

# Conference Call Transcript

2 February 2021

## Q3 RESULTS ANALYSTS

### Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd conference call for the three months ended 31 December 2020. Before I hand over to Shameel I would ask that you refer to and familiarise yourself with Vodacom's forward-looking disclaimer. This is set out on page 15 of the trading update and can be located on [www.vodacom.com](http://www.vodacom.com). Alternatively, if you would like a copy of the trading update sent to you, please email investor relations at [vodacomir@vodacom.co.za](mailto:vodacomir@vodacom.co.za). All participants are currently in listen only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing \* and then 0. Please also note that this event is being recorded. I would now like to turn the conference over to Shameel. Please go ahead, sir.

### Shameel Joosub

Thank you Chris. Good afternoon everyone and good morning to those joining the call from the US. I'm joined by Raisibe Morathi, our group CFO, Mariam Cassim, our Group Chief Executive Officer of Financial and Digital Services, and JP Davids from our Investor Relations team. As this is our quarterly trading update we will focus on revenue and key performance indicators only. As with prior quarterly results, Safaricom does not report on its performance so we will only focus on our consolidated operations.

Against an evolving economic and pandemic backdrop our third quarter results confirmed the importance of our core services and our accelerated evolution from a telecommunications to a technology company. We continue to expand our ecosystem of products across connectivity, digital and financial services to deliver a 360 degree customer experience. We believe this ecosystem approach sets us up for long-term value creation. Also we remain committed to assisting governments to curb the spread of the pandemic while at the same time focussing on the economic recovery in each of the markets where we operate.

In the quarter we delivered revenue growth of 6.4% and service revenue growth of 3.9%. Normalised growth, which adjusts for foreign exchange and M&A, was slightly higher at 6.7% for revenue and 4.2% for service revenue. This performance reflects improved growth from our

international operations and sustained strong growth in South Africa. Pleasingly, the South African result was a function of multiple growth drivers including our prepaid segment, Vodacom Business, financial services and IoT. It's also important to note that our international markets including Safaricom are again charging for peer to peer M-PESA transactions.

Looking at South Africa in a bit more detail, service revenue increased 5.4% underpinned by strong mobile customer revenue growth of 5.8%. The standout performance in mobile customer revenue was prepaid. Prepaid ARPU increased 9.3% to R59 supported by increased usage of our connectivity, financial and digital services. The performance was also supported by the accessibility of airtime by our Airtime Advance product. In the quarter we advanced airtime amounting to 40.2% of total prepaid recharges.

Our contract segment posted a resilient performance with revenue growing at 1.6% and customers up 1.9% to 6.2 million. The growth we reported in both mobile customer revenue and service revenue reflects our strategy to introduce one more service to customers. New revenue streams which comprised financial and digital services, fixed and IoT revenues were up 20.3% year on year. These revenue streams contributed 14.4% to service revenue from 12% a year ago.

Financial services delivered another strong quarter. We recorded R619 million in revenue in the period, growing by 24.3%. This business is now delivering an annual revenue run rate of R2.5 billion. From a product perspective we advanced R3.1 billion in Airtime Advance platform to 10.7 million customers. Growth in the insurance space continues with revenue increasing 13.5% and policies up 11.2% to almost 2.1 million. To provide some colour on our financial service business and in particular our partnership with Alipay, Mariam Cassim, our Chief of Financial and Digital Services, will provide an update later on this call.

Switching to Vodacom Business, this segment now accounts for 27.5% of service revenue and grew 6.1%. This performance was supported by fixed line, cloud and hosting and IoT revenue, all producing double digit growth. Also, we finalised an extended an extended roaming agreement with Cell C related to its contract and mobile broadband customers. We expect this deal to be revenue accretive and that we will be carrying around 40% of Cell C's total traffic.

On the connectivity side we increased home and business fibre customers to 110,000, up 113% year on year. The demand for mobile data continued in the quarter. Although the growth is strong, the trend normalised as lockdown restrictions were eased for most of the quarter. Data increased

43.2% while usage per smart device grew 35% year on year to 2.1 GB per user. There are now 15.1 million 4G devices connected onto our network, an increase of 24% year on year.

Our international operations delivered a notable sequential improvement in the quarter. Normalised service revenue declined 0.3% compared with the 5.2% decline in the first half of the financial year. This trend reflects some progress in economic and commercial activity levels and improved M-PESA growth. Data revenue growth was 6.6% supported by network investment and targeted campaigns. Data customer net additions were 302,000 in the quarter to end on 20.7 million. This means that 52.6% of our international customers make use of data services. Data traffic in our internationals was up 52.2% supported by focussed data campaigns and our investment in Internet Works and our strong CVM platform.

M-PESA revenue growth improved meaningfully in the quarter as we sustained strong platform growth and improved monetisation. Mozambique reinstated person to person fees from October with the DRC and Safaricom following in January. Active M-PESA customers increased by 7.7% to 16 million, representing 47% of our international customer base. M-PESA revenue grew 10.1%. On a normalised basis M-PESA revenue was 7.8%, comparing favourably with the decline of 1.4% in the first half of the year as a result of the free person to person money transfers. M-PESA now represents 21.1% of our international service revenue.

Including Safaricom M-PESA now processed \$24.2 billion in value per month, up 57.8% year on year. To give this value some context, Mynt in Philippines processed \$20 billion over 12 months and recently raised funding at a \$1 billion valuation. Overall our international operations contributed 28.2% to group service revenue. Before I conclude with comments and regulation I will hand over to Mariam for an update on financial services and Alipay.

### **Mariam Cassim**

Thanks Shameel. Hello everyone and thank you for the opportunity to discuss some of Vodacom's most exciting growth initiatives. My name is Mariam Cassim and I look after financial and digital services. Before I jump into the Alipay partnership I thought it would be useful to provide some context around our South African financial services business. First and foremost, it's important to note that our financial services business is a fully independent company and a wholly-owned subsidiary of Vodacom South Africa. We have our own board of directors, own dedicated resource and own capex. This is very important for a high growth company such as ours as a separate standalone structure allows us to be incredibly nimble in what we do and has contributed to us

being quick to market with the delivery of new and often disruptive products and services, contributing to R1.2 billion annualised PBT run-rate.

We operate across four product lines which include payments, lending, insurance and trade. The last of these is probably the least familiar to you. Our trading business consists of all of South Africa's major FMCG players with over 4,500 small merchants and processes over R200 billion worth of transaction value per annum. Connectivity with merchants is an important part of our ecosystem approach and our trading platform will form the basis for these interactions.

We are also proud to share that we have officially launched our own physical point of sale android device into the market a few years ago. This represents the execution of the first part of our payment strategy which was created just over two years ago and is a significant milestone for Vodacom as it starts to create a whole new revenue stream outside of just voice and data. We have signed just over 1,200 active merchants in the last few months since launch and currently process approximately R100 million worth of transaction value per month. Our android point of sale device is amongst the first of its kind in the South African market and allows merchants to do so much more than just processing card payments. Merchants can apply for a loan through the device, connect directly with FMCG suppliers, and soon will be able to vend prepaid airtime, electricity and other products through the point of sale device.

Our Airtime Advance product continues to grow as we continually enhance the credit scoring algorithm and ensure that it is available to customers at every single pain point of not having airtime or data. We now advance just over R1 billion of prepaid airtime a month, which equates to 40% of total prepaid airtime to approximately 11 million active customers. Our insurance business has also continued to grow despite the challenging COVID year as we've seen a rise in our funeral insurance and medi-assist products. We still continue to enhance the product set by creating new and innovative products in this space.

Then of course we have the landmark Alipay partnership. Our partnership with Alipay will add new dimensions to our financial services proposition and in particular VodaPay which will become our single lifestyle super app. We are actively working on three streams to get this done, namely the customer journey, merchant sign-up and our financial services infrastructure. To deliver on each of these elements we have hired more than 100 software engineers into Vodacom Financial Services, and critically our Alipay partnership provides us with a wealth of insight and precedent on how to get this development done successfully. We look forward to taking you through more of the details

closer to our launch date. I will be on the call to handle any further questions which you may have in this regard. Thanks. Back to you, Shameel.

### **Shameel Joosub**

Thank you Mariam. To conclude our quarterly update I would like to give a brief update on the spectrum process in South Africa. In December subsequent to ICASA's invitations to apply for spectrum the regulator received a court application filed by Telkom. The Telkom filing comprised three parts with Part B seeking to stop ICASA from assessing or adjudicating applications received for both the high demand spectrum and the WOAN ITAs. Telkom has requested a hearing which is expected for the 9<sup>th</sup> February 2021, so in a couple of weeks' time.

In addition to Telkom's filing, MTN and free to air broadcaster, eTV, have also launched court filings in respect of the auction. We see the assignment of spectrum as instrumental in extending coverage, improving quality of service and lowering the cost of communicating in South Africa. To this end Vodacom submitted an application in respond to the exclusive use ITA. Five other local telcos including Telkom and MTN also submitted applications. We believe that any further delays to the auction process will likely have a negative impact on consumers. As such we remain supportive of the auction proceeding by the 31<sup>st</sup> March 2021.

In addition to participating in ICASA's high demand spectrum auction, our ongoing COVID-19 response ensuring that we continue to invest significantly in our network to accommodate rapid shifts in the customer behaviour is a key strategic priority for the group in the next quarter. To further enhance customer experience we invested R3.4 billion in our network across the group in the quarter, including extension of 4G coverage, speed and capacity. In South Africa alone we invested R2.6 billion to support data demand and shifts in customer patterns. This concludes my comments, and Raisibe, Mariam and I are now ready for any questions.

### **Operator**

Thank you sir. Ladies and gentlemen, if you wish to ask a question, please press \* and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you wish to withdraw your question please press \* and then 2. Our first question is from Preshendran Odayar of Nedbank. Please go ahead.

### **Preshendran Odayar**

Hi everyone. Firstly congratulations on the quarterly trading update. I've got three quick questions if I may. Firstly, I just want to know on South Africa your active data customers went down in the

period. If you can give me some detail or colour on why that happened. It wasn't much, I think 1.8% down. The second question is around Cell C. I remember at your interim results you mentioned to us that the Cell C roaming was mainly for 2G and that was coming to an end. It was I think around R40 million that you were getting from Cell C on that roaming agreement. Can you give us any indication of how this new roaming agreement on its contract and broadband subscribers are going to affect [break in audio] that sits in your other service revenue line? I know you mentioned just earlier that you plan to cover about 40% of Cell C's traffic. So I want to know if you can give us some colour on what that impact will be. And a last one please if I can on Tanzania. Can you give us an update on the unregistered SIMs over there and how many are still impacted? Thanks very much.

### **Shameel Joosub**

Okay. Let me start off with the SA active data customers. So I think what is important this year to understand is – and you know we've had this conversation for a while now – effectively what we've been trying to do is step down the amount of gross adds on prepaid so that we could ensure that we could stop the washing machine effect. Now, obviously when you add customers at the same time you're also adding more data customers. Just to give you a sense of what was happening and what's happening now, last year this quarter – just as a comparison – we added 13.5 million new gross adds on prepaid of which 500,000 was the real number of net adds during the quarter. So what we've done is taken a deliberate move to reduce the amount of gross adds.

This year for the same quarter it's 11.5 million gross customer additions. And that is because we have improved the quality and brought down the gross adds on purpose. But the net adds have gone up to 1.4 million net adds during the quarter. So I think what's important is the factor of these higher gross adds would have given rise to a bigger number of active data customers especially during the December period, and then they always fall off in January, February and March. Now we have a more robust piece. So am I worried about it? No, because I think it's a factor of the 15% reduction in the inflow on prepaid which is resulting in a better net add quality.

On Cell C roaming what's interesting is that the Cell C roaming agreement came to an end in November. So they continued to use post November, but that was more on a month to month basis on the current roaming agreement. From 1<sup>st</sup> February the full new roaming arrangement kicks in. And without giving exact numbers let's just say it's in excess of R1 billion net. So that's the benefit of the new Cell C roaming agreement, so it's quite big for us. So we're quite pleased.

**Preshendran Odayar**

Thanks Shameel. Very clear.

**Raisibe Morathi**

On the Tanzania matter, as we indicated in our half year that 2.9 million customers were initially deactivated and we still expect that a further roughly around 1.6 million customers could be deactivated. So that number is now roughly around 1.1 million. So we were notified that those deactivations would take place in December, but fortunately that did not happen. However, it is still likely that somewhere during the course of Q4 we could see this deactivation of the 1.1 million customers.

**Preshendran Odayar**

And Raisibe, could you give a revenue impact of those 1.1 million that still could be disconnected?

**JP Davids**

It's about TZS 3 billion a month.

**Preshendran Odayar**

Thanks JP. Thanks Raisibe. Thanks very much Shameel. Appreciate it.

**Operator**

Thank you. The next question is from John Kim of UBS. Please go ahead.

**John Kim**

Hi everyone. I'd like to ask a couple of questions about the South African business. Could you give us some colour on price elasticity post the CompCom price cuts? From memory I believe Vodacom proactively cut prices 15% before the 30% mandated. I'm just trying to pin down the timing of that. Thank you.

**Shameel Joosub**

Remember the first price cuts were 1<sup>st</sup> April 2020. And to be honest you saw the results that came through in the first half. So COVID helped to achieve the elasticity very quickly. Although we had something like a 34% price drop on some of the monthly data bundles, basically all of it was offset by volume growth during COVID. So we had no issues and still delivered a strong result. I always said that we should have had a negative first half, but essentially you saw the numbers. More than 5.5% growth for the first half, so very strong results in the first half. So I think it was nicely offset by the COVID results. And then we have a further price drop of 15% on the same monthly bundles that



will take effect from 1<sup>st</sup> April 2021, and there again we are quite comfortable that we will be able to offset it with enough elasticity to more than cover for that price decrease.

**John Kim**

Okay, helpful. Are there any updates or traction on development of the WOAN, if proposals have been submitted or adjudicated?

**Shameel Joosub**

On the WOAN? Okay, so remember this is all now caught up in this court case of Telkom, right. Effectively remember what's supposed to happen is there's supposed to be an auction of the spectrum that is planned to take place on 31<sup>st</sup> March. Then following that there will be a process to allocate spectrum to the WOAN. I think where we are currently is a good position which has come out in the ITA, which is an equal amount of spectrum being envisaged for the larger operators and the WOAN. I think that's a good place to land. Of course we're not happy with all the requirements of the ITA, but I think all in all on balance if the auction goes ahead it will be okay.

There are certain things that are confusing still in the ITA, and that's why you're seeing the MTN challenge coming through. I think ICASA hasn't managed to respond properly to some of the questions or have been vague in their responses. We took the view that it would be sorted out in the auction. Once the auctioneer has been appointed then the rules will be clearer. But I think MTN decided to take a stronger view and actually challenge specifically the opt-in rounds of the auction. The WOAN once it is licensed of course there is a separate licensing process and then it will have its obligations and so on. So we're comfortable that the balance between us and the WOAN will be fine. And if the WOAN wants to really create a use case that will be successful it will provide the operators – remember the WOAN doesn't sell directly to the market – with the rural coverage piece where there will be much bigger uptake of their services than there would be in the cities.

**John Kim**

Okay. Helpful. Thank you.

**Operator**

Thank you. Ladies and gentlemen, again if you wish to ask a question, please press \* and then 1. The next question is from Jonathan Kennedy-Good of JP Morgan. Please go ahead.

**Jonathan Kennedy-Good**



Good afternoon. Perhaps a question for Mariam on Airtime Advance. I wanted to get a sense of where exactly those figures are recorded. Are they recorded in the prepaid customer revenue line, boosting that growth there? And also in terms of 40% of airtime being driven through Airtime Advance, is it still the case that you lose some of the commission through the physical distribution channels, or are you seeing an increased take-up of electronic top-up to pay back the Airtime Advance? And secondly, just a follow-up on prepaid growth. Can you give us some colour as to what revenue growth is looking like now in the fourth quarter? Obviously you had a very strong third quarter. I'm just trying to understand exactly how COVID grants and the increased economic activity, transportation of alcohol may affect this kind of growth rate going forward.

### **Mariam Cassim**

Thanks Jonathan. Just to your first question, yes, it is reflected in the line item prepaid customer revenue. That's where the Airtime Advance revenue is reflected. To your second question in terms of the saving of the distribution cost, there isn't an exact saving as customers would still need to recharge through their normal channels, so there is still a distribution fee payable for that. But what we do have is a platform admin fee that is charged to customers who take an advance which equates to 9% to 10% of the value of the advance. So we're actually a lot more profitable than the distribution fee that's paid.

### **Raisibe Morathi**

Hi Jonathan. Regarding the outlook for fourth quarter obviously we're not at liberty to be able to give you full details on that, but the alcohol ban has been helpful until yesterday – because obviously things have changed a bit and there is still uncertainty around whether the social grant of R350 will be extended or not. At this stage the official position from government was that it would end in January. There are obviously some noises relating to what transpired in the ANC conference. But that has not been validated by government, details of extending the R350 per month. So for that we think the outlook for fourth quarter is looking positive, but obviously it had some boost with the alcohol ban which has now ended.

### **Jonathan Kennedy-Good**

Thank you. If I may just ask Shameel one question on the spectrum licensing process. Is it feasible or is it likely that these various challenges by Telkom, MTN etc. would delay the spectrum auction process? Do you have any views on that, or not in particular?

### **Shameel Joosub**

Look, I think there is always that risk. And I think the reality is – I think the chairman of ICASA put it quite nicely today where he said that Telkom essentially is looking at its own commercial interest and basically trying to scupper the auction process to its own commercial benefit.

I think MTN has been clear that their intention is not to delay it but rather for clarity on this one particular area which is the opt-in rounds. So yes, there is a risk that it gets delayed. It depends. When it goes into a court process it's a little bit more unpredictable. It depends on how the court sees it. Of course from a public interest perspective any further delay is a problem and government of course are not happy with any delays also on the spectrum auction because it's one of their priorities and frankly speaking they need the money as well. So I think it will be very disappointing, but yes, there is a risk that it gets delayed.

### **Jonathan Kennedy-Good**

Great. Thank you.

### **Operator**

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

### **Myuran Rajaratnam**

Hi guys. Thanks for the opportunity to ask questions. My first one is for Mariam actually. Thank you for the additional colour on the Airtime Advance product. It seems like a very useful and profitable arm of the prepaid segment. My question is twofold there. You've got about 10 million customers there. I'm trying to understand the behaviours of this particular group of customers. Which bearer do they use to access Airtime Advance predominantly? Is it SMS, is it USSD or is it actually the data bearer? Sorry, I don't use it myself so I don't know, so I'm asking that. The second bit, is the churn of this 10 million group of people different to the general churn in the prepaid segment? I've got a follow-up as well.

### **Mariam Cassim**

Thanks, Myuran, for your question. The first question in terms of which channel, maybe I can convert you into an Airtime Advance customer. We find the USSD channel being the predominant channel. More than 95% of our Airtime Advances are taken through USSD, which is really a very convenient channel for our customers to transact through. We've just launched it on the My Vodacom app and we've seen a significant growth through the My Vodacom app, but we've still yet to get to the USSD numbers from a channel point of view. We offer advances for R3, R5, R10, R20 depending on the credit scoring of the customer.

But what has worked very well for us is we introduced about a year ago data advances. This makes it a whole lot easier for a customer to take an advance in one easy step. Instead of having to take an airtime advance and then purchase data, we've now launched data advances. And we're starting to launch different bundle advances as well. More and more we're finding it's all about the customer experience and it's all about decreasing the number of clicks to get a customer to take advantage of your product.

From a churn point of view we definitely find through the various analyses that we've done that the cohort of customers that actually use Airtime Advance have lower churn. But also Airtime Advance has been seen to increase the average ARPU of the customer. Our bad debt write-off still sits at less than 0.5% which is completely unbelievable for a product of this nature given that our average advance is around R7. So real nano-lending or nano credit type product. But we definitely find that it helps with churn and it helps with ARPU as well.

And maybe just an interesting point for you to note, at Vodacom on a daily basis we have something called a failed transaction event. This is every time a customer tries to do something, either send an SMS or make a call, and they run out of airtime. There is a ping that goes to the network which is termed a failed transaction event. And what we've done is we've now incorporated Airtime Advance into each one of those instances. Every time a customer tries to do something and they don't have airtime, if they're a provisioned customer on the base for Airtime Advance we push them a reminder that they can take an advance. And again this has seen a significant increase in the use of the product. So I hope that answers the question.

### **Myuran Rajaratnam**

Wonderful. Thank you so much. The second question is on the South African capex. In the first half I think capex grew 5% and service revenue growth was about the same. In this quarter I see service revenue growth is still mid-single digit, but capex grew quarter on quarter or year on year about 12% or 13%. And you did say you had reasons to do that and you explained a few, but is the Cell C transaction part of this growth in capex or is it something worth worrying about if your capex is growing a lot faster than revenue? Just some thoughts on that please, Shameel. And I have another question.

### **Shameel Joosub**

Okay, so just to be clear, the capex spend for the year will be lower than the capex spend for last year in South Africa in total. So don't put too much focus on the quarterly pieces. We have front ended a lot of the capex into Q1, Q2 and Q3. So you will see a further step down in Q4. But essentially in totality the capex spend will be slightly less than it was this past financial year or in the 2020 financial year for South Africa.

**Myuran Rajaratnam**

Perfect. That explains it well. The last one is MTN in terms of Cell C revenue recognition at the moment they are using a cash based recognition of revenue rather than the usual accounting way. Given that the contract and broadband subscribers are going to be starting to roam on you very soon, what is your plan for revenue recognition of Cell C?

**Shameel Joosub**

I think the revenue recognition will be normal. The way the deal is constructed, let's just say, it's in a much better form where we get the money.

**Myuran Rajaratnam**

We're going to leave it there. Okay. Thank you so much guys.

**Operator**

Thank you. The next question is from Slava Degtyarev of Goldman Sachs. Please go ahead.

**Slava Degtyarev**

Hi. Thanks very much for the call. When would you expect your super app to roll out in South Africa, basically to have a material contribution towards the bottom line? And how should we think about the impact on financials? Is it more about the additional revenue streams or lower churn? And basically if you can assess the margin impact for the group over time, that would also be helpful. And secondly, Shameel, if you could comment on the competitive trends in the South African mobile market in the last few months and year to date. Thank you.

**Mariam Cassim**

Hi Slav. Thanks for your questions. I'll take the first two and Shameel the last one. Just on potential timing, we're still very much on track to meet our initial promise which was a pilot closed user group launch in around April/May of the new platform. We'll be launching within very small user testing groups to really just ensure that the product is working. We have a zero tolerance approach in terms of customer experience on this product, so we would rather take a little bit of extra time focussing on testing and ensuring that it's really what we want to take to market.

Hopefully once everything goes according to plan we look to then launch into the market soon thereafter. In terms of revenue streams I must just share that the intention of this product is a pure platform economic model to start with. So initially for the first 12 months our real focus is going to be on driving downloads and active users to the super app. the idea is that you're wanting to create as many users as possible and you want to get the frequency of visits up to the app before you can actually start monetising the customer. The monetisation opportunity obviously comes from the fact that we own the payment platform that is ingrained into the super app.

So every single payment that happens through the super app on any of the mini programmes, as we like to call them, will go through the Vodacom payment gateway. So Vodacom monetises on the payment fee, but we also have different margin arrangements with all the different merchants who will be coming onto the super app in terms of monetisation when a purchase is made on their platform through VodaPay. And then lastly we will be launching a store value capability as well. And here the monetisation opportunities will be very similar to how we monetise in our M-PESA business.

### **Shameel Joosub**

On the competitive landscape I think what we've seen is on the one side more reasonability in terms of let's say the normal competitiveness being there between us, Telkom and MTN. We've seen Telkom bypass Cell C and move into third spot as the third biggest operator in the country, so I'd say Telkom is definitely over-performing. I think Cell C under the circumstances keeping its head above water I think is probably fair. And then of course us and MTN the normal fighting as such, but a lot more reasonability from Telkom in this last quarter but also during the year. Of course here and there, there will always be one or two offers which I call drawcards if you like. I think those will continue, but I think the price gap between us and Telkom and us and Cell C has narrowed, and of course the gap between us and MTN is very small now.

### **Slava Degtyarev**

Okay. Thanks very much.

### **Operator**

Thank you. The next question is from Patsy David of All Weather Capital. Please go ahead.

### **Patsy David**

Good afternoon Shameel and team. On the Telkom and ICASA problem, Telkom's reason, one of the reasons for the legal action is that ICASA can't auction spectrum that it does not currently have. What's Vodacom's thinking around that? Do you get a promise that you're going to get the spectrum when it's released and do you pay for it upfront? What's your thinking around that?

**Shameel Joosub**

Look, to be honest with you, we have seen in other markets, when I was in Spain as an example, spectrum was auctioned in advance and a definitive date was set for when the spectrum would be available. I think as long as there's a timescale and a timeline of when it will happen by, I think that's the important part for us. That gives us the ability to build out, grow, get the thing done and so on. Like I say, ideally you want to pay for it when you get it. But in the interests of moving forward it has been 16 years since we last had spectrum, so I think these are nuances that you can live with is the way I would put it.

**Patsy David**

And just a second question, a follow-up on the MTN legal action. I get what you said that you have taken a different view, but if I heard right you said you believe once ICASA gets the auction platform things will work out. How close are you to that, and isn't it a bit late for them not to have that platform yet, because this must be done by the end of March, right?

**Shameel Joosub**

So look, I think MTN's review on the other end has merit because ICASA hasn't provided certain clarities on that of course have been requested on some of the opt-in rounds. Our hope was that it can be sorted out during the issuing of the auction rules and the appointment of the auctioneer and so on. And that is still our hope. Of course if it doesn't happen that always gives us the opportunity to challenge it. So we'd be paying a very careful watch on the MTN process because we share the one concern specifically that MTN has raised. And we're still hopeful that ICASA will sort that out in the auction rules. But we keep our powder dry to see when and if ICASA does issue those rules and clarifications.

**Patsy David**

Thank you.

**Operator**

Thank you. The next question is from Ziyad Joosub of Nedbank. Please go ahead.

**Ziyad Joosub**

Hi everyone. Thank you for the questions. Just one from my side please. On the IoT business it seems like it's becoming pretty big. It looks like it's added around 0.65% to service revenue growth. I noticed that your revenue per IoT connection increased year on year by 17%. I was just wondering, is that all driven by volume per connection, and is that the sort of volume growth you are seeing per IoT connection annually? And then just to double check, IoT revenue is captured in other service revenue, right? Thanks very much.

**Shameel Joosub**

It is captured in other service revenue. And I think on the IoT growth what's happening is that we're seeing a big growth in our take-up of IoT services both locally and internationally. Remember IoT.nxt is a South African subsidiary but we're now selling our services as far afield as California. We've had some really nice uptake of the platform by Vodafone UK, Vodafone Netherlands, Vodafone Germany. So it is being embedded more and more into the Vodafone group. Of course not all that revenue is flowing yet, but I think let's say it's a very credible story. Locally what's happening is that basically what we are seeing is the growth in the number of SIMs.

I think our IoT play in general is quite strong because we've got the GDSP platform which allows us to put SIM cards into anything basically across networks. So locally and internationally you'll always have connectivity is what the GDSP platform basically drives. So that is growing quite nicely. But also us putting sensors onto different things through IoT.nxt is also growing quite nicely, so I think the partnership of IoT.nxt through Vodacom has given it a lot of credence and credibility. So I expect that business to keep growing and the IoT business to become a more meaningful number as we go forward.

**Ziyad Joosub**

Thanks very much, Shameel.

**JP Davids**

Yes, IoT is in other service revenues.

**Ziyad Joosub**

Thanks JP. Thanks a lot.

**Operator**

Thank you. The next question is from Vikhyat Sharma of RMB Morgan Stanley. Please go ahead.



**Vikhyat Sharma**

Hi guys. I just wanted to ask more in terms of acquisitions. There has been news around that Vodafone is looking to sell its Ghanaian operation which you manage. I don't know if you've got any thoughts on it. Would you be interested in something like that, or the focus is still on acquiring something in the fibre space? Thank you.

**Shameel Joosub**

Just to be clear on Ghana, we have indicated previously that we are not looking at Ghana and it's not part of our plans to acquire Ghana. We will continue to manage it on Vodafone's behalf. The fibre plans remain a priority for us and of course Ethiopia through Safaricom.

**Vikhyat Sharma**

Thanks.

**Operator**

Thank you. Sir, we have no further questions.

**Shameel Joosub**

Maybe just one or two comments on Ethiopia. We basically put together a very strong consortium which we are quite pleased about. So effectively we have the Voda Consortium, as we call it, will have 57%. So the economic interests will be 51% Safaricom, 5.7% Vodacom, with of course first right of refusals on the other shares from the other investors. We feel that this is a very strong consortium and therefore we would be putting our best foot forward on it. We've also managed to get some very good terms on non-recourse debt funding.

**Operator**

Thank you sir. We have no further questions in the queue.

**Shameel Joosub**

Okay. Thank you for joining us on the call. In closing, we are encouraged by the positive results out of South Africa and the improved trends in the international operations during this period. This remains consistent with our outlook provided at our interim results and we are keeping an eye on which of these trends and behaviours remain permanent. Thank you to everyone for joining us.

**Operator**

Thank you sir. Ladies and gentlemen, that then concludes this conference and you may now disconnect your lines.

END OF TRANSCRIPT