

Our operating environment

We have identified four priority trends in our operating environment that have a material impact on our ability to create value. Vodacom's Vision 2020 has been developed to ensure that we are best positioned to manage the risks and realise the opportunities associated with each of these issues.

Digital disruption and the connected consumer

Digital technology is disrupting traditional business models and significantly reshaping consumer behaviour, presenting exciting new opportunities for value creation and a major source of business risk.

- ▶ The so-called 'fourth industrial revolution' is characterised by significant developments in artificial intelligence, big data analytics and blockchain technology, as well as the rise of connected homes, autonomous vehicles, smart cities and the 'Internet of Things'.
- ▶ Digitally connected consumers are changing key consumption patterns, significantly increasing their use of data and expecting highly personalised interactions, while at the same time being protective of access to personal data. They are using digital technology to become more discerning and activist customers, sharing their experience and views rapidly across social media.
- ▶ Together, digital technologies and the connected consumer are transforming most business sectors, challenging many traditional assumptions about business's relationships with customers and employees. The digitalisation of many industry sectors presents significant opportunities in particular for ICT companies.
- ▶ In the mobile sector, the fastest growth area is in data, driven by increasing penetration of smartphones, wearable devices and tablets, as well as by improved networks and the increased availability of data content. Globally, it is anticipated that smartphone users will double and data usage will increase by 7 to 11 times by 2020. The greatest demand for mobile services is coming from emerging markets, where there is a young and growing population base, faster levels of economic growth, less fixed-line infrastructure, and low (but rapidly rising) mobile penetration.

Implications for our strategy: To succeed in this emerging digital era, our new strategy overtly positions Vodacom to be a leading digital company, empowering a connected society. Digitalisation offers valuable opportunities for us to extend revenue streams beyond connectivity, and requires us to rethink the networks and technology of the future, redefine customer engagement and develop a company culture that attracts the best digital talent. It also presents unparalleled opportunities to drive positive social change in areas such as education, healthcare, financial services and agriculture.

By 2020, in the global market there will be

5.7 billion 

smartphones, growth of 1.9 billion from the end of 2016.

Source: GSMA Intelligence, The mobile economy 2017

The changing landscape of competition and collaboration

The telecommunications and mobile sector is proving increasingly competitive, including from some non-traditional new sources.

- ▶ In our countries of operation there are typically three to four mobile network operators, each of which is seeking strong competitive differentiation, through significant capital investment in networks, a strong price play, enhancing the customer experience for targeted segments, and/or developing new digital offerings.
- ▶ In most markets we are seeing an increased uptake in over-the-top (OTT) content, messaging and voice providers who use open Internet-based communication rather than existing operator-controlled cellular services.
- ▶ As we move towards being an overtly digital enterprise, we are facing greater competition for new customers and employees from various non-traditional sources. These include new competitors, and potential collaborators, in the provision of technology, networks and infrastructure, and in the development and distribution of new digital products and services.

Implications for our strategy: This growing competition, sometimes from unexpected sources, underlines the importance of ensuring that we are both fast and flexible. In many instances, we recognise the benefit of identifying opportunities for collaboration and innovative partnerships, rather than traditional competition.

Mobile money is available in
85%
of global markets

where less than
20%
of the population has access to a formal financial institution.

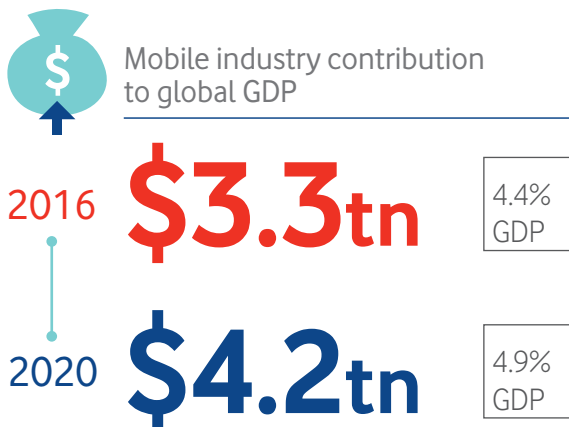
Source: GSMA Intelligence, The mobile economy 2017

Challenging macroeconomic conditions

The challenging macroeconomic and market environment in each of our operating countries is impacting consumer disposable income, revenue growth and operating costs.

- ▶ In South Africa, our largest market, the impact of the drought on the agriculture sector and flat GDP growth rates have weakened already poor employment opportunities and dented consumer spending. Business confidence continues to be impacted by political and policy uncertainty, and concerns regarding further rating downgrades.
- ▶ In our other operations, consumer spending-power has been affected by rising taxes and interest rates, local exchange rate depreciation, and a general increase in the cost of living. Sharply depreciating currencies – particularly in Mozambique and Nigeria – have widened exposure to foreign-denominated expenses, impacting the rollout of low-cost devices, and resulting in higher operating costs. Cost-efficiency measures have been further constrained by inflationary pressures, particularly in terms of wages and energy costs.

Implications for our strategy: These continuing challenges in macroeconomic indicators highlight the importance of maintaining a strong efficiency drive, which we have delivered through our cost-efficiency programme, as well as providing targeted products and services across consumer income groups. A key focus of our new strategy is on developing segmented propositions, including specifically for low-spend customers through initiatives such as Siyakha, which seeks to promote digital inclusion in the emerging prepaid segment.



Source: GSMA Intelligence, The mobile economy 2017



Increasing regulatory intervention and continuing policy uncertainty

We continue to engage with regulators across our operations, on challenges that could impact revenue growth and cost efficiency. Key regulatory and policy developments (by country) include:

- ▶ **South Africa:** The National Integrated ICT Policy White Paper; deferring the 'Invitation to Apply' for licensing of spectrum bands pending administrative judicial review proceedings; and the amended ICT Sector BEE Codes.
- ▶ **Tanzania:** Mandatory listing requirements; national security and customer SIM registration regulations; mobile financial services licences and regulations; new taxation requirements; quality of service regulations; and spectrum auction planned by end of 2017.
- ▶ **DRC:** Communications Bill introducing changes to licence regimes; national security and customer SIM registration regulations; price floor and MTR regulation; temporary social media ban; environmental approvals; and new taxation requirements.
- ▶ **Mozambique:** Communications Act introducing changes to licence regimes; renewal of our 2G licence; spectrum auctions; national security and customer SIM registration regulations; and a review of mobile termination rates.
- ▶ **Lesotho:** Renewal of mobile service licence; approval of M-Pesa G2 hosting; quality of service regulations; cybersecurity legislation; SIM registration regulations and mobile financial services regulations.

Further details on these legislative and policy developments are available in our country performance reports.

Implications for our strategy: Anticipating, informing and responding to regulatory and policy developments requires that we maintain a strong focus on developing positive and constructive relationships with government and regulators.



Regulatory report (2017).
www.vodacom.com