

REVIEW OF OPERATIONS

VODACOM TANZANIA



Romeo Kumalo
 Managing Director
 Vodacom Tanzania Limited

Overview

Vodacom Group (Proprietary) Limited owns a 65% interest in Vodacom Tanzania Limited; two local shareholders, Planetel Communications Limited and Caspian Construction Limited hold the remaining 16% and 19% respectively. Vodacom Tanzania was issued its licence in December 1999 and commenced operations in August 2000. Vodacom Tanzania became the largest mobile operator in the country within one year of launching and remains the largest mobile communications network operator in Tanzania.

The company's operating results were well above expectations for the year ended March 31, 2006, driven primarily by the substantial growth in the subscriber base.

Infrastructure

Vodacom Tanzania focused its infrastructure investment in building core capacity to accommodate the substantial growth in the subscriber base during the year. New network coverage has been at acceptable levels with an emphasis on building capacity sites to improve quality of service in the existing coverage areas.

Products and services

During the course of the year the company introduced Vodafasta, a dynamic recharge product which allows prepaid customers to electronically recharge airtime via registered vendors. This product enhances the availability of Vodago prepaid airtime and reduces the cost of physical distribution. It is

anticipated that this will become the preferred recharge method for public phone operators with less reliance placed on the traditional "Adondo" unit. Vodachoice continues to be the preferred contract package although Vodajazza, a contract hybrid product offered on the prepaid billing platform, has gained popularity in the corporate market. Vodatariffa, a premium rated SMS-based information service, continues to support the standard SMS product.

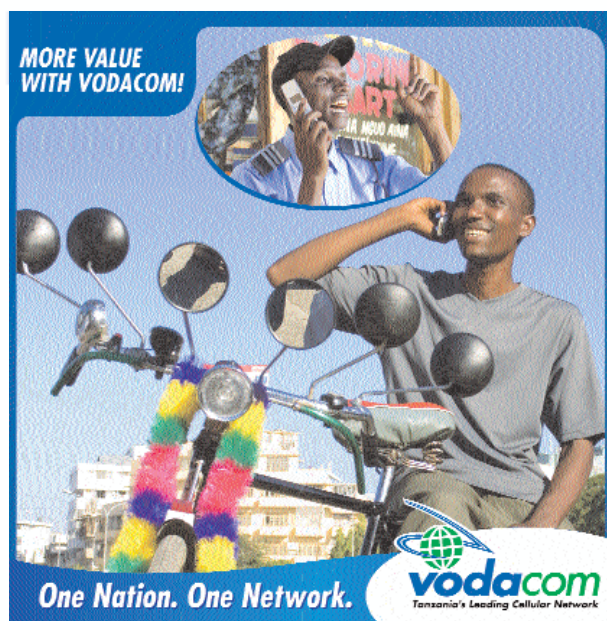
Customers

The Vodacom Tanzania customer profile is currently 99.6% (2005: 99.3%) prepaid, 0.3% (2005: 0.4%) contract and 0.1% (2005: 0.3%) public phones. The total customer base at March 31, 2006 was 2,091,000 (2005: 1,201,000), a substantial increase of 74.1%. This growth has primarily been achieved by an increase in the prepaid customer base of 74.4% to 2,081,000 (2005: 1,193,000). Gross connections of 1,353,000 (2005: 746,000), represents an increase of 81.4% over the year. The churn rate has decreased to a rate of 28.5% (2005: 29.6%). The company continues to introduce more effective methods and channels of distribution to ensure product availability throughout the country.

Competition

There are three other mobile operators licensed in Tanzania namely Mobitel, Celtel and Zantel. Zantel, which had historically operated exclusively on the island of Zanzibar, moved onto the

Review of operations – Vodacom Tanzania continued



mainland during the year and enhanced their coverage by entering into a national roaming agreement with Vodacom Tanzania, effective from July 31, 2005. Tanzanian Telecommunications Company Limited ("TTCL") relinquished their majority shareholding position in Celtel and subsequently Celtel International B.V. was acquired by Mobile Telecommunications Company ("MTC") of Kuwait.

There was no national prepaid tariff reduction during the year. Contract off-net tariffs were reduced in order to re-align them with the competition. The benefits of diversification of the international carriers allowed Vodacom Tanzania to reduce international call tariffs towards the end of the year. The estimated market share is 58% (2005: 59%).

Employees

Vodacom Tanzania had a total headcount of 438 (2005: 340) employees as at March 31, 2006. Included in the headcount were 10 secondees, employed out of Vodacom International Limited (Mauritius).

Vodacom Tanzania continues to support the development of local Tanzanian skills and views employee relations as a key factor in ensuring a positive working environment. Staff issues are addressed via a consultative forum where staff are given a platform to address issues. Agreed actions are monitored on a monthly basis.

Regulatory

The regulatory environment has been dominated by the negotiation of the terms and conditions of migration of Vodacom's existing licence to the new regulatory framework, which has not been finalised at year end. Vodacom Tanzania also applied for its own international gateway licence as part of this process.

In February 2006, the Tanzanian Communications and Regulatory Authority, after review, issued new interconnection rates for both mobile and fixed operators. The mobile termination rate was reduced from 8.9 US cents to 8.0 US cents from March 1, 2006, slightly above the glide path previously published at 7.9 US cents. This rate will remain in place until December 31, 2007.

Poverty relief

Among other donations, Vodacom Tanzania handed over a contribution of TSH1 billion (US\$820,000) to the government, which was used towards the national drought emergency that crippled the country. This contribution, in response to government's call for private sector support, went a long way towards encouraging other Tanzanian corporations to provide cash and in-kind support. The total private contribution is presently valued at TSH3 billion.

Prospects

Vodacom is anticipating substantial growth in its existing business, customer base and profitability in the coming financial year, which will be achieved by improved coverage and quality of service to existing customers. In addition, the company will also initiate the implementation of a comprehensive data strategy, which will include the implementation of 3G HSDPA.

The ability to manage costs in line with the ARPU's and harness skills and resources to expand existing business and introduce new products and services will be critical to achieving the company's objectives going forward.

Romeo Kumalo

*Managing Director
Vodacom Tanzania Limited*

KEY INDICATORS

	Year ended March 31			% change	
	2004	2005	2006	05/04	06/05
Customers ('000)¹	684	1,201	2,091	75.6	74.1
Contract	5	5	7	-	40.0
Prepaid	676	1,193	2,081	76.5	74.4
Community services	3	3	3	-	-
Gross connections ('000)	404	746	1,353	84.7	81.4
Churn (%)	30.0	29.6	28.5	(0.4)	(1.1)
ARPU (Rand)²	128	81	67	(36.7)	(17.3)
Cumulative capex (Rand millions)	1,146	1,359	1,503	18.6	10.6
Number of employees³	316	340	438	7.6	28.8
Customers per employee	2,165	3,532	4,774	63.1	35.2
Mobile penetration (%)⁴	3.3	5.1	9.2	1.8	4.1
Mobile market share (%)⁴	57	59	58	2.0	(1.0)

Notes

1. Customer totals are based on the total number of customers registered on Vodacom's network which have not been disconnected, including inactive customers, as of end of the period indicated.
2. ARPU is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period. ARPU excludes revenue from equipment sales, other sales and services and revenue from national and international users roaming on Vodacom's networks.
3. Headcount includes secondees.
4. Penetration and market share is calculated based on Vodacom estimates.