

Our operating environment

Responding to a dynamic operating context

As an ICT company with operations and activities across emerging markets in Africa, we face a particularly dynamic operating context that presents some challenging risks as well as valuable opportunities. We have identified four broad trends over the year that have a material impact on our business model. Our Vision 2020 strategy has been developed to ensure that we are best positioned to seize the opportunities and mitigate the risks associated with each of these trends.

Challenging macroeconomic context placing pressure on consumers

South Africa

- ❖ Lacklustre GDP growth and continuing rand/dollar volatility, with an uncertain investment outlook.
- ❖ Load-shedding compounds concerns on the anticipated cost of bailing out state-owned enterprises.
- ❖ Subdued business confidence, with uncertainty on elections and key government policy issues.
- ❖ Consumer spending constrained by low wage growth, unemployment, fuel price increases and high debt.

International operations

- ❖ Generally subdued economic growth with most markets experiencing currency depreciation and inflation.
- ❖ Mobile network operators (MNOs) continue to face increasing tax and regulatory pressure.
- ❖ Political volatility remains a concern across much of the region.

Digital innovation disrupting business models

- ❖ The transition to the 'Fourth Industrial Revolution' – characterised by recent rapid developments in AI, Big Data analytics and blockchain technology, as well as the growth in the Internet of Things, connected homes and autonomous vehicles – is challenging many traditional business models, presenting significant risks and exciting opportunities, in particular for ICT companies.
- ❖ Digital connectivity and social media is changing consumer behaviour, and informing and enabling more activist, digitally savvy consumers.
- ❖ This is being accompanied by the increasing uptake of smart devices, improved networks (including 5G) and new digital content and services.

Our strategic response

- ❖ Driving digital inclusion through enhanced rural coverage, low-cost smartphones and affordable platforms (such as Siyakha).
- ❖ Providing segmented products and services, with appropriate pricing strategies.
- ❖ Developing inclusive digital services such as M-Pesa mobile money.
- ❖ Maintaining a strong drive on cost efficiency and 'smart capex'.
- ❖ Targeted offers to give more value to customers, especially in low-income areas.

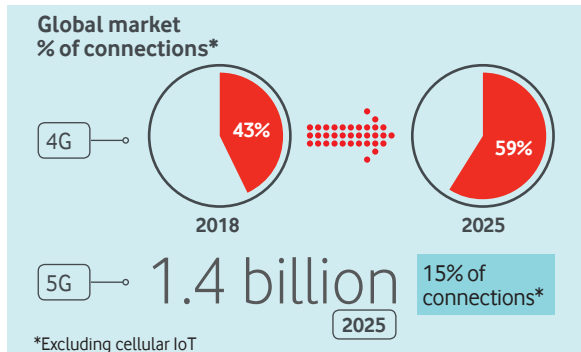
We are redefining the business as a leading digital company by:

- ❖ Developing innovative digital services and enhanced customer platforms to increase engagement.
- ❖ Rethinking our future networks and technology.
- ❖ Fostering an agile digitally-driven company culture that attracts the best talent.
- ❖ Exploring opportunities to drive positive societal change in financial services, enterprise, education, healthcare and agriculture.

Risk

- ❖ Unstable economic and market conditions.
- ❖ Adverse regulatory and political pressures.

Strategy

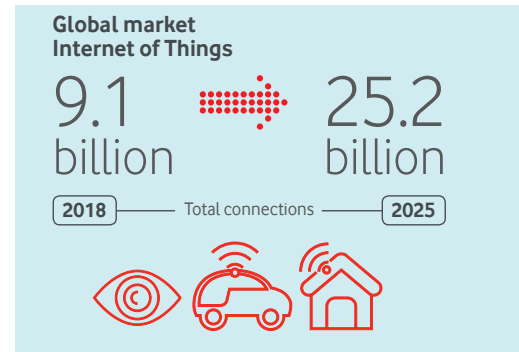


Source: GSMA Intelligence, The mobile economy 2018








Risk

- ❖ Market disruption.
- ❖ Strategy execution in fibre and convergence.

Strategy



Source: GSMA Intelligence, The mobile economy 2018

 Best customer experience
  Segmented propositions
  Financial services
  Digital content platforms
  Best technology
  Digital organisation and culture
  Our brand and reputation


An increasingly dynamic competitive landscape

- ❖ Competing MNOs in our markets are increasingly seeking differentiation through significant investment in networks, sometimes aggressive price plays, the provision of targeted customer propositions, and/or new digital offerings.
- ❖ There is heightened competition in our largest market, South Africa, with MTN closing the network gap, Telkom gaining momentum in mobile through aggressive data propositions, and Rain entering the consumer market; we anticipate consolidation in the over-traded fibre sector, and new global Cloud entrants in the Enterprise space.
- ❖ Over-the-top (OTT) services (such as WhatsApp) are prevalent in all our markets; while they have the effect of driving up data revenue, they also negatively impact messaging and voice revenue.
- ❖ As we move to become a digital company, we face increased competition, for customers and talent, from various non-traditional sources relating to the provision of technology, networks and infrastructure, as well as the development and distribution of new digital products and services.

Regulatory challenges

We continue to face regulatory challenges across our markets, with important implications for revenue growth, product pricing and cost efficiency. Key regulatory issues by market include:

- ❖ **South Africa:** The timing and nature of the licensing of spectrum; and the outcome and impact of ICASA's Priority Market Review into mobile broadband services and the Competition Commission's inquiry into the data service market. We anticipate continued pressure to further lower data prices.
- ❖ **Tanzania:** Implications of the drive for biometric-based SIM registration integrated with the National Identification Agency system; draft regulations on cost-based pricing on tariffs and promotions; ensuring compliance with quality of service regulations; and the outcome of the review of mobile termination rates.
- ❖ **DRC:** Uncertainty on the timing and final nature of the Communications Bill introducing changes to licence regimes; 2G licence dispute; implications of national security and customer SIM registration regulations; potential new taxes.
- ❖ **Mozambique:** The introduction by the Central Bank of mobile money interoperability; and the implications of national security and biometric customer SIM registration regulations.
- ❖ **Lesotho:** Ensuring compliance with quality of service regulations; anticipated introduction of customer SIM registration regulations; and proposed promulgation of cyber security regulations.

 Further details are provided in our Regulatory report at www.vodacom.com.

Our strategic response

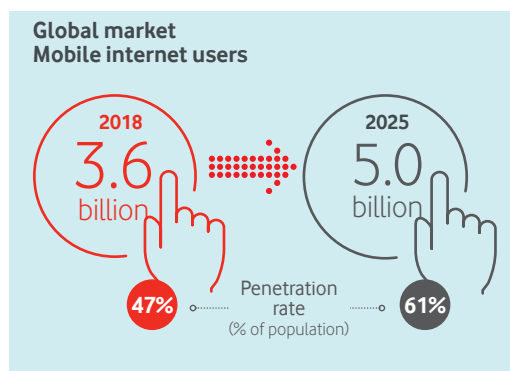
- ❖ Harnessing digital to drive clear competitive differentiation in product offerings.
- ❖ Proactively delivering the best customer experience.
- ❖ Instilling an agile culture across the organisation.
- ❖ Identifying innovative opportunities for collaboration rather than competition.
- ❖ Embracing OTT players for mutual benefit.
- ❖ Partnering to ensure relevance and competitive advantage.

- ❖ Striving to maintain proactive relations with government, informed by a shared understanding of the need for inclusive economic development.
- ❖ Developing segmented proposition with appropriate pricing.
- ❖ Democratising data access and providing inclusive digital services.
- ❖ Creating forums to further enhance governments' and regulators' understanding of the mobile communications and financial services businesses and how they contribute to government and society.
- ❖ Participation in government engagement processes when invited.

Risk

- ❖ Market disruption.
- ❖ Strategy execution in fibre and convergence.

Strategy

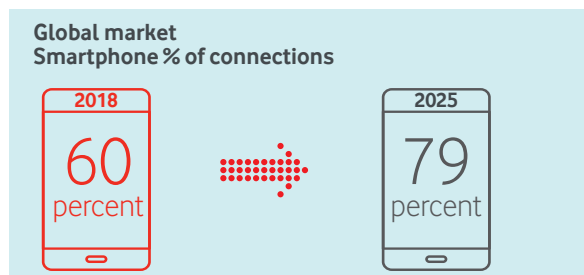


Source: GSMA Intelligence, The mobile economy 2018

Risk

- ❖ Unstable economic and market conditions.
- ❖ South Africa priority markets review, decisions on spectrum assignment.
- ❖ Spectrum.
- ❖ Vendor strategy.
- ❖ Adverse regulatory and political pressures.
- ❖ Non-compliance with laws and regulation.

Strategy



Source: GSMA Intelligence, The mobile economy 2018