

## REVIEW OF OPERATIONS VODACOM CONGO



Dietlof Maré  
Managing Director  
Vodacom Congo (DRC) s.p.r.l.



### Overview

Vodacom Congo was established on December 11, 2001 in the Democratic Republic of the Congo (DRC) and the Vodacom network was officially launched on May 1, 2002. Vodacom International Limited (Mauritius) owns a 51% interest in Vodacom Congo, with the remaining 49% owned by Congolese Wireless Network s.p.r.l.

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, were removed from the shareholders' agreement.

Vodacom Congo is performing well under challenging circumstances. The local currency has depreciated 32.9% to the US Dollar over the last year, affecting affordability levels for the general population. ARPU was negatively affected with the lower end users spending substantially reduced. Despite aggressive competition for market share, Vodacom managed to increase profitability as well as maintain its share of the market. An aggressive coverage strategy was the main contributing factor in achieving the successes in customer growth and improved profitability for the financial year.

The DRC's first democratic elections are planned for the coming year; the outcome of which will determine political

stability and economic growth. The current coverage and market share levels put Vodacom Congo in a favourable position to benefit from an economic upturn.

### Infrastructure

Vodacom continued an aggressive roll-out programme and improved market penetration in the year ended March 31, 2005. Network coverage has been rolled out in all of the nine provinces of the DRC. This includes roll-out in 130 (2004: 71) towns and consists of 289 base stations (2004: 227) and four MSCs (2004: 4). Network capacity in the main centres has also been upgraded to maintain quality and service.

The company's cumulative capital expenditure to March 31, 2005, was R1.8 billion or US\$281 million (2004: R1.4 billion or US\$227 million).

### Products and Services

Vodacom Congo offers contract, prepaid and public phone services. The contract product is aimed at the corporate market, with the focus on value-added services and customer service. The prepaid and public phone products are aimed at the general Congolese market, with the main competitive advantage being coverage and network quality. A postpaid product with a top up option and a corporate PABX product were also launched during the year.

# REVIEW OF OPERATIONS VODACOM CONGO *continued*

## Customers

Vodacom Congo's customer base consists of 97.9% prepaid customers (2004: 97.5%). The 54.0% increase in customers to 1,000,000 (2004: 670,000) was the result of 565,000 gross connections (2004: 513,000) and a churn percentage of 23.1% (2004: 20.2%). Vodacom's key success factors in the market remain the ability to source the lowest priced quality handsets; effective distribution channels; access to new areas through the successful coverage roll-out and a sound network quality.

## Market Share and Competition

Vodacom Congo continues to be the market leader with an estimated market share of 47% on March 31, 2005 (2004: 47%).

CelTel, recently acquired by Kuwait's Mobile Telecommunications Company (MTC), is Vodacom's main competition. CelTel focuses its coverage on the main city centres. CelTel continues its coverage roll-out and aggressive pricing campaigns in order to attract market share. Currently, CelTel has a market share of approximately 46% (2004: 45.0%).

The balance of the market is shared with SAIT and Congo Chine accounting for 4% and 3% market share respectively.

## Employees

Vodacom Congo had 527 employees at March 31, 2005 (2004: 334), including 125 contractors and temporary employees. Excluded from the headcount were nine secondees employed out of Vodacom International Limited. The process of evaluation, identification and training of local staff is a continuous focus of the company as part of the skills' transfer process.

## Regulatory

The National Regulatory Agency (NRA) has been active during the year focusing on wholesale costing, interconnect rates and the establishment of a fully functional regulatory agency, recommending changes to the framework, taxation and funding of universal access.

The NRA is working with the World Bank to allow for the assistance of experts and consultants within the limit of the credits

that will be allocated to the DRC to formalise terms of reference for regulatory activities.

Draft guidelines for wholesale pricing and interconnection are under discussion with the NRA and are being prepared for discussion and implementation in the coming year.

For 2005, the president of the NRA confirmed that decisions will be implemented for the substantial increase of telecommunications fees in respect of spectrum, numbering, homologation and Universal Service Fund. Consultations with the telecommunications industry are being conducted.

SuperCell (affiliated to MTN-Rwanda cell) was previously granted a licence on a regional basis by the RCD political organisation. The new political order established RCD as a recognised political power and SuperCell was granted a national licence. Although the issue remains unresolved, the NRA's position is currently that no local interconnection is allowed with SuperCell. In view of the controversy associated with SuperCell operations, the minister of PTT was forced to subject the validity of the licence to a minimum investment in the DRC of core network elements.

## Prospects

Vodacom Congo is well placed to take advantage of opportunities in the market. Given the capital expenditure of Vodacom Congo and the extent of the political transition period in the DRC, it is expected to take longer than previously estimated to achieve a net profit. However, continued growth in EBITDA and profit from operations is expected.

## Dietlof Maré

*Managing Director*

*Vodacom Congo (DRC) s.p.r.l.*

Key indicators (all indicators include 100% of Vodacom Congo)

	Year ended March 31,			% change	
	2003	2004	2005	04/03	05/04
<b>Customers ('000)<sup>1</sup></b>	<b>248</b>	<b>670</b>	<b>1,032</b>	<b>170.2</b>	<b>54.0</b>
Contract	4	8	10	100.0	25.0
Prepaid	237	653	1,010	175.5	54.7
Community services	7	9	12	28.6	33.3
<b>Gross connections ('000)</b>	<b>260</b>	<b>513</b>	<b>565</b>	<b>97.3</b>	<b>10.1</b>
<b>Churn (%)</b>	<b>24.2</b>	<b>20.2</b>	<b>23.1</b>	<b>(4.0)</b>	<b>2.9</b>
<b>ARPU (Rand)<sup>2</sup></b>	<b>200</b>	<b>150</b>	<b>98</b>	<b>(25.0)</b>	<b>(34.7)</b>
<b>Cumulative capex (Rand millions)</b>	<b>944</b>	<b>1,432</b>	<b>1,759</b>	<b>51.7</b>	<b>22.8</b>
<b>Number of employees</b>	<b>204</b>	<b>334</b>	<b>527</b>	<b>63.7</b>	<b>57.8</b>
<b>Customers per employee</b>	<b>1,216</b>	<b>2,006</b>	<b>1,958</b>	<b>64.9</b>	<b>(2.4)</b>
<b>Mobile penetration (%)<sup>3</sup></b>	<b>1.0</b>	<b>2.3</b>	<b>3.5</b>	<b>1.3</b>	<b>1.2</b>
<b>Mobile market share (%)<sup>3</sup></b>	<b>44</b>	<b>47</b>	<b>47</b>	<b>3.0</b>	<b>-</b>

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 Penetration and market share are calculated based on Vodacom estimates.