# CHIEF FINANCIAL OFFICER'S REVIEW

"With its strong brand and strong balance sheet, the Group is well positioned to remain the leading player in the main markets in which it operates."

Leon Crouse
Chief Financial Officer
Vodacom Group (Proprietary) Limited

**The year under review**

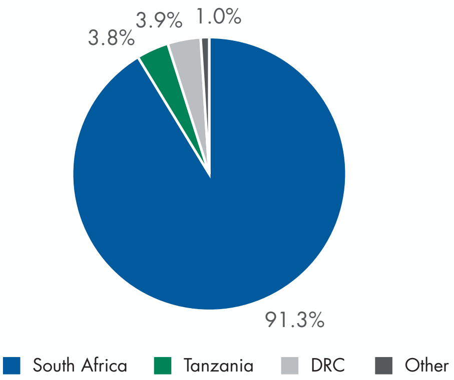
Vodacom once again generated significant value for its shareholders by increasing revenue by 24.6% to R34.0 billion (2005: R27.3 billion), profit from operations by 36.9% to R8.9 billion (2005: R6.5 billion), earnings before interest, taxation, depreciation, amortisation and impairment ("EBITDA") by 23.1% to R11.8 billion (2005: R9.6 billion) and net profit after taxation by 32.0% to R5.1 billion (2005: R3.9 billion).

KEY FINANCIAL INDICATORS

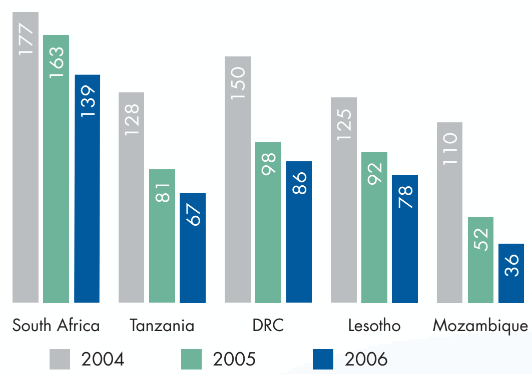
| Year ended March 31 | 2004 | 2005 | 2006 | % points change 05/04 | % points change 06/05 |
|---|---|---|---|---|---|
| Profit from operations margin | 22.9% | 23.7% | **26.0%** | 0.8 | **2.3** |
| EBITDA margin | 33.9% | 35.1% | **34.7%** | 1.2 | **(0.4)** |
| Net profit margin | 13.4% | 14.2% | **15.1%** | 0.8 | **0.9** |
| Net debt/EBITDA | 6.0% | 4.4% | **6.0%** | (1.6) | **1.6** |
| Net debt/equity | 6.1% | 5.4% | **8.2%** | (0.7) | **2.8** |
| Net debt/net assets (excluding intangible assets, including software) | 7.0% | 6.1% | **9.3%** | (0.9) | **3.2** |
| Capital expenditure additions (including software) as a % of revenue | 12.6% | 12.8% | **15.1%** | 0.2 | **2.3** |

## Revenue

Revenue composition
%




ARPU per country
Rand per customer per month




### REVENUE – GEOGRAPHICAL SPLIT

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|
| South Africa, including holding companies | 21,350 | 25,041 | **31,069** | 17.3 | **24.1** |
| Tanzania | 897 | 959 | **1,312** | 6.9 | **36.8** |
| DRC[1] | 476 | 1,075 | **1,334** | 125.8 | **24.1** |
| Lesotho | 119 | 137 | **170** | 15.1 | **24.1** |
| Mozambique | 13 | 103 | **158** | 692.3 | **53.4** |
| **Revenue** | **22,855** | **27,315** | **34,043** | **19.5** | **24.6** |
| DRC (49%)[1] | 457 | – | **–** | – | **–** |
| **Adjusted revenue** | **23,312** | **27,315** | **34,043** | **17.2** | **24.6** |

*Note*

1. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted revenue reflects 100% of Vodacom Congo's revenue for 2004 for comparative purposes.*

Revenue increased by 24.6% to R34.0 billion (2005: R27.3 billion). The increase in revenue was primarily driven by the 51.9% increase in the Group customer base coupled with a 7.2 percentage point drop in overall churn to 19.6%. Group average revenue per user ("ARPU") decreased by 16.0% to R127 per month due to the majority of the customer base growth being achieved in prepaid customers and the lower end of the contract market.

*South Africa*

South Africa accounts for 89.6% or R6.0 billion of the growth in revenue and is therefore by far the biggest contributor to Vodacom's growth. Vodacom South Africa's growth is driven by the vigorous growth in customers of 49.3% to 19.2 million (2005: 12.8 million) customers. Total ARPU decreased by 14.7% to R139 (2005: R163) per month.

Revenue growth was diluted by declining ARPUs, particularly in respect of penetration into the lower spending customer market. Prepaid ARPU decreased by 11.5% to R69 (2005: R78) per month, as a result of a reduction in the average prepaid usage per customer to 49 (2005: 52) minutes per month. South African contract ARPU decreased by 8.3% to R572 (2005: R624) per month for the year ended March 31, 2006. Average contract usage per customer decreased by 8.8% to 206 (2005: 226) minutes per month.

The number of contract customers increased by 26.2% to 2.4 million (2005: 1.9 million) and the number of prepaid customers increased by 53.3% to 16.8 million (2005: 10.9 million) as at March 31, 2006.

### *Other African countries*

Vodacom's revenue from its other African operations increased by 30.8% to R3.0 billion (2005: R2.3 billion) for the year ended March 31, 2006, contributing 8.7% (2005: 8.3%) to total revenue. The increase in revenue was driven by very strong prepaid customer growth, while ARPUs declined as market penetration increases.

#### Tanzania

Vodacom Tanzania's revenue increased by 36.8% to R1.3 billion or TSH237 billion (2005: R1.0 billion or TSH168 billion), driven primarily by the increase in the prepaid customer base. The total customer base at March 31, 2006 of 2.1 million (2005: 1.2 million) once again represents a significant increase of 74.1% on the prior year. The customer growth has been driven by additional coverage and innovative products, necessitated by a competitive environment. ARPU has decreased by 17.3% to R67 (2005: R81) per month.

#### Democratic Republic of Congo ("DRC")

Vodacom Congo's revenue increased by 24.1% to R1.3 billion or US$208 million (2005: R1.1 billion or US$172 million), driven by a 52.2% increase in customers to 1.6 million (2005: 1.0 million). Pressure on ARPU continues, resulting in a decline of 12.2% to R86 (2005: R98) per month, predominantly due to the connection of lower spending prepaid customers, coupled with the 10.5% devaluation of the local currency against the US Dollar, which resulted in lower disposable US Dollar income for customers.

#### Lesotho

Vodacom Lesotho's revenue increased by 24.1% to R170 million (2005: R137 million), mainly driven by the increase in its customer base by 40.1% to 206,000 (2005: 147,000). Total ARPU decreased by 15.2% to R78 (2005: R92) per month. Vodacom Lesotho's billing currency is the Maloti and is linked to the Rand on a 1:1 basis. Vodacom Lesotho became the first subsidiary outside of South Africa to declare dividends to shareholders to the amount of R7.5 million.

#### Mozambique

Vodacom Mozambique's revenue increased by 53.4% to R158 million or MZM616 billion (2005: R103 million or MZM354 billion). The total customer base increased by 84.9% to 490,000 (2005: 265,000) customers. With Vodacom Mozambique being the second entrant into the Mozambique mobile market, it is connecting lower spending customers, resulting in decreasing average customer usage and ARPU. Total ARPU decreased by 30.8% to R36 (2005: R52) per month, while usage decreased by 31.3% to 25.9 (2005: 37.7) minutes per month.

## REVENUE COMPOSITION

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % of total 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|---|---|---|
| Airtime, connection and access | 12,738 | 16,191 | **20,085** | 55.7 | 59.4 | **58.9** | 27.1 | **24.1** |
| Data revenue | 1,039 | 1,340 | **2,038** | 4.5 | 4.9 | **6.0** | 29.0 | **52.1** |
| Interconnection | 5,785 | 5,924 | **6,697** | 25.3 | 21.7 | **19.7** | 2.4 | **13.0** |
| Equipment sales | 2,275 | 2,687 | **3,986** | 10.0 | 9.8 | **11.7** | 18.1 | **48.3** |
| International airtime | 659 | 887 | **971** | 2.9 | 3.2 | **2.9** | 34.6 | **9.5** |
| Other sales and services | 359 | 286 | **266** | 1.6 | 1.0 | **0.8** | (20.3) | **(7.0)** |
| **Revenue** | **22,855** | **27,315** | **34,043** | **100.0** | **100.0** | **100.0** | **19.5** | **24.6** |

## DATA REVENUE – GEOGRAPHICAL SPLIT

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % of total 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|---|---|---|
| South Africa | 943 | 1,246 | **1,886** | 90.8 | 93.0 | **92.6** | 32.1 | **51.4** |
| Tanzania | 91 | 74 | **108** | 8.8 | 5.5 | **5.3** | (18.7) | **45.9** |
| DRC | – | 9 | **25** | – | 0.7 | **1.2** | – | **177.8** |
| Lesotho | 5 | 9 | **16** | 0.4 | 0.7 | **0.8** | 80.0 | **77.8** |
| Mozambique | – | 2 | **3** | – | 0.1 | **0.1** | – | **50.0** |
| **Data revenue** | **1,039** | **1,340** | **2,038** | **100.0** | **100.0** | **100.0** | **29.1** | **52.1** |

### *Airtime, connection and access*

Vodacom's airtime, connection and access revenue increased by 24.1% to R20.1 billion (2005: R16.2 billion) during the year ended March 31, 2006, primarily due to the increase in the number of customers, slightly offset by declining ARPUs in all operations.

Total customers increased by 51.9% to 23.5 million (2005: 15.5 million), primarily due to strong prepaid customer growth. In South Africa, gross contract connections of 702,000 (2005: 610,000) exceeded the prior year connections by 15.1%, while gross prepaid connections were 8.4 million which exceeded prior year connections by 51.3%. South African ARPU decreased 14.7% to R139 (2005: R163) per month due to the strong increase in prepaid customers as well as lower usage.

### *Data*

Vodacom's data revenue increased by 52.1% to R2.0 billion (2005: R1.3 billion), mainly due to new data initiatives such as 3G, HSDPA, Vodafone live!, BlackBerry®, Mobile TV as well as the popularity of SMS and other data products.

Vodacom South Africa transmitted 3.5 billion (2005: 2.4 billion) SMSs over its network during the year ended March 31, 2006, up 45.5% from 2005. The number of active data users on the South African network as at March 31, 2006 was: MMS users 867,119 (2005: 328,974); GPRS users 1,386,329 (2005: 579,581); 3G Vodafone Mobile Connect data card users 37,798 (2005: 5,101); 3G active handsets 179,576 (2005: 10,878); Vodafone live! users 351,427; Unique Mobile TV users 12,903.

The contribution to data revenue from other African operations increased to 7.4% (2005: 7.0%) of total data revenue. Data revenue now constitutes 7.0% (2005: 5.6%) of service revenue (service revenue excludes equipment sales, starter pack sales and non-recurring revenue). Data revenue in all countries increased substantially, confirming the trend of increased data spend by customers.

*Interconnection*

Vodacom's interconnection revenue increased by 13.0% during the year to R6.7 billion (2005: R5.9 billion), primarily due to growth in off-net incoming mobile traffic.

*Equipment sales*

Vodacom's revenue from equipment sales increased by 48.3% to R4.0 billion (2005: R2.7 billion) during the year. In South Africa, handset sale volumes increased by 58.3% to 3.8 million (2005: 2.4 million) units. The growth in equipment unit sales was primarily driven by growth in customer bases, cheaper Rand prices of new handsets coupled with added functionality of new phones based on new technologies.

*International airtime*

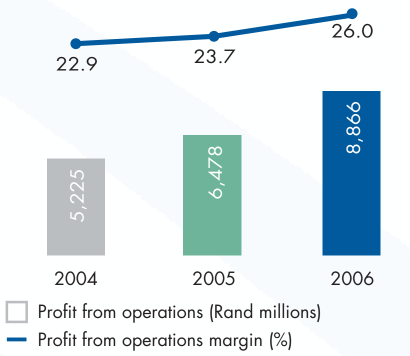
International airtime increased by 9.5% to R971 million (2005: R887 million) for the year ended March 31, 2006. International airtime revenues comprise international calls by Vodacom customers, roaming revenue from Vodacom's customers making and receiving calls while abroad and revenue from international visitors roaming on Vodacom's networks.

*Other sales and services*

Other sales and services revenue decreased by 7.0% to R266 million (2005: R286 million). Revenue from other sales and services includes revenue from Vodacom's cell captive insurance scheme, wireless application service provider ("WASP") revenue, site sharing rental income as well as other revenue from non-core operations.

## Profit from operations

Profit from operations and profit from operations margin




Certain new accounting policies were adopted during the year in terms of the newly released International Financial Reporting Standards ("IFRS") resulting in some changes to previously issued financial statements (refer to Note 23 of the Annual Financial Statements).

Profit from operations for the Group increased by 36.9% to R8.9 billion (2005: R6.5 billion) for the year ended March 31, 2006, fuelled by buoyant consumer spending and a low inflationary environment in South Africa as well as successful cost containment in all operations. A healthy increase in on-net traffic also contributed favourably to profit margins. Operating expenses increased by 20.8% which was lower than revenue growth of 24.6%. This resulted in Vodacom's profit from operations margin increasing to 26.0% (2005: 23.7%). The profit from operations for the Group was negatively impacted by losses in Mozambique of R144 million, acquisition costs associated with high levels of contract customer connections and retentions in South Africa and prepaid customer connections in all operations.

## PROFIT FROM OPERATIONS – GEOGRAPHICAL SPLIT

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|
| South Africa, excluding holding companies[1] | 5,272 | 6,618 | **8,602** | 25.5 | **30.0** |
| Tanzania | 135 | 183 | **263** | 35.6 | **43.7** |
| DRC[2] | 10 | 50 | **117** | 400.0 | **134.0** |
| Lesotho | 1 | 25 | **51** | – | **104.0** |
| Mozambique | (88) | (454) | **(144)** | (415.9) | **68.3** |
| Holding companies | (105) | 56 | **(23)** | 153.3 | **(141.1)** |
| **Profit from operations** | **5,225** | **6,478** | **8,866** | **24.0** | **36.9** |
| DRC (49%)[2] | 10 | – | **–** | – | **–** |
| **Adjusted profit from operations** | **5,235** | **6,478** | **8,866** | **23.7** | **36.9** |

*Notes*

1. *The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The impact of these restatements is immaterial.*
2. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted profit from operations for 2004 reflects 100% of Vodacom Congo's profit from operations for comparative purposes.*

Profit from operations increased by 36.9% versus the EBITDA increase of 23.1%. This differential is mainly due to the reversal of the net amount of R53 million of the impairment of the Mozambique assets of R268 million provided for in 2005, as well as the reversal of infrastructure depreciation with the implementation of IAS 16: Property, Plant and Equipment.

### *South Africa*

Vodacom South Africa's profit from operations increased by 30.0% to R8.6 billion (2005: R6.6 billion) for the year and profit from operations margin increased to 27.7% (2005: 26.4%) for 2006 despite more competitive operating conditions and increased interconnect costs due to the negative impact of the change in traffic mix.

Operating expenses in South Africa grew by 22.7% versus the revenue growth of 24.1%, resulting in the increased South African margins.

### *Tanzania*

Vodacom Tanzania's profit from operations improved by 43.7% to R263 million (2005: R183 million) for the year and the profit from operations margin increased to 20.0% (2005: 19.1%). The improvement in profit from operations was driven by the growth in customers, aided by sound cost management.

### *Democratic Republic of Congo*

Vodacom Congo experienced excellent growth with profit from operations increasing by 134.0% to R117 million (2005: R50 million) for the year and operating profit margin increased to 8.8% (2005: 4.7%). The profit from operations improvement was as a result of sturdy cost management and increased revenue generated by the larger customer base.

### *Lesotho*

Vodacom Lesotho's profit from operations increased by 104.0% to R51 million (2005: R25 million) for the year and operating profit margin increased to 30.0% (2005: 18.2%), principally due to stringent cost management and increased revenue.

### *Mozambique*

Vodacom Mozambique's loss from operations decreased to R144 million (2005: R454 million loss) for the year, primarily due to the net impairment charge reversal of R53 million and increased revenue as a result of the increase in the customer base.

*Holding companies*

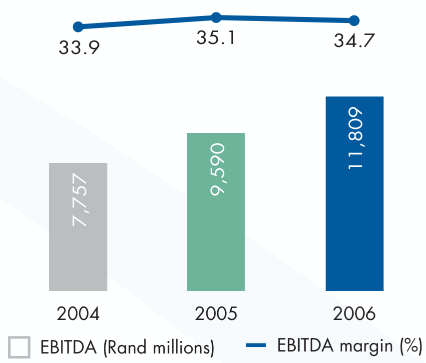
The holding companies had a loss from operations of R23 million (2005: R56 million profit), due to factors such as the provision for executive long-term incentives and costs incurred with the unsuccessful attempt to acquire an interest in the Nigerian market.

## EBITDA

EBITDA increased by 23.1% to R11.8 billion (2005: R9.6 billion) for the year ended March 31, 2006, with South Africa (including holding companies) contributing 93.4% and the other African operations contributing 6.6% to EBITDA. The EBITDA margin decreased to 34.7% (2005: 35.1%).

The decline in the EBITDA margin is primarily the result of the full year impact of the global alliance fees paid to Vodafone, higher transmission and infrastructure costs as well as higher call centre costs, especially in South Africa and Tanzania. Vodacom's EBITDA margin, adjusted for the impact of low margin cellular phone and equipment sales, was 39.9% (2005: 40.1%).

EBITDA and EBITDA margin




### EBITDA – GEOGRAPHICAL SPLIT

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|
| South Africa, excluding holding companies[1] | 7,526 | 8,995 | **11,053** | 19.5 | **22.9** |
| Tanzania | 278 | 345 | **465** | 24.1 | **34.8** |
| DRC[2] | 97 | 252 | **373** | 159.8 | **48.0** |
| Lesotho | 27 | 48 | **67** | 77.8 | **39.6** |
| Mozambique | (71) | (111) | **(129)** | (56.3) | **(16.2)** |
| Holding companies | (100) | 61 | **(20)** | 161.0 | **(132.8)** |
| **EBITDA** | **7,757** | **9,590** | **11,809** | **23.6** | **23.1** |
| DRC (49%)[2] | 93 | – | **–** | – | **–** |
| **Adjusted EBITDA** | **7,850** | **9,590** | **11,809** | **22.2** | **23.1** |

*Notes*

1. *The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The impact of these restatements is immaterial.*
2. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted EBITDA for 2004 reflects 100% of Vodacom Congo's EBITDA for comparative purposes.*

## Operating expenses

### OPERATING EXPENSES COMPOSITION

| Year ended March 31 | 2004 | Rand millions 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|
| Depreciation, impairment and amortisation | 2,532 | 3,112 | **2,943** | 22.9 | **(5.4)** |
| Payments to other network operators | 2,990 | 3,652 | **4,634** | 22.1 | **26.9** |
| Other direct network operating costs | 9,445 | 10,966 | **13,663** | 16.1 | **24.6** |
| Staff expenses | 1,332 | 1,653 | **2,042** | 24.1 | **23.5** |
| Marketing and advertising | 702 | 767 | **977** | 9.3 | **27.4** |
| General administration expenses | 687 | 751 | **1,043** | 9.3 | **38.9** |
| Other operating income | (58) | (64) | **(125)** | 10.3 | **95.3** |
| **Operating expenses[1]** | **17,630** | **20,837** | **25,177** | **18.2** | **20.8** |

*Note*

1. *The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The impact of these restatements is immaterial.*

*Depreciation, amortisation and impairment*

Depreciation, amortisation and impairment decreased by 5.4% to R2.9 billion (2005: R3.1 billion) in the year ended March 31, 2006. The implementation of IAS 16: Property, Plant and Equipment contributed to the lower depreciation charge for the period. A portion of Mozambique's asset impairment of the prior year was reversed due to an increase in the fair value of infrastructure assets (net impairment reversal for the year: R53 million). A comparison of the exchange rates applicable to Vodacom is presented under the section "Financial instruments and risk management".

*Payments to other network operators*

Payments to other network operators increased by 26.9% to R4.6 billion (2005: R3.7 billion) in 2006 as a result of an increased amount of outgoing traffic terminating on other cellular networks, rather than on fixed-line networks. As the cost of terminating calls on other cellular networks is materially higher than calls terminating on fixed-line networks and as mobile substitution increases with the growing number of total mobile users in South Africa, interconnection charges will continue increasing, putting pressure on margins.

*Other direct network operating costs*

Other direct network operating costs increased by 24.6% to R13.7 billion (2005: R11.0 billion) in the year ended March 31, 2006. Other direct network operating costs include the cost to connect customers onto the network as well as expenses such as cost of equipment and accessories sold, commissions paid to the distribution channels, customer retention expenses, regulatory and licence fees, distribution expenses, transmission costs as well as site and maintenance costs.

*Staff expenses*

Staff expenses increased by 23.5% in the year ended March 31, 2006 to R2.0 billion (2005: R1.7 billion), primarily as a result of an increase in headcount of 9.3% to 5,459 (2005: 4,993) employees in 2006, to support the growth in operations, an increase in the provision for Vodacom's bonus schemes due to increased profits, the first time provision for long-term incentives payable to executives as well as annual salary increases.

Total headcount in Vodacom's South African operations (including holding companies) increased by 8.8% to 4,302 (2005: 3,954) employees. Total headcount in other African operations increased by 11.4% to 1,157 (2005: 1,039) employees to meet the demands of the rapid expansion of these operations. Employee productivity has improved in all of Vodacom's operations, as measured by customers per employee, improving by 38.9% to 4,308 (2005: 3,101) customers per employee.

*Marketing and advertising*

Marketing and advertising expenses increased by 27.4% in 2006 to R977 million (2005: R767 million), mainly driven by new technologies and enhancing brand presence in all operations.

*General administration expenses*

General administration expenses increased by 38.9% to R1.0 billion (2005: R751 million), where the increase was primarily as a result of the customer care centre solutions and various other increases due to growth in the business. General administration expenses comprise expenses such as accommodation, information technology costs, office administration, consultant expenses, social economic investment and insurance.

*Other operating income*

Other operating income increased by 95.3% to R125 million (2005: R64 million). Other operating income comprises income that Vodacom does not consider as part of its core activities, such as cost recoveries for risk management and consultancy services and franchise fees received.

## Capital expenditure

CAPITAL EXPENDITURE ADDITIONS – GEOGRAPHICAL SPLIT

| | Rand millions | | | % of total | | | % change | |
|---|---|---|---|---|---|---|---|---|
| **Year ended March 31** | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** | **05/04** | **06/05** |
| South Africa, excluding holding companies | 1,654 | 2,777 | **4,384** | 57.2 | 79.5 | **85.3** | 67.9 | **57.9** |
| Tanzania | 351 | 234 | **318** | 12.1 | 6.7 | **6.2** | (33.3) | **35.9** |
| DRC[1] | 395 | 335 | **273** | 13.7 | 9.6 | **5.3** | (15.2) | **(18.5)** |
| Lesotho | 7 | 10 | **26** | 0.3 | 0.3 | **0.5** | 42.9 | **160.0** |
| Mozambique | 478 | 115 | **121** | 16.5 | 3.3 | **2.4** | (75.9) | **5.2** |
| Holding companies | 6 | 23 | **16** | 0.2 | 0.6 | **0.3** | 283.3 | **(30.4)** |
| **Capital expenditure for the year** | **2,891** | **3,494** | **5,138** | **100.0** | **100.0** | **100.0** | **20.9** | **47.1** |
| DRC (49%)[1] | 380 | – | **–** | – | – | **–** | – | **–** |
| **Adjusted capital expenditure** | **3,271** | **3,494** | **5,138** | **100.0** | **100.0** | **100.0** | **6.8** | **47.1** |

*Note*

1. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted capital expenditure reflects 100% of Vodacom Congo's capital expenditure for the prior period for comparative purposes.*

CUMULATIVE CAPITAL EXPENDITURE – GEOGRAPHICAL SPLIT

| | 2005 | | 2006 | |
|---|---|---|---|---|
| Year ended March 31 | R billions | Foreign | R billions | Foreign |
| South Africa, excluding holding companies (R billions) | 20.3 | – | **24.1** | **–** |
| Tanzania (TSH billions) | 1.4 | 240.1 | **1.5** | **297.6** |
| DRC (US$ millions) | 1.8 | 281.0 | **2.0** | **323.1** |
| Lesotho (Maloti millions) | 0.2 | 211.0 | **0.2** | **225.0** |
| Mozambique (MZM billions) | 0.7 | 2,173.7 | **0.6** | **2,644.6** |
| Holding companies (R billions) | – | – | **0.1** | **–** |
| **Cumulative capital expenditure** | **24.4** | **–** | **28.5** | **–** |

The total cumulative capital expenditure of the Group at March 31, 2006 increased by 16.8% to R28.5 billion (2005: R24.4 billion). The Group invested R5.1 billion (2005: R3.5 billion) in property, plant and equipment and computer software for 2006, of which R4.2 billion (2005: R2.8 billion) was for cellular network infrastructure (excluding software).

It is Vodacom's policy to hedge all foreign denominated commitments of South African operations. However, Vodacom does not qualify for hedge accounting in terms of IAS 39 and, therefore all capital expenditure in South Africa is recorded at the exchange rate ruling at the date of acceptance of the equipment. Capital expenditure of Vodacom's other African operations is translated at the average exchange rate of the Rand against the operation's reporting currency for the period, while closing capital expenditure is translated at the closing exchange rate of the Rand against the reporting currency. For this reason, Vodacom's capital expenditure in any given year cannot be properly evaluated without taking the exchange rate movements against the Rand into account, which are shown under the section "Financial instruments and risk management".

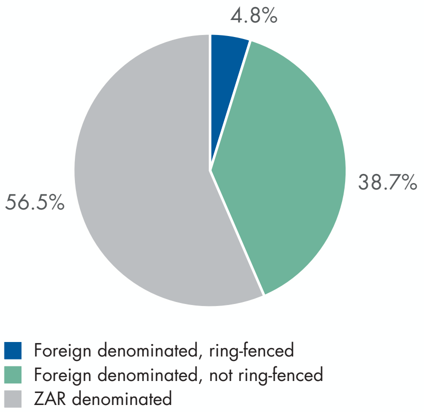
## Financial structure and funding

Vodacom's net debt position has increased to R709 million (2005: R426 million) as at March 31, 2006. The Group's net debt to EBITDA ratio was 6.0% (2005: 4.4%) while Vodacom's net debt to equity ratio increased to 8.2% (2005: 5.4%). However, the final dividend of R2.8 billion, which was paid on April 5, 2006, should be taken into account when evaluating the net debt to equity ratio. In addition, in terms of covenant calculations, intangible assets are excluded from the calculation. If the shareholders for dividends is included in, and intangible assets are excluded from the calculation, the net debt to equity ratio at March 31, 2006, increased to 45.9% (2005: 32.0%).

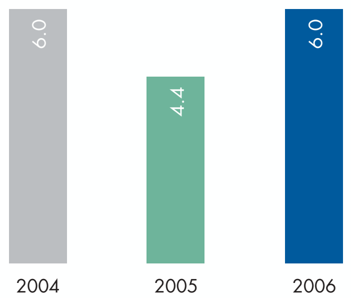
## SUMMARY OF NET DEBT AND MATURITY PROFILE

| Year ended March 31 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 onwards |
|---|---|---|---|---|---|---|---|---|
| | Rand millions | | | | | | | |
| | | | Repayment of 2006 debt | | | | | |
| **Finance leases** | | | | | | | | |
| South Africa | 858 | **808** | 79 | 114 | 192 | 99 | 162 | 162 |
| **Funding loans** | | | | | | | | |
| Vodacom Tanzania shareholder and project finance loans | 369 | **275** | 184 | – | – | – | – | 91 |
| Vodacom Congo medium-term loan | 1,129 | **1,114** | 1,114 | – | – | – | – | – |
| Vodacom Congo preference share liability | 232 | **229** | 229 | – | – | – | – | – |
| Vodacom Lesotho minority shareholders' loan | 4 | **4** | 4 | – | – | – | – | – |
| Other | 7 | **39** | 39 | – | – | – | – | – |
| **Debt excluding bank overdrafts** | **2,599** | **2,469** | **1,649** | **114** | **192** | **99** | **162** | **253** |
| Bank overdrafts | 1,817 | **1,386** | | | | | | |
| **Gross debt** | **4,416** | **3,855** | | | | | | |
| Bank and cash balances | (3,990) | **(3,146)** | | | | | | |
| **Net debt** | **426** | **709** | | | | | | |

Gross debt composition including bank overdrafts
R3,855 million




Net debt/EBITDA
%



## Funding sources

Vodacom's ongoing objective is to fund all its other African operations by means of project finance, structured such that there is no recourse to our South African operations. Strong South African cash flows would therefore be utilised principally to pay dividends and make new growth-enhancing investments. The Group utilises own funds and supported funding structures, subject to South African Reserve Bank's approval, to fund offshore investments in the initial stages of the investment, until the project is able to support project funding.

While Vodacom has project funding in place for their Tanzania investment, at this stage, Vodacom Congo and Vodacom Mozambique are still substantially dependent on funding from South Africa. These operations are funded by a mix of market priced direct loans, as well as security to facilitate their own credit lines.

In South Africa, debt consists of finance lease liabilities of R808 million (2005: R858 million) and net positive bank balances of R1.8 billion (2005: R2.2 billion) held principally on money market at variable rates. Vodacom has funded all of its major properties by way of finance leases.

## Financial instruments and risk management

Subject to central bank regulations in the various countries as well as the local market condition restrictions, Vodacom actively manages foreign currency risk, interest rate risk, credit risk and liquidity risk on an ongoing basis. Management believes that Vodacom's procedures are adequate for the organisation. The Group's risk management procedures are described fully in the Group's Annual Financial Statements.

### FOREIGN EXCHANGE RATES

| | Rand exchange rate | | | % change | |
|---|---|---|---|---|---|
| **Year ended March 31** | **2004** | **2005** | **2006** | **05/04** | **06/05** |
| **US Dollar** | | | | | |
| Average | 7.17 | 6.24 | **6.40** | 13.0 | **(2.6)** |
| Closing | 6.32 | 6.27 | **6.19** | 0.8 | **1.3** |
| **Tanzanian Shilling** | | | | | |
| Average | 163.31 | 175.01 | **180.72** | 7.2 | **3.3** |
| Closing | 174.19 | 176.68 | **198.03** | 1.4 | **12.1** |
| **Mozambican Metical** | | | | | |
| Average | 3,734.52 | 3,418.17 | **3,891.25** | (8.5) | **13.8** |
| Closing | 3,745.36 | 3,122.82 | **4,372.15** | (16.6) | **40.0** |

## Taxation

The taxation expense increased by 17.8% to R3.1 billion (2005: R2.6 billion) for the year ended March 31, 2006, mainly due to a significant increase in secondary taxation on companies ("STC") paid on higher dividends, unutilised tax losses in Mozambique as well as higher South African normal taxation. Vodacom's effective tax rate decreased to 37.5% (2005: 40.2%) primarily as a result of the reduction in the statutory South African tax rate of 1% point to 29.0% (2005: 30.0%), as well as no additional Mozambique impairments being raised in the current period for which no deferred taxation asset was recognised. STC increased Vodacom's effective tax rate by 6.9% (2005: 6.6%).

## Shareholder distributions

Dividends declared for the 2006 financial year totalled R4.5 billion (2005: R3.4 billion), an increase of 32.4%. The final dividend of R2.8 billion was paid on April 5, 2006.

## Cash flow

Vodacom had a positive free cash flow before shareholder distributions and financing activities of R3.2 billion (2005: R3.9 billion), a decrease of 17.3% compared to the prior year, mainly due to the increase of capital expenditure of R1.5 billion as well as increased tax on higher profits and higher STC on increased dividends. The cash generated from operations had a positive variance of R1.1 billion.

## Conclusion

Vodacom has performed well in an evolving and competitive African market. The South African market continues its robust trend and management believes that the market is far from being saturated. The strong cash generation ability of Vodacom's South African operations ensured a healthy consolidated balance sheet, despite substantial dividend payouts. High confidence levels in the success of all its operations remains unscathed despite the competitive playing field and rigorous challenges presented by regulatory constraints. In South Africa, Vodacom intends to strategically position itself to negate the impact of the pending deregulation of the South African market and plans to seize any emerging opportunities. With its strong brand and strong balance sheet, the Group is well positioned to remain the leading player in the main markets in which it operates.

**Leon Crouse**

*Chief Financial Officer*

*Vodacom Group (Proprietary) Limited*

On December 1, 2005, **Vodacom** became the first South African cellular network to bring you **Mobile TV**