making sure that we stay ahead.

### **Chris Grundberg**

Thanks. And just one final one if I may. I know you don't comment on costs or EBITDA at the quarterly period, but I'm just conscious of this shift in or the increased handset sales in SA. I'm assuming there is no change to your expectations for full-year margins or anything on the basis of that? Thanks.

### **Till Streichert**

No, so no change to that. Guidance remains. Obviously at the quarterly results we are not speaking about costs or further down the income statement. That's it.

### **Chris Grundberg**

Got it. Thank you.

### **Operator**

Thank you very much. The next question is from Jonathan Kennedy-Good of SBG Securities. Please go ahead.

### **Jonathan Kennedy-Good**

Good afternoon. I would like to return to Shameel's comments in the voice over regarding the 2.2 million prepaid subscribers that you've added. I went back all the way to 2007 and I couldn't find a quarter as strong as this. I'm just wondering, you mentioned something about registration issues. Were there any incentives provided to the channel which have produced an abnormal level of growth? Is this market share gain or will we see subscribers churn off in the next quarter? Just some colour on exactly... I know in the release you said it's to do with the Just 4 You pricing and marketing. I'm just trying to understand whether we should expect at least those subscribers to stick, definitely not to grow from there but to stick.

### **Shameel Joosub**

To be frank it's a little bit difficult to say. Maybe just to give a little bit of colour on what's happened is we are changing some of the subscriber registration rules as an industry and tightening up what constitutes a connection to ensure better customer registration and to be frank to cut the wastage in the channels. And the operators have gotten together to be able to do that and also to create better number efficiency because if we don't deal with the issue it could create a crunch on numbers as well. So effectively that's what the industry is planning to do. This news is out in the industry. So what has happened is we cut the supply of SIM cards into the channel but all the old SIM cards that were lying in cupboards and things for quite a while now seem to have come out and it increased the growth within the period. You will see an uptick in growth I would say across the networks because I would assume that they would have experienced similar stuff. That said we do believe that our strategy is working and that we are gaining share.

How much exactly I can't tell you because the numbers are being convoluted by this issue. So it's not clear exactly how much, but if I look at the progression on success of Just 4 You, if I look at the numbers in terms of handset sales and the uptake there, if I look at the growth in smartphones and so on, there is a lot of underlying measures that one is quite pleased with. That said I would assume that the prepaid net adds for the year will probably be slightly ahead of what we would normally achieve and that we've achieved over the last couple of years in real net adds. That will be important, because right now the gross adds are nice but also distorting our numbers. The higher growth, the higher net base pulls down our ARPU's because you are dividing it by a bigger base. There are also things that come with it. In the end I would say what I'm happy about is that the underlying growth in terms of the prepaid revenue streams has been very strong, so that is quite pleasing and speaks nicely to our strategy of data conversion, smartphone penetration, price transformation and obviously bundle adoption. Strong 7.5% growth in the prepaid segment versus 2.6% in the contract segment.

### **Jonathan Kennedy-Good**

So it sounds as though you expect the net adds to stick or most of these adds to stick. Are you seeing any disconnections post the period end?

### **Shameel Joosub**

So far nothing untoward, but remember there is a deletion cycle that lasts six months which we are now bringing down to... We report the 90 days but the actual customers get deleted in six months. So I think from that perspective what I'm pleased about, maybe just to qualify, is the growth in prepaid as a segment. Part of it is from the customers, but there is real customer growth in there and also all the other elements of the strategy are also helping to contribute to the success.

### **Jonathan Kennedy-Good**

Thank you. Just one other question. Could you comment on whether you're looking at Etisalat or 9mobile as they now call it in Nigeria, or is there any process happening there?

### **Shameel Joosub**

It's an emphatic no.

### **Jonathan Kennedy-Good**

Same as last time. Okay, thanks.

### **Operator**

Thank you very much. The next question is from Madhvendra Singh of Morgan Stanley. Please go ahead.

**Madhvendra Singh**

Hi. Thanks for the call. Very quickly, in South Africa can you please comment on competitive dynamics? Obviously there are more moving parts but do you think the strong net adds would make competition more nervous and maybe react more fiercely to this? Also especially in the contract side even though net adds are not that strong do you still think you are gaining market share on the revenue basis? Thank you.

**Shameel Joosub**

Look, I think from a competitive dynamic perspective I think we're doing quite well and we're definitely holding our own in the market. I can't give you a clear indication because the numbers are a bit convoluted by this. But I think in the prepaid side by all accounts we're doing quite nicely and all the underlying measures are quite strong in terms of I'm quite pleased with the 7.5% prepaid revenue growth in the quarter, which I think is a lead factor for a strong year in prepaid for the rest of the year, which I think should be good. I think in the contract segment we have a couple of things that we're busy with. One is obviously we have created new contract tariff plans where we have increased the data and increased the committed spend. Now, that is causing a bit of a weakness, or not weakness but only a 2.6% growth in the contract segment. And the reason for that is because we've got more committed spend but people have to grow into those bundles. So initially what happens is your deferrals because the data is not used is bigger in the starting months and then people grow into those data bundles, not dissimilar to what we experienced a couple of years ago when we went through the migration from the old plans to the new plans. Obviously these ones are not planned to be a dilutionary effect. In fact they will be done to increase competitiveness, to get a better committed spend which obviously helps us in times of recession which we are currently experiencing.

**Madhvendra Singh**

My question was [overtalking]...

**Shameel Joosub**

The contract numbers are a bit affected. The net adds should be more or less normalised for the fact that there is 40,000 odd catch-up of churn in the quarter which relates to pricing.

**Madhvendra Singh**

Thank you. Are you seeing any specific steps from competition like are they responding more visibly at all given how well you are succeeding?

**Shameel Joosub**

No. So I think from a Cell C perspective you're seeing some changes in plans. But let me say this. There is always competition in the market and the market is a healthy, competitive market. Nothing overly dramatic or nothing overly untoward if you like.

**Madhvendra Singh**

Okay. Thank you.

**Operator**

Thank you very much. Our next question is from Richard Majoor of Macquarie. Please go ahead.

**Richard Majoor**

Good afternoon Shameel. Two questions. First you mentioned that spectrum is not going to be returned as contemplated in the white paper. Am I correct in saying that still what is on the table is to return the spectrum at the end of the license period in 2028 of all the mobile operators? And would that not be a concern to Vodacom because you are investing now for maybe a ten year payback cycle. The second question is if you look at the South African broadband active data users there is a decline of 382,000. I don't know if Vodacom would like to comment on that. Thank you.

### **Shameel Joosub**

Okay. So maybe let me start off with the first one which is essentially the return of spectrum. Let's just be clear. There isn't a thing that we have to return the spectrum in 2028. Essentially what's been agreed is that where the white paper was contemplating the return of spectrum that has been done away with. Closer to 2028 there will be normal studies, all of those types of things being done. I think the intention is clear and we're confident that it will continue to be extended post 2028 and there is a strong legal basis for those assumptions in terms of investment already made, in terms of the constitution, in terms of all of those types of things. That is not then contemplated. So I would say you have got to also remember that the white paper is a policy directive paper. It is not a policy. So you will know in the South African context that we sometimes get policies that are quite aggressive or policy direction papers which get dosed with reality and the constitution by the time they actually come into law. A classic example is land reform. So your policy of land reform tends to be very aggressive. The actual policies that eventually come out are very different.

### **Shaun Van Biljon**

And then just the change that you saw on the data customers, we did a small change on the definition of how we count the corporate APMs [?]. Just looking at the ones that are active within that it accounts for most of the downward trend that we've got there. So that should normalise again in the next quarter.

### **Richard Majoor**

Okay. Thank you very much gentlemen.

### **Operator**

Thank you. Our next question is from [unclear] of Citi. Please go ahead.

### **Citi**

Good afternoon gentlemen. I've just got one question on Tanzania and two relating to South Africa. I will start with the Tanzanian one. With this fine that was imposed can you share with us how many subscribers were affected and can we expect any net disconnections in the latter parts of the year? And then on South Africa two questions. One is can you share with us the fibre update on how many homes you guys have passed and the connection rate? And also when can we start seeing the contract subscribers from the government contract that you guys won? Thank you.

### **Till Streichert**

Okay. Let me take the first question on Tanzania. On Tanzania the fine there relates to 144 SIM cards that were found or probed at the end of 2016. So these are SIM cards that were picked up in the distribution channels and in essence there we had basically insufficient customer registration respectively pre-activation on that. And in essence I don't expect disconnections in essence as a consequence of that as they were not even on our customer base at that point in time.

### **Citi**

Sorry, on that was that not a sample that would be extrapolated, or is that just the total number the regulator has found?

**Shameel Joosub**

That was the total number that they found. To be honest we've got no visibility on the sample size. It was a test that was done across the industry. Everyone was in essence on the distribution side being looked at. We had 144 SIM cards. The competition had a bit more. And again it did happen at the end of 2016 and we continued to work since then obviously on improving the compliance and process.

**Citi**

Thank you, Till.

**Shameel Joosub**

Okay. On the fibre part roughly 27,000 homes were passed, 4,200 connected and an improvement in the rate of sale as we go on. We are still busy trying to finalise the joint venture arrangement that we've been talking to. We made some good progress but we have yet to sign the final deal and partner. So just to be clear there. In terms of the national tender we got 25,000 connections during the quarter so there has been a slower start to it at about 10,000 upgrades. So I would say your revenue impact and the bigger portion is still to happen during the remaining portion of the year. It is important to note that you are obviously gaining customers, but remember you are also giving discounts on the existing ones. That will give you a net positive with an anticipated 160,000 customers coming across. So we should see that. But it has started off slower than anticipated. So we will see if we can do all of it this year. If not it might slip into the first quarter of next year.

**Citi**

Thank you very much, Shameel.

**Operator**

Thank you very much. The next question is from John Kim of Deutsche Bank. Please go ahead.

**John Kim**

Hi everybody. I would like to go back to something you made mention at the AGM where you talked about extending MPESA to countries and regions where Vodacom and Safari don't have current mobile telephony businesses. Can you give us a sense of what you see as incremental opportunity there as well as some guidance on timing as to how this might deploy over the next three to five years? Thank you.

**Shameel Joosub**

I think this question is probably more for Safaricom at this stage. I think what we've agreed with Safaricom is that essentially MPESA is a service, if we can call it that, beyond the territories where we exist together with mobile operations will be done out of Safaricom. So basically we will start to offer MPESA as a service for countries that want to do it. I think obviously as you know there are a number of entities that would probably want to take it up. But I think it's early days. And to be honest we haven't yet had a board meeting where I can give you an accurate answer on that to see what the expectations are.

**John Kim**

Thank you.

**Operator**

Thank you very much. The next question is from Sibonginkosi Nyanga of Momentum. Please go ahead.

### **Sibonginkosi Nyanga**

Afternoon gentlemen. Most of the questions that I wanted to ask have been asked, but I just wanted to have a view as to where you think the normalised balance between voice and data is. Is it a 60/40 split or are you now targeting something like a 50/50 split?

### **Shameel Joosub**

Look, I think from where we are at the moment basically voice is now 42% and I think it is not inconceivable that in the next two to three years that it will exceed the 50% mark. So data is becoming more and more material in respect of our numbers. I think for the first time in the quarter now it is bigger than voice because when you look at our numbers you must also take into account there is whole, other services, fixed services and these types of things that also influence the total service revenue number if you like. So data is becoming more and more material. I think the big part that we're focussing on is making sure that we can keep... I think one of the stand-out features for me in the quarter and for the last couple of quarters to be honest is that we're keeping that voice decline below 5%. And I think that's important because then you get the full part of the data coming through. So in the quarter 4.2% which is a continuation of what we saw in the previous quarter.

### **Sibonginkosi Nyanga**

Okay thanks.

### **Operator**

Thank you very much. The next question is from Ziyad Joosub of HSBC. Please go ahead.

### **Ziyad Joosub**

Hi everyone. Thanks for the questions. Just two from me please. The first one is on other service revenue. I think the last three quarters we've seen accelerating growth trends particularly in the last quarter for that revenue line item. Could you maybe unpack that and explain why we've seen such a step change in this last quarter particularly? And also for enterprise it is still growing strongly and you've seen also a good step up from quarter four levels in absolute enterprise revenue. Would you be able to give us guidance on how you see enterprise revenue playing out over the next 12 months? Thank you.

### **Shameel Joosub**

Okay. The first thing, if you're looking at other service revenue there's a couple of lines that obviously influence our other service revenue. Enterprise BMS growth, so your fixed line part is definitely part of that. And obviously we have been seeing a nice improvement in cloud hosting services which increased almost 28%. Your BMS, your proper fixed line connectivity, is still growing strongly at about 12%. And then obviously your equipment revenue is continuing to grow strongly at about 17%. So that's the one side. And then we are seeing a better performance coming through in national roaming from Cell C.

### **Ziyad Joosub**

Okay.

### **Shameel Joosub**

Remember one of the positives for us is Cell C haven't really been putting a lot of capex in which means they then use our network more.

### **Ziyad Joosub**

Understood. Understood. So this could be a lumpy revenue line in your view? Is Cell C a huge component at this stage or are others scaling up from a contribution perspective?

**Shameel Joosub**

In other service revenue remember it is not the handset revenue. It is equipment coming from [unclear]. We need to also take into account the seasonality of the store tech revenues. They obviously push for quota in line with the US quotas and all of those types of things. So those do play a role.

**Till Streichert**

So to sum it up a little bit of lumpiness from that, from our BMS revenue line. But equally you've got a number of revenue lines that follow a pretty strong trend, for example our IoT revenue which is sitting in there. And that has grown pretty well this quarter at [unclear] percent. Yes, last quarter it was a little bit softer. It was a comparative issue. But in essence in this category, yes, a bit of lumpiness but also a number of revenue lines that in essence clearly underpin our strategic focus and execution in essence. But again I'm happy to unpack these topics. It is a category where you've got quite a few business lines wrapped up.

**Ziyad Joosub**

And it is contributing to incremental growth increasingly more. That seems to be the case.

**Till Streichert**

Absolutely. Absolutely. These are lines as you can imagine in terms of our strategy, cloud and hosting, IoT, these are very important growth drivers going forward. IPVPN has been around for a while. It is continuing to grow. So these revenue lines are pretty important. But as I said we've got them grouped in this so-called other service revenue line. But again we can unpack and give you more colour on the underlying drivers.

**Ziyad Joosub**

Thanks very much. That's really useful. And just your views and thoughts on enterprise going forward? That could also generally be a lump sort of revenue line. It has been pretty stable with you guys over the last four quarters as you know. Good sequential growth.

**Shameel Joosub**

I think the fixed line part and the fixed line progression, connectivity, cloud hosting, all of these lines should continue to grow strongly. I mean we're quite happy with the progression there. So those trends should continue. I think the voice part will be obviously propped up by the national tender. So by all accounts we should continue to see strong growth albeit maybe slightly tapered off because of stronger competitors.

**Ziyad Joosub**

And specifically where do you see the competition coming from specifically? Is it more [unclear] or is MTN and Liquid having an impact?

**Shameel Joosub**

No, I think... Are you talking about enterprise?

**Ziyad Joosub**

Yes.

**Shameel Joosub**

Look, on enterprise the big thing is obviously the national tender. I think that's the one part. On the mobile side to be honest I think we are holding our own. We have obviously got a strong play. I would say MTN is still in the part of fixing and Cell C is not really a player in that space and Telkom is not a big player in the enterprise mobile space. So there really your enterprise part I would say we will continue to have the normal wins propped up by the win in public sector specifically. And then fixed we continue to take share. Fixed is only limited by our ability to deliver fast enough. Remember we've been building out for the last ten years and every year we are seeing a CAGR growth of late teens, early 20s growth. So I mean we're quite happy with our progression. We're not at the scale of Telkom but we continue to win, and we're quite pleased with that.

**Ziyad Joosub**

Excellent. Thank you very much. Thanks.

**Operator**

Thank you very much. Gentlemen, we have no further questions in the queue. Do you have any closing comments?

**Shameel Joosub**

No, I think just overall very pleased with the results. I would say Safaricom is closing in July. A lot of hard work has gone into that. In the next couple of weeks is the Tanzanian listing that we're putting a lot of focus on to make sure everything is successful, which it will be. So I think that's probably where a lot of the focus is going. And then obviously finalising the fibre co I think is key on the agenda for the upcoming quarter.

**Operator**

Thank you very much sir. Ladies and gentlemen, that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

**END OF TRANSCRIPT**