



REVIEW OF OPERATIONS VODACOM LESOTHO



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Vodacom Lesotho (Proprietary) Limited

Overview

Vodacom owns an 88.3% interest in Vodacom Lesotho (Proprietary) Limited which launched its commercial operations in May 1996. The remaining 11.7% is owned by the local Sekha-Metsi Investment Consortium Limited.

Although Vodacom Lesotho is a very small operation by South African standards, it is of strategic geographic importance in terms of our market share in neighbouring South Africa and therefore justifies its inclusion in the Vodacom portfolio.

Infrastructure

The network has 46 BTSs, one MSC, two BSCs, one SMSC, one intelligent network platform and one voicemail platform. Vodacom Lesotho's cumulative capital expenditure to March 31, 2005 was R211 million (2004: R201 million).

Products and Services

Vodacom Lesotho offers a variety of prepaid and postpaid products to customers. Its latest offering, the SuperTalk50 and SuperTalk100 contracts, are the first and only contracts in Lesotho that offer bundled minutes and a subsidised handset. Vodacom Lesotho also offers public phone services and a direct connect service allowing customers to access the Vodacom Lesotho network directly from their PABX. Vodacom Lesotho's distribution is maintained via seven Vodashops, six Super Dealers and three retail groups, and Vodacom products can be purchased from over 100 outlets in Lesotho. Customers are serviced through a walk-in customer care centre or via a customer care call centre.

Customers

During the year under review, Vodacom Lesotho managed to increase its customer base by 83.8% to 147,000 as at March 31, 2005 (2004: 80,000). Prepaid packages are consistently the most popular and account for 96.6% (2004: 95.0%) of the total customers.

The substantial increase in total customers is a result of 70,000 gross connections for the year (2004: 51,000), as well as a low churn rate of 17.3% (2004: 65.1%), resulting in a net growth in customers of 67,000.

The high churn in 2004 resulted from an ongoing process of cleaning up the inactive customer base. Now that the clean-up has been completed, churn levels have normalised in 2005. The lower churn rate in 2005 is also as a result of the introduction of a seven-month deletion policy in April 2004. A change in the reporting of total customer base, as opposed to net active customer base in 2004, resulted in an increase of 18,000 customers in the opening base.

Competition

Econet-Ezicell is the only direct competitor in Lesotho, although Vodacom Lesotho's coverage is far superior to their current coverage. Vodacom Lesotho has implemented two additional coverage sites in the past two months and has plans for an additional four during the 2006 financial year. Econet-Ezicell, on the other hand, has more international roaming agreements in place than Vodacom Lesotho, although this is a priority area which Vodacom Lesotho intends to rectify during the 2006 year. Vodacom Lesotho has retained its estimated 80% market share (2004: 80%).

Employees

The headcount for Vodacom Lesotho decreased to 63 employees (2004: 68) as at March 31, 2005. The number of customers per employee improved, as a result, by 98.3% from 1,176 to 2,333.

Regulatory

The regulatory environment in Lesotho continues to prove challenging. Changes in the operating environment include the licensing of a third network operator, Bethlehem Technologies,

with an international gateway to provide data services, and a further amendment to the Telecom Lesotho licence allowing it to provide a product, Flexi-Save, which is basically a mobile service using the Econet-Ezicell infrastructure. The licence to Bethlehem Technologies has been challenged through court action by Telecom Lesotho.

The provision of poor quality of service by Telecom Lesotho was remedied only through the approval of the Regulator of an increased termination rate for calls to South Africa, while

Key indicators

	Year ended March 31,			% change	
	2003	2004	2005	04/03	05/04
Customers ('000)¹	78	80	147	2.6	83.8
Contract	4	3	4	(25.0)	33.3
Prepaid	73	76	142	4.1	86.8
Community services	1	1	1	-	-
Gross connections ('000)	76	51	70	(32.9)	37.3
Churn (%)	70.6	65.1	17.3	(5.5)	(47.8)
ARPU (Rand)²	104	125	92	20.2	(26.4)
Cumulative capex (Rand millions)	185	201	210	8.6	4.5
Number of employees	74	68	63	(8.1)	(7.4)
Customers per employee	1,054	1,176	2,333	11.6	98.3
Mobile penetration (%)³	4.3	5.1	7.4	0.8	2.3
Market share (%)³	80	80	80	-	-

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 based on Vodacom estimates.

the interconnection rate on national operators has remained unchanged. This has increased the interconnection rate for calls to South Africa without any balancing effect on the termination rate on national calls. Negotiations with Telecom Lesotho regarding the implementation of the new interconnect rate have frustrated the regulatory approval of the tariff rebalancing for Telecom Lesotho.

level of growth will continue in the short to medium term, but because of its geographical importance, we will continue to give adequate management attention to the operation.

Prospects

Vodacom Lesotho's performance has improved significantly under the new management structure. It is not expected that this high

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