

REVIEW OF OPERATIONS



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VM, S.A.R.L. t/a Vodacom Mozambique

VODACOM MOZAMBIQUE



Overview

Vodacom Mozambique was established on October 23, 2003. Vodacom owns 98% of VM, S.A.R.L., trading as Vodacom Mozambique, and the remaining 2% is held by a local consortium named Empresa Moçambicana de Telecomunicações ("EMOTEL").

Vodacom Mozambique's licence is a second generation ("2G") global system for mobile communication ("GSM") licence and will expire in December 2018.

The company is functioning in an extremely challenging environment which is underpinned by fierce competition, unstable regulatory regime, the complete rebuild of the distribution channel, low minutes of use and low ARPUs.

Infrastructure

Vodacom Mozambique's infrastructure roll-out consists of one MSC, four BSCs and 169 BTSs as at March 31, 2006. The network had a home location register ("HLR") capacity of one million customers as at that date, with an increase to a capacity of 1.5 million planned for 2007.

Vodacom Mozambique's cumulative capital expenditure (excluding the licence) at March 31, 2006 amounts to

MZM2,644.6 billion (2005: MZM2,173.7 billion), or R605 million (2005: R696 million). General packet radio service ("GPRS")/enhanced data for GSM evolution ("EDGE") will be implemented by the end of June 2006 for contract customers and at the end of July 2006 for prepaid customers.

Products and services

The current package offerings consist of: Bazza Bazza, a prepaid product; Fale 50, 100 and 150, bundled airtime contract products; and Fale Mais 236, Fale Mais 500 and Empresas, hybrid contract products. The community service product named Alo, Alo, was launched in October 2005 to cater for the needs of the under-served communities in Mozambique.

This year marked the launch of a range of new and innovative product and promotional offerings. These include: Bradas, offering friends and family discount on three on-net numbers; free hours offering free talktime on weekends based on spend targets; bonus SMS on recharges; airtime transfer, for both contract to prepaid and prepaid to prepaid; premium rated SMS and interactive voice response ("IVR") competition lines; ringtones and logos; flexible Top Up hybrid offerings and various others.

These, together with tariff rationalisation, have stimulated growth and enhanced the customer value proposition. The year ahead



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will witness the introduction of GPRS/EDGE and related services on a national basis to further enhance Vodacom's product offering, especially to the high-value corporate market.

Customers

During the year under review, Vodacom Mozambique managed to increase its customer base by 84.9% to 490,000 (2005: 265,000) as at March 31, 2006.

The substantial increase in total customers is a result of 342,000 (2005: 225,000) gross connections for the year, offset by a churn rate of 32.2% (2005: 11.3%). Prepaid packages account for 98.6% (2005: 98.5%) of the gross connections.

The complete redesign of the super dealer incentive structures, moving to an exclusive distribution arrangement, expansion of the distribution network and the introduction of regional distribution centres all contributed to these results.

This growth is primarily due to the restructuring of the commercial incentive model to distribution partners which included a growth incentive and stretch parameters.

Competition and market share

Vodacom Mozambique's only competition is Moçambique Cellular ("mCel"), a company owned by Telecomunicações de Moçambique ("TDM"), the state-owned fixed line operator.

Given mCel's parastatal heritage, it is in the unique position to have derived extraordinary benefits due to it being part of the larger system of state-owned enterprises. Consequently, Vodacom has had to deal with the situation where factors within the Mozambican business environment have not always resulted in the realisation of equitable market dynamics.

Vodacom Mozambique has managed to maintain its market share of 30% (2005: 33%) by focusing on coverage expansion, building sound distribution and delivering innovative value propositions underscored by a warm and receptive brand identity. A unique point of differentiation for Vodacom Mozambique has come from its corporate social investment projects which saw the complete reconstruction of a school in Maputo and the donation of sorely needed books and encyclopaedias to schools nationally.

Review of operations – Vodacom Mozambique continued

mCel continues to be an aggressive competitor and has displayed a pattern of imitation on the basis of having introduced exact copies of Vodacom's product offerings. Given their greater financial and market power they remain a formidable opponent in the foreseeable future. As of February 2006, mCel had soft-launched its GPRS offering to contract customers in the Maputo area.

Employees

The headcount for Vodacom Mozambique was 170 (2005: 109) as at March 31, 2006.

Vodacom Mozambique continues to support the development of local skills. A succession plan and development programmes were implemented to transfer skills and knowledge to the local employees. Staff issues are addressed via a consultative forum where they are given a platform to address issues. Vodacom Mozambique embarked on an HIV/Aids education and awareness campaign in December 2005 that included an industrial theatre and various speakers. This was well received by the employees.

Regulatory

The Ministry of Commerce and Trade is preparing a competition policy for Mozambique. The project is funded by United States Agency for International Development ("USAID") and the World Bank. A discussion document has been circulated for comment and Vodacom Mozambique is a member of the ministerial task force that is assisting in the development of the policy.

All operators have been informed by the Instituto Nacional das Comunicações de Moçambique ("INCM") that all licences are to be re-issued in compliance with the new Telecommunications Law of 2004. This will mainly affect TDM and mCel as they had up to now not been issued with formal licences. Vodacom Mozambique was invited to submit suggestions to any amendments it wishes to make to its existing licence.

In March 2006 the INCM was formally notified by the Administrative Tribunal that, upon Vodacom Mozambique's application, Resolution 10/05 of December 20, 2005 that established significantly lower interconnection rates have been

suspended. The INCM is waiting to reduce interconnection rates. Current attempts are being resisted to ensure that the proper procedure is followed.

INCM's consultants, Intelcon, released their report on the proposed pilot project to introduce universal access followed by a workshop to discuss the pilot project and proposed legislation to govern administration of the universal access fund. The pilot project will focus on areas in Zambezia and Nampula provinces in the northern parts of Mozambique. The project will be funded by the World Bank and a subsidy of US\$3.2 million is to be allocated to the successful bidder. Operators are invited to bid for the project. Apart from providing the necessary coverage, the winning operator is expected to roll-out over 900 community payphones and provide the necessary support to the operators of these phones. The tender document is expected to be released by September 2006, with the project to commence in December 2006.

Prospects

The fledgling operation has demonstrated exemplary performance despite the challenges of inequitable market dynamics. Vodacom Mozambique is optimistic that the year ahead will prove to offer further growth insofar as its customer base and profitability is concerned as we drive to redress the present financial loss situation.

The ability to strictly manage costs in the face of low ARPUs and low minutes of usage, whilst expanding coverage and distribution and intensifying the promotional and product offerings will be critical to achieving improved results.

José dos Santos

Managing Director

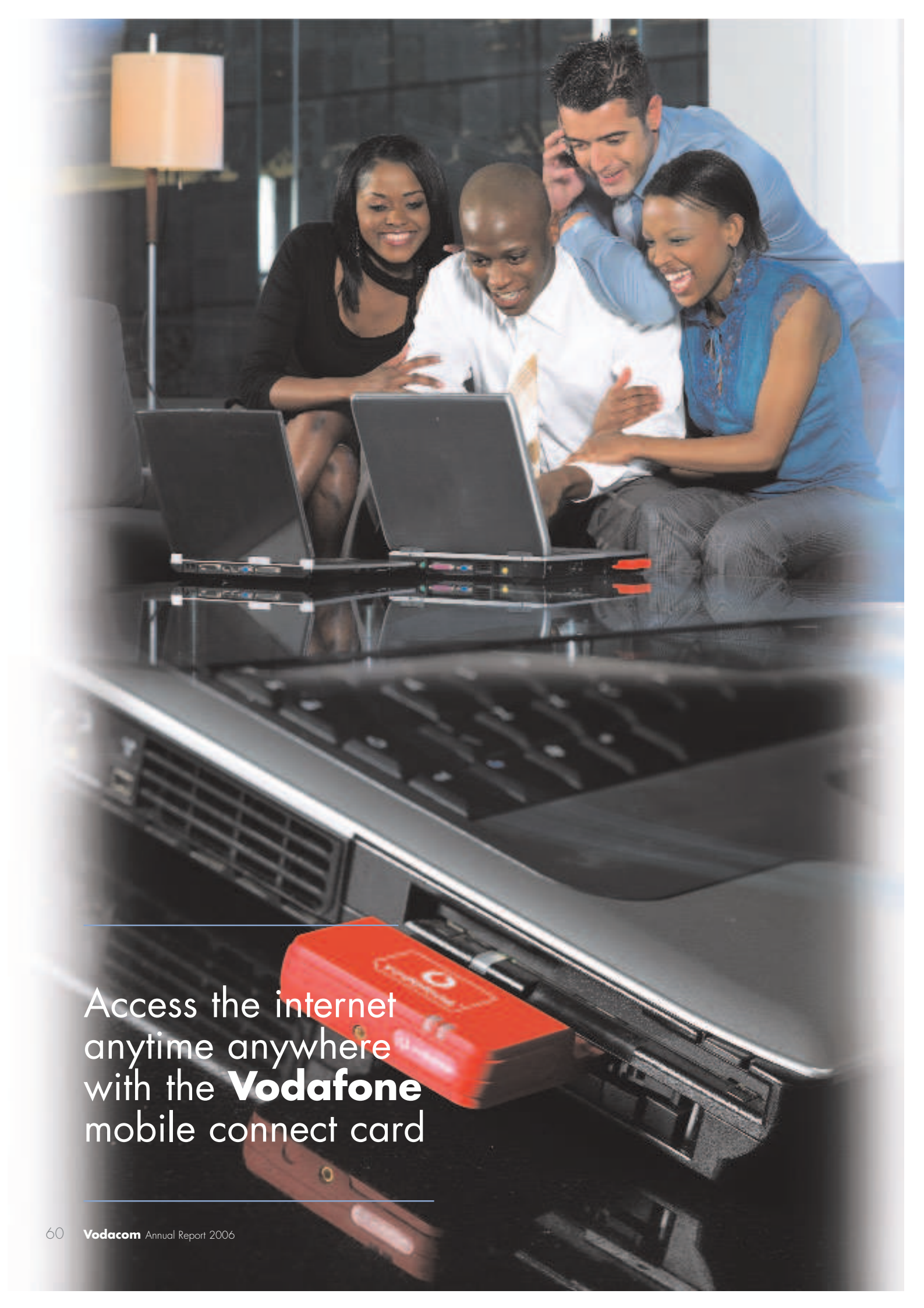
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KEY INDICATORS

	Year ended March 31			% change	
	2004	2005	2006	05/04	06/05
Customers ('000)¹	58	265	490	356.9	84.9
Contract	1	4	8	300.0	100.0
Prepaid	57	261	482	357.9	84.7
Gross connections ('000)	58	225	342	287.9	52.0
Churn (%)	0.3	11.3	32.2	11.0	20.9
ARPU (Rand)²	110	52	36	(52.7)	(30.8)
Cumulative capex (Rand millions)	478	696	605	45.6	(13.1)
Number of employees³	43	109	170	153.5	56.0
Customers per employee	1,349	2,431	2,885	80.2	18.7
Mobile penetration (%)⁴	2.6	4.2	8.4	1.6	4.2
Mobile market share (%)⁴	11	33	30	22.0	(3.0)

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.



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