

Quarterly report for the quarter ended 30 June 2022

Vodacom Tanzania Public Limited Company
(Incorporated in the United Republic of Tanzania)
Registration number: 38501
Stock Exchange (DSE) registration number ISIN: TZ1996102715
Stock name: VODA

Together we can



Acting Managing Director's review

Hilda Bujiku

I am pleased to present Vodacom Tanzania's first quarterly report that adopts the enhanced reporting requirements of section 53 (1), of the Dar es Salaam Stock Exchange Public Limited Company Rules, 2022 the 'DSE rules'. The supplementary disclosure of quarterly financial performance builds on our existing quarterly trading updates, which had already provided timely transparency on our key performance indicators (KPIs) and other non-financial business updates.

We commenced the financial year by continuing with an important step in **delivering on our purpose and social contract**. In collaboration with the Government of Tanzania and the Vodafone Foundation, in April 2022, we officially launched our M-Mama program. The program provides emergency transport for expectant mothers and newly born infants in rural Tanzania, in an effort to reduce maternal mortality rates. This follows a successful pilot phase that started in year 2013 in the lake regions of Mwanza and Shinyanga, serving over 12 000 beneficiaries. The current phase has been extended to cover 14 regions, with more than half of the Tanzanian population. We are excited about this journey, to continue serving the community beyond connectivity and financial services. It is our commitment to support the wellbeing of Tanzanians by leveraging our technological capabilities and partnerships. We are encouraged by the government's commitment to this initiative, as stressed by the President of United Republic of Tanzania, H.E Samia Suluhu Hassan, whom we were honoured to host, as a guest of honour in the launch ceremony.

In the quarter we remained focused on **commercial execution** by targeting customer base recovery and growth, through both on-the-ground and segmented below-the-line initiatives. We invested in driving customer acquisition and retention, as well as increasing the number of days a customer is active on our network. Further, our multi-product strategy called the 'system of advantage', which leverages machine learning capabilities, continued to play a pivotal role in differentiating our customer proposition. I am pleased that despite intense market competition, we grew our customer base by 1.5% to 15.6 million, while also continuing to drive up smartphone penetration by 3pp. Our M-Pesa customer base also recovered to 7.4m, a 9.0% quarter-on-quarter growth. This improvement was supported by our new service offerings and around 0.4 million customers re-activating their M-Pesa accounts to collect interest payments.

From financial performance point of view, **total revenue**¹ was TZS245.8 billion, 3.8%² lower (underlying growth of 7.7%*) as a result of pressure on service revenue. **Service Revenue** was TZS240.9 billion, a decline of 4.3% (up 7.3%*). The growth in data, digital & VAS and fixed revenue was offset by the under-performance in M-Pesa and voice revenue, that led to 9.2% ARPU dilution. The underlying service revenue growth of 7.3%* is a reflection of our successful commercial execution.

Total expenses² were TZS175.1 billion, 3.6% higher (11.5%* higher). **Direct expenses** were TZS81.5 billion, up 3.5%, mainly driven by increased investment in customer acquisition and retention including devices, commissions and interconnect expenses aimed at expanding our customer reach. Within operating expenses, **staff expenses** declined 1.7% as a result of our cost transformation initiatives. These initiatives offset annual salary adjustments and expenses increase due to higher headcount. **Publicity** expenses declined 12.4%, a realisation from efficient cost transformation initiatives. **Other operating** expenses grew 6.8%, mainly driven by the additional investment in the network, contractual prices escalations and higher fuel prices, partly offset by savings realised from our efficient cost containment measures.

During the quarter we generated **operating profit** of TZS8.1 billion, 59.5% lower (up 19.4%*), primarily impacted by lower revenue due to the levy on mobile money transfer and withdrawals transactions and higher expenses. The cost increases were partially offset by 6.6% lower **depreciation and amortisation**, mainly due to review of useful lives of assets in line with our accounting policy to evaluate technology relevance and existing assets' conditions.

Income tax expense of TZS2.9 billion was 74.4% lower year-on-year, mainly due to lower profitability in M-Pesa Limited.

Looking forward, we are increasingly encouraged by the government's readiness to review its laws and policies, for the benefit of the country's development and citizens' wellbeing. The government's decision to implement a 43% reduction on the levy on mobile money transfer and withdrawals transactions, effective from 1 July 2022, is expected to provide much needed reprieve to the industry and help to revive efforts in driving financial inclusion through mobile financial services – particularly M-Pesa. The proposed reduction marks a total reduction of 60% on the levies since its implementation in July 2021. Separately, and also positively, the government through the Bank of Tanzania (BoT) extended international money transfer destinations beyond East Africa to include the Southern Africa Development Community (SADC) member countries. Leveraging our strategic M-Pesa Africa hub, we will support our customers with innovative and cost effective solutions for their local and international remittance needs. More broadly, we are thankful to the government for opening up more opportunities for us to expand our services, and we are committed to continue engaging with the government on all relevant matters. This is our responsibility not only for addressing our business objectives, but also in delivering on our social contract and purpose.

We will continue to monitor the impacts of the Russia-Ukraine war, and proactively undertake all necessary actions in minimizing the potential impact to the business from this global turmoil, which has so far impacted global food and fuel prices, as well as destabilisation of some major currencies.

Condensed statement of profit or loss and other comprehensive income

for the quarter ended 30 June 2022

TZS m	Group		Company		
	Quarter 1 30/06/2022	Quarter 1 underlying* 30/06/2022	Quarter 1 30/06/2021	Quarter 1 30/06/2022	Quarter 1 30/06/2021
Revenue	245 823	275 080	255 424	186 329	160 415
Total expenses	(175 144)	(188 600)	(169 117)	(122 283)	(112 279)
Direct expenses	(81 482)	(93 476)	(78 721)	(44 960)	(40 006)
Staff expenses	(15 132)	(15 132)	(15 397)	(10 587)	(10 288)
Publicity expenses	(7 191)	(7 191)	(8 213)	(3 680)	(4 953)
Other operating expenses	(71 339)	(72 801)	(66 786)	(63 056)	(57 032)
Depreciation and amortisation	(62 261)	(62 262)	(66 692)	(60 449)	(64 567)
Net credit (losses)/gain on financial assets	(299)	(299)	425	(292)	440
Operating profit/(loss)	8 119	23 919	20 040	3 305	(15 991)
Finance income	5 537	5 537	7 507	489	927
Finance costs	(18 642)	(18 642)	(21 607)	(14 802)	(15 945)
Net loss on foreign currency translation	(1 511)	(1 511)	(543)	(1 547)	(543)
(Loss)/profit before tax	(6 497)	9 303	5 397	(12 555)	(31 552)
Income tax expense	(2 877)	(7 619)	(11 230)	(932)	–
(Loss)/profit for the quarter	(9 374)	1 684	(5 833)	(13 487)	(31 552)

* The amounts, represent underlying growth which is performance adjusted by an estimated impact of the levy on mobile money transfer and withdrawal transactions.

Condensed statement of financial position as at 30 June 2022

TZS m	Group		Company	
	Quarter 1 30/06/2022	Quarter 1 30/06/2021	Quarter 1 30/06/2022	Quarter 1 30/06/2021
Assets				
Non-current assets	1 165 586	1 171 895	1 133 525	1 138 615
Goodwill	1 639	1 639	–	–
Property and equipment	577 405	552 041	571 526	542 829
Intangible assets	74 555	67 091	50 996	45 500
Right of use assets	407 631	448 634	407 631	448 634
Capacity prepayments	48 973	42 588	48 973	42 588
Trade and other receivables – non-current	11 388	18 792	11 388	18 792
Income tax receivable – non-current	42 511	39 772	42 511	39 772
Deferred tax assets	1 484	1 338	–	–
Investment in subsidiary	–	–	500	500
Current assets	884 346	897 384	202 737	289 239
Capacity prepayments – current	14 854	14 427	14 854	14 427
Inventory	4 824	5 082	4 824	5 082
Trade and other receivables – current	101 083	128 417	111 277	145 346
Income tax receivable	23 785	4 861	20 969	8 328
Mobile financial deposit	478 853	491 187	–	–
Cash and cash equivalents	260 947	253 410	50 813	116 056
Total assets	2 049 932	2 069 279	1 336 262	1 427 854
Equity and liabilities				
Capital and reserves	767 950	791 754	569 166	651 477
Share capital	112 000	112 000	112 000	112 000
Share premium	442 435	442 435	442 435	442 435
Capital contribution	27 698	27 698	27 698	27 698
Retained earnings	185 817	209 621	(12 967)	69 344
Non-current liabilities	435 995	449 550	435 995	449 550
Borrowings – non-current	430 364	444 825	430 364	444 825
Provisions	5 197	4 287	5 197	4 287
Government Grants – non-current	56	178	56	178
Trade and other payables – non-current	378	260	378	260
Current liabilities	845 987	827 975	331 101	326 827
Borrowings – current	77 418	74 656	77 418	74 656
Government Grants	1 174	2 751	1 174	2 751
Mobile financial payable	478 853	491 187	–	–
Trade and other payables – current	276 588	238 882	240 555	228 921
Provisions – current	11 954	20 499	11 954	20 499
Total liabilities	1 281 982	1 277 525	767 096	776 377
Total equity and liabilities	2 049 932	2 069 279	1 336 262	1 427 854

Unless otherwise specified, all percentage growths in this report are year-on-year growths comparing quarter to June 2022 against quarter to June 2021.

* All amounts/figures in this report marked with a **, represent underlying growth which is performance adjusted by an estimated impact of the levy on mobile money transfer and withdrawal transactions.

1. Total revenue is sum of service revenue and other non-service revenue including revenue on devices, accessories and starter pack sales.

2. Excluding depreciation and amortisation.

Condensed statement of changes in equity

for the quarter ended 30 June 2022

TZS m	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
GROUP					
At 1 April 2022	112 000	442 435	27 698	195 191	777 324
Total comprehensive income for the period	–	–	–	(9 374)	(9 374)
At 30 June 2022	112 000	442 435	27 698	185 817	767 950
COMPANY					
At 1 April 2022	112 000	442 435	27 698	520	582 653
Total comprehensive income for the period	–	–	–	(13 487)	(13 487)
At 30 June 2022	112 000	442 435	27 698	(12 967)	569 166
GROUP					
At 1 April 2021	112 000	442 435	27 698	215 454	797 587
Total comprehensive income for the year	–	–	–	(5 833)	(5 833)
At 30 June 2021	112 000	442 435	27 698	209 621	791 754
COMPANY					
At 1 April 2021	112 000	442 435	27 698	100 896	683 029
Total comprehensive income for the year	–	–	–	(31 552)	(31 552)
At 30 June 2021	112 000	442 435	27 698	69 344	651 477

Condensed statement of cash flow

for the quarter ended 30 June 2022

TZS m	Group		Company	
	Quarter 1 30/06/2022	Quarter 1 30/06/2021	Quarter 1 30/06/2022	Quarter 1 30/06/2021
Cash generated from operations	113 315	137 391	57 180	46 561
Income taxes paid	(5 023)	(11 314)	(2 558)	(123)
Net cash generated from operating activities	108 292	126 077	54 622	46 438
Cash flows from investing activities				
Additions to property and equipment and intangible assets	(44 025)	(40 114)	(44 027)	(40 114)
Proceeds from transfer of assets to subsidiary (M-Pesa Limited)	–	–	2	798
Proceeds from sale of property and equipment	395	–	395	–
Finance income received	1 689	1 837	489	927
Cash held in restricted deposits	(42 767)	(47 004)	–	–
Interest received from M-Pesa deposits	3 848	5 670	–	–
Net cash used in investing activities	(80 860)	(79 611)	(43 141)	(38 389)
Cash flows from financing activities				
Dividends paid	(27)	(82)	(27)	(82)
Payment of lease liabilities – interest	(14 805)	(15 816)	(14 805)	(15 816)
Interest paid to M-Pesa customers	(3 720)	(5 423)	–	–
Payment of lease liabilities – principal	(4 306)	(15 567)	(4 306)	(15 567)
Net cash used in financing activities	(22 858)	(36 888)	(19 138)	(31 465)
Net (decrease)/increase in cash and cash equivalents	4 574	9 578	(7 657)	(23 416)
Cash and cash equivalents at the beginning of the quarter	256 961	244 417	59 094	140 057
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies	(588)	(585)	(624)	(585)
Cash and cash equivalents at the end of the quarter	260 947	253 410	50 813	116 056

In preparation of the quarterly financial statements, consistent accounting policies have been used as those applicable to the previous year audited financial statements.



Hilda Bujiku
Acting Managing Director



Robin Kimambo
Acting Finance Director

Issued pursuant to section 53 of the Dar es Salaam Stock Exchange PLC Rules 2022

KPIs and other business updates

Salient features

Added 227 000 customers to

15.6 million,
up 1.5% quarter-on-quarter.

5.1% higher
quarter-on-quarter ARPU.

Steady **39.6%³**
mobile money customer market share
despite heightening competition.

9.0% M-Pesa customer growth,
with over 25% of M-Pesa customers
using financial services.

Key indicators' review

	30 Jun 2022	31 Mar 2022	30 Jun 2021	YoY % change	Quarterly % change
Customers ⁴ (thousand)	15 595	15 368	14 771	5.6%	1.5%
Data customers ⁵ (thousand)	7 460	7 603	7 710	(3.2%)	(1.9%)
M-Pesa customers ⁶ (thousand)	7 445	6 833	7 791	(4.4%)	9.0%
MOU per month ⁷	260	237	207	25.6%	9.7%
Total ARPU ⁸ (shillings per month)	5 044	4 797	5 555	(9.2%)	5.1%

During the quarter, we continued with our commercial execution to drive business performance, leveraging on our 'system of advantage' supported by machine learning capabilities, to protect and grow the customer base. We invested in customer acquisition and retention, as well as driving increased number of days a customer is active on our network. Our commercial execution supported strong performance in data, with customers growing by 1.5% quarter-on-quarter, to 15.6 million. Voice performance was impacted by competitive market pricing pressure, with a relatively modest 9.7% increase in minutes of use (MoU). Our 5.1% ARPU growth for the quarter was underpinned by strong performance in data. The 9.2% year-on-year decline, reflects the impact of the levy on mobile money transfer and withdrawals transactions.

Our M-Pesa KPIs continued to reflect the impact of the levies, with the number of customers declining 4.4%. The base was up 9.0% quarter-on-quarter to 7.4 million, reflecting good commercial momentum in our new growth areas including merchant payments, International Money Transfer (IMT) and financial services. Additionally, the sequential growth of the M-Pesa base was supported by around 0.4 million customers re-activating their accounts to collect interest payments. Our new growth services posted transaction value growth of an impressive 130.5%. Within our traditional services of personal payments, the value and volume of the most common peer-to-peer transfers remain depressed by the levies, down 43.6% and 26.7% respectively. Overall, the aggregate transaction value of all our M-Pesa services was 21.4% lower year-on-year. The growth in our innovative new growth areas underpinned our sustained firm mobile money market leadership with 39.6%³ customer market share.

Data and digital services are increasingly becoming central to our customers' lives, driving increased demand for reliable data connectivity. Demand for mobile data continued growing across our footprint, evidenced by 41.4% increase in data usage per customer, to an average of 2.1 gigabyte per customer per month, translating into 36.8% yearly growth in data traffic. The growth in data usage was supported by continued investment in 4G network and commercial execution in monetizing the investment, including campaigns on smartphones' adoption through availability of affordable devices, and campaigns to market our 4G network excellence dubbed, '4G YA UKWELI'. At the end of the quarter, we had 1 982 4G sites, a yearly increase of 158 sites, up 8.7%, and 4.3 million smartphone users, 12.0% up year-on-year. Smartphone users' penetration to our 7.5 million data customers reached 57.2%, up 3.0pp quarter-on-quarter.

Regulatory matters

SIM Card registration

On 1 July 2020, the TCRA issued a public release that required customers who biometrically registered more than one SIM card per service provider to verify their SIM cards ownership through their mobile phones. Furthermore, the TCRA and mobile network operators have implemented an approval process that allows customers to request for additional SIM cards by visiting service providers' retail outlets or an automated process through Unstructured Supplementary Service Data (USSD). Customers are allowed to have more than one SIM card if they follow the correct approval process. We continue to drive awareness to customers on SIM card verification process.

Other matters

Levies on mobile money transfers and withdrawals and airtime

On 30 June 2021, the President approved the Finance Act, which included the amendments to the National Payment System Act (NPS Act) and Electronic & Postal and Communication Act (EPOCA) – introduced levies on mobile money transfer transactions and airtime. For mobile money transfer and withdrawal transactions, a transaction value dependent levy of between TZS10 and TZS10 000 was implemented from 15 July 2021.

Following our engagements, in September 2021, the government amended the regulations reducing the levy by 30% effective from 3 September 2021. We are grateful that an additional 43% reduction from the current levels was subsequently passed through the Finance Act 2022, applicable from 1 July 2022, making a total of 60% reduction since the levy introduction. This decision will reduce the end-user charges, and meaningfully revive and accelerate our contribution to the financial inclusion agenda, through use of mobile financial services. The Finance Act has also re-defined the scope of the levy, to include withdrawal and transfers through both, banks and mobile financial service providers. The levy is applicable in transfers between mobile accounts, between bank accounts and across mobile and bank accounts. For withdrawals, the levy is applicable for withdrawals from mobile and bank accounts at agents as well as in automated teller machines (ATM).

Historical key indicators

	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
Customers (thousand)	15 595	15 368	15 365	15 237	14 771
Data customers (thousand)	7 460	7 603	7 641	7 875	7 710
M-Pesa customers (thousand)	7 445	6 833	7 118	6 463	7 791
MOU per month	260	237	246	236	207
Total ARPU (shillings per month)	5 044	4 797	5 154	5 037	5 555

Trademarks

Vodafone, the Vodafone logo, Vodafone Mobile Broadband, Vodafone WebBox, Vodafone Passport, Vodafone Live!, Power to You, Vodacom, Vodacom 4 Less and Vodacom Change the World are trademarks of Vodafone Group Plc (or have applications pending). M-Fundi, M-Shamba, M-Pawa and Vodacom Faraja are trademarks of Vodacom Tanzania Public Limited Company (or have applications pending). Other product and company names mentioned herein may be the trademarks of their respective owners.

Forward-looking statements

This update which sets out the quarterly results for Vodacom Tanzania Public Limited Company for the three months ended 30 June 2022, contains 'forward-looking statements', which have not been reviewed or reported on by the Group's auditors, with respect to the Group's financial condition, results of operations and businesses and certain of the Group's plans and objectives. In particular, such forward-looking statements include statements relating to: the Group's future performance; future capital expenditures, acquisitions, divestitures, expenses, revenues, financial conditions, dividend policy, and future prospects; business and management strategies relating to the expansion and growth of the Group; the effects of regulation of the Group's businesses by governments in the countries in which it operates; the Group's expectations as to the launch and roll out dates for products, services or technologies; expectations regarding the operating environment and market conditions; growth in customers and usage; and the rate of dividend growth by the Group.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'will', 'anticipates', 'aims', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans' or 'targets'. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or its industry to be materially different from any results, performance or achievement expressed or implied by such forward-looking statements.

Forward-looking statements are not guarantees of future performance and are based on assumptions regarding the Group's present and future business strategies and the environments in which it operates now and in the future.

All subsequent oral or written forward-looking statements attributable to the Group or any member thereof or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statements above and below. Vodacom expressly disclaims any liability in respect of the content of any forward looking statement and also expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein or to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based.

- Tanzania Communication Regulatory Authority quarterly statistics report as at March 2022.
- Customers are based on the total number of mobile customers using any service during the last three months. This includes customers paying a monthly fee that entitles them to use the service even if they do not actually use the service and those customers who are active whilst roaming.
- Active data customers are based on the number of unique users generating billable data traffic during the month. Also included are users on integrated tariff plans, or who have access to corporate APNs, and users who have been allocated a revenue generating data bundle during this month. A user is defined as being active if they are paying a contractual monthly fee for this service or have used the service during the reported month.
- M-Pesa customers are the number of unique customers who have generated billable transactions during the month. In the past 3 months, 10.4 million unique customers generated revenue related to M-Pesa.
- Minutes of use (MoU) per month is calculated by dividing the average monthly minutes (both incoming and outgoing traffic) during the period by the average monthly active customers during the period. Outgoing MoU was 203 (2021: 140).
- Total ARPU is calculated by dividing the average monthly service revenue during the period by the average monthly active customers.