

# CEO's statement

Shameel Aziz Joosub

**This has been a pleasing year for the Group, in which we achieved a good set of financial results and solid growth rates despite a tough year of increased competition and challenging economic conditions. Our financial results reflect strong execution of our digital strategy and effective delivery of our core purpose, connecting people for a better future.**



A particular highlight this year was the successful conclusion of our BEE ownership deal, the country's largest-ever BEE transaction in the telecommunications sector, valued at R16.4 billion. The mutually beneficial deal resulted in Vodacom having an effective black ownership of 29.6% and securing a Level 1 BEE status, an achievement that I am particularly proud of, and a key consideration for spectrum allocation, government contracts and corporate business.

On 1 March 2019, the regulator's End User and Subscriber Service Charter (EUSC) became effective in South Africa, introducing new measures relating to out-of-bundle notification and pricing. We went a step further in implementing these regulations by reducing out-of-bundle rates by an added 50%. These regulations, together with the out-of-bundle cut, have the effect of giving R2.0 billion back to customers over the next year.

The financial impacts of delivering on our promise of further reducing the cost to communicate in South Africa, combined with the costs associated with concluding our new BEE deal, mask an otherwise solid operational performance for the Group, where revenue grew by 4.3%, led by strong performance in our International portfolio, offset by a slowdown in South Africa.

## South Africa

South Africa delivered a satisfactory performance in the context of low economic growth placing pressure on consumer spend, ongoing and deliberate transformation in data pricing and strengthened competition in both consumer and prepaid segments. Despite these factors, and our concerted effort to assist cash-strapped consumers through lower prices, service revenue in South Africa rose by 2.1%. Growth in the second half of the year was negatively impacted by the transition between national roaming partners and the change in call termination rates.

Data revenue grew 3.9% to R24.3 billion, contributing 43.5% to service revenue. The growth was impacted by our deliberate pricing transformation programme, in addition to implementing the Independent Communications Authority of South Africa (ICASA) regulations, we cut out-of-bundle rates by a further 50%, effectively reducing the effective rates by 37.3% in the March month comparison. We have migrated 75% of our consumer customers to smart integrated plus plans offering more than double the value, mostly in data. On the mobile broadband offerings, we have reduced tariffs on the big data offerings by 40% to compete effectively in the market, which delivered a requisite 40% elasticity to offset these cuts. Data bundle purchases have increased 13.1% to 866 million, as more affordable data bundles with shorter

validity periods are available for customers. Overall, data usage drivers were encouraging: data traffic was up 35.6%; active smart devices on the network were up 7.6% to 19.9 million, of which 10 million are 4G devices; and average usage on these smart devices has improved 23.2% to 966MB.

Our platform strategy, designed to stimulate reasons to consume data, is gaining momentum. Take up of the Video Play service is encouraging, with 869 000 active users on the platform. Our recently launched music platform, My Muze, is also showing encouraging initial take up, while our gaming platform, Play Inc., was commercially launched in May 2019.

Our Enterprise business has delivered good growth, with service revenue up 4.8% to R14.7 billion. Our fixed-line service revenue increased 24.7%, underpinned by solid growth in connectivity, cloud and hosting and IPVPN revenues.

Our strategic focus on financial services delivered standout performance, growing revenue by 67.1% to R1.6 billion, with a profit before tax of R1 billion. The Airtime Advance service revealed a remarkable R8.1 billion value of advances this financial year. Having recently launched a new payment gateway that is in the process of being commercialised, we are confident that this will contribute to sustaining further growth from our Financial services businesses.

Our capital expenditure of R9.6 billion was utilised to drive our strategy of being the leading digital telco. We spent R2 billion on IT during the year, as part of our focus on becoming smarter and more agile in delivering products to our customers. We delivered substantial cost savings through the introduction of digital technologies for smart planning, smart deployment and smart operations.

## International

It was an outstanding year for our International portfolio, where stable economic and political environments in all these markets supported a return to double-digit growth of 15.6% in service revenue, with strong margin expansion of 3.1ppts. We also saw good customer growth, adding 2.2 million customers in the year, up 6.8%.

Data revenue grew strongly at 25.8%, supported by the rollout of 4G services which are now available in all our operations. We have started rolling out content services in all our operations and continue to provide personalised pricing through our 'Just 4 You' platform.

M-Pesa continues to deliver on its promise of providing financial inclusion and making a significant contribution to economic development. M-Pesa revenue grew by 32.2%, contributing 15.8% to service revenue. We have further expanded the ecosystems to include more services such as micro loans and merchant payment systems, as well as securing additional interconnection with banks and other operators.

This year we were awarded a 4G licence in the DRC, while in Mozambique we unified and renewed our licences for 20 years and acquired additional spectrum. In Tanzania we acquired additional 4G spectrum, which will assist us in delivering on our strategic data ambitions.

## Safaricom

Safaricom delivered strong growth with net profit increasing 14.7% for the year, supported by strong growth in data and M-Pesa revenues, and a 7.7% increase in customers to 31.9 million. Vodacom's portion of the profit contribution was R2.8 billion for the year. Safaricom proposed both a normal dividend of KES50.08 billion and a special dividend of KES24.84 billion, Vodacom's share of which will be R2.3 billion and R1.1 billion net of withholding tax.

## Outlook

Looking ahead, we will continue to drive our ambitions aggressively in our digital transformation journey by branching out into new verticals, through partnerships, acquisitions or building our own capabilities. Our strategy positions Vodacom to be a significant contributor to the fourth Industrial Revolution, as we transition from a traditional telco to a fully-fledged digital services company. We are already leading in the implementation of Big Data, Artificial Intelligence and Robotic Process Automation, which is enabling us to optimise revenue, operate more efficiently and maximise our investment returns, laying a strong foundation for significant further growth.

We are placing a particular focus on developing and expanding our financial services proposition in South Africa, as well as our M-Pesa mobile money and related offerings in our International operations and Safaricom, entrenching our leadership in mobile money and making a substantive contribution to economic development and upliftment across the region. We will also be driving uptake of our digital services platform, including Vodacom live, video, music and gaming.

As we grow our Enterprise business, we will be forming strategic partnerships to deliver integrated solutions, strengthening our offerings in IoT and Enterprise services, expanding our customer value propositions, and driving data growth and new revenue streams. To accelerate the IoT opportunity we are in the process of acquiring IoT.nxt, a large systems and edge computing integrator. We have also entered into a strategic collaboration agreement with Amazon Web Services (AWS). AWS will be our primary cloud provider while we build an AWS centre of excellence, which will ultimately help us to sell Cloud-based technology, as we move to providing solutions-based services.

In South Africa, we will continue to transform data pricing for the benefit of our customers, which will create short-term pressure on data revenue growth. The underlying demand, however, remains strong and we anticipate a recovery in growth to start materialising in the second half of the new financial year.

On the regulatory front, I am encouraged by the Minister's recent withdrawal of the Electronic Communications Act Amendment Bill and look forward to continued engagement on the licensing of high-demand spectrum.

A key focus in the year ahead will be to strengthen our commitment to be purpose-led. We will continue focusing on our purpose of connecting for a better future by delivering in our three key focus areas: inclusion for all, digital society and planet. We will be maintaining a strong drive on promoting digital inclusion, through our work in further expanding rural coverage and the availability of affordable smart devices, our initiatives to democratise education and empower women and youth, and our innovative digital offerings on health, agriculture, government and financial inclusion. Accompanied by our investment in climate-smart networks and solutions, waste reduction and water-wise practices, collectively these initiatives will make a valuable contribution to national and global development objectives, including the UN Sustainable Development Goals.

In closing, I would like to thank the Board and Exco members for their support over the past financial year, and Vodacom's employees across the Group for their contribution to our strong performance. I look forward to another successful year, working together to deliver on our core purpose: connecting for a better future.



**Shameel Aziz Joosub**  
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