CHIEF FINANCIAL OFFICER'S REVIEW

"The Vodacom Group has performed well in an evolving and competitive African market. With its strong brand and robust balance sheet, the Group is well positioned to capitalise on investment and growth opportunities."

Leon Crouse
Chief Financial Officer
Vodacom Group (Proprietary) Limited

"If you can afford a voice call, you can afford 3G"

The Year Under Review

The Vodacom Group achieved remarkable results in an ever more competitive and demanding environment. Vodacom's revenue increased by 19.5% to R27.3 billion (2004: R22.9 billion) and the profit from operations increased by 23.9% to R6.5 billion (2004: R5.2 billion). Excluding the effects of Vodacom Mozambique, the profit from operations would have been R6.9 billion (2004: R5.3 billion), a 30.4% increase on the prior year. EBITDA increased by 23.6% to R9.6 billion (2004: R7.8 billion) and, despite the impairment of assets in respect of Mozambique, net profit after taxation increased by 27.2% to R3.9 billion (2004: R3.1 billion). South Africa constitutes the majority of Vodacom's revenue at 91.7% (2004: 93.4%), although the other African operations continue to improve their contribution, increasing to 8.3% (2004: 6.6%) of revenue. The growth in the South African operations has been outstanding, fuelled by the favourable economic conditions and strong consumer spending.

Two significant events need to be taken into account when analysing Vodacom's results for the year ended March 31, 2005. Firstly, with effect from April 1, 2004, Vodacom Congo met the definition of a subsidiary, as certain clauses granting the outside shareholders' participating rights had been removed from the shareholders agreement. Consequently, it has now been fully consolidated in the Group annual financial statements. Prior to this date, the Group proportionally consolidated 51% of the results of Vodacom Congo. Any comparison of consolidated numbers with prior periods will therefore be distorted. To facilitate a better comparison of numbers with prior periods, adjusted amounts have been presented in the segmented analyses below, which reflect 100% of Vodacom Congo for the prior periods. Secondly, IAS 36 – Impairment of Assets (IAS 36), has resulted in an impairment charge to the assets of Vodacom Mozambique of R268 million. This has been reflected separately in the income statement for the current year.

The performance of the South African operations has been impacted by a number of factors which, taken together, resulted in improved margins. Factors positively impacting margins were the inclusion of Smartphone SP (Proprietary) Limited and Smartcom (Proprietary) Limited for a full year, as well as increased operational efficiencies achieved from economies of scale.

It should be noted that in South Africa, the equipment sales revenue in 2004 and 2003 was restated by R623 million and R369 million, respectively, to eliminate revenue from direct handset sales to customers for new contract connections and upgrades, as required by IFRS. The amounts have been reallocated to other direct network operating costs in those years, and therefore have a nil effect on profit from operations and EBITDA, but have increased the margins in the comparative years.

Two factors have had a negative impact on margins. Firstly, the higher volume of gross contract connections year on year has led to higher customer acquisition costs and further margin pressure. Secondly, the continuing trend of fixed-mobile substitution has seen Vodacom's net interconnect revenue decline further because of increased interconnect costs. Interconnect costs increased as a result of the cost of terminating calls on other mobile networks being much higher than the cost of terminating calls on Telkom's fixed-line network. Despite these factors, the Vodacom Group achieved strong results in an ever more competitive environment.

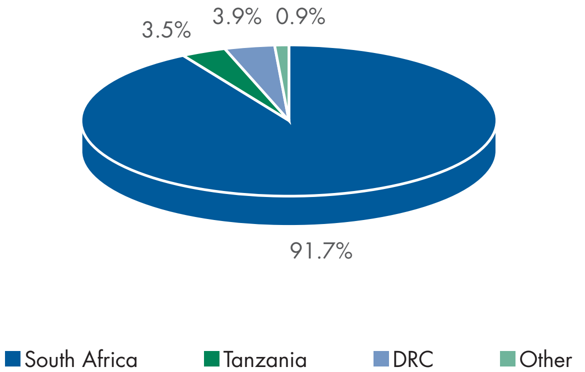
Key financial indicators

Year ended March 31,	2001	2002	2003	2004	2005
Profit from operations margin[1]	19.2%	22.4%	22.3%	22.9%	**23.7%**
EBITDA margin[1]	31.6%	35.2%	34.5%	34.0%	**35.1%**
Net profit margin[1]	9.9%	14.7%	11.6%	13.4%	**14.2%**
Net debt/EBITDA	63.1%	66.7%	36.5%	6.0%	**4.4%**
Net debt/equity	75.4%	69.4%	35.8%	6.1%	**5.4%**
Net debt/net tangible assets	99.0%	81.1%	38.4%	6.9%	**6.1%**
Capital expenditure as % of revenue[1]	24.0%	25.3%	17.5%	12.6%	**12.8%**

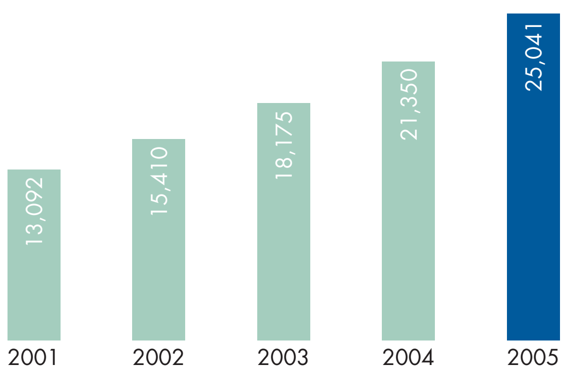
1 Note that revenue and operating costs in 2004 and 2003 have been restated by R623 million and R369 million, respectively, in respect of direct sales of handsets for new contract connections and upgrades not eliminated on consolidation. 2001 and 2002 have not been restated. Margins have been restated accordingly. The restatement does not impact the Group's results for the years ended March 31, 2003 and 2004.

Revenue

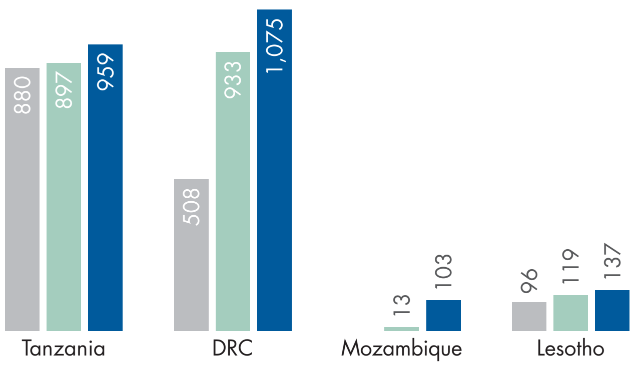
Revenue composition
%



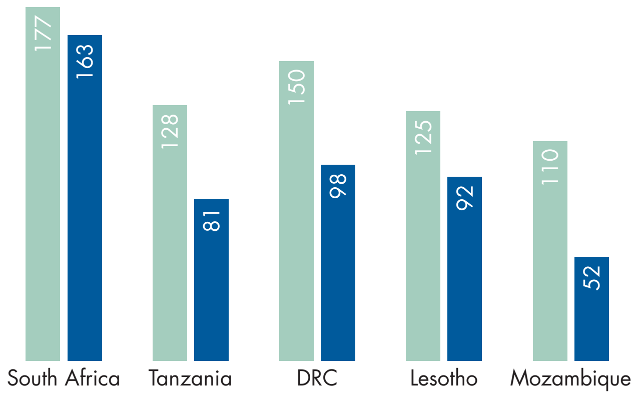
Vodacom South Africa revenue[1]
Rand millions



Revenue growth – other African countries
Rand millions



ARPU per country
Rand per customer per month



Revenue – geographical split

	Rand millions			% change	
Year ended March 31,	**2003**	**2004**	**2005**	***04/03***	***05/04***
South Africa[1]	18,175	21,350	**25,041**	*17.5*	*17.3*
Tanzania	880	897	**959**	*1.9*	*6.9*
DRC[2]	259	476	**1,075**	*83.8*	*125.8*
Lesotho	96	119	**137**	*24.0*	*15.1*
Mozambique	–	13	**103**	–	*692.3*
Revenue	**19,410**	**22,855**	**27,315**	***17.7***	***19.5***
DRC (100%)[2]	508	933	**1,075**	*83.7*	*15.2*
Adjusted revenue	**19,659**	**23,312**	**27,315**	***18.6***	***17.2***

1 *Note that revenue in 2004 and 2003 has been restated by R623 million and R369 million, respectively, in respect of direct sales of handsets for new contract connections and upgrades not eliminated on consolidation. 2001 and 2002 have not been restated.*

2 *During the years ended March 31, 2003 and 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo, was fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights had been removed from the shareholders' agreement. The adjusted revenue has been adjusted to reflect 100% of Vodacom Congo's revenue for the prior periods for comparison purposes.*

Revenue increased 19.5% to R27.3 billion (2004: R22.9 billion). The increase in revenues was primarily driven by strong customer growth in all of Vodacom's operations coupled with lower overall churn, the inclusion of 100% of Vodacom Congo's results as well as the inclusion of Smartphone and Smartcom for the first full year. However, the contribution of Vodacom's other African operations has been negatively impacted by the strong South African Rand.

South Africa

South Africa is by far the biggest contributor to Vodacom's revenue growth, accounting for 82.8% or R3.7 billion of the growth in revenue. Revenue from Vodacom's South African operations increased by 17.3% to R25.0 billion (2004: R21.4 billion), driven by the robust growth in customers in South Africa of 32.0% to 12.8 million customers (2004: 9.7 million). Revenue growth was marginally diluted by declining ARPU, in particular in respect of the connection of prepaid customers who are lower spending customers.

The number of contract customers increased by 31.8% to 1.9 million (2004: 1.4 million) and the number of prepaid customers increased by 32.1% to 10.9 million (2004: 8.3 million as at March 31, 2005). Revenue growth from contract customers was inhibited by a reduction in the average usage per customer to 226 monthly minutes (2004: 263), offset by standard tariff increases and increased value-added services usage. South African contract ARPU decreased marginally by 1.6% to R624 per month (2004: R634) for the year ended March 31, 2005.

Revenue growth from prepaid customers was negatively impacted by a reduction in the average usage per customer to 52 monthly minutes (2004: 56), as a result of increased penetration into the lower spending prepaid customer market. Prepaid ARPU consequently decreased by 13.3% to R78 (2004: R90) per month. Total blended ARPU decreased by 7.9% to R163 per month (2004: R177).

Other African countries

Vodacom's revenue from its other African operations increased 51.1% to R2.3 billion (2004: R1.5 billion) for the year ended March 31, 2005, contributing 8.3% (2004: 6.6%) to total revenue. The increase in revenue was driven by very strong customer growth, which mitigated the effect of a declining ARPU and lower Rand-based revenues in these countries due to the strengthening of the South African Rand against the US Dollar and Tanzanian Shilling, although it weakened against the Mozambican Metical.

Tanzania

Vodacom Tanzania's revenue increased by 6.9% to R1.0 billion (2004: R0.9 billion), driven primarily by the increase in the customer base. The customer base at March 31, 2005 of 1.2 million (2004: 0.7 million) represents a substantial increase of 75.6% on the prior year, primarily achieved through increases in the prepaid customer base. The customer growth has been driven by sustained sales marketing campaigns focused on customer acquisition and additional coverage. ARPU levels have decreased by 36.7% to R81 (2004: R128), as a result of two tariff reductions, which were necessitated by a competitive environment. In addition, regulatory intervention and substantially reducing interconnect revenue also contributed to the lower ARPU. Vodacom Tanzania's billing currency is the Tanzanian Shilling, which was effective from April 1, 2004. Prior to this date, the billing currency was the US Dollar.

In Tanzanian Shilling terms, Vodacom Tanzania's revenue grew by 25.3% to TSH167.7 billion (2004: TSH133.5 billion) and Tanzanian Shilling ARPUs decreased by 28.8% to TSH14,130 (2004: TSH19,850) per month.

Democratic Republic of the Congo (DRC)

Vodacom Congo's revenue increased by 15.2% to R1.1 billion (2004: R0.9 billion), driven by a 54.0% increase in customers to 1.0 million (2004: 0.7 million). However, due to the inclusion of 100% of Vodacom Congo's results, effective April 1, 2004, the Group's portion of the revenue included in the results increased 125.8% from R476 million in 2004 to R1.1 billion in 2005. There has been pressure on ARPU which has declined 34.7% to R98 (2004: R150), principally due to the connection of lower spending prepaid customers, coupled with the 32.9% devaluation of the local currency against the US Dollar, which resulted in lower disposable US Dollar incomes for customers. In US Dollar terms, Vodacom Congo's revenue grew by 32.3% to US$172 million (2004: US$130 million) and US Dollar-based ARPUs decreased by 23.8% to $16 (2004: $21) per month.

Lesotho

Vodacom Lesotho's revenue increased by 15.1% to R137 million (2004: R119 million) and its customer base increased by 83.8% to 147,000 customers (2004: 80,000). ARPU decreased by 26.4% to R92 (2004: R125). Vodacom Lesotho's billing currency is the Maloti, which is linked to the Rand on a 1:1 basis.

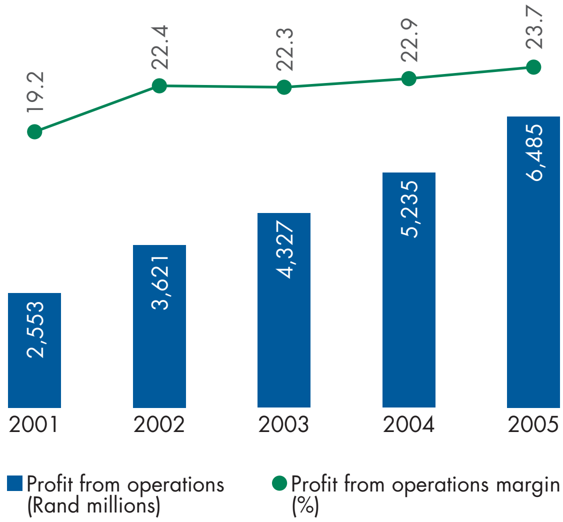
Mozambique

Vodacom Mozambique's revenue increased substantially to R103 million (2004: R13 million), in the company's first full year of commercial operation. Its customer base increased 356.9% to 265,000 (2004: 58,000) customers. With Vodacom Mozambique being the second entrant to the Mozambique market, it is connecting lower spending customers and, as a result, ARPU has decreased 52.7% to R52 (2004: R110) due to decreased customer usage. Vodacom Mozambique's billing currency is the Metical. In Metical terms, Vodacom Mozambique's revenue was MZM353.6 billion for the year ended March 31, 2005 (2004: MZM49.5 billion) and Metical-based ARPU was MZM177,954 per month (2004: MZM425,511).

Profit from Operations

Profit from operations increased by 23.9% to R6.5 billion for the year ended March 31, 2005 (2004: R5.2 billion), fuelled by buoyant consumer spending and a low inflationary environment in South Africa and cost containment in all operations. Operating expenses increased by 18.2% which was lower than revenue growth of 19.5%. This resulted in Vodacom's profit from operations margin increasing to 23.7% (2004: 22.9%). The profit from operations was negatively impacted by losses in Mozambique of R454 million, including a R268 million impairment charge to Vodacom Mozambique's assets, acquisition costs associated with a prepaid tariff reduction of approximately 10%, the high levels of contract customer connections in South Africa, costs associated

Profit from operations and profit from operations margin[1]



Profit from operations – geographical split

	Rand millions			% change	
Year ended March 31,	**2003**	**2004**	**2005**	***04/03***	***05/04***
South Africa excluding Holding companies[1]	4,295	5,282	**6,625**	*23.0*	*25.4*
Tanzania	178	135	**183**	*(24.2)*	*35.6*
DRC[2]	(117)	10	**50**	*108.5*	*400.0*
Lesotho	4	1	**25**	*(75.0)*	–
Mozambique	–	(88)	**(454)**	–	*(415.9)*
Holding companies	(33)	(105)	**56**	*218.2*	*153.3*
Profit from Operations	**4,327**	**5,235**	**6,485**	***21.0***	***23.9***
DRC (100%)[2]	(229)	20	**50**	*108.6*	*155.0*
Adjusted Profit from Operations	**4,215**	**5,245**	**6,485**	***24.4***	***23.6***

1 *Note that revenue and operating costs in 2004 and 2003 have been restated by R623 million and R369 million, respectively, in respect of direct sales of handsets for new contract connections and upgrades not eliminated on consolidation. 2001 and 2002 have not been restated.*

2 *During the years ended March 31, 2003 and 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo was fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights had been removed from the shareholders' agreement. The adjusted profit from operations has been adjusted to reflect 100% of Vodacom Congo's profit/(loss) from operations for the prior periods for comparison purposes.*

with the implementation of 3G and Vodafone live!. Excluding Vodacom Mozambique's losses yields an operating profit margin of 25.5% (2004: 23.3%), a substantial increase on the margin of the prior period.

South Africa

Vodacom South Africa's profit from operations increased by 25.4% to R6.6 billion for the year (2004: R5.3 billion) and profit from operations margin increased to 26.5% for 2005 (2004: 24.7%) despite more competitive operating conditions and increased interconnect costs due to the negative impact of the change in traffic mix. However, these pressures were offset by the consolidation of a part of Vodacom's distribution channel, including Smartcom and Smartphone.

Operating expenses in South Africa grew by 14.6% versus the revenue growth of 25.4%, resulting in the increased South African margin.

Other African countries

Tanzania

Vodacom Tanzania's profit from operations improved substantially by 35.6% to R183 million for the year (2004: R135 million) and operating profit margin increased to 19.1% (2004: 15.1%), despite pressures from tariff reductions in response to the competitive market environment. The improvement in profit from operations was aided by sound cost management.

DRC

Vodacom Congo experienced excellent growth with profit from operations increasing 155.0% to R50 million for the year (2004: R20 million) and operating profit margin increasing to 4.7% (2004: 2.1%). The profit from operations has been negatively affected by higher direct expenditure on the implementation of a new dealer incentive and discount scheme. The effect of this was mitigated by increased revenue.

Lesotho

Vodacom Lesotho's profit from operations increased substantially to R25 million for the year (2004: R1 million) and operating profit margin increased to 18.2%, despite increased interconnect expenditure on more calls to South Africa.

Mozambique

Vodacom Mozambique's loss from operations worsened to R454 million for the year (2004: R88 million loss), primarily due to an impairment charge of R268 million and as a result of low spending customers leading to lower than expected revenue, offset by savings in respect of operational and administrative expenses. Management expects Vodacom Mozambique's performance to improve going forward.

The impairment of capital assets of R268 million was done in compliance with IAS 36, which requires Vodacom to recognise an impairment loss to the extent that the carrying values of Vodacom Mozambique assets exceed their recoverable amounts, which is defined as the higher of the net present value of expected future cash flows and the fair value less cost of disposal. Vodacom Mozambique has consequently impaired the assets to their estimated fair value less cost of disposal, which was R268 million less than the book values at March 31, 2005. The standard requires expected future pre-tax cash flows to be discounted at a rate commensurate with the riskiness of the assets producing the cash flows. Because of the high perceived risk of assets in Mozambique, this discount rate is relatively high. The high discount rate used, and the substantial capital outlay required at the beginning of the project, resulted in the calculated net present value of expected future cash flows being lower than the expected fair value less cost of disposal.

Holding companies

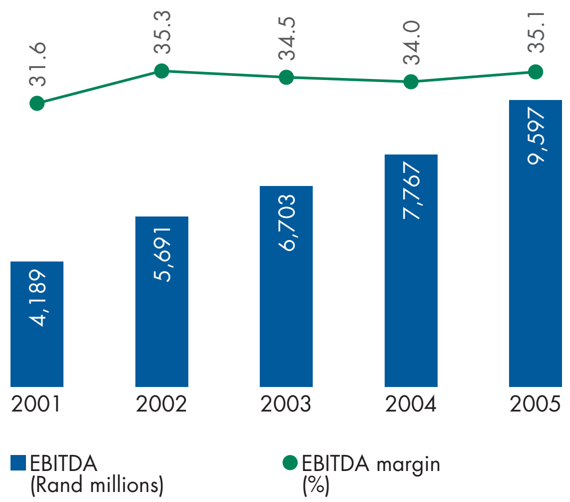
The holding companies have become profitable, with a profit from operations of R56 million (2004: R105 million loss), mainly as a result of management and directors fees received from Vodacom Congo, and revenue and costs relating to Nigeria which have not been repeated in the current year.

EBITDA

EBITDA increased by 23.6% to R9.6 billion (2003: R7.8 billion) for the year ended March 31, 2005, with Vodacom's other African operations contributing 5.6% (2004: 4.3%) to EBITDA. Vodacom's EBITDA margin increased to 35.1% (2004: 34.0%).

The satisfactory improvement in the EBITDA margin is the result of lower prepaid discounts on airtime, the consolidation of Smartcom and Smartcall, savings in distribution expenses and operational improvement of all productivity ratios. A healthy increase in on-net traffic also contributed favourably to profit margins. The margin improvement was further helped by increased EBITDA margins in all of Vodacom's other African operations. Vodacom Mozambique, in its first full year of commercial operation, showed a decline in EBITDA to a negative EBITDA of R111 million (2004: R71 million negative EBITDA) due to low ARPUs and a competitive environment. Excluding the impact of sales of low margin cellular phone and equipment sales, Vodacom Group's EBITDA margin was 40.2% (2004: 38.0%).

EBITDA and EBITDA margin[1]



EBITDA – geographical split

	Rand millions			% change	
Year ended March 31,	**2003**	**2004**	**2005**	***04/03***	***05/04***
South Africa excluding Holding companies[1]	6,423	7,536	**9,002**	*17.3*	*19.5*
Tanzania	333	278	**345**	*(16.5)*	*24.1*
DRC[2]	(49)	97	**252**	*298.0*	*159.8*
Lesotho	26	27	**48**	*3.8*	*77.8*
Mozambique	–	(71)	**(111)**	*–*	*(56.3)*
Holding companies	(30)	(100)	**61**	*233.3*	*161.0*
EBITDA	**6,703**	**7,767**	**9,597**	***15.9***	***23.6***
DRC (100%)[2]	(96)	190	**252**	*297.9*	*32.6*
Adjusted EBITDA	**6,656**	**7,860**	**9,597**	***18.1***	***22.1***

1 *Note that revenue and operating costs in 2004 and 2003 have been restated by R623 million and R369 million, respectively, in respect of direct sales of handsets for new contract connections and upgrades not eliminated on consolidation. 2001 and 2002 have not been restated.*

2 *During the years ended March 31, 2003 and 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo was fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights had been removed from the shareholders' agreement. The adjusted EBITDA has been adjusted to reflect 100% of Vodacom Congo's EBITDA for the prior periods for comparison purposes.*

Revenue

Revenue composition

	Rand millions			% of total			% change	
Year ended March 31,	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**	***04/03***	***05/04***
Airtime, connection and access	10,647	12,738	**16,191**	54.8	55.7	**59.4**	*19.6*	*27.1*
Data revenue	654	1,039	**1,340**	3.4	4.5	**4.9**	*58.9*	*29.0*
Interconnection	5,309	5,785	**5,924**	27.4	25.3	**21.7**	*9.0*	*2.4*
Equipment sales[1]	1,895	2,275	**2,687**	9.8	10.0	**9.8**	*20.1*	*18.1*
International airtime	539	659	**887**	2.8	2.9	**3.2**	*22.3*	*34.6*
Other sales and services	366	359	**286**	1.9	1.6	**1.0**	*(1.9)*	*(20.3)*
Revenue	**19,410**	**22,855**	**27,315**	**100.0**	**100.0**	**100.0**	***17.7***	***19.5***

1 Note that revenue in 2004 and 2003 has been restated by R623 million and R369 million, respectively, in respect of direct sales of handsets for new contract connections and upgrades not eliminated on consolidation. 2001 and 2002 have not been restated.

Airtime, connection and access

Vodacom's airtime, connection and access revenue increased 27.1% to R16.2 billion (2004: R12.7 billion) during the year ended March 31, 2005, primarily due to the increase in the number of customers, as well as the 100% consolidation of Vodacom Congo from April 1, 2004, offset by declining ARPUs in all operations.

Total customers increased 38.0% to 15.5 million (2004: 11.2 million), primarily due to strong prepaid customer growth in operations. In South Africa, gross contract connections of 610,000 (2004: 377,000) exceeded the prior year connections by 61.8%. South African APRU decreased 7.9% to R163 (2004: R177) due to the strong increase in prepaid customers and lower usage by the new connections.

Data revenue – geographical split

	Rand millions			% of total			% change	
Year ended March 31,	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**	***04/03***	***05/04***
South Africa	581	943	**1,246**	88.8	90.8	**93.0**	*62.3*	*32.1*
Tanzania	71	91	**74**	10.9	8.8	**5.5**	*28.2*	*(18.7)*
DRC	–	–	**9**	–	–	**0.7**	–	–
Lesotho	2	5	**9**	0.3	0.4	**0.7**	*150.0*	*80.0*
Mozambique	–	–	**2**	–	–	**0.1**	–	–
Data Revenue	**654**	**1,039**	**1,340**	**100.0**	**100.0**	**100.0**	***58.9***	***29.1***

Data revenue

Vodacom's data revenue increased 29.1% to R1.3 billion (2004: R1.0 billion), mainly due to growth in SMS traffic, as well as increased usage and popularity of other data products.

The contribution to data revenue from other African operations declined from 9.2% to 7.0%. New data revenues from Vodacom Congo and an increase in Vodacom Lesotho data revenues were offset by a decrease of 18.7% in Vodacom Tanzania data revenues, which was adversely affected by aggressive pricing by competitors. Vodacom Tanzania has subsequently matched the competitors' lower tariffs, which has resulted in increased usage, with data revenue stabilising at a lower level.

Vodacom transmitted 2.4 billion SMSs (2004: 2.0 billion) over its South African network during the year ended March 31, 2005, up 25.2% from 2004. The number of active MMS users on the network as at March 31, 2005 was 328,974 (2004: 61,374), sending an average of 811,270 messages (2004: 165,951) per month. The number of active GPRS users on the network was 579,581 (2004: 100,128). In respect of 3G services, the number of active 3G users on the network as at March 31, 2005 was 10,853 and the number of active Mobile Connect Card users on the network as at March 31, 2005 was 5,105.

Interconnection

Vodacom's interconnection revenue increased by only 2.4% during the year to R5.9 billion (2004: R5.8 billion), primarily due to little growth in fixed to mobile traffic.

In South Africa, the growth in interconnection revenue was negatively affected by a 0.5% decline in the traffic originating from Telkom and terminating on Vodacom's network caused by the changing call patterns of cellphone users and increasing number of cellular users through fixed-mobile substitution.

Equipment sales

Vodacom's revenue from equipment sales increased by 18.1% to R2.7 billion (2004: R2.3 billion) during the year. Equipment sales were restated in 2004 and 2003 by R623 million and R369 million, respectively, as noted earlier in this report. In South Africa, handset sales increased 14% to 2.4 million units (2004: 2.0 million). The growth in equipment unit sales was primarily due to growth of Vodacom's customer base and the continued uptake of new handsets in South Africa fuelled by Vodacom's successful strategic drive to increase access in the robust South African market. Sales were further driven by cheaper Rand-prices of new handsets, coupled with the added functionality of the new phones, based on new technologies such as camera phones and colour screens.

International airtime

International airtime revenues are predominantly from international calls by Vodacom customers, roaming revenue from Vodacom's customers making and receiving calls while abroad and revenue from international customers roaming on Vodacom's networks. International airtime increased 34.6% to R887 million (2004: R659 million) for the year ended March 31, 2005, primarily as a result of healthy increases in international airtime from Vodacom Congo and Vodacom South Africa, as well as an increase in roaming partners. The increase in South African international airtime was offset, to a degree, by the strengthening of the Rand against the trade-weighted basket of international currencies during 2005.

Other sales and services

Revenue from other sales and services includes revenue from non-core operations, such as income from Vodacom's cell captive insurance scheme. Revenue decreased by 20.3% to R286 million (2004: R359 million), primarily as a result of the reallocation of value-added services revenue, which was previously included under other sales and services, to airtime connection and access. The decrease was offset marginally by other sales and services revenue received in Smartcom (Proprietary) Limited.

Operating Expenses

Operating expenses included the effect of the first full year of consolidating Smartcall (Proprietary) Limited, Smartcom (Proprietary) Limited and Vodacom Mozambique, as well as including 100% of Vodacom Congo, compared to 51% in the prior year.

Depreciation, amortisation and impairment

Vodacom's depreciation, amortisation and impairment increased by 22.9% to R3.1 billion in the year ended March 31, 2005 (2004: R2.5 billion). The biggest contributing factor to this increase was the impairment of Vodacom Mozambique's assets which amounted to R268 million and which has been reflected as a separate line item in the income statement in terms of IAS 36. The increase in the depreciation and amortisation would have been 12.3% if the Mozambique impairment had been excluded.

Although Vodacom's biggest capital investments have already been made in South Africa, the aggressive roll-out of infrastructure, in particular with the introduction of 3G and the amortisation of intangible assets in Smartcall, has caused an increase in South African depreciation and amortisation. The continued strengthening of the Rand against most other currencies again resulted in depreciation on foreign-denominated capital expenditure in Vodacom's other African operations being translated at a lower exchange rate than in the past, which resulted in only a marginal increase in depreciation and amortisation in Vodacom's other African operations despite increased capital expenditure. A comparison of the exchange rates applicable to Vodacom is presented under the section "Financial instruments and risk management".

Payments to other network operators

Vodacom's payments to other network operators increased by 22.1% to R3.7 billion in 2005 (2004: R3.0 billion) 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 are expected to continue increasing, putting pressure on margins.

Operating expenses composition

	Rand millions			% change	
Year ended March 31,	**2003**	**2004**	**2005**	***04/03***	***05/04***
Depreciation, impairment and amortisation	2,376	2,532	**3,112**	*6.6*	*22.9*
Payments to other network operators	2,217	2,990	**3,652**	*34.9*	*22.1*
Other direct network operating costs[1, 2]	8,274	9,440	**10,962**	*14.1*	*16.1*
Staff expenses	1,019	1,332	**1,653**	*30.7*	*24.1*
Marketing and advertising	653	702	**767**	*7.5*	*9.3*
General administration expenses	612	682	**748**	*11.4*	*9.7*
Other operating income	(68)	(58)	**(64)**	*(14.7)*	*10.3*
Operating expenses	**15,083**	**17,620**	**20,830**	***16.8***	***18.2***

1 *Direct network operating costs excluding payments to other operators.*

2 *Note that operating costs in 2004 and 2003 have been restated by R623 million and R369 million, respectively, in respect of direct sales of handsets for new contract connections and upgrades not eliminated on consolidation. 2001 and 2002 have not been restated.*

Other direct network operating costs

Other direct network expenses increased 16.1% to R11.0 billion (2004: R9.4 billion) in the year ended March 31, 2005. The low growth in direct network operating expenses was achieved due to good cost controls as well as the positive impact of the strong Rand on the translation of foreign currency denominated expenses.

Other direct network operating costs include the cost to connect customers onto the network which are incurred to support growth in the customer base, as well as other direct network expenses, such as cost of goods sold, commissions, customer retention expenses, regulatory and licence fees, distribution expenses and site and maintenance costs.

Staff expenses

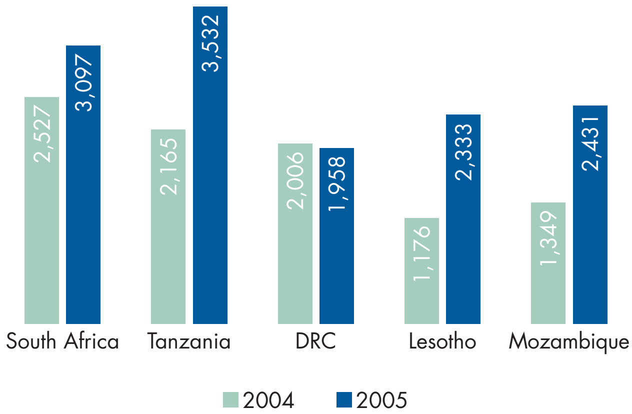
Staff expenses increased by 24.1% in the year ended March 31, 2005 to R1.7 billion (2004: R1.3 billion) primarily as a result of an increase in headcount of 8.3% in 2005 to support the growth in operations, as well as an average Group-wide salary increase of approximately 8.0%. Staff expenses also increased further due to a higher deferred bonus incentive accrual brought about by Vodacom's increased profits.

The first full year of consolidation of 49% of Vodacom Congo, Mozambique, Smartcall and Smartcom also contributed to the staff expenses increase.

Total headcount in Vodacom's South African operations increased by 2.8% to 3,954 employees (2004: 3,848). Total headcount in our other African operations increased by a significant 36.5% to 1,039 employees (2004: 761) to meet the demands of the rapid expansion of these operations. Employee productivity has improved in all of Vodacom's operations except in Vodacom Congo, as measured by customers per employee, improving by 22.7% to 2,986 customers per employee (2004: 2,434), which includes 4,993 Group employees and 191 outsourced customer care employees in South Africa. Excluding the outsourced employees, the Group customers per employee is 3,101.

Customers per employee per country

Number



Marketing and advertising

Marketing and advertising expenses increased by 9.3% in 2005 to R767 million, (2004: R702 million) driven mainly by an amplified marketing drive in South Africa, in particular in connection with the Vodafone alliance and the launch of 3G, BlackBerry® and Vodafone live!, coupled with the marketing expenses related to establishing Vodacom Mozambique.

General administration expenses

General administration expenses increased by 9.7% to R748 million (2004: R682 million), where the increase was mitigated by the effect of a strong Rand and improvements in productivity. General administration expenses comprise a number of expenses, including: accommodation, information technology costs, office administration, consultant expenses, social economic investment and insurance.

Other operating income

Other operating income increased 10.3% to R64 million (2004: R58 million). Other operating income comprises income that Vodacom does not view as part of its core activities, such as: risk management services, consultant cost recoveries, franchise fees, and the recovery of costs relating to Nigeria and is therefore shown separately.

Capital Expenditure

The total cumulative capital expenditure of the Group as at March 31, 2005 increased by 18.2% to R24.4 billion (2004: R20.7 billion). The Group invested R3.5 billion (2004: R2.9 billion) in property, plant and equipment, of which R2.9 billion (2004: R2.4 billion) was for cellular network infrastructure and related information technology and billing systems.

It is Vodacom's policy to hedge all foreign denominated commitments of South Africa; 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".

Vodacom (Proprietary) Limited, the subsidiary that owns the South African cellular operator licence, had a capital expenditure per customer of R1,471 (2004: R1,720) as at March 31, 2005, which is, once again, at its lowest level ever. Despite the African expansion, capital expenditure additions as a percentage of revenue was only 12.8% in 2005 (2004: 12.6%).

Capital expenditure additions – geographical split

	Rand millions			**% of total**			***% change***	
Year ended March 31,	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**	***04/03***	***05/04***
South Africa excluding Holding Companies	2,482	1,654	**2,777**	73.0	57.3	**79.5**	*(33.4)*	*67.9*
Tanzania	323	351	**234**	9.5	12.1	**6.7**	*8.7*	*(33.3)*
DRC[1]	516	395	**335**	15.2	13.7	**9.6**	*(23.4)*	*(15.2)*
Lesotho	72	7	**10**	2.1	0.3	**0.3**	*(90.3)*	*42.9*
Mozambique	–	478	**115**	–	16.5	**3.3**	–	*(75.9)*
Holding Companies	6	6	**23**	0.2	0.2	**0.6**	–	*283.3*
Capital Expenditure for the Year	**3,399**	**2,891**	**3,494**	**100.0**	**100.0**	**100.0**	***(14.9)***	***20.9***
DRC (100%)[1]	1,012	775	335	26.0	23.7	**9.6**	*(23.4)*	*(56.8)*
Adjusted Capital Expenditure	**3,895**	**3,271**	**3,494**	**100.0**	**100.0**	**100.0**	***(16.0)***	***6.8***

Cumulative capital expenditure – geographical split

	2004		**2005**	
Year ended March 31,	**R billion**	**Foreign**	**R billion**	**Foreign**
South Africa	18.2	18.2	**20.3**	**20.3**
Tanzania (Foreign: TSH billion)	1.1	201.0	**1.4**	**240.1**
DRC (Foreign: US$ million)[1]	0.7	114	**1.8**	**281**
Lesotho (Foreign: Maloti million)	0.2	201	**0.2**	**211**
Mozambique (Foreign: MZM billion)	0.5	1,785.6	**0.7**	**2,173.7**
Cumulative Capital Expenditure	**20.7**	**–**	**24.4**	**–**
DRC (100%) (Foreign: US$ million)[1]	1.4	227	**1.8**	**281**
Adjusted Cumulative Capital Expenditure	**21.4**	**–**	**24.4**	**–**

1 *During the years ended March 31, 2003 and 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo was fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights had been removed from the shareholders' agreement. The adjusted capital expenditure has been adjusted to reflect 100% of Vodacom Congo's capital expenditure for the prior periods for comparison purposes.*

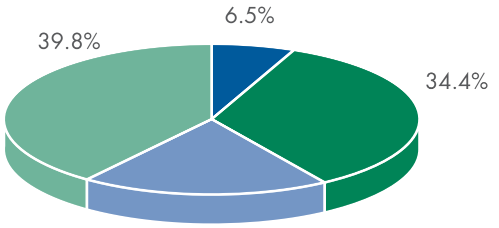
Financial Structure and Funding

Vodacom's consolidated net debt position has decreased to R426 million as at March 31, 2005 (2004: R463 million), despite the inclusion of 100% of Vodacom Congo's debt, compared to 51% in the prior year. The Group's net debt to EBITDA ratio was 4.4% as at March 31, 2005 (2004: 6.0%). Vodacom's net debt to equity ratio improved to 5.4% at March 31, 2005, (2004: 6.1%). However, the final dividend of R1.8 billion, which was paid on April 1, 2005, 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 are included in, and intangible assets are excluded from, the calculation, the net debt to equity ratio at March 31, 2005 increases to 31.7% (2004: 29.5%).

A medium term loan of R1,129 million (US$180.0 million) was obtained for Vodacom Congo during the year, which is collateralised by guarantees provided by the Group. This loan replaced Vodacom Group's share of extended credit facilities relating to Vodacom Congo of R312.2 million (US$16.3 million) and R310.1 million (€ 38.8 million), which was repaid during the year. For further details, refer to Note 18 of the annual financial statements.

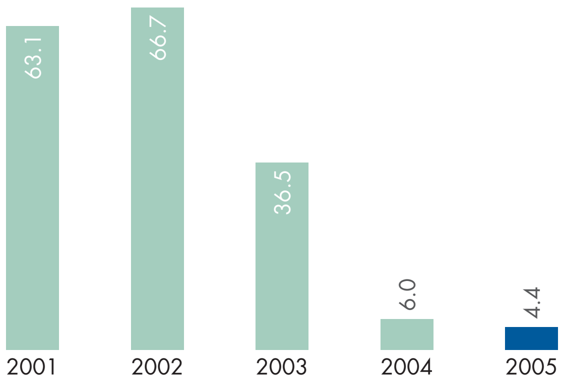
Gross debt composition including bank overdrafts

% (R4,416 million)



Net debt/EBITDA

%



Summary of net debt and maturity profile

			Repayment of 2005 debt					
Year ended March 31,	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Finance leases								
South Africa	886	**858**	51	79	114	194	98	322
Funding loans								
Vodacom Tanzania shareholder and project finance loans	426	**369**	92	113	80	–	84	–
Vodacom Congo medium term loan[1]	–	**1,129**	–	1,129	–	–	–	–
Vodacom Congo extended and revolving credit facilities[1]	626	**6**	6	–	–	–	–	–
Vodacom Congo preference share liability[1]	119	**232**	232	–	–	–	–	–
Vodacom Lesotho minority shareholders' loan	4	**4**	4	–	–	–	–	–
Other	–	**1**	1	–	–	–	–	–
Debt excluding bank overdrafts	**2,061**	**2,599**	**386**	**1,321**	**194**	**194**	**182**	**322**
Less: Net bank and cash balances	(1,598)	**(2,173)**						
Net debt	**463**	**426**						
Vodacom Congo (100%)	1,435	**1,378**						
Adjusted net debt	**1,167**	**426**						

1 *During the years ended March 31, 2003 and 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo was fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights had been removed from the shareholders' agreement. The adjusted net debt has been adjusted to reflect 100% of Vodacom Congo's net debt for the prior periods for comparison purposes.*

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 its South African operations. Strong South African cash flows would therefore principally be utilised to pay dividends and make new growth-enhancing investments. We utilise own funds and Group supported funding structures, subject to South African Reserve Bank approval, to fund offshore investments in the initial stages of the investment, until the project is able to support project funding.

While we have project funding in place for our 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. Vodacom Lesotho repaid its shareholder loans during the year.

In South Africa, debt consists of finance lease liabilities of R858 million (2004: R886 million) and net positive bank balances of R2.0 billion (2004: R1.4 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 and 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 Note 39 of the Group's annual financial statements.

Foreign exchange rates

	Rand exchange rate			% change	
Year ended March 31,	**2003**	**2004**	**2005**	***04/03***	***05/04***
US Dollar					
Average	9.81	7.17	**6.24**	*26.9*	*13.0*
Closing	7.97	6.32	**6.27**	*20.7*	*0.8*
Tanzanian Shilling					
Average	129.00	163.31	**175.01**	*26.6*	*7.2*
Closing	129.11	174.19	**176.68**	*34.9*	*1.4*
Mozambique Metical					
Average	–	3,734.52	**3,418.17**	–	*(8.5)*
Closing	–	3,745.36	**3,122.82**	–	*(16.6)*

Taxation

The taxation expense increased 51.5% to R2.6 billion (2004: 1.7 billion) for the year ended March 31, 2005, mainly due to a significant increase in Secondary Taxation on Companies (STC) paid on higher dividends, as well as higher South African normal tax. Vodacom's effective tax rate increased to 40.2% (2004: 36.1%), with STC increasing Vodacom's effective tax rate by 6.6% (2004: 5.5%). Furthermore, no deferred tax asset was raised in respect of Vodacom Mozambique's losses, resulting in a higher effective tax rate.

Shareholder Distributions

Dividends for the 2005 financial year totalled R3.4 billion (2004: 2.1 billion), an increase of 61.9%. This is one of the largest dividends paid by a South African company to date. In 2004, shareholder distributions included R47 million of shareholder interest, which is not repeated in 2005, as shareholder loans have been repaid.

Cash Flow

The Group had a positive free cash flow before shareholder distributions and financing activities of R3.9 billion (2004: R3.0 billion), an increase of 27.6%, mainly due to the greater cash generation from operations. Free cash flow growth was negatively impacted by an increase in taxation paid of 87.5% to R2.7 billion (2004: R1.5 billion) on increased profits and STC on increased dividends, an increase in cash utilised in investing activities of 12.5% to R3.4 billion (2004: R3.0 billion). These factors were partially offset by an increase in cash generated from operations of 31.8% to R10.0 billion (2004: R7.6 billion).

Conclusion

The Vodacom Group has performed well in an evolving and competitive African market. The performance of the South African market continues to be robust and management believes that growth can still be extracted from it. The strong cash generation ability of Vodacom's South African operations ensured that its consolidated balance sheet remained sturdy, even after paying out substantial dividends to its shareholders and funding the investments in Mozambique and the DRC. Vodacom continues to be confident of its success in all of its operations despite a challenging competitive and regulatory environment. In South Africa, Vodacom intends to position itself strategically to minimise any negative impact from the pending deregulation of the South African market and to seize any opportunities that may emerge. With its strong brand and robust balance sheet, the Group is well positioned to capitalise on investment and growth opportunities.

Leon Crouse
Chief Financial Officer
Vodacom Group (Proprietary) Limited

Through the Vodafone partnership, Vodacom has become part of a strategic global alliance that will change the face of communication and put South Africa at the forefront of development and the world's mobile community.