REVIEW OF OPERATIONS

VODACOM MOZAMBIQUE

Clive Tarr
Managing Director
VM, S.A.R.L. t/a Vodacom Mozambique

Overview

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

Vodacom Mozambique was awarded its licence in August of 2002, but, due to the fixed-line operator and the cellular operator being one company with no interconnect rates applicable, the licence was not accepted until August 2003 when the issues were satisfactorily resolved. The licence is a 2G GSM licence and will expire in December 2018.

Infrastructure

Vodacom Mozambique's infrastructure roll-out consisted of one MSC, four BSCs and 138 BTSs as at March 31, 2005. The network had a capacity of 350,000 customers as at that date, with an increase to a capacity of 500,000 planned for 2006.

Vodacom Mozambique's cumulative capital expenditure (excluding the licence) to March 31, 2005 was MZM2,173.7 billion (2004: MZM 1,785.6 billion), or R696 million (2004: R478 million).

Products and Services

Vodacom offers customers contract and prepaid plans and is planning to roll out public phones in the 2006 financial year. The contract products are mainly aimed at the corporate and business market, while the prepaid products are aimed at the large informal market. Vodacom has an Interactive Voice Response System (IVR) in place to facilitate dealing with customer queries and customer care can operate in two languages, namely Portuguese and English.

Customers

During the year under review, Vodacom Mozambique managed to increase its customer base by 356.9% to 265,000 (2004: 58,000) as at March 31, 2005.

The substantial increase in total customers is a result of 225,000 gross connections for the year (2004: 58,000), as well as a low churn rate of 11.3% (2004: 0.3%). Prepaid packages account for 98.5% (2004: 98.5%) of the gross connections.

Competition and Market Share

Vodacom's only competition is Telecommunicações Móveis de Moçambique, Lda (mCel), a company owned by Telecommunicações de Moçambique (TDM), also the national fixed-line operator.

Vodacom has been able to increase its market share to 33% (2004: 11%) by offering competitive coverage through an aggressive roll-out programme, and despite extensive competition from mCel who is lowering prices and increasing discounts to distributors. This has put significant pressure on ARPU and revenues.

Employees

The headcount for Vodacom Mozambique increased to 109 employees as at March 31, 2005 (2004: 43). Excluded from headcount were 14 secondees who are employed out of Vodacom International Limited. The number of customers per employee improved as a result by 80.2% from 1,349 to 2,431. A number of expatriates were required during the initial two years of operations to assist in setting-up the business and training local employees. The majority of the contracts for the existing secondees expire between August 2005 and October 2005 when it is expected that the number of secondees will reduce.

Effective April 1, 2005, a new Managing Director, José Dos Santos, takes over from Clive Tarr, who has returned to Vodacom South Africa.

Regulatory

The biggest regulatory threat currently facing Vodacom Mozambique is TDM's attempts to lower interconnect rates. The proposal for mobile termination rates contained in TDM's Interconnection Reference Proposal released in October 2004, was US$0.09. Vodacom is negotiating with TDM regarding the technical aspects of the new interconnection proposal, but it seems unlikely that there will be agreement on termination rates, with the issue likely to be referred to the Regulator.

New legislation on a fee structure for microwave spectrum was approved in December 2004. The legislation provides for a complicated calculation formula that, according to internal calculations, would make microwave spectrum very expensive (in excess of US$300,000 per annum based on the current size of Vodacom's backbone). The latest communications with the National Regulatory Authority indicated that this amount may be deducted from the annual 3% of net operating income licence fee. Discussions with the NRA are continuing.

The draft Universal Service Fund regulations still has to be approved by the Ministry of Communications. The regulations appear to be consistent with policy and make provision for operator representatives to sit on the Board of the Fund. It would appear that the regulations will only be approved after the NRA appointed consultants, Intelecon Research & Consulting Limited from Canada, have presented their findings, which was expected by the end of April 2004. Vodacom had paid its service licence and GSM spectrum fees for 2005 on August 23, 2004, and the universal service fees on November 30, 2004. As far as infrastructure roll-out is concerned, after its first year of operations, Vodacom is well into year three in terms of its licence obligations. All requests for reports by the Instituto Naçional das Communicaçoes de Moçambique, or the National Communications Institute of Mozambique, in terms of Vodacom's licence have been complied with. Non-payment of regulatory and other fees by TDM and mCel has now been openly admitted to Vodacom by all parties. The NRA has assured Vodacom that these fees will be collected and that the matter will be taken to court if necessary.

Key indicators

	Year ended March 31,		% change
	2004	**2005**	***05/04***
Customers ('000)[1]	**58**	**265**	***356.9***
Contract	1	**4**	*300.0*
Prepaid	*57*	**261**	*357.9*
Gross connections ('000)	**58**	**225**	***287.9***
Churn (%)	**0.3**	**11.3**	***11.0***
ARPU (Rand)[2]	**110**	**52**	***(52.7)***
Cumulative capex (Rand millions)	**478**	**696**	***45.6***
Number of employees	**43**	**109**	***153.5***
Customers per employee	**1,349**	**2,431**	***80.2***
Mobile penetration (%)[3]	**2.6**	**4.2**	***1.6***
Mobile market share (%)[3]	**11**	**33**	***22***

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.*

Prospects

The newest venture in the Vodacom stable got off to a good start in terms of attracting customers from a very well entrenched competitor. However, relatively low minutes of use per customer has exacerbated financial losses. Whilst we believe our network quality is superior and our brand has been well received, we will aim to expand coverage in key areas much more rapidly to ensure success. We believe that matching the coverage of our competitor should ensure much bigger market share and will conceivably improve minutes of usage. This should ensure a solid long-term business, but will negatively impact on short-term financial results.

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