



## REVIEW OF OPERATIONS VODACOM SOUTH AFRICA



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### Structure

The review of Vodacom's South African operations comprises the Vodacom (Proprietary) Limited and Vodacom Service Provider Company (Proprietary) Limited (VSPC) operations.

### 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.

VSPC is one of those service providers and distributes only Vodacom services. VSPC remains the flagship of our service provider channel, with 66.7% (2004: 65.3%) of the total customer base and 73.5% (2004: 70.6%) of the contract base which it manages.

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

- Global Telematics (Proprietary) Limited, trading as Orchid; and
- Smartphone SP (Proprietary) Limited, trading as Smartcall and incorporating Smartcom (Proprietary) Limited.

During the year, Vodacom has continued its strategy of acquiring the customer bases of all service providers who have been distributing Vodacom services. To this end, on April 16, 2004 Smartphone SP (Proprietary) Limited acquired 85.75% of Smartcom (Proprietary) Limited for a purchase consideration of R77.2 million, giving Vodacom an effective interest of 43.7% in Smartcom. The cellular customer base of Tiscali (Proprietary) Limited was acquired by VSPC with effect from February 1, 2005, for a purchase consideration of R40.1 million. We believe that the effective control of our entire customer base will greatly facilitate enhanced communication with our customers and improve margins. Discussions and negotiations with our other service providers are at various stages of completion.

We will continue to distribute our services through our valued independent (non-exclusive) service providers:

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

“Vodacom has had a phenomenal year. We have been successful in increasing our market share by 2% points to 56%. 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; including innovative products such as the Vodafone Mobile Connect card, BlackBerry® and Vodafone live!”

## Sales and Marketing

### Brand

In 2004, for the first time, South Africans endorsed Vodacom as their number one telecommunications brand in the annual Markinor Survey. Moreover, Vodacom achieved the third best brand relationship score in South Africa, after Coca-Cola and SABC, and was also voted the third most trusted company in South Africa. During a recent survey by Interbrand Sampson, Vodacom was rated the third most valuable brand in South Africa.

Vodacom’s advertising consistently achieves high popularity scores, resulting from the humorous “Yebo Gogo” campaigns that have been highly successful in creating an affinity for this character amongst all South Africans.

The Vodacom brand is relentlessly driving its leadership and pioneering status, the key brand pillars and differentiators. In doing so, Vodacom will remain “Proudly South African”, but act global if an opportunity arises. The Vodafone alliance provides the brand with the opportunity to add a global dimension. The brand health survey, Vodatrack, indicates that the Vodacom/Vodafone brand alliance is yielding positive equity and establishes an international stature for the brand. The alliance



*With Vodacom you can now roam seamlessly in 153 countries around the globe*

has resulted in the launch of many innovative and differentiated products, including BlackBerry®, 3G technology, Vodafone Mobile Connect Card and Vodafone live!

Moving forward, Vodacom will continue to strive to capture the hearts and minds of all South Africans. This means strengthening the brand’s solid values of leadership with a modern enthusiasm.

### Sponsorship

Vodacom continues to invest in sports sponsorships and is seen as the biggest supporter of South African sports. The list of sponsorships includes high profile sporting teams, such as the Springboks, and events such as the Vodacom Super 12. Other sponsorships include the Vodacom Durban July, the Vodacom Blue Bulls, Bafana Bafana, Kaizer Chiefs and Orlando Pirates. The umbrella marketing campaigns around these sponsorships has increased brand popularity amongst South African supporters and have earned Vodacom two gold and a bronze Loerie award in the sponsorship category.

# REVIEW OF OPERATIONS

## VODACOM SOUTH AFRICA continued

### Key operational information

	Year ended March 31,					% change			
	2001	2002	2003	2004	2005	02/01	03/02	04/03	05/04
<b>Customers ('000)<sup>1</sup></b>	<b>5,108</b>	<b>6,557</b>	<b>7,874</b>	<b>9,725</b>	<b>12,838</b>	<b>28.4</b>	<b>20.1</b>	<b>23.5</b>	<b>32.0</b>
Contract	1,037	1,090	1,181	1,420	<b>1,872</b>	5.1	8.3	20.2	31.8
Prepaid	4,046	5,439	6,664	8,282	<b>10,941</b>	34.4	22.5	24.3	32.1
Community services	25	28	29	23	<b>25</b>	12.0	3.6	(20.7)	8.7
<b>Gross connections ('000)</b>	<b>2,990</b>	<b>3,038</b>	<b>3,495</b>	<b>4,998</b>	<b>6,180</b>	<b>1.6</b>	<b>15.0</b>	<b>43.0</b>	<b>23.6</b>
Contract	263	199	197	377	<b>610</b>	(24.3)	(1.0)	91.4	61.8
Prepaid	2,725	2,836	3,295	4,617	<b>5,566</b>	4.1	16.2	40.1	20.6
Community services	2	3	3	4	<b>4</b>	50.0	-	33.3	-
<b>Inactives (3 months - %)<sup>2</sup></b>	<b>n/a</b>	<b>13.9</b>	<b>18.2</b>	<b>17.6</b>	<b>7.9</b>	<b>-</b>	<b>4.3</b>	<b>(0.6)</b>	<b>(9.7)</b>
Contract	n/a	3.8	5.3	5.7	<b>1.5</b>	-	1.5	0.4	(4.2)
Prepaid	n/a	15.9	20.5	19.7	<b>9.0</b>	-	4.6	(0.8)	(10.7)
<b>Total churn (%)<sup>3</sup></b>	<b>23.3</b>	<b>27.2</b>	<b>30.4</b>	<b>36.6</b>	<b>27.1</b>	<b>3.9</b>	<b>3.2</b>	<b>6.2</b>	<b>(9.5)</b>
Contract	18.7	14.5	11.9	10.1	<b>9.1</b>	(4.2)	(2.6)	(1.8)	(1.0)
Prepaid	24.8	30.1	34.0	41.3	<b>30.3</b>	5.3	3.9	7.3	(11.0)
<b>Traffic (millions of minutes)<sup>4</sup></b>	<b>7,472</b>	<b>8,881</b>	<b>10,486</b>	<b>12,297</b>	<b>15,014</b>	<b>18.9</b>	<b>18.1</b>	<b>17.3</b>	<b>22.1</b>
Outgoing	4,052	4,967	6,343	7,772	<b>10,027</b>	22.6	27.7	22.5	29.0
Incoming	3,420	3,914	4,143	4,525	<b>4,987</b>	14.4	5.9	9.2	10.2
<b>ARPU (Rand per month)<sup>5</sup></b>	<b>208</b>	<b>182</b>	<b>183</b>	<b>177</b>	<b>163</b>	<b>(12.5)</b>	<b>0.5</b>	<b>(3.3)</b>	<b>(7.9)</b>
Contract	493	560	629	634	<b>624</b>	13.6	12.3	0.8	(1.6)
Prepaid	98	93	90	90	<b>78</b>	(5.1)	(3.2)	-	(13.3)
Community service	1,453	1,719	1,861	2,155	<b>2,321</b>	18.3	8.3	15.8	7.7
<b>Minutes of use per month (MOU)<sup>6</sup></b>	<b>137</b>	<b>111</b>	<b>101</b>	<b>96</b>	<b>84</b>	<b>(19.0)</b>	<b>(9.0)</b>	<b>(5.0)</b>	<b>(12.5)</b>
Contract	270	264	269	263	<b>226</b>	(2.2)	1.9	(2.2)	(14.1)
Prepaid	70	58	54	56	<b>52</b>	(17.1)	(6.9)	3.7	(7.1)
Community service	2,859	3,354	3,162	3,061	<b>3,185</b>	17.3	(5.7)	(3.2)	4.1
Cumulative capex	10,232	14,317	16,535	18,132	<b>20,358</b>	39.9	15.5	9.7	12.3
SA network capex per customer (Rand)	2,053	1,991	1,933	1,720	<b>1,515</b>	(3.0)	(2.9)	(11.0)	(13.5)
<b>Number of employees<sup>8</sup></b>	<b>4,102</b>	<b>3,859</b>	<b>3,904</b>	<b>3,848</b>	<b>3,954</b>	<b>(5.9)</b>	<b>1.2</b>	<b>(1.4)</b>	<b>2.8</b>
Customers per employee <sup>8</sup>	1,245	1,699	2,017	2,527	<b>3,247</b>	36.5	18.7	25.3	28.5
Market share (%) <sup>7</sup>	61	61	57	54	<b>56</b>	-	(4.0)	(3.0)	2.0

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 at the end of the period indicated.

2 n/a - not available. A software error was identified in the calculation of inactives which has been confirmed by independent auditors. Vodacom was unable to restate prior year figures including 2002 to 2004 statistics. This does not impact any other statistics presented, as all are based on registered customers.

3 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. From December 1, 2003, to align ourselves with industry standards, any Vodago or 4U connection, for which the network records no revenue generating activity within a period of 215 consecutive days, will be deleted and counted as churn.

4 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.

5 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.

6 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 excludes calls to free services, bundled minutes and data minutes.

7 Market share is calculated based on Vodacom's total reported customers and the estimated total customers of MTN and Cell C.

8 The number of employees in 2005 excludes 191 outsourced customer care employees which yields customers per employee of 3,097, a 22.5% increase on the prior year.

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

### Distribution channels

As at March 31, 2005, Vodacom's distribution network consisted of:

- Vodaworld – A unique one-stop mobile telecommunications mall, showcasing the latest technology in cellular hardware;
- Dealers and franchises – 1,497 company and independently owned cellular dealer and franchise outlets which include Vodashop, Vodacare, Vodacom 4U and Vodacom Active stores;
- National chains – 5,173 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; and
- Wholesale – A significant channel representing the informal sector comprising of street vendors serving under-serviced areas.

## Customers and Traffic

### Customer growth and connections

The South African customer base has continued to grow this year, illustrating that the market is larger than previously forecast. The total number of customers has increased by 32.0% to 12.8 million (2004: 9.7 million) with the majority of the growth resulting from the prepaid market. The number of prepaid customers has increased by 32.1% to 10.9 million, while the number of contract customers has increased by 31.8% to 1.9 million. Despite the increase in contract customers, Vodacom has seen a decrease in connection incentive levels in the market. 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 contract and prepaid bases.

Contract gross connections increased by 61.8% to 610,000 (2004: 377,000), while prepaid gross connections increased by 20.6% to 5.6 million (2004: 4.6 million), bringing the total number of connections for the year to 6.2 million

(2004: 5.0 million). The growth in the contract connections was largely due to the increased connections in the hybrid product, Family Top-Up. The customer signs up for a 24-month airtime contract and receives a monthly amount of airtime after which he is able to recharge using prepaid vouchers. 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 715,000 prepaid gross connections achieved in December 2004, the highest ever monthly figure, and 22.3% more than the previous record of December 2003. Contract gross connections of 61,000 achieved in December 2004, was also the highest ever, 31.3% higher than the previously reported record of March 2004.

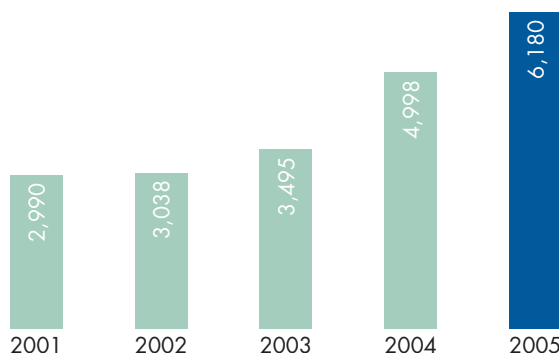
Loyalty and retention programmes continue to play an integral role in achieving the strategy of retaining market share and attracting new customers.

### ARPU

The developing market through the prepaid service has continued to drive market penetration in 2005 and has made up 90.1% (2004: 92.4%) of all gross connections. During the period under review, ARPU decreased to R163 per month (2004: R177) due to the continued dilution of ARPU caused by the higher proportion of lower ARPU prepaid connections and lower usage as the lower end of the market is penetrated.

## South Africa gross connections

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# REVIEW OF OPERATIONS

## VODACOM SOUTH AFRICA *continued*

Contract customer ARPU has decreased by 1.6% to R624. The main contributing factor to this decrease has been the high growth in the low end hybrid, Family Top Up. The prepaid customer ARPU has decreased by 13.3% to R78 (2004: R90) per customer per month.

Community services ARPU has increased by 7.7% to R2,321 (2004: R2,155) due to tariff increases coupled with stable usage patterns. Due to the subsidisation of community service tariffs, one community services phone is equivalent to approximately 45 prepaid customers on an outgoing revenue basis and nearly 128 on an outgoing usage basis.

### 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. Through the continued high level of handset support to service providers, Vodacom has ensured the decrease in contract churn to the lowest level in our history of 9.1% in 2005 (2004: 10.1%).

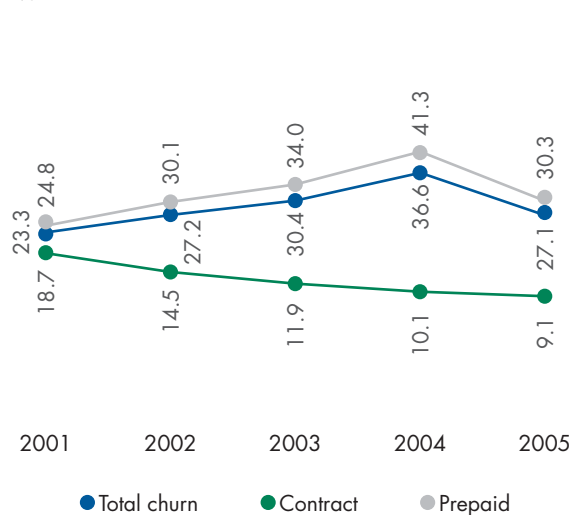
The developing prepaid market is characterised by low acquisition costs due to the flexibility required by this market to access our services. The decrease in prepaid churn experienced during the year under review to 30.3% (2004: 41.3%) is partly a result of a change in business rules.

### Traffic and minutes of use

Total traffic on the network, excluding the impact of national and international roaming, has shown an increase of 22.1% to 15.0 billion minutes in 2005 (2004: 12.3 billion). This growth was mainly due to the 32.0% growth in the total customer base from 9.7 million to a base of 12.8 million as at the end of March 2005. Also evident was a marked change in customer calling patterns, with total mobile to mobile traffic increasing by 31.6% while total mobile to fixed and fixed to mobile traffic decreasing by 0.9%.

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, as contract minutes show a 14.1% decrease to 226 per month for 2005 (2004: 263 per month), and prepaid minutes decreased 7.1% to 52 per month in 2005 (2004: 56 per month).

### South Africa churn history



### Market share

Vodacom has retained its leadership in the South African market with an estimated 56% (2004: 54%) market share as at March 31, 2005, despite strong competition. The improved market share is as a result of the increased competitiveness of Vodacom in acquiring contract customers, as well as the stability of prepaid sales. The cellular industry in South Africa has grown by 27.4% since March 2004, a net growth of 5.0 million, of which Vodacom has contributed 62.7%. The market penetration of the cellular industry is now an estimated 48.5% (2004: 41.2%) of the population with a total cellular market of 23.0 million customers (2004: 18.1 million). Prepaid customers continue to dominate the market and comprise 83.7% of the total cellular market (2004: 83.8%).

### Customer Relationship Management

Customer relationship management remains one of our key strategic focus areas. We continually strive to improve relationships with customers by understanding their needs, their likes, dislikes and how they would like Vodacom to interact with them. Using these insights, we ensure that our staff are trained to interact with the customers in a customer-centred manner and that our business processes support our customer satisfaction principles.

Our performance in this regard is measured through customer satisfaction surveys conducted internally as well as by the Department of Trade and Industry. In both surveys, Vodacom

achieved the highest customer satisfaction index. In order to ensure that we remain competitive, action plans have been put into place to address shortcomings that are identified through these surveys.

### *Customer care*

A key focus area over this past year has been customer self-service. More than 70% of customer queries are now handled via the IVR system, allowing for added convenience to customers. More than 85% of customer queries are resolved on the first call. Skills-based call routing technology has been introduced into the call centres which allows an incoming call to be connected to the most appropriate call centre agent, depending on the nature of the customer's enquiry.

In order to increase the call handling capacity in the call centres, an outsourced call centre has been commissioned. This call centre is operated by Dimension Data and has been operating since December 17, 2004. The outsourced call centre employs some 191 employees. This has had a positive effect on customer service levels.

### *Walk-in customer care*

The four walk-in customer care centres in Vodaworld (Midrand), Cape Town, Durban and Port Elizabeth prove highly successful in addressing customer enquiries and needs. Footfall continues to increase on a daily basis and we are assisting, on average, a total of 1,500 people a day.

### *Vodacare*

Vodacare specialises in cellular repairs and consists of 27 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 38,000 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 supplied.

14% of high-level repair customers 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 3G, BlackBerry® and Vodafone live!. Vodacom offers contract, prepaid, data and value-added voice and data services.

### *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 at March 31, 2005, 14.6% (2004: 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 is a 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, 2005, 19.8% (2004: 5.1%) of Vodacom's contract customers were Top Up customers.

### *Prepaid services*

The majority of Vodacom's customers are prepaid customers and at March 31, 2005 prepaid comprised 85.2% (2004: 85.3%) of the customer base.

Vodacom has three prepaid products, namely: Vodago, SmartStep and 4U. Our 4U offering, primarily aimed at the youth market, continues to prove highly successful and as at

# REVIEW OF OPERATIONS

## VODACOM SOUTH AFRICA *continued*

March 31, 2005, 70.7% (2004: 67.9%) of Vodacom's prepaid customers comprised 4U customers.

During the year, Vodacom introduced a new Super six 4U starter pack and changed the Vodago Super six starter pack to include free SMSs.

Recharge-related innovations include the Yebo 5 voucher, adding SMS as a recharge channel, and the addition of electronic recharge as a service to the Vodacom4me portal.

### *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 and 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 users on the network as at March 31, 2005 was 10,853. The 3G launch included a number of innovative products such as the Vodafone Mobile Connect Card, and, after 4 months, we had already acquired 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, and was one of the messaging highlights for the year.

At the same time, we introduced new data tariffs for our contract customers and dramatically reduced our data pricing from R10 to an effective 60 cents per megabyte. Whilst prepaid customers currently enjoy a competitive data tariff, during the course of 2005 we plan to make data bundles available to them.

During the year there was an increase in the usage of GPRS, with the number of GPRS users increasing to 579,581 as at March 31, 2005 (2004: 100,128).

On the messaging side, our aim was to make SMS and MMS more affordable. To this end, we introduced an SMS voucher for prepaid customers in December 2004 and changed the MMS

pricing so that the cost of sending a MMS is the same as that of sending a SMS. Both these initiatives have contributed to increased usage. In addition, the volumes of preconfigured mobile phones supporting MMS registered on the network increased to 2.0 million (2004: 510,000). The number of active MMS users on the network as at March 31, 2005 was 328,974 (2004: 61,374). MMS messages volumes continued to grow from 350,260 messages in March 2004 to 1,780,657 in March 2005, with an average of 811,270 messages sent monthly.

On the VAS side, new and innovative additions include call sponsor, airtime transfer, detailed billing and the prepaid passport number securing product. 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 at March 31, 2005, 136 WASPs (2004: 106) had applied for connectivity to the Vodacom network.

Premium-rated SMS content is still focused on competitions, accounting for approximately 20% of new services and information and alerts which account for roughly 18%. There has been a substantial increase in messaging services which represented 12% of new services in 2005. Consumer sensitivity to pricing appears to be stabilising, as average monthly volumes have grown to 9.8 million.

### **Community Services**

By March 31, 2005, Vodacom had deployed more than 25,224 community services telephones (2004: 23,191) in previously underserved 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 the residents of these areas.

### **Handset Sales**

The number of handsets sold during the year was 2.4 million units (2004: 2.1 million units), an all time high, which

represented a year-on-year growth of 14.3% from 2004. Our world-class warehouse in Midrand handled an average of 1,642 orders per day, up by 37.2% from the previous year's figure of 1,197 orders per day. As a testimony to our proficiency at effective distribution, 98% of all deliveries to our distribution channel are finalised within 48 hours of receiving the order.

Camera phones have now become very affordable and are available on prepaid offerings. 1.3 mega pixel cameras have now become the standard, with two mega pixel cameras becoming available on high end phones. Bluetooth technology has now become entrenched on most mid and high end phones. The focus for the coming year will be on Vodafone live!, with specific emphasis on customised phones and content.

### **National and International Roaming Services**

Vodacom has a national roaming agreement with Cell C which offers Cell C national roaming coverage for 15 years.

As at March 31, 2005, Vodacom had international roaming agreements with 301 mobile communications network operators in 153 countries (2004: 249 network operators in 132 countries) for contract telephony services, 31 GPRS roaming contracts (2004: 10) and 17 inbound prepaid roaming telephony contracts (2004: 12). Plans for 2005 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.

### **Network Infrastructure and Technology**

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

As at March 31, 2005 Vodacom had achieved the following rates based on network derived statistics and trailing statistics, carried out through vehicle trailing:

- 99.54% call set-up success rate (2004: 99.46%);
- 99.61% call retention rate (2004: 99.38%); and
- 99.15% call success rate (2004: 98.83%).

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 wide-spread upgrades to larger capacity power nodes.

This has had an extremely positive impact on network call processor loads during high peak periods, for example, Christmas and New Year.

As at March 31, 2005 Vodacom's infrastructure covered an estimated 96.4% of the population, based on the latest available census information of 2001, and 66.6% of the geographical area of South Africa. The network's core GSM infrastructure as at March 31, 2005 was comprised of:

- 31 mobile switching centres (including the VLRs and gateways);
- 242 base station controllers;
- 4,518 macro-base transceiver stations;
- 1,508 micro-base transceiver stations;
- 45,719 transceivers; and
- GPRS functionality across the network.

The network's UMTS (3G) infrastructure as at March 31, 2005 consisted of:

- Three radio network controllers; and
- 487 UMTS base transceiver stations (NodeB).

Vodacom's transmission network comprises 15,036 E1 links and 67 STM-1 links leased from Telkom, which are managed by a comprehensive digital cross-connect infrastructure. In addition, Vodacom operates an extensive data network for its internal requirements based on internet protocol (IP MPLS) and supporting point-to-point, frame-relay and X.25 services. It is comprised of more than 50 packet/frame/circuit nodes and is supported (for transport) by the cross-connect network.

Vodacom continues to deploy GSM 1800MHz 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 1,348 locations in South Africa. These sites comprise 8,137 GSM 1800MHz transceivers.



# REVIEW OF OPERATIONS

## VODACOM SOUTH AFRICA continued

### Number of base transceiver stations

	Year ended March 31,				
	2001	2002	2003	2004	2005
Macro-base transceiver stations	3,401	3,670	3,906	4,158	<b>4,518</b>
Micro-base transceiver stations	1,292	1,380	1,487	1,555	<b>1,508</b>
<b>Total</b>	<b>4,693</b>	<b>5,050</b>	<b>5,393</b>	<b>5,713</b>	<b>6,026</b>

### Procurement

Vodacom solicits bids for all goods and services in excess of R500,000. 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 BEE. Vodacom spent 75.3% of its eligible procurement expenditure with BEE companies during 2005 (2004: 60%) against a target of 67% 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 exercising her statutory authority to liberalise certain markets, the licensing of seven of the underserved licensees and the publication of another Convergence Bill by the Parliamentary Portfolio Committee on Communications. The ICT BEE Charter, after a year of continued industry consultation and negotiation, is also nearing finalisation.

### 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 was lifted. The effect of the facilities provisioning determination is that Vodacom may self-provide its fixed links. Vodacom has submitted its application to the Independent Communications Authority of South Africa (ICASA) for the relevant spectrum to assess the viability of self-provisioning. The prohibition on value-added network providers (VANS) to carry voice on their facilities has also been lifted. This has resulted in Telkom

decreasing international rates and has created opportunities for Vodacom to conclude agreements with VANS to terminate traffic on the Vodacom network.

### Underserved area licences (USALs)

Vodacom has 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 to negotiate with the potential USALs.

### Convergence Bill

The Convergence Bill was published on December 3, 2003, and was the product of industry consultation and industry drafting. Written comments by the public were submitted on February 3, 2004, whereafter no communication was entered into. On March 13, 2005, the Bill was published for comments on parliament's website, allowing three weeks for public comment. As the new version differed materially from the original version, Vodacom submitted extensive comments and has subsequently established a lobbying task team to engage government and parliament to ensure that Vodacom's requirements are met.

### ICT BEE Charter

The new draft ICT BEE Charter – developed by a steering committee comprising members representing the IT, electronics, broadcasting and telecommunications industries and labour, community, SMMEs and ICASA, and facilitated by Department of Communications (DoC) – was submitted to the Minister on May 2, 2005, before being tabled to cabinet for adoption and release for public comment.

### 1800MHz and 3G spectrum

From a technical regulatory perspective, Vodacom is well positioned for future growth. Vodacom was awarded its

permanent 1800MHz and 3G spectrum licences during the past financial year. Both the 1800MHz and 3G spectrum fees are the same as the 900MHz spectrum fees. In light of this, Vodacom has accepted the additional universal service obligations ICASA, i.e. 2.5 million simcards 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 DoC and ICASA will assist in the identification of the beneficiaries, the schools and the areas. The airtime used on the simcards will be charged at standard prepaid rates and the internet usage rates at a 50% discounted rate, as provided for in the Telecommunications Act.

#### *Number portability*

The Telecommunications Act provides that number portability has to be implemented in 2005. 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.

#### *Interception of Communication and Communication-related Information Act*

The effective date of the Interception of Communication and Communication-related Information Act has still not been declared. The cellular operators have succeeded in persuading the Department of Justice to revise the provisions regarding customer registration, which will now be done electronically over a three-year period, instead of the original paper-based process which was proposed. After the declaration of the effective date of the Act, Vodacom will have six months to acquire the monitoring and interception facilities. The technical specifications of the facilities have also been agreed upon between Vodacom and the Department of Justice.

#### **Conclusion**

Vodacom has had a phenomenal year. We have managed to exceed most of the goals set for this year and have been successful in increasing our market share by 2% points to 56%. 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.

One of the highlights of the year has been the launch of 3G technology 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, including innovative products such as the Vodafone Mobile Connect card, 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*