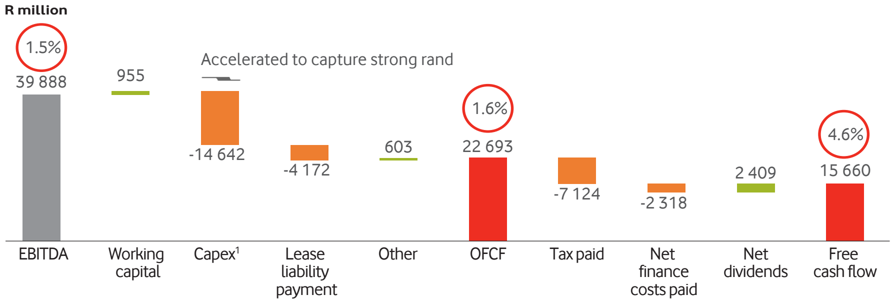
Cash flow | Group free cash flow



1 Capex comprises the purchase of property, plant and equipment (PPE) and intangible assets, other than licence and spectrum payments. Purchases of customer bases are excluded from capex.

Free cash flow

Rm	FY2022	FY2021	Reported % change
Operating free cash flow (OFCF)	**22 693**	22 338	1.6
Capex	**(14 642)**	(13 307)	10.0
Free cash flow	**15 660**	14 974	4.6
Net debt	**(35 180)**	(34 249)	2.7
Net debt to EBITDA (times)	**0.9**	0.9	–

OFCF increased by 1.6% this year. We made a strategic decision to accelerate investment into network performance to take advantage of the strong rand's purchasing power and mitigate potential supply-chain challenges that could arise from the Ukraine-Russia war. As a result, capex increased by 10.0% to R14.6 billion. Lease liability payments, also captured in OFCF, amounted to R4.2 billion. We paid cash taxes and finance costs from OFCF, but these were partly offset by the dividends received from Safaricom. On this basis, we generated free cash flow of R15.7 billion, up 4.6% and broadly consistent with our net profit growth.

Our net debt to EBITDA ratio remained stable at 0.9 times, while net debt increased marginally to R35.2 billion due to paying our proportionate share of the Ethiopian mobile licence, which amounted to US$52.7 million (R779 million). Total borrowings increased by R2.0 billion to R51.4 billion, while net finance charges decreased by 3.4% to R3.7 billion as we recorded a net gain on remeasurement and disposal of financial instruments, compared to the prior year. The average cost of debt (including leases) decreased marginally from 7.8% in FY2021 to 7.7% in FY2022. Excluding leases, the average cost of debt also reduced from 6.4% to 6.3%.

Return on capital

Our connectivity reach and digital ecosystem positioned us to drive digital and financial inclusion. Considering that we need to deliver on our purpose while also optimising shareholder returns, we are leveraging partnerships and sharing models to support the buildout of best-in-class networks and platforms. This supported broadly stable capital employed in the period while earnings grew, and resulted in ROCE improving to 23.4% from 22.0% in the prior year.

Shareholder returns

We declared a final FY2022 dividend of 430cps, a 4.9% increase from FY2021. This supported a total dividend of 850cps, up 3.0%. We are pleased with this outcome, particularly given ongoing macroeconomic pressures and incremental pressures on returns in the year.

Dividend policy

Since FY2013, the Board has maintained a dividend policy of paying at least 90% of adjusted headline earnings, excluding the contribution of the attributable net profit from Safaricom and any associated intangible amortisation. In addition, the Group distributed any dividend received from Safaricom, up to a maximum amount of the dividend received net of withholding tax.

Looking ahead, the proposed acquisition of Vodafone Egypt and a stake of up to 40% in CIVH's fibre assets will provide a compelling opportunity to accelerate our system of advantage and the Group's growth profile. These deals are expected to utilise debt capacity, and while we also intend to retain headroom to invest in growth areas, the Board considered it appropriate to review Vodacom's current dividend policy.

Accordingly, upon completion of the Vodafone Egypt acquisition, the Group intends to amend and simplify its dividend policy and institute a policy of paying dividends of at least 75% of Vodacom Group headline earnings. The simplified policy and proposed acquisitions combine to provide a high pay-out on enhanced growth prospects. Notwithstanding the change in dividend policy, Vodacom Group will still have one of the highest dividend pay-out policies on the JSE. Additionally, the policy provides scope for the Group to invest within its 13.0% – 14.5% capital intensity target, de-lever the balance sheet and accommodate the upstreaming and dividend pay-out profiles of Safaricom and Vodafone Egypt.

Outlook and medium-term targets

Our evolution from a telecommunications to a technology company is well on track as we expand our ecosystem of products. As we set out in this report, our system of advantage aims to deliver diversified, differentiated offerings to our customers, further strengthening and growing our relationships with them.

Complementing our organic strategy, the pending acquisitions of a controlling shareholding in Egypt's telecoms market leader, Vodafone Egypt, and a co-controlling stake in leading fibre assets in South Africa, including Vumatel and DFA, will further enhance Vodacom's growth and return potential. Further, Vodafone Egypt is expected to meaningfully diversify the Group's geographic profile. As a result, we updated our profitability target metric from Group operating profit growth to Group EBITDA growth to reflect a higher anticipated contribution from controlled operations to Group profitability. Safaricom, which is accounted for within Group operating profit, separately provided market guidance that anticipates an increase of investment into Ethiopia ahead of the commercial launch in CY2022.

While we await the closing of the Vodafone Egypt transaction, our management team remains focused on delivering the following medium-term targets:

1. **Mid-single-digit Group service revenue growth**
2. **Mid-to-high single-digit Group EBITDA growth**
3. **13.0% – 14.5% of Group capex as a percentage of Group revenue**

These targets are on average, over the next three years and on a normalised basis in constant currency, based on prevailing economic conditions, excluding spectrum purchases, exceptional items and any M&A activity such as Vodafone Egypt and CIVH. The Ukraine-Russia war presents a potentially material risk to the prevailing economic conditions. However, we expect that the Vodafone Egypt and CIVH fibre asset transactions will enhance our system of advantage and provide scope to accelerate the Group's growth profile. We intend to provide an update on our medium-term targets after the Vodafone Egypt deal is completed.

Appreciation

We continue to evolve and adapt to the ever-changing global business climate and technological landscape. I am grateful for the quality of skills we have across our markets that support the Group in protecting value and creating efficiencies on our journey to becoming a TechCo. My colleagues continue to maintain excellent standards of management, and we all remain committed to our ultimate purpose of serving our stakeholders by connecting people for a better future.

Raisibe

Raisibe Morathi
Chief Financial Officer (CFO)
01 June 2022