

How we sustain value

Investing in the resources and relationships impacting value

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People, culture and governance (Human and intellectual capital)

Key inputs

7 746 (2018: 7 554) employees.
 Experienced and diverse executive team and strong Board.
 An agile, performance-based, purpose-led company culture.
 Robust governance systems.
 Service providers delivering on agreed terms.

Activities to sustain value

- ❖ Competitive remuneration and personal development opportunities.
- ❖ R544 million (2018: R287 million) invested in employee training and leadership development, including upskilling employees for digital transformation.
- ❖ Implemented agile business processes across business units.
- ❖ Strong focus on diversity.
- ❖ Maintained drive on building our reputation as a quality employer.

Outcomes (2019)

Maintained employee motivation, skills and diversity through:

- ✓ R6.1 billion (2018: R5.6 billion) invested in wages and benefits¹.
- ✓ 76% black and 43.4% female representation in the South African workforce.

Evidence of staff satisfaction:

- ✓ Top Employer in all markets and leader in the ICT/Telecoms sector.
- ✓ 8% voluntary staff turnover (2018: 9%).
- ⇒ 78% staff Engagement index.

Impacts on safety:

- ✗ One contractor fatality (2018: 3).
- ✗ Underperformed on eNPS.
- ⇒ Lost-time injury frequency rate 0.07.

Trade-offs: Investing in attracting, retaining and developing the best talent is one of the most significant costs to our business, impacting short-term financial capital, but generating longer-term returns in all capital stocks. Our commitment to driving a digital company, and effectively harnessing the role of AI and Big Data, may result in pressure on some existing traditional job functions, with new opportunities in new roles.

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Quality relationships with key stakeholders (Social and relationship capital)

Key inputs

77.8 million (2018: 74.0 million) customers.
 Constructive engagement with regulators.
 Investor confidence.
 Positive supplier relationship.
 Trusted brand and reputation.

Activities to sustain value

- ❖ Continued investment in ensuring network and IT quality, strong positive customer experience, and segmented products and services.
- ❖ Engaged actively with regulators, pursuing full compliance and driving a societal contribution.
- ❖ Regular investor communication.
- ❖ Delivering societal value through connectivity and digital services in areas such as inclusive financial services, education, health and agriculture.
- ❖ Strong governance processes.
- ❖ New BEE deal.
- ❖ Partnering with governments through our foundation to help with societal issues, especially education.

Outcomes (2019)

Strong customer relations:

- ✓ Leader in customer net promoter score (NPS) in four out of five markets.
- ✓ Increase in customers across markets.
- ⇒ Some customer issues remain (page 18).

Generally positive government relations, aided for example by:

- ✓ R20.1 billion total cash contribution to public finances.
- ✓ R16.4 billion BEE deal.
- ✓ R8.1 billion airtime advanced to customers.
- ✓ Enabled financial inclusion through 13.5 million M-Pesa customers.
- ⇒ Disappointing third quarter.

Trade-offs: Maintaining quality relationships across all stakeholders may require trade-offs in certain relationships as we balance sometimes competing stakeholder interests. Investing in social capital often requires short- and medium-term financial capital inputs, but generally generates positive return across most capitals over the longer-term.

1. Excludes staff expenses of R1 billion (2018: R821 million) capitalised against property, plant and equipment. Includes dividends of R52 million (2018: R44 million) relating to forfeitable share plan offset against the forfeitable share plan reserve.

Network and IT infrastructure (Manufactured capital)

Key inputs

21 432 (2018: 20 139) base stations (+6.4%).

South Africa 94.0% (2018: 91.9%), International 91.5% (2018: 87.5%) self-provided fibre and microwave connections.

R13.0 billion (R11.6 billion) invested in strengthening network.

Activities to sustain value

- ❖ Maintaining our network and IT leadership through targeted investment.
- ❖ Enabling 2G, 3G and 4G on the same network equipment through radio access network modernisation programmes.
- ❖ Further developing systems and process to enable Big Data analytics.

Outcomes (2019)

Positive results in most areas

- ✓ 1 272 new 2G sites.
- ✓ 1 505 new 3G sites.
- ✓ 3 489 new 4G sites.
- ✓ 81 239* (2018: 54 247*) fibre end points passed.
- ✓ Smarter deployment through use of Big Data.
- ✓ Acquired spectrum in Mozambique and Tanzania.
- ✓ #1 in SA – Gartner IT4C benchmark.
- ➡ Rated first for network quality in three of five markets in network NPS.
- ✗ No spectrum allocation in South Africa.

Trade-offs: Investing in building and maintaining our infrastructure requires significant financial capital, and appropriate levels of human and intellectual capital, as well as certain natural capital inputs and outcomes. An extensive network is a key basis for bridging the digital divide and sharing the substantial social benefits of digital connectivity. As a purpose-led organisation we have committed to reducing the environmental impacts associated with our network infrastructure and services.

Financial capital

Key inputs

R205 billion (2018: R263 billion) market capitalisation (▼ 22.1%).

0.7 times (2018: 0.6 times) net debt to EBITDA ratio to execute growth.

R14.9 billion (2018: R14.2 billion) free cash flow (▲ 4.7%).

R630 million (2018: R703 million) interest earned (▼ 10.4%)

Activities to sustain value

- ❖ Diversifying revenue growth areas.
- ❖ Employing smart capex deployments.
- ❖ Driving 'Fit for growth' cost programme.
- ❖ Maintaining strong corporate governance structures and finance team.
- ❖ Realising benefits of purchasing power on network equipment, devices and operating expenditure through the Vodafone Procurement Company.
- ❖ Leading in application of Big Data and AI to increase revenue and optimise costs.

Outcomes (2019)

- ✓ Revenue up 4.3% to R90.1 billion.
- ✓ EBITDA up 2.4% to R33.7 billion.
- ✓ Cash generated from operations: R34.6 billion (2018: R32.3 billion).
- ✓ R3.0 billion (2018: R2.8 billion) paid to debt funders in interest.
- ✓ Total dividend declared R14.6 billion (2018: R14.0 billion) up 4%.
- ✗ Total dividend per share declared: 795 cents (2018: 815 cents).
- ✗ Headline earnings per share: 862 cents (2018: 923 cents).

Trade-offs: There is an important trade-off between the short-term interests of certain investors and other interest groups that seek to maximise short-term gains in financial capital, with our longer-term growth objectives that require investment of financial capital. Finding the right balance in these trade-offs between the short term and long term – and in different associated stakeholder interests – is a key focus in our strategic decision-making.



Natural resources (Natural capital)

Key inputs

Radio spectrum (700, 800, 900, 1 800, 2 100, 2 300, 2 600 MHz bands).

525 GWh (2018: 501 GWh) electricity (▲ 4.8%).

164 410 kl (2018: 201 516 kl) of water* (▼ 19.2%).

4 134 555 litres (2018: 3 910 892) of fuel* (▲ 5.7%).

Activities to sustain value

- ❖ Strong focus on energy efficiency of our network.
- ❖ Identify opportunities to use IoT to promote resource efficiency through smart metering.
- ❖ Recycling handsets and network equipment.
- ❖ Increasing solar-operated sites.

Outcomes (2019)

- ✓ 353 tonnes (2018: 349 tonnes) of e-waste recycled.
- ✓ 955 (2018: 871) solar-operated sites.
- ✗ 640 926 tonnes (2018: 628 457 tonnes) of CO₂ emissions (Scope 1,2,3) 2.0% increase.

Trade-offs: Using and impacting natural resources – which also sometimes negatively affect human and social capital – is a key trade-off for generating value across the other capitals. As part of being a purpose-led company we are committed to minimising the environmental impacts of our operations and activities, and to realising the significant potential for digital products and services to deliver positive environmental outcomes.

* South Africa only.