

Managing Director's review



Dear shareholders,
I am pleased to present Vodacom Tanzania's report for the first quarter of the financial year. This report complies with the reporting requirements as per the Dar es salaam stock exchange rules, and we supplement the disclosures with additional information on key non-financial performance indicators and other business updates relevant to our stakeholders.

Philip Besimire

Guided by our purpose-led strategy, we continued to leverage on our 'Tech for Good' platforms and partnerships to contribute towards improving lives, while at the same time delivering on our business objectives. We are pleased with the impact we make to communities in Tanzania through digital societies supported by the **digitalisation of the critical sectors** particularly healthcare, agriculture, government services and businesses. This is achieved through our connectivity and financial products, which are built with a focus on customer centricity, service inclusivity and simplicity.

Our **M-mama** program provides for e-arrangement of emergency transportation services for mothers and new-borns in rural areas and is transforming the health sector. The program, which was officially launched in April 2022 for rollout in 14 regions in Tanzania, has been broadened to a countrywide initiative with the support of partners, including USAID and the Vodafone foundation. We are encouraged with the progress made to date, with M-Mama live and operational in 19 regions and its success influencing the launch by Safaricom in Kenya.

Digitalising government services is another area where our Tech for Good initiatives have a significant contribution. We take pride in facilitating the government with a cost-efficient and simplified channel for revenue collection through the M-Pesa platform, integrated with the Government Electronic Payment gateway (GePG). This is proven by the magnitude of revenue collections by various government departments made through M-Pesa in the quarter, which were equivalent to approximately 2%¹ of total budgeted government domestic revenue for the quarter.

For businesses, in addition to availing the business records, our merchant payment system continued to provide security, speed and simplicity in payment processing. Value of transactions processed in the quarter more than doubled to over TZS25 billion, indicating a good uptake of this service. Separately, M-Pesa continued to facilitate **financial inclusion**. In supporting **digital inclusion through rural connectivity**, we recently participated and won bids for network roll-out in 190 rural and special purpose suburbs, in collaboration with the government, through the Universal Communications Access Fund (UCSAF). We are pleased with the execution of our purpose-led strategy, contributing to the social-economic development of the country.

During the quarter, our machine learning capabilities continued to compliment the on-the-ground activities in driving customer retention and acquisition. Our commercial actions were supported by our resilient network, and we undertook various initiatives focused on growing our customer base and increased activity in the network. We were encouraged by the results achieved, which indicated improvement in most of our customer indicators. Our customer base grew 11.0% to reach 17.3 million, data customers increased 23.5% to 9.2 million, while M-Pesa customers grew 10.7% to 8.2 million. Our leadership in Net Promoter Score (NPS) – a method of measuring customer satisfaction, was also well maintained.

We were pleased with our strong financial performance for the period. **Total revenue**² grew by 18.0%³ to TZS290.0 billion, with **service revenue** increasing by 18.3% to TZS285.1 billion. This double digit growth was primarily a result of strong performance in mobile data and M-Pesa revenue, underpinned by our commercial execution and consistent investment in our network. Our customer value management (CVM) platform continued to provide customers with differentiated and segmented multi-product offers, building on our system of advantage, increasing customers' active days and improving customer experience through personalisation. This resulted in a pleasing 7.4% growth in average revenue per user (ARPU), which together with 11.0% growth in customers delivered a solid revenue growth.

Direct expenses of TZS93.7 billion was up 15.0%, in line with the revenue growth. We spent TZS113.3 billion in **operating expenses**, an increase of 21.0%. Excluding an impact of foreign exchange losses, operating expenses increased 16.1%, largely as a result of higher energy costs, investment in network expansion including new technologies like 5G, contractual price escalations, and inflationary adjustments. Cost increases were partly offset by savings realised from our cost containment initiatives. **Depreciation and amortisation** increased 3.9%, reflecting additional investment made in our network.

From a profitability perspective, in the quarter we generated TZS17.7 billion in operating profit. This is a significant 117.8% increase, supported by strong top line performance and cost efficiencies. We reported TZS7.0 billion loss after tax, a 25.3% improvement compared to a loss of TZS9.4 billion in the corresponding quarter of the prior year. Excluding the impact of foreign exchange losses of TZS 9.9 billion, the underlying performance would be a net profit after tax of TZS2.9 billion. Foreign exchange losses are a result of local currency depreciation driven by varying global economic fundamentals, reflecting economic policies' changes in the major economies.

Looking forward, I am confident that our excellent run in strategy execution will continue to deliver strong financial performance. Our purpose is to connect Tanzanians towards a better future, which we drive through broadening digital inclusion, access to connectivity services and widening M-Pesa's adoption to support financial inclusion. It remains critical for us to continue investing in our network – particularly our data network, and to expand the accessibility of data services to both mobile and fixed by developing relevant offers to suit our diverse customers' interests.

We are also focusing on driving further improvements in customer experience – leveraging on our system of advantage, supported by network availability and customer segmentation through CVM and machine learning capabilities. It is our ambition to continue delivering business growth, and thereby generating value to our shareholders through realisation of business opportunities. This is despite intense competition and potential impacts of global macro-economic pressures emanating from changes in economic policies of the world's major economies, and the war in Ukraine.

We are encouraged by continued alignment with government through engagements with the industry participants. We are pleased with the latest decision by the government to abolish levy on airtime and peer to peer transfers in mobile financial services, aimed at enhancing financial inclusion through mobile money services effective from 1 July, 2023. It is a progressive move that will benefit Tanzanians and continue to revolutionise the way people transact in the country. We will continue to actively engage with the government on all relevant matters and also collaborate in executing projects and delivering on our social contract and purpose.

1. Estimated from domestic revenue projected in the government budget for financial year 2022/23 as per budget speech by Minister of Finance and Planning, and 'The Budget execution report for the third quarter of 2022/23' (July 2022 to March 2023), published by the Ministry of Finance and Planning, May 2023.
2. Total revenue is sum of service revenue and other non-service revenue including revenue on device, accessories and starter pack sales.
3. Unless otherwise specified, all percentage growths in this report are year-on-year growths comparing quarter to June 2023 against quarter to June 2022.

Condensed statement of profit or loss and other comprehensive income

for the quarter ended 30 June 2023

TZS m	Group		Company	
	Quarter 1 30/06/2023	Quarter 1 30/06/2022	Quarter 1 30/06/2023	Quarter 1 30/06/2022
Revenue	290 003	245 823	214 144	186 329
Total expenses	(207 038)	(175 144)	(145 247)	(122 283)
Direct expenses	(93 732)	(81 482)	(50 059)	(44 960)
Total operating expenses	(113 306)	(93 662)	(95 188)	(77 323)
Staff expenses	(17 560)	(15 132)	(12 421)	(10 587)
Publicity expenses	(7 702)	(7 191)	(3 874)	(3 680)
Other operating expenses	(84 274)	(72 045)	(74 560)	(62 603)
Net loss on foreign currency transactions	(3 770)	706	(4 333)	(453)
Depreciation and amortisation	(64 661)	(62 261)	(63 075)	(60 449)
Net credit losses on financial assets	(616)	(299)	(610)	(292)
Operating profit	17 688	8 119	5 212	3 305
Finance income	6 560	5 537	1 519	489
Finance costs	(19 770)	(18 642)	(15 272)	(14 802)
Net loss on foreign currency transactions	(6 219)	(1 511)	(6 244)	(1 547)
Loss before tax	(1 741)	(6 497)	(14 785)	(12 555)
Income tax expense	(5 259)	(2 877)	(1 071)	(932)
Loss for the period	(7 000)	(9 374)	(15 856)	(13 487)

Condensed statement of financial position

as at 30 June 2023

TZS m	Group		Company	
	Quarter 1 30/06/2023	Quarter 1 30/06/2022	Quarter 1 30/06/2023	Quarter 1 30/06/2022
ASSETS				
Non-current assets	1 309 259	1 165 586	1 278 873	1 133 525
Goodwill	1 639	1 639	–	–
Property and equipment	610 091	577 405	607 043	571 526
Intangible assets	208 552	74 555	187 478	50 996
Right of use assets	350 950	407 631	350 950	407 631
Capacity prepayments	37 880	48 973	37 880	48 973
Trade and other receivables	11 853	11 388	11 053	11 388
Income tax receivable	36 120	42 511	33 098	42 511
Deferred tax assets	52 174	1 484	50 871	–
Investment in subsidiary	–	–	500	500
Current assets	904 649	884 346	250 640	202 737
Capacity prepayments	14 781	14 854	14 781	14 854
Inventory	4 752	4 824	4 752	4 824
Trade and other receivables	114 820	101 083	116 003	111 277
Income tax receivable	15 819	23 785	10 676	20 969
Mobile financial deposit	581 249	478 853	–	–
Cash and cash equivalents	173 228	260 947	104 428	50 813
TOTAL ASSETS	2 213 908	2 049 932	1 529 513	1 336 262
EQUITY AND LIABILITIES				
Capital and reserves	814 723	767 950	748 308	569 166
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	232 590	185 817	166 175	(12 967)
Non-current liabilities	382 245	435 995	382 245	435 995
Lease liabilities	376 035	430 364	376 035	430 364
Provisions	6 210	5 197	6 210	5 197
Government grants	–	56	–	56
Trade and other payables	–	378	–	378
Current liabilities	1 016 940	845 987	398 960	331 101
Lease liabilities	91 317	77 418	91 317	77 418
Licence payable	37 246	–	37 246	–
Government grants	70	1 174	70	1 174
Mobile financial payable	581 249	478 853	–	–
Trade and other payables	300 668	276 588	264 151	240 555
Provisions	6 390	11 954	6 176	11 954
Total liabilities	1 399 185	1 281 982	781 205	767 096
TOTAL EQUITY AND LIABILITIES	2 213 908	2 049 932	1 529 513	1 336 262

Condensed statement of changes in equity

for the quarter ended 30 June 2023

TZS m	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
GROUP					
Quarter ended 30 June 2023					
1 April 2023	112 000	442 435	27 698	239 590	821 723
Total comprehensive income for the period	–	–	–	(7 000)	(7 000)
At 30 June 2023	112 000	442 435	27 698	232 590	814 723
COMPANY					
1 April 2023	112 000	442 435	27 698	182 031	764 164
Total comprehensive income for the period	–	–	–	(15 856)	(15 856)
At 30 June 2023	112 000	442 435	27 698	166 175	748 308
GROUP					
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					
Quarter ended 30 June 2022					
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

Condensed statement of cash flow

for the quarter ended 30 June 2023

TZS m	Group		Company	
	Quarter 1 30/06/2023	Quarter 1 30/06/2022	Quarter 1 30/06/2023	Quarter 1 30/06/2022
Cash generated from operations	167 484	113 315	76 740	57 180
Income taxes paid	(8 482)	(5 023)	(1 094)	(2 558)
Net cash generated from operating activities	159 002	108 292	75 646	54 622
Cash flows from investing activities				
Additions to property and equipment and intangible assets	(70 551)	(44 025)	(70 551)	(44 027)
Proceeds from transfer of assets to subsidiary (M-Pesa Limited)	–	–	–	2
Proceeds from sale of property and equipment	62	395	62	395
Finance income received	1 506	1 689	969	489
Cash held in restricted deposits	(71 891)	(42 767)	–	–
Interest received from M-Pesa deposits	4 504	3 848	–	–
Net cash used in investing activities	(136 370)	(80 860)	(69 520)	(43 141)
Cash flows from financing activities				
Dividends paid	–	(27)	–	(27)
Payment of lease liabilities – interest	(13 270)	(14 805)	(13 270)	(14 805)
Interest paid to M-Pesa customers	(4 245)	(3 720)	–	–
License payable	(37 952)	–	(37 952)	–
Payment of lease liabilities – principal	(31 195)	(4 306)	(31 195)	(4 306)
Net cash used in financing activities	(86 662)	(22 858)	(82 417)	(19 138)
Net (decrease)/increase in cash and cash equivalents	(64 030)	4 574	(76 291)	(7 657)
Cash and cash equivalents at the beginning of the quarter	236 590	256 961	180 076	59 094
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies	668	(588)	643	(624)
Cash and cash equivalents at the end of the quarter	173 228	260 947	104 428	50 813

The quarterly condensed consolidated and separate financial statements were approved and authorised for issue by the Board of Directors on 13 July 2023 and were signed on its behalf by:



Philip Besimire
Managing Director



Hilda Bujiku
Finance Director

Issued pursuant to Section 53 of the Dar es Salaam Stock Exchange Rules 2022.

KPIs and other business updates



Salient features

A robust performance – customer base up **11.0%** and total ARPU increased 7.4% through customer acquisition and activation initiatives.

Smartphone users up **30.0%** to 5.5 million driven by initiatives to support smartphone adoption.

Data customers up **23.5%** to 9.2 million, with 24.6% increase in total data traffic supported by investment in network, smartphone usage increase and our targeted data campaigns.

M-Pesa customers up **10.7%** to 8.2 million as the adoption of new M-Pesa services continues.

Key indicators' review

	30 June 2023	31 March 2023	30 June 2022	YoY % Change	Quarterly % Change
Customers ⁴ (thousand)	17 316	16 735	15 595	11.0%	3.5%
Data customers ⁵ (thousand)	9 215	8 748	7 460	23.5%	5.3%
M-Pesa customers ⁶ (thousand)	8 240	8 197	7 445	10.7%	0.5%
MOU per month ⁷	281	265	260	8.1%	6.0%
Total ARPU ⁸ (shillings per month)	5 415	5 238	5 044	7.4%	3.4%

We delivered pleasing customer growth in the quarter supported by our aggressive commercial initiatives, focusing on customer acquisition and giving customers a reason to get connected and consume. We recorded a healthy 0.6 million net customer increase during the quarter, with total ARPU growing 7.4%. The ARPU performance was supported by encouraging trends in mobile data services and M-Pesa. Our voice performance remained under pressure and was impacted by ongoing market competition in voice offers. This resulted in a 20.3% decline in average price per minute (PPM), which was not offset by the 8.1% growth in outgoing minutes of use (MoU).

Our sustained investments in the data network aimed at delivering a competitive data experience to our customers paid off as it supported an increase in data customers and growth in usage. The increase in customers and heightened demand for data service driven by a shift into a digital way of life, resulted in a 24.6% increase in data traffic, of which more than 70% was carried in our 4G technology. Average data usage per customer remained relatively flat at 2.1 gigabytes per month. At the end of the quarter, our 4G sites stood at 2 465, an increase of 483 sites year-on-year. And, we had 231 5G sites located in strategic locations across the country. We also continued to drive smartphone penetration through various initiatives, including device financing. Of our 9.2 million data customers, 60.2% were smartphone users – up 5.3 percentage points year-on-year.

We continued to enhance financial inclusion through our 8.2 million M-Pesa customer base, and revolutionise the mobile financial services space with our new services comprising lending, insurance, international money transfers and merchant payments. These innovative services are critical differentiators in the marketplace. During the quarter, the value and volume of transactions from these new services grew over 45% and 80% respectively. Notably, our network of merchants accepting our 'Lipa Kwa Simu' payments grew by over 20% in the quarter, to close to 200 000 merchants countrywide. Merchant payments worth TZS1.2 trillion were processed by more than 2 million customers, representing an increase of almost 100% for both transaction values and customers respectively. We will continue to expand affordable financial services through M-Pesa, meaningfully contributing to financial inclusion.

Regulatory matters

Levies on mobile money transfers and withdrawals and airtime

On 30 June 2021, the President approved the Finance Act 2021, which included the amendments to the National Payment System Act (NPS Act, 2015) and Electronic & Postal and Communication Act (EPOCA, 2010 RE: 2022), introducing a levy on mobile money transfer transactions. In respect of 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 and due consideration by the Government, the following amendments have been implemented since the introduction of the levies:

- 3 September 2021:** an initial 30% levy reduction, to a maximum levy of TZS7 000;
- 1 July 2022:** an additional 43% reduction to the maximum levy band was passed through the Finance Act 2022, marking a cumulative 60% reduction since the levy's introduction. This reduction set the maximum levy chargeable at TZS4 000. The Finance Act 2022 also re-defined the scope of the levy, to include withdrawals and transfers effected through banks, which were earlier excluded. The levy, which was previously only chargeable on mobile transactions, also became applicable to transfers between mobile accounts, bank accounts and across mobile and bank accounts. For withdrawals, the levy was extended to capture withdrawals from automated teller machines (ATMs);
- 1 October 2022:** through a special supplement to the National Payment System (Electronic Money Transactions Levy) (Amendment Regulations), the maximum levy chargeable was set at TZS2 000, which was equivalent to 20% of the levy charged at inception; and
- 1 July 2023:** The Finance Act 2023 amended the EPOCA and the National Payment System Act. These amendments effectively removed the Airtime Levy and the Electronic Transactions levy for transfers. The levy on cash withdrawals has been retained.

Mobile Termination Rates "MTR"

The Tanzania Communications Regulatory Authority (TCRA) is in the process of finalising the review of the expired Interconnection Rates Determination No.5/2017. The review will determine interconnection rates for the termination of domestically originated voice traffic for the next 5-year period. The TCRA has undertaken a Long Run Incremental Cost Plus Study (LRIC+) of wholesale mobile network services for purposes of determining the revised price controls for interconnection rates. The study commenced in November 2022 and was expected to be concluded before 31 December 2022. The TCRA held a consultative engagement with the broader industry on 14 June 2023 the results of which are not yet published. Once published, the interconnection rates will be applied retrospectively starting 1 January 2023. We are actively monitoring the progress and participate in the proceedings.

Historical key indicators

	30 June 2023	31 March 2023	31 December 2022	30 September 2022	30 June 2022
Customers ⁴ (thousand)	17 316	16 735	16 292	16 008	15 595
Data customers ⁵ (thousand)	9 215	8 748	8 445	7 971	7 460
M-Pesa customers ⁶ (thousand)	8 240	8 197	7 960	7 726	7 445
MOU per month ⁷	281	265	286	288	260
Total ARPU ⁸ (shillings per month)	5 415	5 238	5 558	5 466	5 044

Note: The quarterly information has not been audited or reviewed by the Group's external auditors.

Trademarks

Trademarks Vodafone, the Vodafone logo, M-Pesa, Vodacom, Connected Farmer and Vodafone Supernet 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 2023, 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 facts or 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.

- 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, 11.3 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 227 (2022: 203).
- Total ARPU is calculated by dividing the average monthly service revenue during the period by the average monthly active customers.