

## REVIEW OF OPERATIONS

### VODACOM SOUTH AFRICA



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 Managing Director  
 Vodacom (Proprietary) Limited

#### Structure

The review of Vodacom's South African ("VSA") operations comprises Vodacom (Proprietary) Limited, Vodacom Service Provider Company (Proprietary) Limited ("VSPC") and Vodacom Properties No. 2 (Proprietary) Limited operations, but excludes Cointel VAS (Proprietary) Limited, Smartphone SP (Proprietary) Limited and its subsidiaries.

#### Service providers

Vodacom (Proprietary) Limited has contracts with a number of companies for the distribution of its services. These companies are referred to as service providers. They each have their own individual brand, manage the customer interface, are responsible for the billing and credit control of their own customers on behalf of Vodacom (Proprietary) Limited and provide individualised value-added services such as customer care, insurance, itemised billing, etc. Vodacom distributes its services through five service providers.

VSPC is one of those service providers and distributes only Vodacom services. VSPC remains the flagship of our service

provider channel, managing 70.9% (2005: 66.7%) of the total customer base and 75.1% (2005: 73.5%) of the contract base.

Vodacom services are also provided exclusively by the following service providers:

- Global Telematics (Proprietary) Limited, trading as Orchid; and
- Smartphone SP (Proprietary) Limited, a 51% subsidiary of Vodacom Group, trading as Smartcall and incorporating Smartcom (Proprietary) Limited.

Together the Vodacom Group controlled service providers, control 99.3% of the prepaid customer base and 83.5% of the contract customer base.

Vodacom services are also distributed through our valued independent (non-exclusive) service providers:

- Nashua Mobile (Proprietary) Limited; and
- Autopage Cellular (Proprietary) Limited.

## Review of operations – Vodacom South Africa continued



### Sales and marketing

#### Brand

The year under review produced another round of sterling brand performances in the annual Markinor-Sunday Times Top Brands survey, with Vodacom maintaining its position as the number one telecommunications brand in South Africa and third place as the overall favourite brand in the country (preceded by Coca-Cola and SAB in first and second positions, respectively). Brand Metrics was tasked to value the Vodacom brand during the year and calculated the value at a staggering R31 billion.

Vodacom's advertising has gained momentum over the year, with increased media efficiencies and high liking scores resulting in highly effective communications. This contributed to it being ranked in the top ten of "coolest" South African brands and taking the lead in the new category "favourite advertisers" – a tribute to the consistent popularity of the brand advertising. Vodacom's iconic Yebo Gogo advertising is rated as one of the most popular and successful campaigns ever produced in South Africa. The "Meerkat" television commercial for Vodacom's Yebo Feva summer promotion was voted as South Africa's best liked television commercial for 2005.

Vodacom remains the undisputed telecommunications leader in South Africa, with the most clearly differentiated and positive image in the market. As the South African market continues to mature and consumers become more discerning, Vodacom will need to continue evolving its image and offering to meet specific market segment needs – becoming a truly customer-centric brand.

#### Sponsorship

Vodacom continues to invest in sports sponsorships and is seen as the "greatest supporter of South African supporters". The list of sponsorships includes high profile sporting teams, such as the Springboks, and events such as the Vodacom Super 14 and Vodacom Challenge. Other sponsorships include the Vodacom Durban July, the Vodacom Blue Bulls, Vodacom Cheetahs, Vodacom Stormers, Bafana Bafana, Kaizer Chiefs and Orlando Pirates. The umbrella marketing campaigns around these sponsorships have increased brand popularity among South African supporters.

One of Vodacom's main objectives is to continue maximising the value achieved through its sports sponsorships by using these events to promote its products and services.

#### Distribution channels

As at March 31, 2006, Vodacom's distribution network consisted of the following:

- Vodaworld: a unique one-stop mobile telecommunications mall, showcasing the latest technology in cellular hardware;
- Dealers and franchises: 610 company and independently owned cellular dealer and franchise outlets which include Vodashop, Vodacare, Vodacom 4U and Vodacom Active stores;
- National chains: 9,870 retail outlets;
- Vodacom Direct: Vodacom's call centre-based selling division;
- Corporate solutions: an extensive direct sales division within Vodacom which concentrates on the sale of contracts, data products and value-added services to businesses;
- Wholesale: a significant channel representing the informal sector comprising of street vendors serving under-serviced areas; and
- Service provider distribution: consisting of direct, corporate dealers and franchise stores e.g. Smartcall, Smartcom, Nashua, Autopage, etc.

## Customers and traffic

### *Customer growth and connections*

The South African customer base continued to grow at exceptional rates this year, illustrating that the market is larger than previously forecasted. The total number of customers has increased by 49.3% to 19.2 million (2005: 12.8 million), with the majority of the growth coming from the prepaid market. The number of prepaid customers has increased by 53.3% to 16.8 million, while the number of contract customers has increased by 26.2% to 2.4 million. The strong growth in customers was a direct result of the remarkable number of gross connections achieved, with continued levels of handset support to service providers in respect of the contract base, coupled with decreased churn in the prepaid base.

Contract gross connections increased by 15.1% to 702,000 (2005: 610,000), while prepaid gross connections increased by 51.3% to 8.4 million (2005: 5.6 million), bringing the total number of connections for the year to 9.1 million (2005: 6.2 million). The growth in the contract connections was largely due to the increased connections in the hybrid product, Family Top Up. This product, allowing the customer to control his spend, has been particularly popular in the youth market.

The year under review was another year of records in South Africa, with over one million prepaid gross connections achieved in December 2005, the highest ever monthly figure; 44.3% more than the previous record of almost 700,000 in December 2004. Contract gross connections of 88,000, achieved in December 2005, was also the highest ever, 44.3% higher than the previously reported record of 61,000 in December 2004.

Loyalty and retention programmes continue to play an integral role in achieving the strategy of retaining market share and attracting new customers.

### *Average revenue per user ("ARPU")*

The developing market through the prepaid service has continued to drive market penetration in 2006 and has made up 92.1% (2005: 90.1%) of all gross connections. During the period under

review, ARPU decreased to R140 (2005: R163) per month due to the continued dilution caused by the higher proportion of lower ARPU prepaid and contract connections and lower usage due to the lower end of the market being penetrated.

Contract customer ARPU has decreased by 8.3% to R572 (2005: R624) per month. The main contributing factor to this decrease has been the high growth in data customers as well as in the low end hybrid, Family Top Up package. The prepaid customer ARPU has decreased by 11.5% to R69 (2005: R78) per month.

Community services ARPU has decreased by 22.6% to R1,796 (2005: R2,321) per month due to increased competition mainly from Cell C.

### *Churn*

The cost of acquiring contract customers in a highly developed market is considerable. Vodacom has therefore implemented upgrade and retention policies over the last couple of years to administer this. Through the continued high level of handset support to service providers and an improvement in service to customers, Vodacom has maintained a very low contract churn of 10.0% (2005: 9.1%) in 2006.

The developing prepaid market is characterised by low acquisition costs due to the flexibility required by this market to access our services. The decrease in prepaid churn experienced during the year under review to 18.8% (2005: 30.3%) is a result of a combination of the introduction of innovative products and services, loyalty initiatives and changes in business rules to ensure incentives are paid on factual connections.

### *Traffic and minutes of use*

Total traffic on the network, excluding the impact of national and international roaming, has shown an increase of 20.0% to 17.1 billion (2005: 14.2 billion) minutes in 2006. This growth was mainly due to the 49.3% growth in the total customer base from 12.8 million to a base of 19.2 million as at the end of March 2006. Also evident was a marked change in customer

## Review of operations – Vodacom South Africa continued

calling patterns, with total mobile-to-mobile traffic increasing by 26.1% while total mobile-to-fixed and fixed-to-mobile traffic increased by only 1.7%.

Minutes of use is reflective of voice trends outside and in excess of the bundle and shows a stabilised trend for the period under review. Contract minutes show an 8.8% decrease to 206 (2005: 226) minutes per customer per month for 2006, as a result of high sales on the low end hybrid product and prepaid minutes show a 5.8% decrease to 49 (2005: 52) minutes per customer per month in 2006.

### Market share

Despite strong competition, Vodacom has retained its leadership in the South African market with an estimated 58% (2005: 56%) market share as at March 31, 2006. The improved market share is as a result of the high growth in prepaid sales and the low

churn in both contract and prepaid. The cellular industry in South Africa has grown by an estimated 44% since March 2005, of which Vodacom has contributed approximately 63%. The market penetration of the cellular industry is now an estimated 71% (2005: 49%) of the population with a total cellular market of approximately 33 million (2005: 23 million) customers. Prepaid customers continue to dominate the market and comprise an estimated 85% (2005: 84%) of the total cellular market.

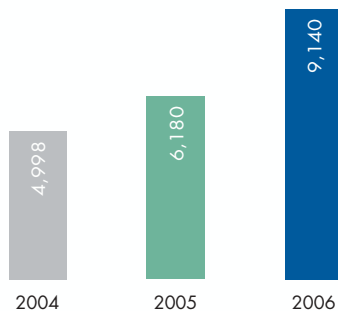
### Customer relationship management

As the cellular market in South Africa approaches saturation, it has become even more important to acquire and retain the right customers. To this end, customer relationship management remains a key strategic focus area.

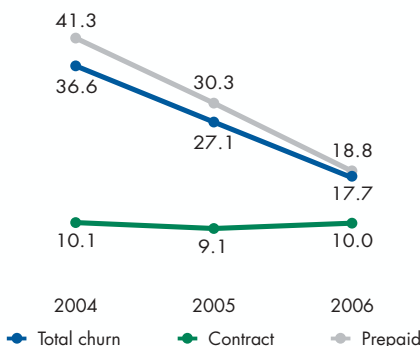
This year, most of our efforts in this area, were focused on rewarding customers for their loyalty. The launch of Yebo Millionaires, an SMS game show that is only open to Vodacom customers, whereby all customers receive two free SMSs to play the game and stand a chance of winning R1 million per week, is one of the loyalty initiatives launched this year. This initiative has been extremely successful and proved to be very popular in the emerging market. The Talking Points prepaid loyalty programme whereby prepaid customers earn points every time they recharge and can exchange these points for rewards such as cellphones, SMS bundles and call discounts has proved to be equally successful. Both these programmes have significantly contributed to the high levels of satisfaction among Vodacom's customers, evident in the customer satisfaction surveys conducted by the Department of Trade and Industry, where Vodacom achieved the highest score in the telecommunications and banking sectors. Similar surveys, based on best practices used by Vodafone, were conducted internally and rendered equally high scores for Vodacom.

These surveys enable Vodacom to better understand customer likes and dislikes and how customers would like Vodacom to interact with them. Using these insights, we ensure that our staff are trained to interact with customers in a customer-centric manner and that our business processes support our customer relationship management principles.

South Africa gross connections  
'000



South Africa churn history  
%



### *Customer Care*

Customer Care was split into two focus areas, namely Systems Support and Operations, and Retentions. This has provided greater focus and more effective span of control.

The outsourcing strategy was further expanded with directory enquiries and basic prepaid calls being managed by Bytes Technology and Dimension Data, respectively. This had a positive impact on the overall service level and freed in-house call centres to manage more complex type queries, particularly the growth in data. The interactive voice response ("IVR") now handles 75% of all customer interactions and escalated calls have reduced to 1% of all interactions. The e-mail contact centre was established and has experienced significant growth, with response times meeting set turn around targets.

The growth of the customer base has necessitated recruitment of an additional 1,000 customer care staff with 75% of the resources to be placed in the frontline to improve call handling capacity. The primary allocation of the additional resources was used to fill existing seating capacity in the Western Cape, Port Elizabeth and Midrand, however, the bulk is allocated to a new call centre in the city centre of Johannesburg. In March 2006, 250 flexi agents were selected and staggered training commenced on April 10, 2006. The go-live date for the first 250 agents in the Johannesburg call centre is scheduled for July 1, 2006. This will have a positive effect on service levels throughout customer care.

### *Walk-in customer care*

Dedicated customer care centres located in busy centres across the country continue to be highly successful in providing customers with a one stop shop, to address their customer service requirements. The success of these outlets is evident from the year on year increase of 19% in the foot traffic to these centres and contributed to the decision to increase the number of centres from four to five. In addition to the four centres currently located at Vodaworld in Midrand, Canal Walk in Cape Town, Gateway in Durban and Greenacres in Port Elizabeth, a fifth centre will soon be opened in Mimosa Mall in Bloemfontein. As data services

have become more popular, all of these centres have been upgraded to be able to assist customers with queries of a technical nature and in the case of the Vodaworld centre, a dedicated data centre has been created where customers receive personalised attention in resolving their highly technical data queries.

### *Vodacare*

Vodacare specialises in cellular repairs and consists of 28 branches and franchises in all the major centres providing walk-in customer support to Vodacom customers and an advanced repair centre hub for high level repairs situated in Midrand. With an average of over 60,000 repairs per month, this dedicated customer service support centre differentiates our offering from that of our competitors.

Vodacom's primary focus with respect to repairs is to manage and facilitate the process of putting the customer back on the air with as little interruption as possible. This is achieved by using a combination of repairs, swaps, refurbished handsets, loan handsets, the 48 hour swap programme, and managed repairs through third parties. Vodacom is proud of the fact that it is the only network to offer a two year warranty on phones that it supplies.

14% of high level repair customers have opted to use the 48 hour swap programme with the remainder of the high level repair customers selecting to use the seven day turnaround time programme by the advanced repair centre. The balance of the low level repair customers, which comprises 80% of the business, are serviced within 24 hours by the franchise service centres.

### **Products and services**

Vodacom has a culture of innovation and our record of accomplishments with regard to our product offering bears testimony to this. Recent significant products launched include HSDPA, 3G, BlackBerry® and Vodafone live!. Vodacom offers contract, prepaid, value-added voice and data services.

## Review of operations – Vodacom South Africa continued

### *Contract services*

Vodacom offers contract customers a range of mobile service packages designed to appeal to specific customer segments. Packages range from Weekend Everyday for consumer customers and business packages, such as Business Call, for business customers.

As of March 31, 2006, 12.3% (2005: 14.6%) of Vodacom's customers were contract customers. The high spending contract customer market is of strategic importance and therefore a number of retention and upgrade strategies have been implemented to retain these customers. The decrease in churn rates for contract customers bears testimony to our continued success in achieving this goal.

The innovative Top Up product launched in 2003, designed to facilitate migrations to contract packages from existing prepaid packages has proven highly successful and has contributed to the growth in contract customers. As at March 31, 2006, 27.6% (2005: 19.8%) of Vodacom's contract customers comprised Top Up customers.

### *Prepaid services*

The majority of Vodacom's customers are prepaid customers and at March 31, 2006 prepaid comprised 87.5% (2005: 85.2%) of the customer base.

Vodacom has three prepaid products, namely: Vodago, SmartStep and 4U. Our 4U offering, which is our per second billing option, continues to prove highly successful and as of March 31, 2006, 77.0% (2005: 70.7%) of Vodacom's prepaid customers were 4U customers.

### *Value-added voice and data services*

A comprehensive value-added services ("VAS") portfolio complements our contract and prepaid offerings. Vodacom's current data portfolio includes various pay-as-you-use and bundled GPRS as well as 3G offerings available to prepaid, Top Up and contract customers.

Vodacom was the first operator to introduce a commercial 3G offer into the local market in December 2004 and has created a new niche market in data-related products and services. The take-up by customers during this initial period of deployment has been encouraging. The number of active 3G handsets on the network as at March 31, 2006 was 179,576 (2005: 10,878). The 3G launch included a number of innovative products such as the Vodafone Mobile Connect Card. As at March 31, 2006 we already connected 37,798 (2005: 5,105) users.

Vodacom was also the first to launch BlackBerry® devices into the South African market, shifting the focus to data and e-mail on demand. As at March 31, 2006 we had acquired 12,028 BlackBerry® users.

During the year there was an increase in the usage of GPRS, with the number of GPRS users increasing to 1,386,329 (2005: 579,581) at March 31, 2006.

A major contributor to the number and volume of GPRS and 3G data traffic is Vodafone live!, which was launched on March 22, 2005 and by March 31, 2006 there were 351,427 users. On December 1, 2005 Vodafone Release 7 was launched with Welcome Tones and Mobile TV as major new services. By March 31, 2006 there were 16 channels available with 12,903 users.

On the VAS side, new and innovative additions include HSDPA, E-Billing and Look4me. Further additions and enhancements include SMS-only roaming; video telephony charged at the same rate as voice calls; video mail and the missed call keeper service.

Vodacom continued to deliver on its data strategy, which is centred on a wireless application service provider ("WASP") model for ease of connectivity and standardised interfaces. Currently, the WASP model is driven largely by consumer applications, with the majority of interest being in premium-rated outgoing SMS and bulk incoming SMS services. As of March 31, 2006, 152 (2005: 136) WASPs had applied for connectivity to the Vodacom network.

Premium rated SMS content is still focused on competitions, information and alert services. Consumer sensitivity to pricing appears to be stabilising, as average monthly volumes have grown to 13 million (2005: 7 million) premium rated SMSs.

### Community services

By March 31, 2006 Vodacom had deployed 30,287 (2005: 25,224) community service telephones in under-serviced areas, compared to the licence obligation of 22,000. These phones enable the residents of these areas to make phone calls at a highly subsidised price and continue to have a profound positive effect on residents in its vicinity.

### Handset sales

The number of handsets sold during the year was 3.8 million (2005: 2.4 million) units, an all-time high, which represented a year on year growth of 58.3% from 2005. Our state of the art warehouse in Midrand handled an average of 2,130 orders per day, up by 29.7% from the prior year figure of 1,642 orders per day. As a testimony to our proficiency at effective distribution, 98.1% of all deliveries to our distribution channels are finalised within 48 hours of receiving the order.

The Vodafone live! handset portfolio has increased significantly during the course of the year, which has accounted for 17% of our total sales for the year. 3G handset pricing has also reduced significantly in the last few months making the 3G handsets now more affordable. 3G data card sales have increased significantly since the launch in December 2004, accounting for 2% of total sales for the year. Bundling offers of the 3G data card with laptops, will be increased in the coming year with the introduction of embedded 3G modules in the laptops. Camera technology in the phones has improved with 1.3 mega pixel cameras being the standard, two mega pixel cameras now available on high end phones and up to five mega pixels will be available later in 2006. HSDPA handsets will also make their way into the market from May 2006.

### International and national roaming services

As at March 31, 2006, Vodacom had international roaming agreements with 350 mobile communications network

operators in 169 countries (2005: 301 network operators in 153 countries) for contract telephony services, 93 (2005: 31) GPRS roaming contracts, 36 (2005: 5) 3G roaming contracts and 22 (2005: 17) inbound prepaid roaming telephony contracts. Planned actions for 2007 will focus on the networks in the more popular destinations and to conclude 3G, GPRS, prepaid and SMS agreements with Vodafone and other networks to further enhance data offerings for roamers and visitors alike.

Vodacom has a national roaming agreement with Cell C which offers Cell C national roaming coverage for 15 years until March 31, 2019.

### Network infrastructure and technology

Vodacom operates the largest mobile communications network in South Africa with excellent network quality.

As at March 31, 2006 Vodacom had achieved the following rates based on statistics, carried out through vehicle trailing:

- 99.62% (2005: 99.54%) call set-up success rate;
- 99.64% (2005: 99.61%) call retention rate; and
- 99.26% (2005: 99.15%) call success rate.

The network continued to show improved performance as clearly reflected by the preceding trailing results. Extensive efforts were put into increasing the available MSC capacity through widespread upgrades to larger capacity power nodes. This has had an extremely positive impact on network call processor loads during high peak periods.

As at March 31, 2006 Vodacom's infrastructure covered an estimated 97.5% of the population, based on the available census information of 2001, and 69.4% of the geographical area of South Africa. The network's core GSM infrastructure as at March 31, 2006 consisted of:

- 58 mobile switching centres (including the VLRs and gateways);
- 280 base station controllers;
- 4,873 macro-base transceiver stations;
- 1,528 micro-base transceiver stations;
- 57,223 transceivers;

## Review of operations – Vodacom South Africa continued

- 5,882 sites (macro/micro combination) are activated with CS3 and 4;
- 1,153 sites are activated with EDGE; and
- GPRS functionality across the network.

The network's UMTS (3G) infrastructure as at March 31, 2006 consisted of:

- 14 radio network controllers;
- 1,504 UMTS base transceiver stations (NodeB);
- 4,512 UMTS transceivers; and
- HSDPA functionality across the 3G network.

Vodacom's transmission network comprised of 18,596 (2005: 15,036) E1 links and 228 (2005: 67) broadband

(STM-1/4 and TUG3) links leased from Telkom, which are managed by a comprehensive next generation SDH, digital cross-connect and multi-services platform infrastructure. In addition, Vodacom operates an extensive data network for its internal and commercial data requirements, based on internet protocol (IP MPLS). It comprised more than 50 nodes and is supported (for transport) by the Ethernet over SDH.

Vodacom continues to deploy GSM 1800 MHz radio equipment in all regions to provide additional customer capacity as necessitated by the increase in network traffic. Vodacom has operational dual band base stations in 1,599 locations in South Africa. These sites are comprised of 13,945 GSM 1800 MHz transceivers.

### BASE TRANSCIVER STATIONS

	Year ended March 31		
	2004	2005	2006
Macro-base transceiver stations	4,158	4,518	<b>4,873</b>
Micro-base transceiver stations	1,555	1,508	<b>1,528</b>
<b>Total</b>	<b>5,713</b>	<b>6,026</b>	<b>6,401</b>

### Procurement

Vodacom solicits bids for all goods and services in excess of R1 million. Bids are by invitation only via a closed tender system. A multi-disciplinary cross-functional team evaluates and awards bids to the best supplier based on the best overall score, taking into account technical specification, delivery time, costing, financial viability and black economic empowerment ("BEE"). Vodacom spent 66.2% of its eligible procurement expenditure with BEE companies against a target of 66% for the year. Vodacom seeks to utilise at least two suppliers for all critical equipment where possible, to minimise supply risk. Vodacom's main technology suppliers are Siemens for the core network and Alcatel and Motorola for the radio networks.

### Regulatory affairs

The regulatory environment has been vibrant over the past financial year with *inter alia* the Minister of Communications exercising her statutory authority to liberalise certain markets, the

licensing of seven of the under-served licensees and the publication of the Convergence Bill by the Parliamentary Portfolio Committee on Communications. The Information and Communication Technology ("ICT") BEE Charter, after more than a year of continued industry consultation and negotiation, is also nearing finalisation. The Charter will be subject to alignment with minimum requirements of the Department of Trade and Industry's ("DTI") Codes of Good Practice.

### Ministerial determinations

The Minister published liberalisation determinations in terms of the Telecommunications Act during September 2004. The effective date of the above-mentioned determinations was February 1, 2005. From this date, Vodacom's obligation to obtain its fixed links from Telkom has been lifted. The effect of the facilities provisioning determination is that Vodacom may self-provide its fixed links. Vodacom was awarded a frequency spectrum licence in the 38 GHz band to self-provide fixed links.



Additional applications were made for frequency spectrum in the 7 GHz and 15 GHz bands for fixed links, the 3.5 GHz band for WiMax (Fixed Wireless Access), and the C band (4/6 GHz) for fixed links via satellite. The prohibition on value-added network providers ("VANS") to carry voice on their facilities was also lifted. This resulted in Telkom decreasing international rates and has created opportunities for Vodacom to conclude agreements with VANS to terminate traffic on the Vodacom network.

#### *Under-served area licences ("USAL")*

Vodacom succeeded in concluding regional roaming agreements with six of the seven originally licensed USAL licensees. The closing date for bids for USAL licences for the next 14 USAL areas was April 22, 2005. A total of 43 companies and consortiums submitted bids. Vodacom has had contact with 18 of them and will proceed with negotiations with the potential USALs. The year provided feedback on the performance of the seven USALs that were licensed, which hopefully, will influence thinking around the licensing of the additional 14 USALs.

#### *Electronic Communications Act*

The Electronic Communications Act, No. 36 of 2005 (previously known as the Convergence Bill) was signed by the President and published on April 18, 2006. The Act introduces a new regulatory framework aimed at stimulating service-based competition and will come into operation on a date determined by the President by proclamation in the Gazette. The ICASA Amendment Bill was referred back to Parliament.

#### *ICT BEE Charter*

The draft ICT BEE Charter is expected to be aligned with the DTI Codes of Good Practice during July 2006 and released for public comment as a section 9(5) Sector Code. Implementation of the ICT Sector Code is projected for the end of 2006 by the Department of Communications. The final charter is due for implementation at the beginning of 2007. At the same time, the DTI developed Codes of Good Practice, which are presently being aligned with the Charter. The Codes are due for finalisation in July 2006.

#### *1800 MHz and 3G spectrum*

From a technical regulatory perspective, Vodacom is well positioned for future growth. Vodacom has permanent 1800 MHz and 3G spectrum licences. Both the 1800 MHz and 3G spectrum fees are the same as the 900 MHz spectrum fees. In light of this, Vodacom has accepted the additional universal service obligations imposed by ICASA, i.e. 2.5 million SIM cards and 125,000 handsets to be distributed over a period of five years to under-served persons in under-served areas and internet connectivity to 5,140 schools over a period of eight years. The Department of Communication has assisted in the identification of some beneficiaries within various government departments. The licence stipulates that roll-out can only commence upon approval of the implementation plans by ICASA. The implementation plans in respect of 1800 MHz and 3G was submitted to ICASA in August 2005, but approval has not yet been received. The airtime used on the SIM cards will be charged at a uniform commercial prepaid rate to be agreed between all three mobile cellular operators and the internet usage rates at a 50% discounted rate, as provided for in the Telecommunications Act.

#### *Number portability*

On September 30, 2005, ICASA published the number portability regulations and functional specification for mobile number portability ("MNP"), which required that MNP must be implemented by June 30, 2006. The industry implementation date is expected to be in September 2006. Vodacom is an active participant in the mobile industry body which was established to ensure the smooth implementation of MNP.

This body is well advanced in its preparation for the launch of MNP and has issued a request for proposals for a vendor to provide a centralised reference database solution to handle MNP. ICASA and the cellular operators have been in consultation over the past 10 months to agree to the functional and technical specifications to ensure compliance with the Act.

#### *Regulation of Interception of Communication and Provision of Communication-related Information Act ("RICA")*

The effective date of RICA was proclaimed at September 30, 2005 with the exception of the provisions dealing with customer

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registration which comes into effect on June 30, 2006. The cellular operators have succeeded in obtaining support in principle by the Department of Justice for an electronic registration process. The legislative amendments necessary to allow for such an electronic registration process have not yet been effected, but are anticipated prior to the effective date of June 30, 2006. Vodacom has until May 28, 2006 to acquire and implement the monitoring and interception facilities as per the technical specifications of the facilities agreed upon between Vodacom and the Department of Justice and promulgated on November 28, 2005.

### Conclusion

Vodacom has had a phenomenal year. We have managed to exceed all of the goals set for this year and have been successful in increasing our estimated market share by 2% to 58%. Vodacom has also increased its customer base by 49.3% from 12.8 million to 19.2 million customers in a single year. This increase is attributable to the high number of gross connections, as well as the significant decrease in our churn rate. The decrease in the churn rate is particularly encouraging as it is indicative of the efficiency within the business. From a profitability perspective EBITDA has grown from R8.7 billion to R10.7 billion, an increase of 23.0% over the last year. Profit from operations has grown from R6.5 billion to R8.4 billion, an increase of 29.2% over the last year. An exceptional achievement on all counts.

One of the highlights of the year has been the ability to build on the early launch of 3G and recently HSDPA ahead of our competitors. In addition, our alliance with Vodafone has enabled us to bring products and services to the South African market that would ordinarily not be available in the market, including innovative products such as the Vodafone Mobile Connect card, the BlackBerry® and Vodafone live!. We will concentrate on growing our customer base with the addition of new and innovative products, services and tariffs.

Although the cellular industry is faced with a number of challenges in the year ahead, Vodacom is well positioned to maintain its position as the market leader in South Africa.

### **Shameel Aziz Joosub**

*Managing Director*

*Vodacom (Proprietary) Limited*

# SOUTH AFRICA CONSOLIDATED KEY OPERATIONAL INFORMATION

SOUTH AFRICA (VODACOM SOUTH AFRICA, SMARTCALL, SMARTCOM AND COINTEL)

	Year ended March 31			% change	
	2004	2005	2006	05/04	06/05
<b>Customers ('000)<sup>1</sup></b>	<b>9,725</b>	<b>12,838</b>	<b>19,162</b>	<b>32.0</b>	<b>49.3</b>
Contract	1,420	1,872	<b>2,362</b>	31.8	<b>26.2</b>
Prepaid	8,282	10,941	<b>16,770</b>	32.1	<b>53.3</b>
Community services	23	25	<b>30</b>	8.7	<b>20.0</b>
<b>Gross connections ('000)</b>	<b>4,998</b>	<b>6,180</b>	<b>9,140</b>	<b>23.6</b>	<b>47.9</b>
Contract	377	610	<b>702</b>	61.8	<b>15.1</b>
Prepaid	4,617	5,566	<b>8,422</b>	20.6	<b>51.3</b>
Community services	4	4	<b>16</b>	-	<b>300.0</b>
<b>Inactives (3 months - %)</b>	<b>n/a</b>	<b>7.9</b>	<b>8.7</b>	<b>n/a</b>	<b>0.8</b>
Contract	n/a	1.5	<b>2.4</b>	n/a	<b>0.9</b>
Prepaid	n/a	9.0	<b>9.6</b>	n/a	<b>0.6</b>
<b>Total churn (%)<sup>2</sup></b>	<b>36.6</b>	<b>27.1</b>	<b>17.7</b>	<b>(9.5)</b>	<b>(9.4)</b>
Contract	10.1	9.1	<b>10.0</b>	(1.0)	<b>0.9</b>
Prepaid	41.3	30.3	<b>18.8</b>	(11.0)	<b>(11.5)</b>
<b>Traffic (millions of minutes)<sup>3</sup></b>	<b>12,172</b>	<b>14,218</b>	<b>17,066</b>	<b>16.8</b>	<b>20.0</b>
Outgoing	7,647	9,231	<b>11,354</b>	20.7	<b>23.0</b>
Incoming	4,525	4,987	<b>5,712</b>	10.2	<b>14.5</b>
<b>ARPU (Rand per month)<sup>4</sup></b>	<b>177</b>	<b>163</b>	<b>139</b>	<b>(7.9)</b>	<b>(14.7)</b>
Contract	634	624	<b>572</b>	(1.6)	<b>(8.3)</b>
Prepaid	90	78	<b>69</b>	(13.3)	<b>(11.5)</b>
Community services	2,155	2,321	<b>1,796</b>	7.7	<b>(22.6)</b>
<b>Minutes of use per month<sup>5</sup></b>	<b>96</b>	<b>84</b>	<b>74</b>	<b>(12.5)</b>	<b>(11.9)</b>
Contract	263	226	<b>206</b>	(14.1)	<b>(8.8)</b>
Prepaid	56	52	<b>49</b>	(7.1)	<b>(5.8)</b>
Community services	3,061	3,185	<b>2,327</b>	4.1	<b>(26.9)</b>
<b>South Africa cumulative capex<sup>6</sup></b>	<b>18,132</b>	<b>20,358</b>	<b>24,095</b>	<b>12.3</b>	<b>18.4</b>
Vodacom South Africa	18,101	20,308	<b>24,035</b>	12.2	<b>18.4</b>
Other	31	50	<b>60</b>	61.3	<b>20.0</b>
<b>Capex per customer (Rand)</b>	<b>1,720</b>	<b>1,515</b>	<b>1,257</b>	<b>(13.5)</b>	<b>(17.0)</b>
<b>Number of employees</b>	<b>3,848</b>	<b>3,954</b>	<b>4,148</b>	<b>2.8</b>	<b>4.9</b>
Vodacom South Africa employees	3,848	3,809	<b>3,893</b>	(1.0)	<b>2.2</b>
Smartcall and Smartcom employees	-	145	<b>206</b>	-	<b>42.1</b>
Cointel employees	-	-	<b>49</b>	-	<b>-</b>
<b>Customers per employee</b>	<b>2,527</b>	<b>3,247</b>	<b>4,619</b>	<b>28.5</b>	<b>42.3</b>
<b>Market share (%)<sup>7</sup></b>	<b>54</b>	<b>56</b>	<b>58</b>	<b>2.0</b>	<b>2.0</b>

#### Notes

- Customer totals are based on the total number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as at the end of the period indicated.
- Churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period.
- Traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national roaming and incoming international roaming calls. Traffic for 2005 was restated to exclude packet switch data traffic.
- 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 revenues from equipment sales, other sales and services and revenues from national and international users roaming on Vodacom's networks.
- Minutes of use per month is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. Minutes of use exclude calls to free services, bundled minutes and data minutes.
- Cumulative capital expenditure ("capex") includes software.
- Market share is calculated based on Vodacom's total reported customers and the estimated total reported customers of MTN and Cell C.