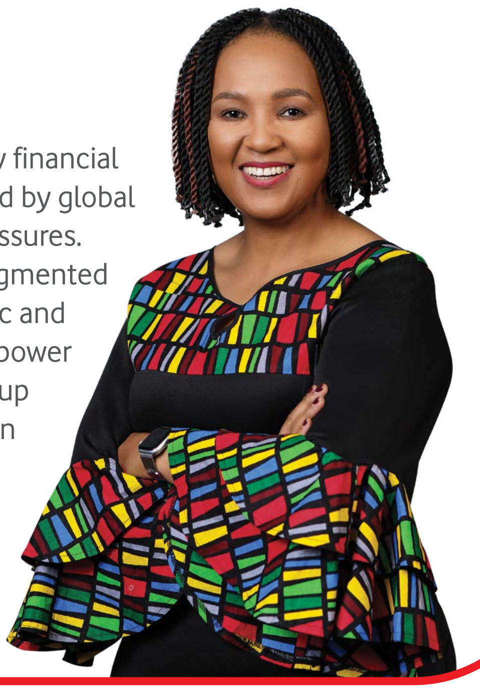
FC Financial capital

Dear stakeholders

It gives me great pleasure to present satisfactory financial results despite having experienced a year defined by global macroeconomic challenges and inflationary pressures. This uncertain context was largely fuelled by fragmented economic recovery after the COVID-19 pandemic and new challenges such as the war in Ukraine. The power crisis in South Africa, higher interest costs, start-up losses in Ethiopia, M&A costs, and higher inflation across our markets contributed to muted net profit growth of 2.1%.

Raisibe Morathi, CFO



What financial capital means to Vodacom

Vodacom's strong capital base is supported by long-term investors, including a 65.1% controlling stake by Vodafone, one of the world's largest communications companies, enabling us to advance our ambition to accelerate growth and enhance returns as we scale our existing products and services.

How financial capital supports our System of Advantage

Our investment decisions accelerate our **System of Advantage** by providing the financial resources needed to pursue our strategic ambitions. Opportunities to deploy our financial resources are carefully considered since they have a significant impact on our return profile and the strategic direction of our business in the short-, medium-, and long-term.

Our financial capital at a glance

Our key focus areas	Key FY2023 achievements	Strategic pillar affected
Diversifying and differentiating our offering to support revenue growth	Recording positive revenue growth, impacted by Vodafone Egypt acquisition and rand depreciation against international currencies basket • Group revenue increased **16.0%** (8.0%^, 4.9%*) to **R119.2 billion** (FY2022: R102.7 billion) Growing service revenue through financial services • Group service revenue grew by **17.2%** to **R93.7 billion** (FY2022: R79.9 billion) • Financial services revenue increased **29.2%** (14.3%*) to **R9.9 billion**, contributing **10.5%** to Group service revenue	1 2 3 4 5 6
Optimising our operations to support profitability	Clear improvement in second-half profitability • Group EBITDA increased by **13.2%** (6.0%^, 3.6%*) • Free cash flow up **18.3%**	7 8 9
Investing in technology and network infrastructure to maintain our trusted brand	Sustaining our manufactured and intellectual capital investments • CAPEX reached **R16.5 billion**, with a 13.8% CAPEX intensity • Invested in additional spectrum in Mozambique, South Africa and Tanzania	2 4 5 8 10
Executing the System of Advantage to deliver shareholder returns	Declaring dividends consistent with our new policy • Total dividend of **670cps**, down 21.2% in line with the Group's revised dividend policy to pay dividends of at least 75% of the Group's headline earnings	1 2 3 4 5 6 7 8 9 10
Looking ahead to meet our strategic targets	Updating and upgrading our medium-term targets	1 2 3 4 5 6 7 8 9 10

* Excluding Vodafone Egypt.

The value we create, preserve and erode

We are committed to employing our financial capital within a disciplined framework that enhances our revenue generation opportunities while maintaining our return on invested capital. Ultimately, this enhances customer experience and shareholder returns.

Key financial results

Rm	FY2023	FY2022	Reported % change	Reported excluding Vodafone Egypt	Normalised* % change
Revenue	**119 170**	102 736	16.0	8.0%	4.9
Service revenue	**93 650**	79 936	17.2	7.2%	3.5
EBITDA	**45 144**	39 888	13.2	6.0%	3.6
Operating profit	**29 252**	28 236	3.6		(0.9)
Operating profit – South Africa	**20 881**	21 133	(1.2)		(0.9)
Operating profit – International	**4 541**	4 352	4.3		(1.6)
Operating profit – Safaricom	**2 815**	3 122	(9.8)		9.3
HEPS (cps)	**948**	1 013	(6.4)		
Dividends (cps)	**670**	850	(21.2%)		

PG For additional financial information, refer to **Page 128**.

Diversifying and differentiating our offering to support revenue growth

In FY2023, Group revenue increased by 16.0% (8.0% ^, 4.9%*) to R119.2 billion (FY2022: R102.7 billion) while Group service revenue grew by 17.2% (7.2% ^, 3.5%*) to R93.7 billion (FY2022: R79.9 billion), positively impacted by the Vodafone Egypt acquisition and rand depreciation against our basket of international currencies. On a normalised basis, adjusting for foreign exchange rate fluctuations and the impact of Vodafone Egypt, service revenue growth was 3.5%*. This result was underpinned by mobile prepaid revenue in South Africa, data revenue across our International markets and Group growth in new services. Financial services delivered growth of 29.2% as we continued to scale user adoption as well as new products and services. In aggregate our new services, which includes digital and financial, fixed and IoT, generated R18.1 billion (FY2022: R14.3 billion) and contributed 19.3% to Group service revenue. We continue to target a new service revenue contribution, including Vodafone Egypt, of 25% to 30% of Group service revenue over the medium-term.

In South Africa, service revenue increased by 2.6% to

R60.0 billion

(FY2022: R58.5 billion), supported by resilient prepaid performance and growth in new services.

Our International business reported service revenue growth of 18.8% to

R26.4 billion

(FY2022: R22.2 billion). Normalised growth of 5.3%* was supported by M-Pesa and data revenue.

Growing financial services remains a key priority for the Group. In South Africa, growth was fuelled by our insurance business, which posted revenue growth of 13.3% and sustained Airtime Advance revenue growth in the financial year. Normalised M-Pesa revenue grew by 15.9%* in the year and accelerated to 20.9%* in the fourth quarter as Tanzania lapped mobile money levies imposed in July 2021 and our new financial services continued to scale. Our merchant base across the International business was up threefold to 196 000. This growth helps expand our addressable commission pool beyond peer-to-peer payments and withdrawals into both online and offline commerce.

Our two super-apps (VodaPay and M-Pesa) integrate our own products and services with our partners' best offerings. In South Africa, VodaPay was integral in our Summer campaign achieving 5.7 million downloads. Our M-Pesa platform, including Safaricom, processed US$364.8 billion of transaction value over the past 12 months – an increase of 13.0%.

Optimising our operations to support profitability

In FY2023, Group EBITDA increased by 13.2%, 6.0%^ to R45.1 billion (FY2022: R39.9 billion) with Vodafone Egypt contributing R2.9 billion since acquisition. On a normalised basis, EBITDA grew by 3.6%*, supported by an improvement to 8.1%* growth in the second half of the financial year. In South Africa, higher network and energy costs were managed through accelerated cost initiatives including supply chain management renegotiations and an incremental focus on discretionary spend and payroll costs.

Group operating profit was up by 3.6% to R29.3 billion (FY2022: R28.2 billion), supported by EBITDA growth but impacted by the expected start-up losses in Ethiopia. On a normalised basis, and adjusting for Ethiopia's start-up losses, operating profit fell by 0.9%*. HEPS declined by 6.4% to 948cps (FY2022: 1 013cps). The decline was attributable to higher number of shares in issue, start-up losses in Ethiopia and higher net finance charges.

Net finance charges increased by 15.7% to R4.2 billion due to higher net debt and the higher average cost of debt associated with a sharp increase in South African Reserve Bank interest rates. The average cost of debt (including leases) increased from 7.7% to 8.6% during the year, 2.6% lower than SARB's 11.2% prime rate.

Group free cash flow

Rm	FY2023	FY2022	Reported % change
Operating free cash flow (OFCF)	**25 111**	22 693	10.7
CAPEX	**(16 490)**	(14 642)	(12.6)
Free cash flow	**18 524**	15 660	18.3
Net debt	**(48 310)**	(35 180)	(37.3)
Net debt to EBITDA (times)	**1.1**	0.9	

We generated OFCF of R25.1 billion (FY2022: R22.7 billion), up by 10.7%, having invested R16.5 billion in CAPEX (excluding costs of acquiring spectrum), a further R5.0 billion applied to lease payments and R0.9 billion released from working capital. Free cash flow increased 18.3% as a result of higher OFCF and the timing of Safaricom's interim dividend. We received Safaricom's interim dividend for FY2022 in April 2022 and the interim dividend for the FY2023 in March 2023. The interim dividend received in March amounted to R1.0 billion.

Net debt increased by R13.1 billion reflects the R10.7 billion debt funding component for the Vodafone Egypt transaction and spectrum costs. Our reported net debt to EBITDA ratio remained unchanged from the first half of the year at 1.1 times, as strong free cash flow generation offset the funding of the Vodafone Egypt transaction[1].

1. On a pro-forma basis, with Vodafone Egypt included for the full year, our leverage ratio reduced from 1.1 times to 0.8 times, based on pro-forma Vodafone Egypt EBITDA of R12.5 billion in FY2023.

Investing in technology and network infrastructure to maintain our trusted brand

The Group remains committed to spending 13% to 14.5% of revenue on CAPEX that ultimately results in an enhanced customer experience through sustained investments in technology and network infrastructure.

In FY2023, CAPEX reached R16.5 billion representing CAPEX intensity of 13.8%. CAPEX increased by 12.6%, or 4.3% excluding Egypt, as we accelerated investment into network performance. We also invested in additional spectrum in Mozambique, South Africa and Tanzania.

Executing the System of Advantage to deliver shareholder returns

The Board set out a new simplified dividend policy when we announced the Vodafone Egypt transaction and the South African fibre joint venture with CIVH in November 2021. The simplified policy of paying at least 75% of headline earnings was implemented with our interim dividend in November 2022 and also applied to the final dividend this financial year. On this basis, the Board declared a final FY2023 dividend of 330cps (FY2022: 430cps) and a total dividend per share for the year of 670cps (FY2022: 850cps).

Notwithstanding the change in dividend policy, the Group retains one of the highest dividend pay-out policies among JSE-listed companies. Additionally, the policy provides scope for the Group to invest within our 13.0% to 14.5% capital intensity target, and delever and accommodate the upstreaming and dividend pay-out profiles of Safaricom and Vodafone Egypt.

Looking ahead to meet our strategic targets

Our evolution from a telecommunication to a technology company is well on track as we expand our ecosystem of products. Our multiproduct strategy, called the **System of Advantage**, aims to deliver diversified, differentiated offerings to our customers, further strengthening and growing our relationships with them. Looking ahead, our controlling shareholding in Egypt's telecom market leader, Vodafone Egypt, is expected to enhance Vodacom's growth and return potential. We have, therefore, updated and upgraded our medium-term targets as follows:

- From mid-single-digit Group service revenue growth to mid-to-high single-digit growth;
- From mid-to-high single-digit Group EBITDA growth to high-single digit growth; and
- Unchanged Group CAPEX of 13.0% to 14.5% as a percentage of Group revenue.

On average, over the next three years, on a normalised basis in constant currency, these targets are based on prevailing economic conditions, including Vodafone Egypt but excluding spectrum purchases, exceptional items and the acquisition of a joint-control stake in MAZIV.

Appreciation

Supported by our resilient strategy and track record of adapting quickly to changes across our operating environments, we continue to uphold management excellence with commitment to the needs of our stakeholders. For this, I owe a debt of gratitude to my colleagues for their endurance and tenacity in connecting people for a better future.

Raisibe

Raisibe Morathi
Chief Financial Officer (CFO)
12 June 2023