vodacom

vodacom

# Annual Report 2003

# THE VODACOM WAY

## ALWAYS REMEMBER THERE IS THE VODACOM WAY

*Vodacom will be one of Africa's most admired companies. The pride of Africa.*

### VODACOM is a winning company

where everyone is imbued with a spirit to win, to be passionate in whatever we do, to be the best, to never give up, to work harder than anybody else, to know that our best is better than anybody else's best. Losing is just not an option. We are a team and competition is our sport.

### VODACOM is a respected company

and professionalism are the cornerstones of how we do business. Everyone we deal with is an equal partner, and we deal straight.

### VODACOM is a caring company

which cares about what it does and how it does it, which is always fair, and which respects every single person. Sincerely caring about everything we do every minute of every day, is our way of life.

### VODACOM believes that it can

enhance people's lives and empower them by making it possible for all people in Southern Africa to have access to mobile telecommunications. We have the will and the means to do so, and we will strive to do so in a sensible manner. We will democratise telecommunications.

### VODACOM will seek out the impossible to do

Mobile communication has been made possible by the most innovative technology in the world. This technology will continue to develop and make possible things we cannot even dream of today. We will remain the most competent and innovative of all in this technology, to not only make every dream come true, but to dream the dreams. We will use our passion and our common sense to do the impossible. Indeed we will seek out the impossible to do.

***And in everything we do, we will always also make sure that our shareholders remain happy with, and proud of their investment in Vodacom.***

vodacom

Vodacom Group (Proprietary) Limited

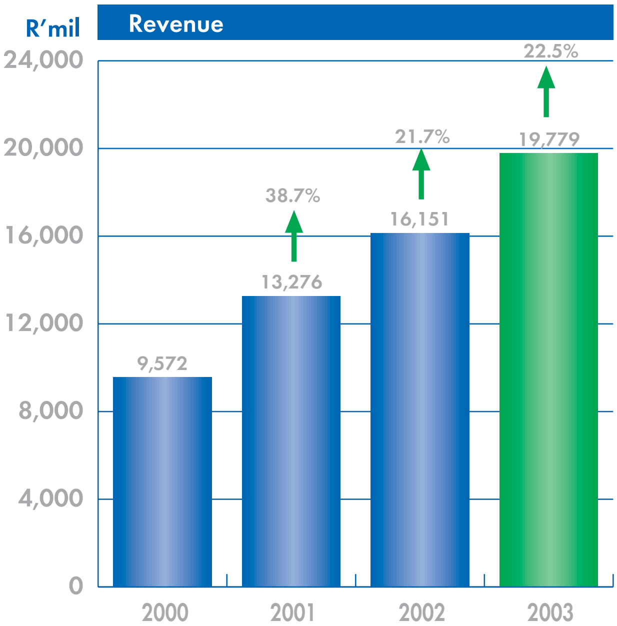
# Contents

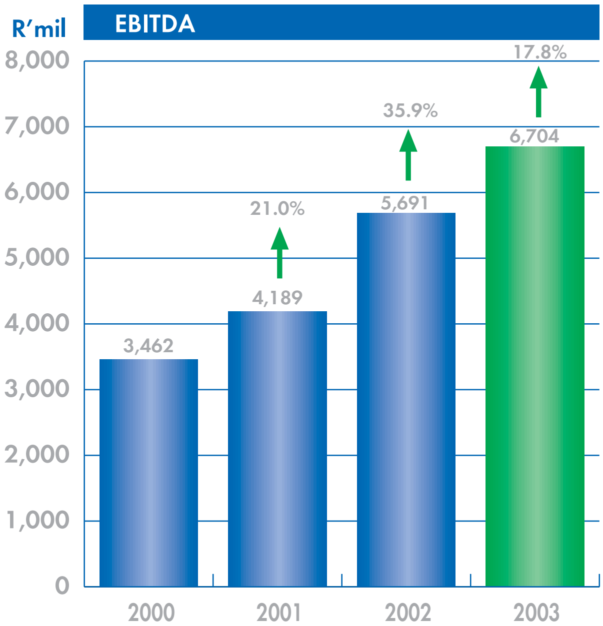
March 31, 2003

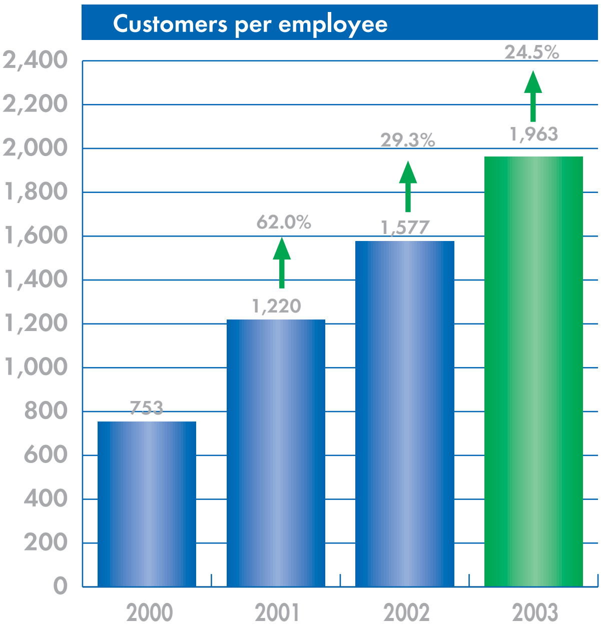
Vodacom Group (Proprietary) Limited

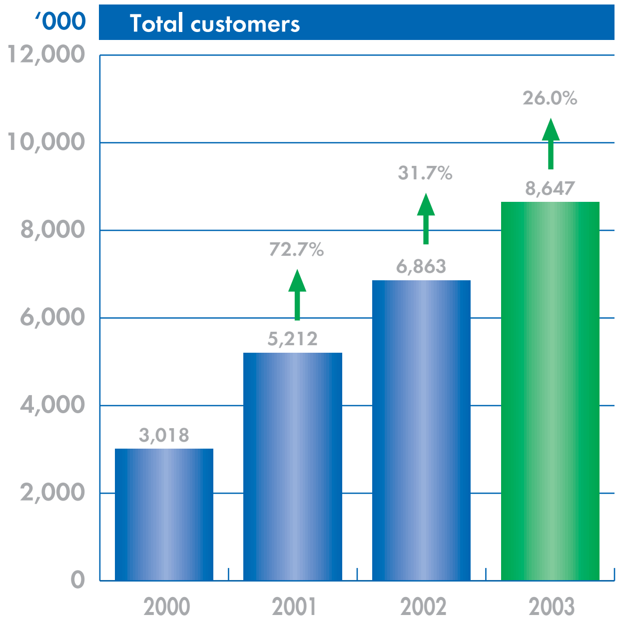
# 1. Highlights and selected historical financial and other data

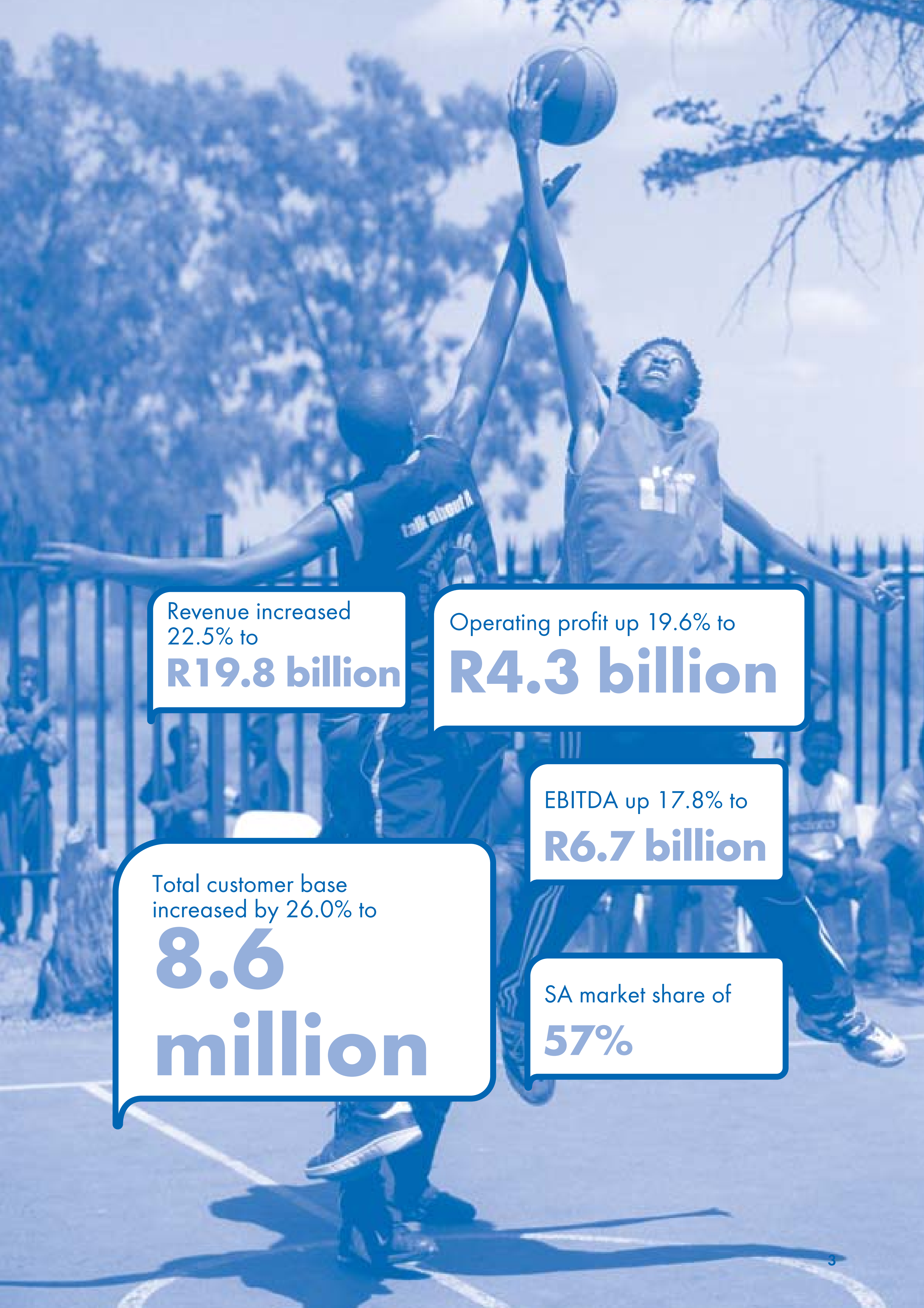
March 31, 2003




Revenue increased 22.5% to
R19.8 billion
Operating profit up 19.6% to
R4.3 billion
EBITDA up 17.8% to
R6.7 billion
Total customer base increased by 26.0% to
8.6 million
SA market share of
57%

Vodacom appeals to the youth

The following tables give a concise overview of Vodacom's results, as is more fully disclosed in the Annual Financial Statements in section 16 of this report. Rand amounts have been translated into US Dollars for your convenience at R7.9701 per $1, the morning mid-rate in South Africa on March 31, 2003.

## Summary income statement data

| | Year ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2000 ZAR** | **2001 ZAR** | **2002 ZAR** | **2003 ZAR** | **2003 USD** |
| *Amounts in accordance with IFRS* | | | | | |
| | | | (in millions) | | |
| **Revenue** | **9,572** | **13,276** | **16,151** | **19,779** | **2,482** |
| **Operating expenses** | **(7,208)** | **(10,723)** | **(12,530)** | **(15,449)** | **(1,939)** |
| **Operating profit** | **2,364** | **2,553** | **3,621** | **4,330** | **543** |
| Interest, dividends and other financial income received | 32 | 28 | 840 | 742 | 93 |
| Finance costs | (567) | (507) | (868) | (1,546) | (194) |
| **Profit before tax** | **1,829** | **2,074** | **3,593** | **3,526** | **442** |
| Taxation | (514) | (765) | (1,190) | (1,199) | (150) |
| **Profit after tax** | **1,315** | **1,309** | **2,403** | **2,327** | **292** |
| Minority interests | – | 9 | (30) | (112) | (14) |
| **Net profit** | **1,315** | **1,318** | **2,373** | **2,215** | **278** |
| *Amounts in accordance with US GAAP* | | | | | |
| Net profit | n/a | 1,249 | 2,120 | 2,099 | 263 |

## Summary balance sheet data

| | As at March 31, | | | | |
|---|---|---|---|---|---|
| | 2000 ZAR | 2001 ZAR | 2002 ZAR | 2003 ZAR | 2003 USD |
| *Amounts in accordance with IFRS* | | | | | |
| | | | (in millions) | | |
| **Total assets** | **9,864** | **12,342** | **15,359** | **16,816** | **2,110** |
| Current assets | 2,788 | 3,470 | 4,145 | 4,690 | 588 |
| Cash and cash equivalents | 936 | 798 | 719 | 1,207 | 151 |
| Other current assets | 1,852 | 2,672 | 3,426 | 3,483 | 437 |
| Non-current assets | 7,076 | 8,872 | 11,214 | 12,126 | 1,522 |
| **Total liabilities** | **7,195** | **8,847** | **9,884** | **9,891** | **1,241** |
| Current liabilities | 5,883 | 7,267 | 7,990 | 7,009 | 879 |
| Short-term debt[1] | 3,370 | 2,547 | 3,517 | 1,769 | 222 |
| Other current liabilities | 2,513 | 4,720 | 4,473 | 5,240 | 657 |
| Non-current liabilities | 1,312 | 1,580 | 1,894 | 2,882 | 362 |
| Long-term debt[2] | 817 | 896 | 780 | 1,732 | 218 |
| Other non-current liabilities | 495 | 684 | 1,114 | 1,150 | 144 |
| **Minority interests** | **(2)** | **(11)** | **11** | **88** | **11** |
| **Shareholders' equity** | **2,671** | **3,506** | **5,464** | **6,837** | **858** |
| *Amounts in accordance with US GAAP* | | | | | |
| Shareholders' equity | n/a | 3,195 | 4,874 | 6,086 | 764 |

## Summary cash flow data

| | Year ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2000 ZAR | 2001 ZAR | 2002 ZAR | 2003 ZAR | 2003 USD |
| *Amounts in accordance with IFRS* | | | | | |
| | | | (in millions) | | |
| Cash flow from operating activities | 2,341 | 3,610 | 3,815 | 4,342 | 545 |
| Cash flow from/(used in) investing activities | (3,338) | (2,853) | (4,543) | (3,243) | (407) |
| Cash flow from/(used in) financing activities | 646 | (1,038) | 571 | 518 | 65 |

## Summary other data

| | | | | | |
|---|---|---|---|---|---|
| EBITDA[3] | 3,462 | 4,189 | 5,691 | 6,704 | 841 |
| Total debt (at period end)[4] | 4,187 | 3,443 | 4,297 | 3,501 | 439 |
| **Capital expenditures including intangibles** | **2,032** | **3,184** | **4,279** | **3,399** | **426** |
| South Africa | 2,011 | 2,830 | 3,291 | 2,488 | 312 |
| Other African countries | 21 | 354 | 988 | 911 | 114 |

## Summary statistical data

| | Year ended March 31, 2000 | 2001 | 2002 | 2003 | 2003/2002 % change |
|---|---|---|---|---|---|
| *South Africa* | | | | | |
| **Number of customers (thousands) (at period end)[5]** | **3,069** | **5,108** | **6,557** | **7,874** | **20.1** |
| Contract | 963 | 1,037 | 1,090 | 1,181 | 8.3 |
| Prepaid | 2,082 | 4,046 | 5,439 | 6,664 | 22.5 |
| Community services telephones | 24 | 25 | 28 | 29 | 3.6 |
| **Churn (%)** | **31.8** | **23.3** | **27.2** | **30.4** | **11.8** |
| Contract | 17.4 | 18.7 | 14.5 | 11.9 | (17.9) |
| Prepaid | 40.5 | 24.8 | 30.1 | 34.0 | 13.0 |
| **Mobile market share (%) (at period end)** | **59** | **61** | **61** | **57** | **(6.6)** |
| **Mobile penetration (%) (at period end)** | **12.1** | **19.1** | **24.2** | **30.5** | **24.4** |
| **Total traffic (millions of minutes)[6]** | **5,669** | **7,472** | **8,881** | **10,486** | **18.1** |
| Outgoing | 2,885 | 4,052 | 4,967 | 6,343 | 27.7 |
| Incoming | 2,784 | 3,420 | 3,914 | 4,143 | 5.9 |
| **Average monthly revenue per customer (ZAR)[7]** | **266** | **208** | **182** | **183** | **0.5** |
| Contract[7] | 481 | 493 | 560 | 629 | 12.3 |
| Prepaid | 132 | 98 | 93 | 90 | (3.2) |
| Community services | n/a | 1,453 | 1,719 | 1,861 | 8.3 |
| **Average monthly minutes of use per customer[8]** | **158** | **137** | **111** | **101** | **(9.0)** |
| Contract | 274 | 270 | 264 | 269 | 1.9 |
| Prepaid | 90 | 70 | 58 | 54 | (6.9) |
| Community services | 1,593 | 2,859 | 3,354 | 3,162 | (5.7) |
| **Cumulative network capital expenditure per customer (ZAR) (at period end)** | **2,543** | **2,053** | **1,991** | **1,933** | **(2.9)** |
| **Number of employees (at period end)[9]** | **4,048** | **4,102** | **3,859** | **3,904** | **1.2** |
| **Number of customers per employee (at period end)[9]** | **758** | **1,245** | **1,699** | **2,017** | **18.7** |
| *Other African countries* | | | | | |
| **Number of customers (thousands) (at period end)** | **12** | **104** | **306** | **773** | **152.6** |
| **Average monthly revenue per customer** | | | | | |
| Lesotho (ZAR) | n/a | n/a | 144 | 104 | (27.8) |
| Tanzania (USD) | n/a | 31 | 27 | 22 | (18.5) |
| Democratic Republic of the Congo (USD) | n/a | n/a | n/a | 20 | n/a |
| **Number of employees (at period end)[9]** | **43** | **170** | **494** | **502** | **1.6** |
| **Number of customers per employee (at period end)[9]** | **279** | **612** | **619** | **1,540** | **148.8** |

1 Includes short-term portion of finance leases, shareholder loans, non-interest bearing debt, short-term interest bearing debt and utilised credit facilities.

2 Includes long-term portion of interest bearing debt.

3 EBITDA includes a net gain of Nil, a net gain of R56 million, a net loss of R213 million and a net gain of R129 million in the 2003, 2002, 2001 and 2000 financial years, respectively, for integration costs, disposals of operations and impairments.

4 Includes interest-bearing debt, non interest-bearing debt, shareholder loans and bank overdrafts.

5 18.2% (2002:13.9%) of Vodacom's total reported customers, 20.5% (2002:15.9%) of its prepaid customers and 5.3% (2002: 3.8%) of its contract customers in South Africa were inactive as of March 31, 2003 for a period of 3 months.

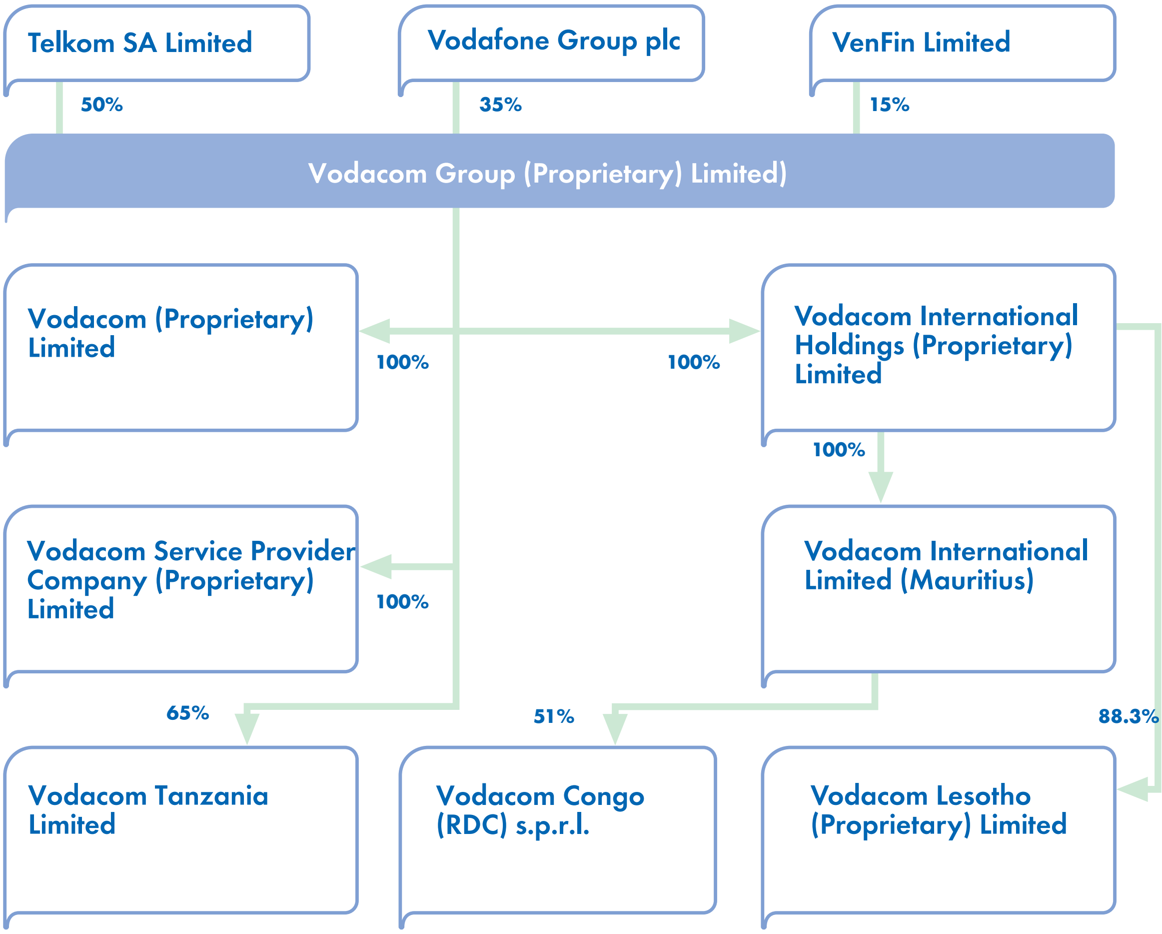
6 Traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national roaming and incoming international roaming calls.

7 Value added service revenue from previously partially owned service providers is included in contract and total average monthly revenue per customer from October 1, 2001, at which time Vodacom consolidated these previously partially owned service providers.

8 Average monthly minutes of use per customer is calculated by dividing the average montly minutes during the period by the average monthly reported customer base during the period and excludes calls to free services, bundled minutes and data minutes.

9 Includes 219, 423, 553 and 96 total temporary employees as of March 31, 2003, 2002, 2001 and 2000, respectively.

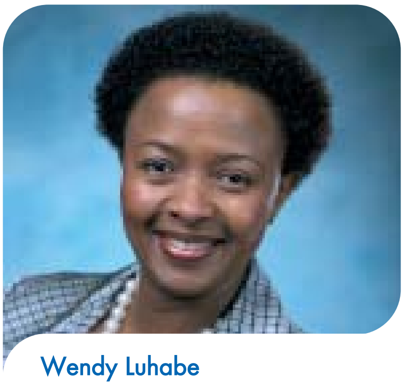
## Legal structure




Our simple organisational structure adds focus and strength to our operations, and is depicted in the organogram above. Only current operational companies are shown.

# 2. Chairman's review

March 31, 2003



Wendy Luhabe

*"We will continue to democratise telecommunications as we enable Africans to use mobile telephony to improve their lives economically and socially"*

Growth in our marketplace depends on rapid introduction and acquisition of customers for the next generation mobile-based products and service solutions.

Vodacom continues to master the operational link between customer insight, campaign designs and customer relationship management to continuously meet the evolving needs of both our prepaid and contract customers.

The financial year under review exceeded expectations under very challenging market conditions. We maintained a market share of 57% in South Africa despite increased competition. We also achieved the highest customer base in our nine-year history, growing our total customer base to an all-time high of 8.6 million.

To stay ahead we added another first to our already impressive list of innovations and launched "My Life" in October 2002, offering 24-hour Internet access, photo messaging and text messages of unlimited length by blending together General Packet Radio Service and Multimedia Messaging Service technologies. This was not possible before in Africa. Vodacom pioneered these communication solutions to add to our list of impressive range of services.

We also played an active role in supporting the success of Telkom's Initial Public Offering, with our Executive joining forces with Telkom Management on a roadshow to attract foreign investment to South Africa and make a case for foreign investment in Telkom. Vodacom's visibility has been greatly enhanced and we are proud to have been part of this historic event in South Africa's young democracy. We remain firmly committed to the performance standards that have become our trademark over the years.

Our greatest asset after our employees over the past nine years has been the Vodacom brand. There are probably two primary reasons why our brand has grown in value. The first is simply that we have leveraged a great formula for television advertising. The second is that our message has been consistent since 1994.

The company is well positioned for further expansion into Africa, a continent rich in natural resources with a cost efficient labour base to enable industry to make a meaningful contribution toward the New Partnership for Africa's Development.

Over the past financial year we witnessed Vodacom complete its transition from an engineering-focused organisation to a customer-centric organisation. Calls to Vodacom Customer Care can now be answered in Afrikaans, English, Sotho or Zulu. Not only are we proud of this innovation, it makes business sense in a country that speaks 11 languages.

Over the past financial year, Vodacom spent about 5.1% of its total salary budget on training and development, illustrating the premium the company places on employee growth and development. Vodacom increased its investment and focus in mentorship programmes and

Freedom Day celebrations, Bloemfontein, 2002

succession planning. We believe that Vodacom creates an environment and provides opportunities for staff to reach their full potential, while ensuring depth of management and expertise as well as visionary leadership in our core areas of business.

Our programme to achieve commercial equity with regards to suppliers of the designated historically disadvantaged individuals and companies continued over the past financial year and reached more than R1.3 billion.

Vodacom remained at the forefront of corporate social responsibility during the past financial year. One of the highlights of the year was the continued success of the Vodacom External Bursary scheme, which currently supports 151 students, mainly in the engineering, accounting and information technology fields.

Attention is focused now, more than ever before on Corporate Governance, transparency, independence and integrity. We will continue to practise the recommendations of the King Committee Report on Corporate Governance 2002. The report's recommendations have the potential to place South Africa ahead of many developed countries in terms of global best practice. The benefits of this to attract foreign investment cannot be underestimated.

The success of the Vodacom Group during the past year could not have been achieved without the admirable contribution and stewardship of the board, the commitment and passion of our employees at all levels and the support of our customers who continue to inspire us to go beyond the call of duty and maintain our position as Southern Africa's leading communications company.

In the coming financial year Vodacom will seek to continue to leverage its strengths and remain the lowest cost operator in the South African cellular industry. We will continue to democratise telecommunications as we enable Africans to use mobile telephony to improve their lives economically and socially.

We are well poised to continue to make strides during the next decade. Partnerships are critical in our new market place. Learning how to forge effective alliances and develop symbiotic relationships with competitors, employees, suppliers and customers may be the key to new growth. Simply achieving economic efficiency targets or being cost effective is no longer sufficient, Vodacom has to preserve and enhance its proven ability to innovate.

**Wendy Luhabe**
*Chairman*
Vodacom Group (Proprietary) Limited

Vodacom Group (Proprietary) Limited

# 3. Board of Directors and committees of the Board

March 31, 2003

The Vodacom Group Board of Directors, from left to right seated: Sizwe Nxasana, Shameel Aziz-Joosub, Philip Williams, Wendy Luhabe, Shawn McKenzie, Pieter Uys. Standing: Leon Crouse, Josua Malherbe, Edward Langston, Chian Khai Tan, Alan Knott-Craig, Andrew Mthembu.

## Non-executive directors

### Wendy Luhabe (46) (Chairman)

Ms Luhabe is a representative of Telkom and has worked as an entrepreneur since 1992 in various fields encompassing human resources management and development, women investment institutes and asset management. Previously she worked for ten years in marketing management in South Africa, Germany and the United States. Ms Luhabe is a director of the Industrial Development Corporation of South Africa Limited, the International Marketing Council and Alliance Capital Management (Proprietary) Limited. In the past five years, she has served as a director of Cycad Financial Holdings Limited, the Southern Africa Fund Incorporated (New York) and Tiger Brands Limited. She holds a Bachelor of Commerce degree from the University of Lesotho and has attended various management leadership development programmes.

### Sizwe Nxasana (45)

Mr Nxasana is a representative of Telkom and is the Chief Executive Officer of Telkom. Before joining Telkom in March 1998, he was the national managing partner for Nkonki Sizwe Ntsaluba Inc. from June 1996 to March 1998. He is a member of the Income Tax Special Court and a director of the South African Revenue Service Board, Business Against Crime – South Africa (Association incorporated in terms of Section 21), Zenex 1995 Trust and Zenex Foundation and was, in the past five years, a director of Co-ordinated Network Investments (Proprietary) Limited. He holds a Bachelor of Commerce degree from the University of Fort Hare and a Bachelor of Accounting Science (honours) degree from the University of South Africa and is a Chartered Accountant (South Africa).

### Shawn McKenzie (43) (American)

Mr McKenzie is a representative of Telkom and is the Chief Operating Officer of Telkom. Before joining Telkom he was the president Texas, South-western Bell Telephone Company, a subsidiary of SBC Communications, from June 2001 until July 2002. Mr McKenzie also served as president – Kansas, South-western Bell Telephone from October 1997 until June 2001. Before 1997, Mr McKenzie served in a variety of marketing, technical and external affairs positions for South-western Bell Telephone Company since joining SBC Communications in 1979. He has a Bachelor of Science degree in Business Administration and Political Science from the College of the Ozarks and he serves on the College's Board of Trustees.

**Chian Khai Tan (52) (Malaysian)**
Mr Tan is a representative of Telkom and is the Chief Strategic Officer of Telkom. Before joining Telkom, he was senior vice president, consumer and business sales at Telekom Malaysia from February 2001 to June 2002, general manager special project focus group at Telekom Malaysia from June 1998 until October 2000 and general manager, major business sales at Telekom Malaysia from April 1997 until May 1998. In the past five years, Mr Tan has served as a director of Citifon Sdn Berhad and Telkom Publication Sdn Berhad, both subsidiaries of Telekom Malaysia. Mr. Tan is a director of Telkom SA Limited and TMI Mauritius Limited. He holds a Bachelor of Engineering (Honours) degree from the University of Liverpool.

**Philip Williams (52) (British)**
Mr Williams is a representative of Vodafone and Group Human Resources Director of Vodafone Group plc. Mr Williams is director of several of the Vodafone Group of Companies and is a director of Vodafone Group's pension trustee company and the Vodafone Group Foundation. Before joining Vodafone, he was personnel director with Costain and Burmah Castrol.

**Edward (Ted) Langston (49) (British)**
Mr Langston is a representative of Vodafone and Financial Director Vodafone NEMEA Region. Mr Langston is a Chartered Accountant and a director of several Vodafone Group Companies.
He was previously Chief Financial Officer of Verizon Wireless and prior to joining Vodafone worked for GE Capital and was a director of a number of their UK subsidiaries.

**Josua (Dillie) Malherbe (47)**
Mr Malherbe is the representative of VenFin Limited and the Chief Executive Officer of VenFin. He is a director of several VenFin investee companies in South Africa and overseas. Mr Malherbe holds a Bachelor of Commerce degree, an LLB and is a Chartered Accountant (South Africa).

**Hans Kuropatwa (45) (British, absent)**
Mr Kuropatwa is a representative of Vodafone and Managing Director Vodafone NEMEA Region. Mr Kuropatwa has a Bachelor of Science degree and a Masters in Business Administration. He spent seven years at Motorola, in Global Management and Business Development roles, before joining Vodafone in 1998.

## Executive directors

**Alan Knott-Craig (51)**
**Andrew Mthembu (47)**
**Leon Crouse (50)**
**Shameel Aziz-Joosub (32)**
**Pieter Uys (40)** *(Mr Uys is not a member of the Board but attends all meetings)*

Refer to section 4 for a brief curriculum vitae of the executive directors.

## Alternate directors

**Michael Pitt (46) (British)**
Representative of Vodafone, For Philip Williams

**Julian Horn-Smith (54) (British)**
Representative of Vodafone, for Hans Kuropatwa

**Nombulelo Moholi (43)**
Representative of Telkom, for Shawn McKenzie

**Chris Volschenk (33)**
Representative of Telkom, for Sizwe Nxasana

**Peter Bamford (48) (British)**
Representative of Vodafone, for Edward Langston

**Jan Durand (36)**
Representative of VenFin, for Josua Malherbe

## Board committees

**Directing committee:**
Wendy Luhabe (Chair), Sizwe Nxasana, Philip Williams, Josua Malherbe, Hans Kuropatwa, Edward Langston, Shawn McKenzie, Chian Khai Tan
**Remuneration committee:**
Wendy Luhabe (Chair), Josua Malherbe, Sizwe Nxasana, Philip Williams
**Audit committee:**
Sizwe Nxasana (Chair), Edward Langston, Josua Malherbe
**Executive committee:**
Alan Knott-Craig (Chair), Andrew Mthembu, Leon Crouse, Shameel Aziz-Joosub, Pieter Uys
**International business development committee:**
Chris Volschenk (Chair), Hans Kuropatwa, Josua Malherbe

Vodacom Group (Proprietary) Limited

# 4. Executive management

March 31, 2003

## Group Chief Executive Officer

### Alan Knott-Craig (51)

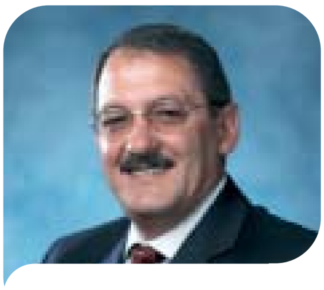
Mr Knott-Craig has served as Managing Director of Vodacom (Proprietary) Limited since 1993 and Chief Executive Officer of Vodacom Group since October 1996. Prior to 1993, Mr Knott-Craig was senior general manager of Mobile Communications at Telkom until 1993, when he left to form Vodacom. Mr Knott-Craig is also a director of the following other companies within the Vodacom Group: Vodacom (Proprietary) Limited, Vodacom Service Provider Company (Proprietary) Limited and Vodacom International Holdings (Proprietary) Limited. Mr Knott-Craig holds a Bachelor of Science degree in Electrical engineering from the University of Cape Town and a Master of Business Leadership degree from the University of South Africa. He was inducted as one of the eight Gold Members of the GSM Association's 2001 inaugural "Roll of Honour".

## Group Deputy Chief Executive Officer and Managing Director: Vodacom International Holdings (Proprietary) Limited

### Andrew Mthembu (47)

Mr Mthembu has served as a director since he joined Vodacom in January 1998 and was appointed as the Deputy Chief Executive Officer of Vodacom Group in November 2001. Mr. Mthembu is also the Managing Director of Vodacom International Holdings (Proprietary) Limited. Before 1998, Mr Mthembu was Managing Director at Tolcon, a toll road concession company from 1995 until December 1997. Mr Mthembu holds a Bachelor of Science degree in Chemistry and Biology from the University of Botswana and Swaziland, a Bachelor of Science degree in Civil Engineering from the University of Calgary, Canada and a Masters of Science degree in Construction Management from the University of Reading, England.

## Group Finance Director



### Leon Crouse (50)

Mr Crouse has served as Group Finance Director of Vodacom since October 1996. Before 1996, Mr Crouse served as Vodacom's general manager of Finance since Vodacom's inception in 1993. Mr Crouse is also a director of Vodacom (Proprietary) Limited, Vodacom Service Provider Company (Proprietary) Limited and Vodacom International Holdings (Proprietary) Limited. Mr Crouse holds a Bachelor of Commerce degree and a Certificate in the Theory of Accounting from the University of Port Elizabeth and is a Chartered Accountant (South Africa).

## Managing Director: Vodacom Service Provider Company (Proprietary) Limited

### Shameel Aziz-Joosub (32)

Mr Aziz-Joosub has served as a director and as the Managing Director of Vodacom Service Provider Company (Proprietary) Limited since September 2000. Before September 2000, Mr Aziz-Joosub worked in Vodacom's finance department since 1994 and was Managing Director of Vodacom Equipment Company (Proprietary) Limited. Mr Aziz-Joosub also serves as director of Vodacom Group (Proprietary) Limited. Mr Aziz-Joosub holds a Bachelor of Commerce (honours) degree from the University of South Africa and holds a Masters of Business Administration degree from the University of Southern Queensland. He is an Associated General Accountant (South Africa).

## Managing Director: Vodacom (Proprietary) Limited

### Pieter Uys (40)

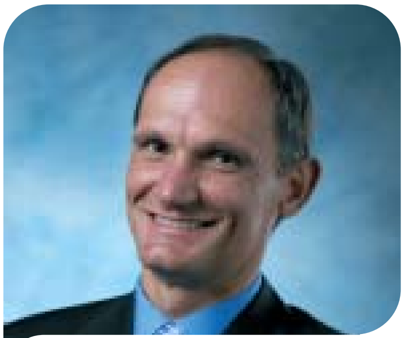
Mr Uys has served as Managing Director of Vodacom (Proprietary) Limited since December 1, 2001 and as Chief Operating Officer of Vodacom (Proprietary) Limited since February 2001. Mr Uys joined Vodacom as a member of Vodacom's initial engineering team in 1993. Mr Uys holds a Bachelor of Science degree in Engineering and a Masters in Engineering degree from the University of Stellenbosch and a Master of Business Administration degree from the Stellenbosch Business School.

Vodacom Corporate Park, Midrand Campus

Vodacom Group (Proprietary) Limited

# 5. Group Chief Executive Officer's review

March 31, 2003



Alan Knott-Craig

*"I am confident that Vodacom, led by its experienced and long-serving management team, is well positioned to deliver strong performance and continued growth in the year ahead"*

## Overview

During the past year, the global economy has seen some of the most severe pressures of recent times. This is especially evident in the telecommunications sector where the high growth mobile industry, with the hype of new technologies and market opportunities, created a huge expectation and a corresponding overexposure to the sector by banks and investors.

The resultant heavy debt burden and phenomenal price/earnings ratios of many global telecommunications companies has accounted for some of the most spectacular stock-price crashes of the decade. Over-investment in telecommunications as a whole as well as in intangibles and infrastructure by telecommunications companies themselves coupled with increased global liberalisation and competition and a weak global economy all contributed to the sudden loss of investor confidence.

The South African economy and telecommunications market is, in most respects, in direct contrast to its developed world counterparts. African telecommunications operations are, in general, fundamentally different. In South Africa, Vodacom is continually expanding infrastructure capacity to keep up with the demands that our vast and increasing customer base places on it.

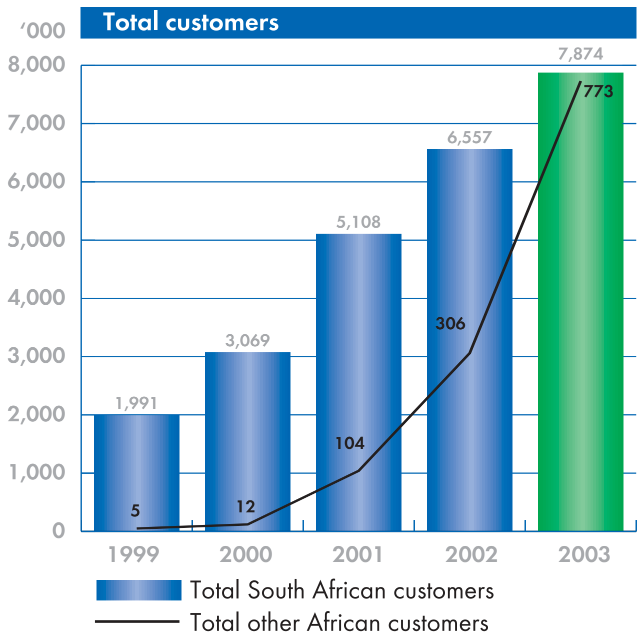
Our debt levels are healthy, our productivity is excellent and we have the status as the least-cost operator in South Africa, a point that cannot be stressed enough. We continue to leverage our opportunity in South Africa and are carefully laying the foundations in other African operations as the potential for medium term growth in Africa is substantial.

## The year under review

Revenue continued growing strongly this year reaching a record R19.8 billion, a 22.5% increase over 2002. Growth was still very much driven by the South African operations, although the African operations now contribute 6.2% (2002:4.5%) of total revenue.

Profit from operations increased 19.6% to R4.3 billion (2002: R3.6 billion), a new Vodacom high. Total customers increased 26.0% to 8.6 million (2002: 6.9 million), which translated into strong earnings when combined with a stabilisation of the overall South African monthly ARPU of R183 (2002: R182). Although we lost some direct local market share to Cell C, we continue to benefit from these customers through our national roaming agreement, which has 13 years remaining. This year Vodacom South Africa saw a record number of 3.5 million gross connections, with the estimated total South African market increasing by 3.1 million customers to 13.8 million. This level of new connections is the highest since the inception of Vodacom in 1994.

As expected, stiff competition and a continued change in traffic patterns, resulting in increased interconnection costs in South Africa, eroded our margins. Our EBITDA margin remains healthy despite decreasing by 1.6% to 33.9%, or 38.3% excluding cellular phone and accessory sales.



Peace Pirates, recent soccer derby at FNB Stadium, Gauteng

Net profit of R2.2 billion was also hard hit by the appreciation of the Rand, due to our policy of hedging all foreign currency commitments from South Africa, and the requirement to record these hedges as speculative instruments and revalue them on a market-to-market basis through the income statement at the end of each period.

Our results reflect our continued belief in the depth of the South African market, which has not proved unfounded. Vodacom increased its number of customers this financial year to 7.9 million, a 20.1% increase from 2002.

As anticipated this translated into a slight decrease in our direct market share from 61% in 2002 to 57% in 2003, as Cell C eroded both our own and MTN's market share. Our African operations also grew at a healthy rate, with total customers in other African countries rising to 772,821, a 153% increase from last year.

As the contract market matures we are very pleased with the extent to which we have retained our contract customers. Both contract churn at 11.9% (2002: 14.5%) and contract ARPU at R629 (2002: R560) are at very respectable levels.

Our visibility has increased significantly with the listing of Telkom on both the Johannesburg and New York stock exchanges, however we remain focussed on our ultimate responsibility of generating wealth for our shareholders.

Our employees remain our most important asset and we have continued to make Vodacom one of the employers of choice in South Africa.

Our performance relating to Employment Equity has been excellent. We exceeded our EE targets for the past two years running, reaching a level of employees from designated groups as at year-end of 78%. We also launched our own direct AIDS intervention programme in November 2002.

As another South African first, we adopted a different more ubiquitous approach to data and launched MyLife, our GPRS and MMS data offering, which also includes photo messaging, in October 2002. We will in addition shortly be launching corporate products such as Microsoft Mobile Information Server and corporate GPRS from the corporate solutions focussed group within the organisation.

Our capital expenditure spend decreased by 20.6% to R3.4 billion from a peak of R4.3 billion in 2002. We expect this trend to continue, as our core infrastructure in South Africa is firmly in place. We are pleased with the government's decision on the permanent assignment of spectrum and the clarity relating to the associated costs in the 1800 Mhz band.

## Going forward

Our sound financial discipline and increasing maturity has created a strong cash position, which enables us to repay all our shareholders' loans. We have committed to doing so in June 2003. Even after this repayment, we expect we will remain with a strong balance sheet for expansion into Africa.

We do not view margin squeeze as sustainable in a market where there are so few players. Furthermore, decreasing margins will most likely hurt our competitors more than it will hurt us, since we are the lowest cost operator in South Africa.

We expect total ARPU to begin stabilising along the current levels, but are bullish about ARPU's for our contract base, since the positive impact of data and other value-added services on contract ARPU's is already evident in the current year.

We remain cautiously determined in our approach to expansion into Africa.

## Strategy

Our strategic objectives remain impounded in the Vodacom Way. We continue to believe we can achieve growth in profits and cash flow, while maintaining our leading market position in South Africa and growing our operations in other select sub-Saharan African countries. Our rationale remains equally consistent in the maintenance of a low cost base for operations combined with excellence in customer service and convenience, thereby maintaining total direct and indirect market share, keeping low contract churn rates and retaining high value customers.

## Conclusion

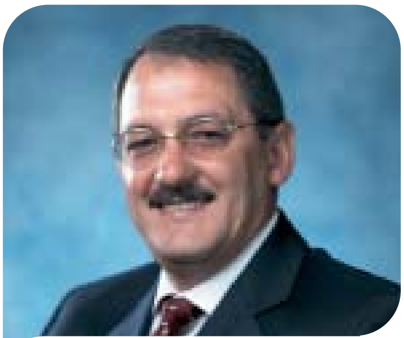
Throughout the past nine years, we have proven ourselves repeatedly. I am confident that Vodacom, led by its experienced and long-serving management team, is well positioned to deliver strong performance and continued growth in the year ahead. Aristotle once said that we are what we repeatedly do. Moreover, that excellence is not an act, but a habit. I believe that we have proven that we have successfully cultivated exactly that at Vodacom: an ingrained habit of excellence.

**Alan Knott-Craig**
*Group Chief Executive Officer*
Vodacom Group (Proprietary) Limited

## Vodacom Group (Proprietary) Limited

# 6. Group Finance Director's review

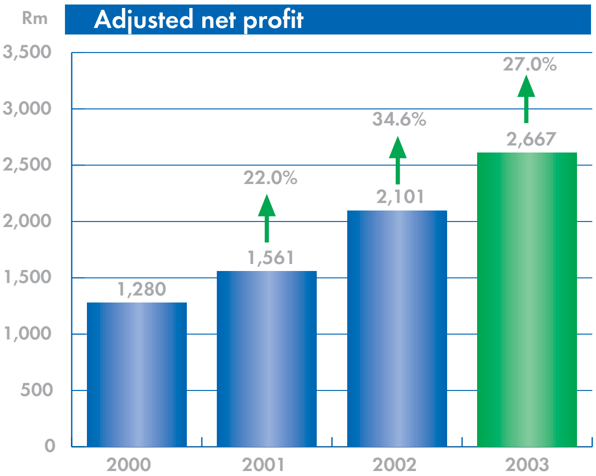
### March 31, 2003



Leon Crouse

## Introduction

Vodacom again posted record results in the 2003 financial year. Complementing this, we were particularly successful in maintaining profit margins through productivity improvements, despite changing local conditions and the rapid growth of fledgling operations in Tanzania and the Democratic Republic of Congo.




Net profit after tax, excluding after tax effects of realised and unrealised gains/(losses) on FEC and liability revaluation and integration costs, disposals of operations and impairment.

The past three years' profitability has been significantly distorted by three main factors. Firstly, the disposal of non-core businesses and integration costs, principally relating to the consolidation of previously independent service providers resulted in an abnormal profit of R56 million in 2002, and an abnormal loss of R213 million in 2001.

Secondly, the adoption of IAS 39, "Financial Instruments: Recognition and Measurement", resulted in a loss of R486 million in the year ended March 31, 2003 (2002: R352 million profit). These fluctuations result because although it is our policy to hedge all foreign denominated commitments from South Africa, the Group does not qualify for hedge accounting in terms of IAS 39 and therefore has to treat these transactions as speculative. The impact of fluctuations in exchange rates on the market value of the financial instruments are required to be reflected through the income statement.
The Rand/Dollar exchange rate strengthened by 30.3% during the 2003 financial year to R7.97 at year-end, compared to the weakening of 42.4% the prior year, ending at R11.44 on 31 March 2002. This severe volatility adds weight to arguments in favour of our policy of hedging our foreign currency exposures, despite the profit fluctuations that this policy causes. Excluding integration costs and the after tax (at 30%) impact of the effects of hedging transactions, the profit after tax increased by 27.0% in 2003.

Thirdly, the biggest negative impact on operating profit was the change in the traffic mix. Mobile traffic increased by 36.1% whereas fixed traffic decreased by 4.7%. This resulted in a substantial increase in interconnect costs and a resultant decrease in margins because the cost of terminating calls on other mobile networks is higher than calls terminating on Telkom's fixed-line network. South African net interconnect revenue in fact decreased year on year by 3.5% to R2,758 million (2002: R2,859 million).

Sculpture by Simon Mthimkulu, Vodacom Corporate Park, Midrand Campus

## Results

| | Year ended March 31, 2001 | | 2002 | | 2003 | | | |
|---|---|---|---|---|---|---|---|---|
| | ZAR | % of total | ZAR | % of total | ZAR | % of total | 02/01 % change | 03/02 % change |
| | (in millions, except percentages) | | | | | | | |
| **Revenue** | **13,276** | **100.0** | **16,151** | **100.0** | **19,779** | **100.0** | **21.7** | **22.5** |
| South Africa | 13,092 | 98.6 | 15,410 | 95.4 | 18,544 | 93.8 | 17.7 | 20.3 |
| Other African countries | 184 | 1.4 | 741 | 4.6 | 1,235 | 6.2 | 302.7 | 66.7 |
| **Operating profit/(loss)** | **2,553** | **100.0** | **3,621** | **100.0** | **4,330** | **100.0** | **41.8** | **19.6** |
| South Africa | 2,585 | 101.3 | 3,540 | 97.8 | 4,334 | 100.1 | 36.9 | 22.4 |
| Other African countries | (32) | (1.3) | 81 | 2.2 | (4) | (0.1) | 353.1 | (104.9) |
| **Operating profit margin(%)** | **19.2** | | **22.4** | | **21.9** | | | |
| **EBITDA** | **4,189** | **100.0** | **5,691** | **100.0** | **6,704** | **100.0** | **35.9** | **17.8** |
| South Africa | 4,186 | 99.9 | 5,485 | 96.4 | 6,472 | 96.5 | 31.0 | 18.0 |
| Other African countries | 3 | 0.1 | 206 | 3.6 | 232 | 3.5 | 6,766.7 | 12.6 |
| **EBITDA Margin (%)** | **31.6** | | **35.3** | | **33.9** | | | |

### Revenue

Revenue increased year on year by 22.5% (2002: 21.7%) to R19.8 billion, of which our other African operations contributed 6.2% (2002: 4.6%). The increase in revenues was primarily driven by customer growth. South African contract ARPU grew to R629 (2002: R560) per customer per month for the year ended March 31, 2003, up 12.3% from the prior year.

The increase in Vodacom's revenue was also impacted by a R0.6 billion increase in equipment sales, due to sales into the DRC and Tanzania, as well as an uptake of 2.5G handsets in South Africa.

Vodacom's revenues from our other African operations increased 66.7% (2002: 302.7%) to R1.2 billion for the year ended March 31, 2003 (2002: R741 million). The compound annual growth of 159% per year from 2001 is due to the success of all of our other African operations in substantially increasing the number of their customers by penetrating and growing these new markets.

### Operating profit

Profit from operations, which includes integration costs and profits, increased by 19.6% (2002: 41.8%) to R4.3 billion for the year ended March 31, 2003 (2002: 3.6 billion). The continued success of Vodacom lies in the fact that the profit margin remained virtually unchanged at 21.9% (2002: 22.4%).

If the abnormal integration costs and profits, which was realised in 2002 and 2001, is excluded, operating margins have increased in the past three years, from 20.8% in 2001 to 22.1% in 2002 and 21.9% in 2003.

The pressure on our operating profit margin was immense, as a result of the increase in interconnect cost,compounded by the negative impact of the change in traffic mix and more competitive operating conditions, which demanded higher direct costs and incentives. Despite the challenging times, operating expenses increased by 23.3% which is in line with the growth in revenue of 22.5%, as we managed to contain overheads and thereby maintain our margins. We believe that our status as the least-cost South African cellular operator gives us a competitive advantage to maintain our margins at the current levels.

### EBITDA

EBITDA of R6.7 billion (2002: R5.7 billion) for the year ended March 31, 2003 is a 17.8% increase over last year compared to the 35.9% growth experienced in the year ended March 31, 2002. EBITDA margin decreased by 1.4% to 33.9% (2002: 35.3%) in line with operating profit. Excluding the impact of low margin cellular phone and equipment sales, the EBITDA margin for the year was 38.3%, down from 39.2% in 2002 due to the start-up losses incurred in Vodacom Congo.

## Revenue

| | Year ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | | 2002 | | 2003 | | | |
| | ZAR | % of total | ZAR | % of total | ZAR | % of total | 02/01 % change | 03/02 %change |
| | (in millions, except percentages) | | | | | | | |
| Airtime | 7,255 | 54.6 | 9,487 | 58.7 | 11,301 | 57.1 | 30.8 | 19.1 |
| Interconnection | 3,260 | 24.6 | 4,301 | 26.6 | 5,309 | 26.8 | 31.9 | 23.4 |
| Equipment sales | 2,042 | 15.4 | 1,627 | 10.1 | 2,264 | 11.5 | (20.3) | 39.2 |
| International airtime | 260 | 2.0 | 301 | 1.9 | 539 | 2.7 | 15.8 | 79.1 |
| Other sales and services | 459 | 3.4 | 435 | 2.7 | 366 | 1.9 | (5.2) | (15.9) |
| **Revenue** | **13,276** | **100.0** | **16,151** | **100.0** | **19,779** | **100.0** | **21.7** | **22.5** |

### Airtime

Our airtime revenue increased 19.1% (2002: 30.8%) during the year ended March 31, 2003, primarily due to the increase in the number of Vodacom's customers, and, to a lesser extent, standard tariff increases. As our primary market in South Africa matures and we continue to connect more marginal customers, growth in airtime revenue from South Africa is expected to continue to slow down. Total customers increased 26.0% (2002: 31.7%) primarily due to strong prepaid customer growth in South Africa and significant customer growth in our other African operations. It is very pleasing to see ARPU in South Africa beginning to stabilise, being marginally up at R183 per month versus R182 in 2002.

New products and services also played a substantial role in our customer growth for the year ended March 31, 2003. Over the same period Vodacom's mobile data revenue increased 45.3% to R581 million (2002: R400 million), while SMS traffic increased primarily due to new packages and services such as 4U, which is priced and marketed to encourage SMS usage. Vodacom transmitted 1.5 billion SMSs (2002: 911 million) over its network in the year ended March 31, 2003, up 64.7% from 2002.

### Interconnection

Vodacom's interconnection revenue increased 23.4% in 2003 (2002: 31.9%), primarily due to an increase in the number of calls terminating on Vodacom's network as a result of the increased number of Vodacom's customers and South African mobile users generally during the periods, coupled with the strong increase in Cell C's customer base and the resultant increase in national roaming revenue. Adding to the growth in interconnection revenue was the changing call patterns of mobile users, with disproportionally more calls terminating on mobile networks than on Telkom's fixed-line network.

### Equipment sales

Vodacom's revenue from equipment sales increased markedly during the year, once again reaching levels last seen in 2001. Equipment sales revenue increased by 39.2% during the year to R2.3 billion, compared to a decrease of 20.3% in 2002. The success was primarily due to the growth of our Vodacom Tanzania and Vodacom Congo operations and the roll-out of 2.5G phones in South Africa. The introduction of MMS and GPRS as well as other value-added services, paved the way for the increase in 2.5G equipment sales, which was spearheaded by our service providers and dealers.

### International airtime

International airtime continues to be a growing source of revenue for us, with revenue increasing 79.1% to R539 million in the year ended March 31, 2003 (2002: R301 million). International airtime comprise mainly of international calls and roaming revenue from Vodacom's customers and revenue from international visitors roaming on Vodacom's networks. The increase is primarily due to a 23.8% increase in Vodacom's South African customers roaming internationally and a 32.6% increase in international visitors roaming in South Africa, coupled with increased usage and an increase in roaming revenue from our other African operations.

### Other sales and services

We do not view the decrease in our other sales and services revenue as a concern, since it is in line with our strategy of focussing on our core competency of being a mobile operator. Other sales and services in prior years included revenue from our television rental business, Teljoy, which was sold in March 2002.

## Operating expenses

| | Year ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2001 ZAR | 2002 ZAR | 2003 ZAR | 02/01 % Change | 03/02 % Change |
| Depreciation and amortisation | 1,636 | 2,070 | 2,374 | 26.5 | 14.7 |
| Payments to other operators | 822 | 1,378 | 2,217 | 67.6 | 60.9 |
| Other direct network operating costs | 6,094 | 6,992 | 8,643 | 14.7 | 23.6 |
| Staff expenses | 951 | 1,135 | 1,018 | 19.3 | (10.3) |
| Marketing and advertising expenses | 514 | 542 | 653 | 5.2 | 20.5 |
| General administration expenses | 541 | 498 | 612 | (8.0) | 22.9 |
| Integration costs, disposals and impairments | 213 | (56) | – | (126.3) | – |
| Other operating income | (48) | (29) | (68) | (39.6) | 134.5 |
| **Operating expenses** | **10,723** | **12,530** | **15,449** | **16.9** | **23.3** |

### Depreciation and amortisation

Vodacom's depreciation and amortisation increased 14.7% and 26.5% in the years ended March 31, 2003 and 2002, respectively. The increases were primarily the result of depreciation of capital expenditures incurred in building out our network in South Africa and other sub-Saharan African countries. Our major capital investments have already been done in South Africa, and growth in depreciation in South Africa is therefore slowly declining. Amortisation of intangibles has remained relatively flat at R211 million (2002: R213 million) over the period.

### Payments to other network operators

Vodacom's payments to other network operators increased significantly in both the years ended March 31, 2003 and 2002, because of increased outgoing traffic in line with increased customer growth and due to the increasing amount of outgoing traffic terminating on other mobile networks, rather than on Telkom's fixed-line network. Since the cost of terminating calls on other mobile networks is higher than calls terminating on Telkom's fixed-line network, as mobile substitution increases with the larger number of total mobile users in South Africa, interconnection charges should also continue to increase and continue to put pressure on profit margins. The increase was also due to the increase in interommection tariffs generally in terms of our interconnection agreements in November 2001 and January 2003.

### Other direct network operating expenses

Other direct network expenses includes the cost to connect customers onto our network, and has increased in line with the record number of customer connections and the higher competition in the market place, by 23.6% to R8.6 billion in 2003, compared to R7.0 billion in 2002. These expenses are incurred to support the growth in operations, and have increased in line with the growth in revenues. Other direct network expenses include cost of goods sold, commissions, customer acquisition and retention expenses, regulatory and license fees, distribution expenses, site and maintenance costs. The increase in regulatory and license fees during the period of 31.3% to R504 million (2002: R384 million) was due to an increase in revenues and corresponding payments under our existing licences, coupled with payments made to secure temporary licences for GSM 1800 frequency spectrum in South Africa.

### Staff expenses

Staff expenses decreased by 10.3% in the year ended March 31, 2003, compared to an increase of 19.3% in 2002, due primarily to lower deferred bonus incentive accruals as a result of our lower net profit, which was negatively impacted by IAS 39. Vodacom's staff expenses include fees to directors and expenses raised in connection with our deferred bonus incentive scheme. Despite the growth experienced in all our operations, the total headcount increased by only 1.2% in 2003 and 1.9% in 2002. Total headcount in our South African operations increased by 1.2% (2002: decreased by 5.9%) and 1.6% (2002: 190.6%) in our other African operations. Employee productivity has shown a marked improvement, as measured by customers per employee, increasing by 24.5% to 1,963 customers per employee in 2003 (2002: 1,577 and 2001: 1,220).

### Marketing and advertising

Marketing and advertising expenses increased by 20.5% in 2003 to R653 million, (2002: R542 million) primarily because of the significant marketing expenses incurred in launching Vodacom Congo.

### General administration expenses

General administration expenses comprise of a number of expenses including accommodation, information technology costs, office administration, consultants' expenses, social economic investment and insurance. The reason behind the relatively large increase of 22.9% to R612 million is primarily due to the expansion into Africa, which require expenses relating to assignees on secondments and high overhead costs such as accommodation, insurance and consulting fees.

### Integration costs, disposal of operations and impairments

Integration costs, disposals of operations and impairments relate to our non-core investments, which have been disposed of during previous financial years. Details of these transactions are fully described in note 3 to our Annual Financial Statements.

### Other operating income

Other operating income comprises income of a nature that we do not view as part of our core activities, and is therefore shown separately.

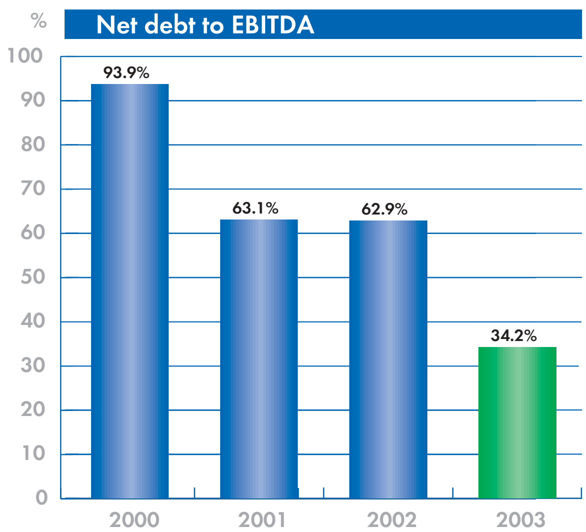
## Shareholder distributions

Distributions to shareholders totaled R768 million in 2003 comprising of interest of R168 million (2002: R144 million) and dividends of R600 million (2002: R600 million) reflecting an increase in shareholder distributions of 3.2% over the prior year. This is the third year that dividends have been paid. The group continues to maintain a profit distribution principle of approximately 3 times cover. The impact of IAS 39 was excluded from the computation. The low growth in shareholder distributions despite strong cash flows is because we have also committed to repaying all shareholder loans to the amount of R920 million on 30 June 2003. This is not expected to have a material impact on the strength of our balance sheet as these loans are classified as short-term liabilities.

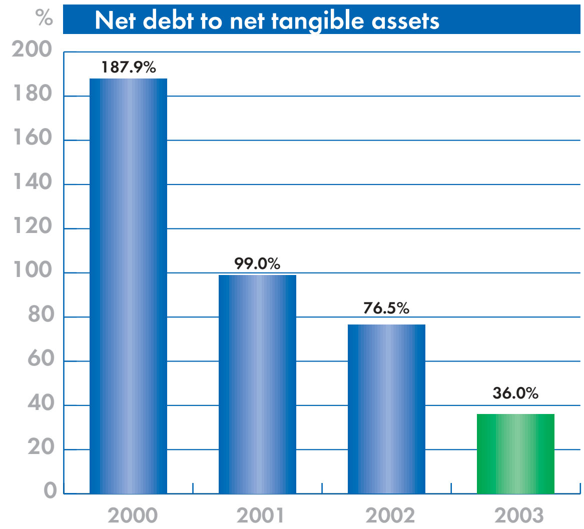
## Capital expenditure investment

The cumulative capital expenditure cost at March 31, 2003 was R18.3 billion (2002: R15.6 billion), an increase of 17.3% over the prior year. The Group invested R3.4 billion (2002: R4.1 billion) in property, plant and equipment. Of this, R3.3 billion (2002: R3.5 billion) was for cellular network infrastructure and related IT and billing systems. Property, plant and equipment expenditure for the International Group was unchanged at R0.9 billion (2002: R0.9 billion). Vodacom (Proprietary) Limited's capital expenditure per customer of R1,933 (2001: R1,991) is at its lowest level ever despite Cell C roaming, GPRS launch and the installation of 1800 MHz equipment. Despite African expansion, capital expenditure was greatly reduced to 17.2% of revenue in 2003 (2002: 25.3%).

## Financial structure and funding




Year ended March 31. Net debt includes interest and non-interest bearing debt, shareholder loans, bank overdraft net of cash and cash equivalents.




Year ended March 31. Net debt includes interest and non-interest bearing debt, shareholder loans, bank overdraft net of cash and cash equivalents.
Net tangible assets equals equity less intangible assets.

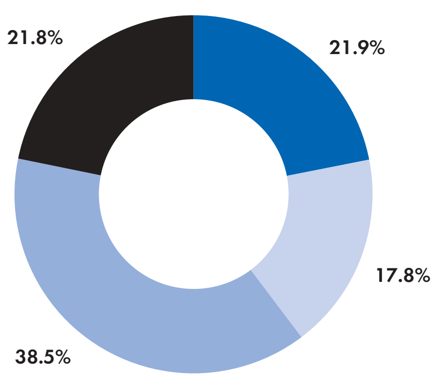
The graphs above clearly illustrate that our balance sheet is currently at its strongest level ever. Our net debt/EBITDA ratio of 34.2% is almost half of the prior year ratio of 62.9% and well within terms of borrowing covenants. The reasons for the substantial increase in this ratio are simple, cash generation, decreased capital expenditure and increased profits coupled with sound working capital management resulting in a decrease in overall debt levels. The changes in interest bearing debt is due to the inclusion of a R82 million finance lease liability for the new International buildings on the Midrand campus, a R336 million utilisation of an extended credit facility for Vodacom Congo and a R502 million draw-down of a project financing facility and the repayment of R400 million of funding loans in Vodacom Tanzania. This was offset by the strong cash flows in South Africa, which significantly reduced South African debt.

The Group had a positive cash flow before shareholder distributions and financing activities of R1.9 billion compared to a negative cash flow of R104 million in 2002. The stronger cash flow in 2003 is mainly due to the greater cash generation from operations, as well as a substantial reduction in investing activities and capex.

## Summary of net debt and maturity profile

| | 2004 Rm | 2005 Rm | 2006 Rm | 2007 Rm | 2008 Rm | 2009 onwards Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **Finance leases** | | | | | | | |
| South African ZAR denominated debt | 13.5 | 28.3 | 49.6 | 77.6 | 111.8 | 604.1 | 884.9 |
| **Funding loans** | | | | | | | |
| Vodacom Tanzania Shareholder and project finance loans, Euro, USD and TSH denominated. | 65.9 | 84.6 | 108.7 | 111.7 | 58.7 | 165.7 | 595.3 |
| Vodacom Congo extended and revolving credit facilities, Euro denominated. | 206.7 | 335.7 | – | – | – | – | 542.4 |
| Net bank and cash balance | (647.5) | – | – | – | – | – | (647.5) |
| Shareholder loans | 920.0 | – | – | – | – | – | 920.0 |
| | **558.6** | **448.6** | **158.3** | **189.3** | **170.5** | **769.8** | **2,295.1** |

## Net debt composition




**Foreign denominated, ring-fenced**

**Foreign denominated, not ring-fenced**

**ZAR denominated, finance leases**

**ZAR denominated, other**

**Financial instruments and risk management**

The Group's risk management procedures are described fully in note 38 of the Group's Annual Financial Statements. We actively manage foreign currency risk, interest rate risk, credit risk and liquidity risk on an ongoing basis, and believe that our procedures are adequate for our organisation.

**Funding sources**

Vodacom's consolidated net debt consists of finance lease liabilities and a positive bank balance in South Africa, funding for our other African operations and shareholder loans. Vodacom has funded all of its major properties by way of finance leases housed in Vodacom (Proprietary) Limited and Vodacom Service Provider Company amounting to R885 million at year-end (2002: R791 million). These leases are for between 10 and 15 years and the rates were competitively priced when they were fixed.

The rest of our South-African operations are currently funded primarily by way of short-term facilities, the overdraft portion of which totalled R559 million (2002: R1.6 billion) and shareholders loans of R920 million (2002: R920 million). We have committed to repaying all our shareholder loans in June 2003.

We aim to fund all our other African operations by means of project finance structured in such a way as to have no recourse to our South African balance sheet. We have achieved this in Vodacom Tanzania. Vodacom Congo and Vodacom Lesotho are still substantially dependent on funding from South Africa.

**Conclusion**

Vodacom has seen substantial growth in cash flows from its South African operations, which together with its conservative approach to debt allows for considerable flexibility to make future investments and cash distributions to its shareholders.

**Leon Crouse**
*Group Finance Director*
Vodacom Group (Proprietary) Limited

# 7. Operational review – South African operations

March 31, 2003

Shameel Aziz-Joosub

Pieter Uys

*"Vodacom remains the network of choice in South Africa, and is well placed for future markets – youth and developing"*

## Background and structure

The review of the South African operations is based on a consolidation of two of Vodacom Group (Proprietary) Limited's wholly-owned subsidiaries Vodacom (Proprietary) Limited and Vodacom Service Provider Company (Proprietary) Limited. Each company has a different focus.

Vodacom (Proprietary) Limited, referred to as the Network, is the company holding the GSM licence to operate a cellular network in South Africa. The Network distributes its services through contracts with nine companies, referred to as service providers. The service providers each have their own brand and manage the customer interface. Each is responsible for billing and credit control of its own customers on behalf of the Network and also provide individualised value added services such as customer care, insurance, itemised billing etc. The service providers distribute Vodacom services directly through dealers, franchisees as well as contracting with large retailers.

Only two of these companies distribute the services of other networks, termed independent service providers, while all the rest are exclusive to Vodacom. The nine service providers are:

- Vodacom Service Provider Company (Pty) Ltd – Exclusive
- Nashua Mobile (Pty) Ltd – Independent
- Autopage Cellular (Pty) Ltd – Independent
- Tiscali/World-on-Line (Pty) Ltd – Exclusive
- Orchid/Global Telematics (Pty) Ltd – Exclusive
- Smartcom (Pty) Ltd – Exclusive
- Smartcall (Pty) Ltd – under Smartphone SP (Pty) Ltd – Exclusive
- Supercall (Pty) Ltd – Exclusive
- Radiospoor (Pty) Ltd – Exclusive, but only for prepaid.

Vodacom Durban July, 2002

## Brand

### Brand strength

The Vodacom brand symbolises South Africa's leading cellular network, leading in service and product provision, innovation, availability and accessibility. The Vodacom brand is also trusted, admired and in touch with the local population. Our brand is truly African, and is built on the essence of leadership.

From tracking research commissioned in 2002/03, Vodacom remains the network of choice in South Africa and is well placed for future markets – youth and developing. The same research revealed that service remains the most important motivator amongst the developed market, and price amongst the prepaid market.

### Brand strategy

In South Africa, Vodacom currently targets 4 market segments, namely:

- Corporate market – services to corporates and enterprises
- Developed market – services to customers in the higher income groups
- Developing market – services to customers who whilst previously disadvantaged, are now able through the new political dispensation to enter and fully participate in income generating economy.
- Youth market – services specifically designed for the needs of the youth.

These markets are all serviced by the power of the Vodacom brand but have individual appeal through various sub-brands, such as Vodago, 4U and MyLife that are attached to service offerings. Finally, powerful brand icons and catch phrases create a very human element to the brands.

### Sponsorship

Vodacom has built up a powerful inventory of sponsorship properties, cutting across all target segments.
We believe that the leveraging of these properties in 2002/03, succeeded in increasing the loyalty to the brand.

The awareness and usage of specific products such as SMS services were also leveraged through ground breaking sponsorship in South Africa of Pop Idols and Big Brother in 2002/2003.

Vodacom sponsorships will continue to remain a high priority focus area.

## Customers and traffic

| | Year ended March 31, 2001 | 2002 | 2003 | 02/01 % change | 03/02 % change |
|---|---|---|---|---|---|
| **Customers (thousands) (at period end)[1]** | **5,108** | **6,557** | **7,874** | **28.4** | **20.1** |
| Contract | 1,037 | 1,090 | 1,181 | 5.1 | 8.3 |
| Prepaid | 4,046 | 5,439 | 6,664 | 34.4 | 22.5 |
| Community Services | 25 | 28 | 29 | 12.0 | 3.6 |
| **Gross connections (thousands)** | **2,990** | **3,038** | **3,495** | **1.6** | **15.0** |
| Contract | 263 | 199 | 197 | (24.3) | (1.0) |
| Prepaid | 2,725 | 2,836 | 3,295 | 4.1 | 16.2 |
| Community Services | 2 | 3 | 3 | 50.0 | 0.0 |
| **Churn (%)[6]** | **23.3** | **27.2** | **30.4** | **16.7** | **11.8** |
| Contract | 18.7 | 14.5 | 11.9 | (22.5) | (17.9) |
| Prepaid | 24.8 | 30.1 | 34.0 | 21.4 | 13.0 |
| **MOU (minutes)[3]** | **137** | **111** | **101** | **(19.0)** | **(9.0)** |
| Contract | 270 | 264 | 269 | (2.2) | 1.9 |
| Prepaid | 70 | 58 | 54 | (17.1) | (6.9) |
| Community Services | 2,859 | 3,354 | 3,162 | 17.3 | (5.7) |
| **ARPU (ZAR)[4, 5]** | **208** | **182** | **183** | **(12.5)** | **0.1** |
| Contract[5] | 493 | 560 | 629 | 13.6 | 12.3 |
| Prepaid | 98 | 93 | 90 | (5.1) | (3.2) |
| Community Services | 1,453 | 1,719 | 1,861 | 18.3 | 8.3 |
| **Traffic minutes (millions of minutes)[2]** | **7,472** | **8,881** | **10,486** | **18.9** | **18.1** |
| Outgoing | 4,052 | 4,967 | 6,343 | 22.6 | 27.7 |
| Incoming (Interconnection) | 3,420 | 3,914 | 4,143 | 14.4 | 5.9 |

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. 18.2% of Vodacom's total reported customers, 20.5% of its prepaid customers and 5.3% of its contract customers in South Africa were inactive as at March 31, 2003 for a period of three months. In November to December 2002, we shortened the time window lock period for prepaid customers, after which time they are disconnected from our network, from 6 months to 4 months.

2 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.

3 MOU is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. MOU excludes calls to free services, bundled minutes and data minutes.

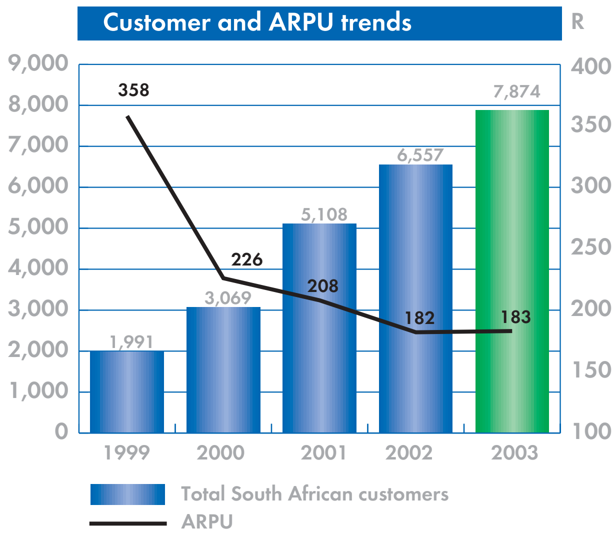
4 ARPU is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period. ARPU excludes revenues from equipment sales, other sales and services and revenues from international users roaming on Vodacom's networks.

5 Value added service revenue from previously partially owned service providers is included in contract and total average monthly revenue per customer from October 1, 2001, at which time Vodacom consolidated these previously partially owned service providers.

6 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.

### ARPU

High penetration of the developed, predominantly contract market, was evident by 1998. From then the developing market, through the prepaid service, has been driving penetration and in 2003 made up 94.3% (2002: 93.4%) of all gross connections. This meant that ARPU levels decreased steadily over the period to 2002 as although ARPU of the newer prepaid subscribers is not always significantly below the older prepaid subscribers it created a mix variance that diluted total ARPU. We believe that total ARPU has begun to stabilise and during the period under review increased slightly from R182 in 2002 to R183 in 2003. Contract customer ARPU has increased markedly by 12.3% (2002: 13.6%) to R629, while prepaid customer ARPU decreased by 3.2% (2002: decreased by 5.1%) to R90. Community services ARPU increased by 8.3% (2002: 18.3%) to R1,861, with one community services phone equivalent to 21 prepaid customers on a revenue basis at

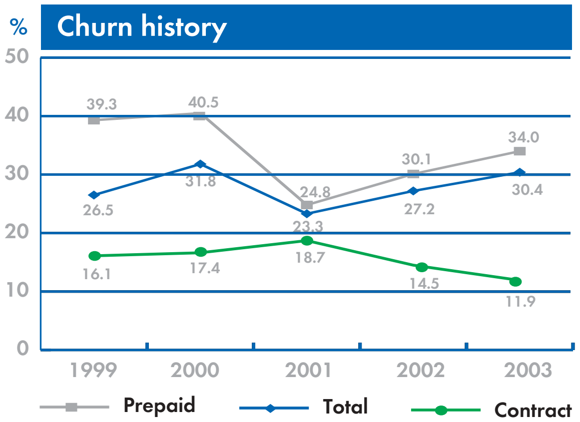


these levels and nearly 59 on a usage basis, due to the subsidisation of community service tariffs.

### Churn

As it has the largest base, Vodacom is most vulnerable to the impact of churn, however the dynamics of the market need to be understood when looking at churn percentages. Due to the high cost of acquisition and saturated nature of the developed contract market, Vodacom has implemented upgrade and retention policies ensuring the decrease in contract churn over the years and reaching the lowest level in our history in 2003 of 11.9%.

The developing prepaid market however is characterised by low acquisition costs due to the flexibility required by this market to be able to access our services as they have income. Prepaid churn has increased during the last 3 years to 34.0% in response to this need, increased competition and the volatile nature of the base.




In addition, during the current year there was an increase in disconnections due to the time window locked period being reduced from 6 months to 4 months between November and December 2002.

### Traffic, MOU

Total traffic on the network, excluding the impact of national and international roaming, has shown an increase of 18.1% from 8.9 billion minutes in 2002 to 10.5 billion minutes in 2003. This growth was due mainly to the 20.1% growth in the total customer base from 6,6 million customers as at the end of March 2002 to a base of 7,9 million as at the end of March 2003. Also evident was a marked change in customer calling patterns, with mobile to mobile traffic increasing by 36.1% while mobile to fixed traffic decreased by 4.7%.

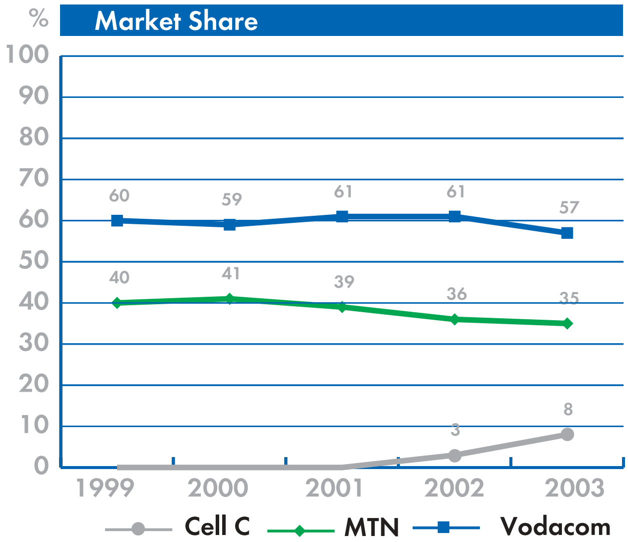
MOU, which is reflective of voice trends outside of the bundle, shows a more stabilised trend for the period under review as contract customers show a 1.9% increase (2002: 2.2% decrease) and prepaid customers a 6.9% decrease (2002: 17.1% decrease).

### Market share

Vodacom has retained its dominance in the South African market. The dilution of Vodacom's market share becomes a numerical inevitability as Cell C connects new subscribers. The reality is that the market has grown with increased competition and Vodacom has continued to take the lion's share of this growth.

Mobile technology – a part of daily life

Since March 31, 2001, the connections made by Cell C have resulted in an erosion of our market share, taking 4% equally from MTN and ourselves.




Note: 2003 based on Vodacom estimates for MTN and Cell C.

Vodacom base station at Caesar's Palace, Gauteng

### Customer care

Vodacom services customer needs through a variety of channels. These include call centres, walk–in centres which are now established in Cape Town and Midrand, Interactive Voice Response, via e-mail and through our web sites. Some of these initiative are described in more detail below:

### Vodacare

The Vodacare infrastructure consists of 26 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 more than 35,000 repairs per month and a service objective of having 80% of all repairs completed within 24 hours, this dedicated customer service support infrastructure differentiates our offer from that of our competitors. During the year, Vodacare managed the repair of over 400,000 handsets, which is an increase of 17% over the prior year. The primary focus is to manage and facilitate the process of putting the customer back on the air with as little interruption as possible and is achieved by using a combination of repairs, swaps, refurbished handsets, loan handsets, and managed repairs through third parties.

### Customer relationship management

Although customer focus has always been important to Vodacom, during the last 3 years CRM has become a key strategic focus area and an important philosophy in the company. The current year saw ongoing integration of support systems and staff training as part of this continuously challenging area.

Vodacom strives to improve relationships with customers by understanding their needs, their likes, dislikes, how they use our products and how they would like Vodacom to interact with them. Our performance in this regard is measured through independent customer satisfaction surveys, conducted on a quarterly basis.

## Products and services

Vodacom has a culture of innovation and record of accomplishment as testament to this.

### Contract subscription services

Vodacom offers contract customers a range of mobile service packages designed to appeal to specific customer segments, with residential packages such as Weekend Everyday for residential customers and business packages such as Business Call for business customers. As of March 31, 2003, 15.0% of Vodacom's customers were contract customers. As the high end of the market remains strategically important, exceptionally low churn rates have ensured that we have retained them and in fact grown the base by 8.3% (2002: 5.1%) despite aggressive pricing by the competition.

### Prepaid services

Vodacom has two prepaid products, Vodago and 4U. The bulk of our customers are prepaid customers and as of March 31, 2003, comprised 84.6% (2002: 82.9%) of the customer base.

Since its inception, the number of 4U customers, which was primarily to address the youth market, has increased significantly and as of March 31, 2003, approximately 59.6% of Vodacom's prepaid customers were 4U customers. We attribute the success of 4U to our excellent advertising, branding and packaging of this product.

### Community services

Vodacom has at March 31, 2003 deployed more than 28,500 community services telephones in previously under-serviced areas compared to the license obligation of 22,000. The positive impacts these phones have had on the residents of these areas are profound. Two deployment methods are in use, namely a phone shop based telephone and a portable telephone deployed at educational or other community institutions. Good progress has been made with the phasing out of the portable handsets and replacing them with phone shop based telephones, called Sigis.

Approximately 1,700 operators who operate from 4,400 phone shops own more than 22,000 Sigi telephones.

The training of the community services telephone operators in business skills received significant attention during the past year. Vodacom funded the training of 420 community services telephone operators in areas such as financial management and marketing.

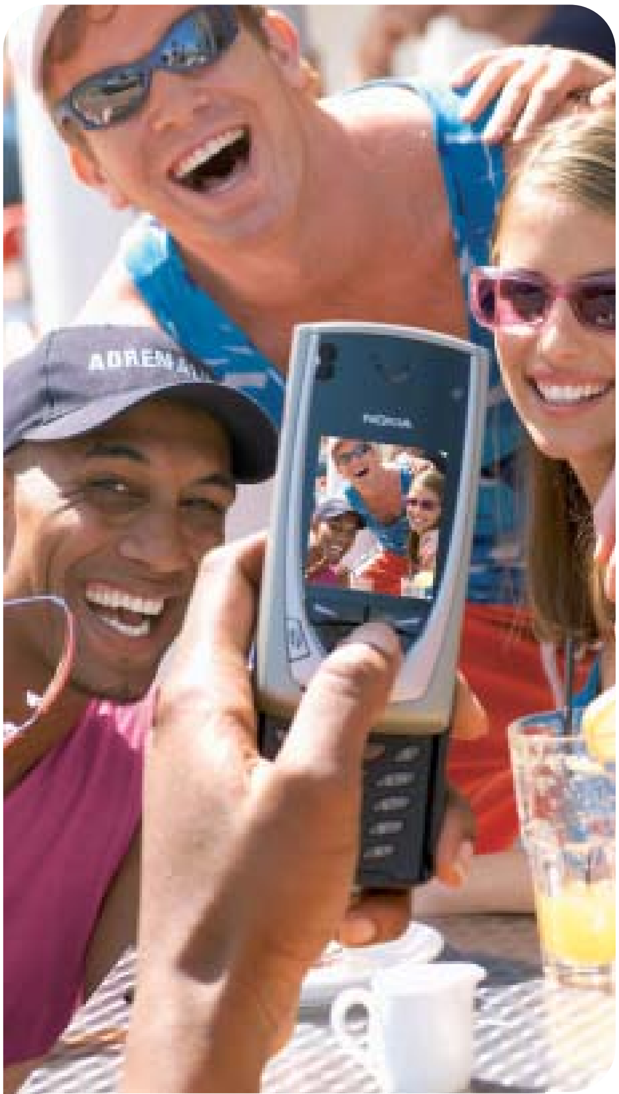
### Value-added voice and data services

A comprehensive voice and data VAS portfolio compliments our contract and prepaid offerings. The latest additions to Vodacom's products and services portfolio are the Mylife branded GPRS and MMS services. The critical success factors driving uptake of these new services remains phone technology through the upgrading of handsets. Early indications from market research feedback are that customers in this segment are eager to upgrade to latest generation MMS enabled hardware which bodes well for driving up usage of GPRS, WAP and Java based applications.

Vodacom will continue to assess the needs of its customers and the opportunities offered by new technologies in an effort to identify new value adding products and services. As part of this we are investigating the use of USSD as a bearer service and an investigation into using Voice Extensible Markup Language for third party remote IVR services is also in progress.

In the corporate market Vodacom has started to move beyond selling lines to selling integrated corporate solutions. Client relationships have been leveraged through aggressive use of Vodacom sponsorship and opportunities to exploit synergies with Vodafone and Telkom are being investigated.

A key initiative during the year to March 31, 2003 saw development, design and execution of the Vodacom data strategy. The strategy centres on a Wireless Application Service Provider model, which provides for ease of connectivity by pre-approved third parties and the utilisation of standardised interfaces. As described below, we believe the data market is set for tremendous expansion in all areas of the mobile industry, from customisation of handsets through use of multimedia messaging, enhanced screensavers and polyphonic ring tones. As of March 31,



Vodacom's MyLife offering includes picture messaging

2003, 70 WASP's had applied for connectivity to Vodacom and 103 SMS services had been launched by WASP's since the launch of the model on November 1, 2002. Launching of additional bearers such as USSD will expand the WASP offering to the consumer thereby allowing improved flexibility in delivery of services and enhanced user experience.

### Handset sales

Handset sales for the year exceeded 1.5 million units, a year-on-year growth of 37% from 2002. Vodacom International accounted for approximately 16% of total handset sales and local sales increased by almost 18% on the prior year.

We anticipate that next year will see a significant shift in handset technology, the uptake of which will facilitate broader applications around MMS and WAP. Camera phones will be available in mid-tier products, which will make it more affordable to the mass market. To support this, colour screens will become the norm together with polyphonic sounds. Finally, a host of third party software applications will enhance the user experience with regards to games and integrated services through PDA devices.

As the handset manufacturers are now also seriously focusing on Africa and other emerging markets in their drive to increase growth, it should ensure a strong focus on mass-produced handsets at affordable price levels.

### National and international roaming services

Vodacom has a national roaming agreement with Cell C, which offers Cell C national roaming coverage for 15 years in rural areas and 3 years in urban areas from November 1, 2001.

As at March 31, 2003, Vodacom had international roaming agreements with 238 mobile communications network operators in 127 countries for post-paid telephony services, one GPRS roaming contract and one inbound prepaid roaming telephony contract. Plans for 2004 are to expand coverage to at least 250 post-paid telephony commercial contracts, commercial GPRS roaming to twenty-one contracts, inbound prepaid roaming to ten contracts and launch an additional six bilateral roaming prepaid contracts. The year saw a special drive to have complete roaming coverage of the African continent, a feat achieved in November 2002. Vodacom is the first network in the world to offer its customers coverage across the whole of Africa where commercial GSM roaming is possible.

Vodacom was also the first network in Africa to launch inbound prepaid and GPRS roaming services.

## Sales and marketing

Most of the developed market already have cell phones, so the objective in the short to medium-term must be to retain the customers it already has, and to incentivise and attract new customers. Loyalty and retention programmes play an integral role in achieving this objective. Vodacom also aims to expand the contract portion of the market by migrating appropriate high-end prepaid customers to contracts. In the current year there has also been a focus on the new GPRS and MMS offerings.

Vodacom Service Provider Company remains the stalwart of our service provider channel, with 65% of the total customer base, and 69% (2002: 69%) of the contract base managed by them. As at March 31, 2003, Vodacom's distribution network consists of:

- Vodaworld – A unique one-stop mobile telecommunications mall, showcasing the latest technology in mobile hardware;
- Dealers and franchises – 1,692 company and independently owned mobile dealer and franchise outlets;
- National chains – 4,985 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 – Not quantified but a significant channel representing the informal sector.

## Network infrastructure and technology

Vodacom operates the largest mobile communications network in South Africa.

The network's core GSM infrastructure as at March 31, 2003 is characterised by:

- 37 mobile switching centres;
- 221 base station controllers;
- 5,393 base transceiver stations;
- 1,487 of which are micro base transceiver stations;
- 36,004 transceivers; and
- GPRS functionality across the network.

Our network rollout can be seen in the table below:

| | As of March 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| Macro base transceiver stations | 2,575 | 2,977 | 3,401 | 3,670 | 3,906 |
| Micro base transceiver stations | 891 | 1,221 | 1,292 | 1,380 | 1,487 |
| Total | 3,466 | 4,198 | 4,693 | 5,050 | 5,393 |

Vodacom's transmission network comprises more than 13,400 2Mbit/sec systems and 2 155Mbit/sec systems leased from Telkom, which are managed by a comprehensive digital cross-connect infrastructure (1,000 nodes). In addition, Vodacom operates an extensive data network for its internal requirements, based on internet protocol, point-to-point, Frame-relay and X.25 services, which is supported by the cross-connect network and more than 50 packet/frame/circuit nodes. This network enables Vodacom to provide value-added voice and data services supported by imperative infrastructure in South Africa.

As at March 31, 2003, Vodacom had achieved a busy hour dropped call rate of 0.79% (2002: 0.78%) based on network statistics and call success rate of 98.5% (2002: 98.6%) based on Atio trailing in South Africa.

As part of its dual band strategy Vodacom has operational dual band (GSM 900/GSM 1800) base transceiver stations in 405 locations, including 248 locations in Johannesburg, 151 locations in Pretoria and 6 locations in the Western Cape. In addition, all base transceiver stations in metropolitan areas have been upgraded with dual band antennas and feeder cables to accommodate GSM 1800 equipment. Vodacom will continue to deploy GSM 1800 radio equipment in all regions to provide additional subscriber capacity as necessitated by the increase in network traffic. Vodacom will aim to perform GSM 1800 upgrades on existing radio sites rather than constructing new sites. This strategy is more cost effective, quicker, and will ensure less loading of the GSM 900 spectrum. It is expected that between 150 and 200 additional GSM 900 radio sites will be upgraded with GSM 1800 equipment during the next year. We are awaiting the Minister's directive regarding Legal Interception and Monitoring, which will determine the manner of implementation, the security, technical and functional requirements of facilities to be procured, the type of data and the data storage period, the manner and routing of duplicate information to interception centres and the implementation period, amongst others.

## Regulatory Affairs

### Market regulation

After a nearly five-year delay, Vodacom's deemed mobile cellular telecommunication service licence was finally issued in August 2002 in accordance with section 37 of the Telecommunication Act, 1996. Vodacom has since been consulting with the Independent Communications Authority of South Africa regarding certain amendments that should be made to the licence to bring its express terms in line with the Act, as amended late in 2001, such as to authorise dual band GSM900/1800 operation, and to authorise interconnection with Sentech and the envisaged second public switched telecommunication service operator.

During the financial year, ICASA licensed Sentech to provide multi-media and international gateway services, considered applications for the SNO licence and recommended to the Minister that the licence not be awarded to any of the applicants, and took various steps to prepare for the licensing of under-serviced area operators (which is to be completed late in 2003). Vodacom is engaging in various commercial negotiations and putting up various regulatory defences to the opportunities and threats being presented by these developments.

Retail and wholesale price control regimes did not change or negatively impact upon Vodacom's commercial operations during the financial year. However, early in April 2003, Cell C applied to ICASA to have MTN and Vodacom declared major operators. In terms of the Interconnection Guidelines, major operators are required to offer interconnection at long run incremental cost based prices. Telkom has already been declared a major operator in respect of fixed termination. Vodacom is preparing its submission to ICASA on the matter.

### Technical regulation

In May 2002, Vodacom applied for a permanent assignment of 2 x 12MHz of GSM 1800 frequency spectrum in terms of section 30A of the Act. The Act directed that the spectrum licence be issued by the end of June 2002, but this has not taken place. The Minister has since determined the spectrum price, and the South African Police Service and the South African National Defence Force have migrated out of the band. Early in 2003, Vodacom applied for and was issued 2 x 12 MHz of GSM 1800 spectrum on a temporary basis until May 10th. Vodacom has been granted a temporary licence and will continue to request extensions until the permanent assignment is made.

Vodacom has had no major problem obtaining the cellphone numbers that are required for its customers. ICASA requested, and has been given, a report from Vodacom explaining its internal numbering plan and the levels of numbering efficiency that are being achieved. Vodacom is continuing to participate in ICASA efforts to update and finalise the draft National Numbering Plan.

### Special regulation

No significant additional fees, obligations or commitments were placed on Vodacom during the financial year. Service licence fees remained at 5.0% of net operating income and contributions to the Universal Service Fund remained at 0.16% of gross revenue subject to a total industry maximum contribution of R20 million. Universal Service Fund contributions have not yet been increased, although the Act allows ICASA to set a maximum contribution of 0.5% of total turnover as from this financial year. During the financial year, following public hearings on the matter, ICASA proposed to the Minister that a 0.2% contribution be set. The Minister has not yet approved the regulation.

It should also be noted that the Regulation of the Interception of Communication and Communication-Related Information Act, 2002 (the Interception Act), was signed into law December 2002. The Minister of Justice has not yet brought any of the provisions of the Interception Act into effect. The implementation of the legislation, which could take place, in whole or in part, during the next financial year, will involve significant capital investment in interception and call data information equipment and systems, as well as the imposition of additional information requirements on Vodacom's distribution channels, such as obtaining certified copies of identity documents when selling SIMs and handsets. Vodacom is working closely with the Departments of Justice and Communications in this regard.

Vodacom, together with Vodacom Group and its other subsidiaries, complied with the requirements of the Promotion of Access to Information Act, 1999, on time.

### Compliance

Vodacom did not receive any official statutory notices of non-compliance with its licence from ICASA during the financial year.

## Conclusion

Our belief in the South African market has not gone unrewarded as Vodacom continued to dominate. This has allowed us to continue to leverage our low cost base for the benefit of our customers, shareholders and other stakeholders. We are excited about the new phase of mobile technology being introduced to the market and are confident that Vodacom is well positioned to remain the cellular network of choice in South Africa.

**Pieter Uys**
Managing Director
Vodacom (Proprietary) Limited

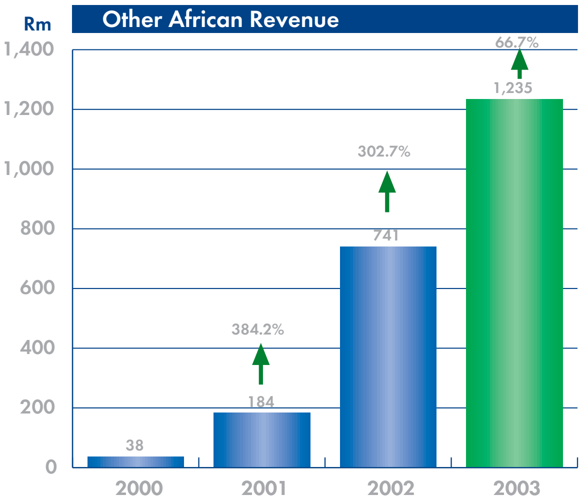
**Shameel Aziz-Joosub**
Managing Director
Vodacom Service Provider Company (Proprietary) Limited

# 8. Operational review – other African operations

March 31, 2003

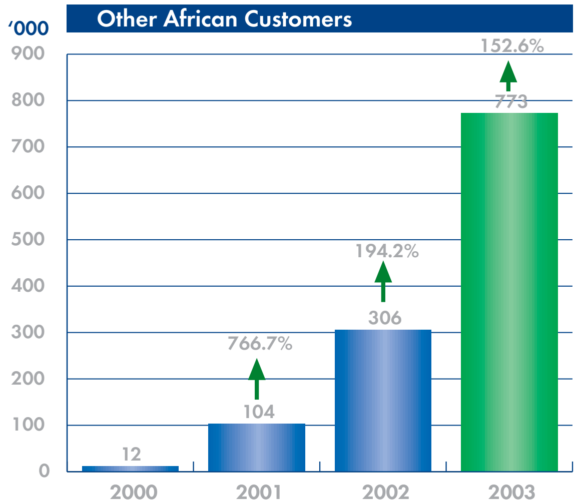
Andrew Mthembu

*" At year-end all our African operations were profitable at the operating profit level on a monthly basis"*




## International strategy

During the year under review significant progress has been made in the realisation of the Africa Strategy. We continue to assess opportunities presented to us in accordance with their ability to add to shareholder value as well as our capacity to manage and fund these operations. We are confident that we will be in a strong position to ensure Vodacom's continued growth in the medium-term through the leveraging of opportunities in other African countries.




### Existing investments

This was an exciting year for our existing investments as Vodacom Tanzania has further consolidated its position as market leader in that country with a 53% market share at year-end. Vodacom Congo has significantly grown its market share since the re-launch of the operation under the Vodacom brand in May 2002 and has increased its market share from 9% at that time to 44% at year end. Vodacom Lesotho has positioned itself to capitalise on any future market growth and minimise the impact of competitive activity. At year-end all our African operations were profitable at the operating profit level on a monthly basis.

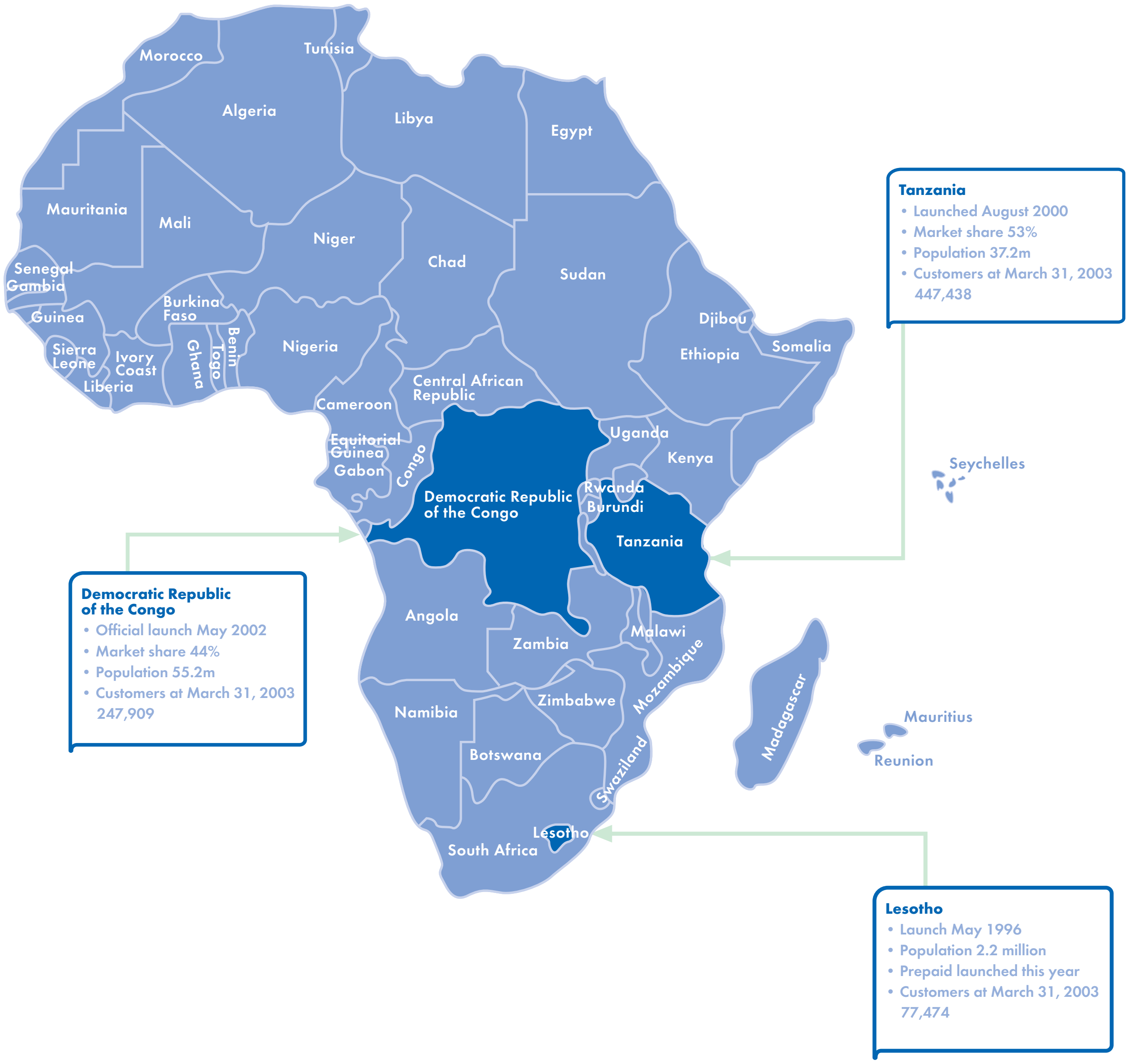
### New opportunities

We were issued licences to operate a mobile telecommunications network in both Mozambique and Zambia, which are not at present being utilised. However, some progress was made in creating an environment that may allow Vodacom to commence operations in Mozambique, and it is hoped that this could be realised in the coming year. The lack of 900 MHz spectrum prevents any further progress on the Zambian opportunity at this stage.

Structure

Vodacom manages its African operations through its wholly-owned subsidiaries Vodacom International Holdings (Proprietary) Limited and Vodacom International Limited (Mauritius) who also leverages the economies of scale with suppliers. During the year we decentralised the management of our various African subsidiaries. This created a relatively standard structure per company to better support the technical requirements of the companies and ensures that cognisance and understanding is taken of the local conditions in each country. Employees, experienced in the Vodacom Way of business, are given opportunities in these new ventures to develop their own competencies.

## Other African operations footprint



Vodacom Group (Proprietary) Limited

# 8.1 Vodacom Tanzania

March 31, 2003

## Key indicators

| | Year ending March 31, 2001 | 2002 | 2003 | 02/01 % | 03/02 % |
|---|---|---|---|---|---|
| Number of customers[1] | 82,064 | 228,491 | 447,438 | 178.4 | 95.8 |
| Contract | 3,245 | 4,727 | 5,177 | 45.7 | 9.5 |
| Prepaid | 78,819 | 223,714 | 440,206 | 183.8 | 96.8 |
| Public phones | – | 50 | 2,055 | – | 4,010.0 |
| ARPU (USD)[2] | 31 | 27 | 22 | (12.9) | (18.5) |
| Penetration[3] | n/a | 1.1 | 2.2 | n/a | 100 |
| Number of employees | 115 | 188 | 224 | 63.5 | 19.1 |
| Customers per employee | 714 | 1,215 | 1,997 | 70.2 | 64.3 |
| Mobile market share[4] | 40% | 56% | 53% | | |

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 is calculated based on ITU Telecommunications Indicators as of December 31, 2001 and Vodacom estimates as of March 31, 2003.

4 Based on Vodacom estimates.

Vodacom owns a 65% interest in Vodacom Tanzania Limited, which was issued its licence in December 1999 and launched operations in August 2000. Two local shareholders, Planetel Communications Ltd and Caspian Construction Ltd hold the remaining 16% and 19% respectively. Vodacom became the largest mobile communications network operator in Tanzania within one year of launching.

We have continued to aggressively acquire market share and ended the financial year as the largest mobile operator in Tanzania with a market share of 53%, based on an estimated total cellular market base at March 31, 2003 of 831,000.

The company, together with Standard Bank London, was successful in finalising $65million of non-recourse project funding in a deal that was voted Project Finance Magazines' (sponsored by Standard and Poor's, PACE global energy services and Mayer, Brown Rowel and MAW) African Telecom's deal of the year at a function held in London during March 2003.

### Customers

The Vodacom Tanzania market profile is currently 98.4% prepaid and we do not expect this to change significantly. We have reduced the barriers to entry by introducing low cost midrange handsets and the connection price to as low as $5. The introduction of an electronic $2 recharge voucher has enabled Vodacom to retain its market leadership and competitive edge.

### Competition

The financial year began in Tanzania with five operators: Zantel (only covering Zanzibar), Mobitel, Celtel, Tritel and Vodacom. The Tanzanian Telecommunications Company is the sole fixed-line operator licensed to provide basic telecommunications services in mainland Tanzania. In Zanzibar, Zantel is the sole operator granted a fixed line license, with international gateway rights for traffic originating on its own network.

The Tanzanian Telecommunications Commission withdrew Tritel's license in January 2003 as a result of non-payment of fees. There was little competitive activity from Zantel during the year and their market share remained relatively constant at approximately 4% while Mobitel continued to focus on non-core activities and consequently lost market share beginning the year with approximately 30% and ending with 19%. The entrance of the Tanzanian Telecommunications Company into the cellular market, branded as Celtel, has increased the level of competition. Celtel began to establish themselves as a viable alternative to Vodacom. Their main focus is on network rollout and cheaper tariffs and their market share grew during the year from approximately 10% to 24%. We expect to maintain our position as market leader despite this competition.


A Vodacom public phone in Tanzania

### Products and services

The current package offering is Vodago (prepaid) and Vodachoice (postpaid). Vodatariffa, an SMS based information service, is currently also available. The Simu Ya Watu (peoples phone) single unit "Adondo" was introduced this year and forms an integral part of the company's public phone offering and strategy. Vodacom intends to launch an IVR this year to improve customer service levels.

### Public phones

We have rolled out a number of Public Phones, a product similar to community service phones in South Africa. This service is intended to provide access to a communication service to not only the rural and underserviced areas, but also in the highly populated areas of Tanzania as not all Tanzanians can afford a handset.

### Infrastructure

Vodacom Tanzania's cumulative capital expenditure through to March 31, 2003 was $132 million. Network coverage was expanded from 3.5% last year to approximately 6% of the land surface of Tanzania and approximately 25% of the population. We commissioned 76 BTS's and 5 BSC's and added an additional MSC to the network for capacity reasons. The rollout achieved extensive road coverage between Zambia and Dar es Salaam. We also covered more remote towns in the extremities of the country utilising VSAT transmission technology.

### Employees

Vodacom Tanzania had a total headcount of 224 employees as at the end of March 2003 of which only 10 members are expatriates. For the last financial year, staff turnover was a low 9.8% (22 out of 224).

We view effective employee relations as the key to ensuring that staff are happy when fulfilling their day-to-day activities. All staff issues are addressed via the Consultative Committee where staff is given a platform to address people related problems. Actions are agreed upon and progress monitored on a monthly basis.

### Regulatory

Vodacom Tanzania faced two main challenges. The first was to prevent the Tanzanian Telecommunications commission from lowering interconnection charges to unacceptably low levels by regulatory fiat. This was accomplished, and the determination was withdrawn. In a more positive response to Vodacom's submissions, the Tanzanian Telecommunication Commission recently commissioned a reputable UK consulting firm to perform a study on cost-based interconnect pricing for Tanzanian operators. The second ongoing challenge, is to prevent The Tanzanian Government, local authorities, and the new, converged broadcasting and telecommunications regulatory authority form increasing Vodacom's total service licence fees whether taking the form of annual turnover (royalty) fees, excise fees on airtime, regulatory services fees, or tower taxes above reasonable levels.

### Social investment and environmental responsibility

Vodacom Tanzania has served the Tanzanian community not only in providing affordable communication to an increased number of people, but also by undertaking community service initiatives providing support and facilitation and direct sponsorships of events. Amongst the activities that Vodacom Tanzania supports are:

- The Tanzania Scouts Association, which plays a major role in the upbringing of the youth of Tanzania.
- Placing road signage and messages to assist the Tanzanian community along all major roads
- The Vodavoice Magazine that was launched in May 2001 gives the community of Tanzania an opportunity to educate, communicate, challenge and understand Vodacom operations and cellular communications in general.
- Christmas parties for kids aimed at making street kids, orphans and homeless kids feel at home in the spirit of Christmas and Eid.
- Supporting small and medium entrepreneurs through Vodaduka and Vodashine.

An environmental management system was implemented to monitor and review the impact the company has on the environment and the people of Tanzania.

Vodacom Group (Proprietary) Limited

# 8.2 Vodacom Lesotho

March 31, 2003

## Key indicators

| | Year ending March 31, 2001 | 2002 | 2003 | 02/01 % | 03/02 % |
|---|---|---|---|---|---|
| Number of customers[2] | 22,319 | 56,539 | 77,474 | 153.3 | 37.0 |
| Contract | 22,319 | 15,429 | 4,215 | (30.9) | (72.7) |
| Prepaid | – | 41,110 | 72,689 | n/a | 76.8 |
| Public phones | – | – | 570 | n/a | n/a |
| ARPU (ZAR)[1] | n/a | 144 | 104 | n/a | (27.8) |
| Penetration[3] | n/a | 2.6 | 4.3 | n/a | n/a |
| Number of employees | 55 | 71 | 74 | 29.1 | 4.2 |
| Customers per employee | 406 | 796 | 1,047 | 96.1 | 31.5 |
| Mobile market share[4] | 100% | 100% | 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 is based on ITU Telecommunications Indicators as of December 31, 2002 and 2001.

4 Based on Vodacom estimates

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.

### Infrastructure

The network has 41 BTS's, one MSC, two BSC's and one intelligent network platform. Vodacom Lesotho invested R72 million during the year to expand and improve the network in anticipation of competition and the cumulative capital expenditure as at 31 March 2003 was R185 million. Capex per customer at the end of the year was R2,388 (2002: R2,160).

### Products and services

Vodacom Lesotho offers a variety of prepaid and post paid services to customers of which the latest and most significant service is the Corporate Direct service. This service allows corporate customers to connect their PABX's directly to the Vodacom Lesotho network.

Vodacom Lesotho also offers public pay phone services and intends to embark on a intensive program in the new financial year to increase the number of pay phones in the market. Vodacom Lesotho has 8 Vodashops and also offers customers phone repair services through a joint partnership with CSL, a company based in South Africa. The intention is to franchise these shops in the coming year.

### Customers

During the year under review, Vodacom Lesotho connected a net of 20,935 new customers. The prepaid rate plan is the most popular package and accounts for 93.8% of our total customers. A significant number of contract customers who, operating on a prepaid basis, migrated to the actual prepaid packages due to its introduction into the market. The total customer base increased by 37.0% to 77,474 at March 31, 2003.

Vodacom reaching deep into the Maluti mountains, Lesotho

### Competition

For such a small market, competition in Lesotho is fierce. Econet-Ezicell is our only opposition, and they offer coverage that equals our own. Econet-Ezicell has not as yet signed interconnect agreements with Vodacom Lesotho or the Lesotho Telecommunication Corporation which has been advantageous to them, especially in the area of interconnection, where we continue to have difficulties. We will continue to compete with them in the cellular race by focusing on customer care and quality.

### Employees

The headcount for Vodacom Lesotho increased by only three positions to 74 employees (2002: 71) at March 31, 2003. The number of customers per employee improved as result by 31.5% from 796 to 1,047.

### Regulatory

Vodacom Lesotho's GSM license has a term of 15 years with 14 years remaining. The fixed-line operator in Lesotho, the Lesotho Telecommunications Corporation, was issued the second mobile communications license in Lesotho and commenced operations during April 2002 in the form of Econet-Ezicell. A continuing challenge for Vodacom Lesotho is to prevent the Lesotho Telecommunications Authority from increasing service license, spectrum license and Universal Access Fund fees too rapidly, and to unacceptably high levels; and to dissuade them from imposing fresh infrastructure rollout obligations on the company as part of its universal access policy.

### Social investment and environmental responsibility

Lesotho's road infrastructure is expanding rapidly and during the year, Vodacom contributed to the road safety campaign ensuring that motorists exercise patience and save lives. Vodacom has also posted road safety messages on all the bridges. Vodacom Lesotho is further actively involved with the Morija Arts and Cultural festival. We believe that these types of initiatives go a long way to affirm our commitment to being a caring company for the Basotho people.

Vodacom Group (Proprietary) Limited

# 8.3 Vodacom Congo

March 31, 2003

## Key indicators

| | Year ending March 31, | | | 02/01 | 03/02 |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | % | % |
| Number of customers[1] | – | 21,116 | 247,909 | – | 1,074.0 |
| Contract | – | - | 3,917 | – | 100.0 |
| Prepaid | – | 21,116 | 237,164 | – | 1,023.1 |
| Public phones | – | – | 6,828 | – | – |
| ARPU (USD)[2] | – | n/a | 20 | – | – |
| Penetration[3] | – | 0.3% | 1.0% | – | 233.0 |
| Number of employees | – | 235 | 204 | – | (13.2) |
| Customers per employee | – | 90 | 1,215 | – | 1,250.0 |
| Mobile market share[4] | – | 9% | 44% | | |

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. The 2002 figure represents the customers acquired on formation of the company.

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 is calculated based on ITU Telecommunications Indicators as of December 31, 2001 and Vodacom estimates as of March 31, 2003.

3 Based on Vodacom estimates

Vodacom Congo (RDC) s.p.r.l. was established on December 11, 2001 in the Democratic Republic of Congo, but the Vodacom Network was officially only launched on May 1, 2002. Vodacom International Limited (Mauritius) owns a 51% interest in Vodacom Congo, while Congolese Wireless Network owns the remaining 49%. The Group proportionately consolidates its 51% interest in Vodacom Congo.

In very difficult conditions, Vodacom Congo, as a newcomer, has substantially contributed to increased competition, assisted in growing the total market and end with a market share of 44% in only eleven months of operations.

### Infrastructure

In a country of significant size and limited infrastructure, Vodacom has rolled out the first true national network. The network has been rolled out in 27 towns and consists of 117 base stations and 3 MSC's. Network coverage was initially launched in Kinshasa, the capital of the DRC, Mbuji Mayi and Lubumbashi. Since then, network coverage has been rolled out in seven of the nine provinces of the DRC, with rollout in the remaining two planned within six months. Network capacity in the main centres has also been upgraded to maintain quality and service.

The company's cumulative capital expenditures to March 31, 2003 were $118.9 million with $108.2 million spent on infrastructure assets.

### Products and services

Vodacom Congo is currently represented in the market with three products namely post paid, prepaid and public phones. The post paid product is mainly aimed at the corporate market with the focus being enhanced customer service. Prepaid products are aimed at the general Congolese market with competitive handset prices and call charges. Public phones were also introduced to accommodate the lower income sector of the telecommunication market with competitive call charges.

We introduced SMS services during the current financial year and various VAS are being developed to enhance the revenue earning capacity of our operations.


A Vodacom billboard in Kinshasha, Democratic Republic of the Congo

### Customers

Vodacom Congo's customer base consists of 95.7% of prepaid customers as the commercial infrastructure required to support post paid services is limited. Our total customer base increased more than tenfold to 247,909 customers in 2003 (2002: 21,116).

Client services and relationship management is a central focus of the company and we have a fully operational helpdesk and CRM programme.

### Competition

There are numerous regional operators, however our main competitor is Celtel, a subsidiary of the MSI Group of Companies. Celtel launched in December 2001, focusing their coverage in the main city centres through smaller regional networks. Since the launch of Vodacom Congo, Celtel has embarked on an aggressive pricing campaign supported by a national network and substantial rollout. Currently Celtel has a market share of approximately 50%.

### Employees

Vodacom Congo has an employee base that consists of 95% local Congolese employees and 5% South African secondees. However, we have implemented all of Vodacom Group's human resource principles and standards.

South African secondees mainly occupy managerial positions but the intention is to identify local Congolese staff within the next financial year to understudy the management positions. The process of evaluation, identifying and training of local staff is a continuous focus of the company.

### Regulatory

Vodacom Congo faced a potential challenge when the Government lowered mobile termination rates to very low levels. There was no adverse impact during the current financial year because Vodacom Congo was a net payer rather than a net receiver of interconnection revenue. After lengthy consultations, the order has been withdrawn, and operators are re-negotiating interconnection agreements at commercial rates, subject to lodgement with the responsible Ministry. The continuing challenge for Vodacom Congo will be to co-operate with and assist the Ministry with the implementation of the new Telecommunications Act, enacted during the financial year, which provides for the establishement of a new regulatory authority and the re-establishment of a primary, backbone network that can meet the needs of the country for an international gateway and national public switched telecommunication service. Vodacom Congo is also endeavouring to keep telecommunication fees, and other fees and taxes, at reasonable levels.

### Social investment and environmental responsibility

Vodacom Congo is committed to social upliftment and community enhancement with the implementation of various social responsibility programmes. Programmes implemented include the building of schools, AIDS awareness programmes and feeding schemes of underprivileged children and war orphans.

Vodacom Group (Proprietary) Limited

# 9. Corporate governance statement

March 31, 2003

## Corporate practices and conduct

Vodacom Group is guided in their commitment to the principles of good governance by the King Committee Report on Corporate Governance 2002.
The characteristics of this code are recognised as including ethical conduct, discipline, transparency, through timely and accurate information, independence, accountability and responsibility to statute and law as well as to the relevant stakeholders, which is balanced by fairness and social responsibility. Through this process, shareholders and other stakeholders may derive assurance that the Group is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Monitoring the Group's compliance with King II, as updated from time to time, forms part of the mandate of the Audit Committee.

## Board of directors

The composition of the Vodacom Group board of directors is governed by the shareholders agreement between the Group's three shareholders. All directors are appointed by the shareholders. The Board consists of twelve members, four executive and eight non-executive and also comprise five alternate non-executive directors. All companies within the Group have unitary board structures, with a mix of non-executive and executive directors.

Meetings are held quarterly, more frequently if circumstances or decisions require, and the Board retains full and executive control over the companies concerned.

The Board has a formal schedule of matters specifically reserved for decisions, including the approval of Group commercial strategy, major capital projects and investments, borrowings, the adoption of any significant change in accounting policies or practices and material contracts not in the ordinary course of business. The Board monitors its management ensuring that material matters are subject to board approval. The Board delegates responsibility for day-to-day activities to the CEO.

Directors are appointed on the basis of skill, acumen, experience and level of contribution to and impact on the activities of the Group. On appointment, all directors are provided with guidance as to their duties, responsibilities and liabilities as a director of a company and also have the opportunity to discuss organisational, operational and administrative matters with the chairman, the CEO and the Company Secretary.

In the event that a potential conflict of interest may arise, involved directors withdraw from all deliberations concerning the matter and are not permitted to exercise any influence over other board members or receive relevant board papers.

### Chairman and Chief Executive Officer

The role of Chairman and CEO does not vest in the same person. For the year under review, Wendy Luhabe continued to act as chairman, and Alan Knott-Craig as the CEO of Vodacom Group. Telkom SA Ltd, the group's major shareholder, appoints the chairman.

### Company Secretary and professional advice

All directors have unlimited access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are followed.

All directors are entitled to seek independent professional advice at the Group's expense, concerning the affairs of the Group, after obtaining the approval of the Chairman. The Audit Committee is responsible for monitoring the independence and suitability of all professional advisors.

## Committees of the board of directors

The board has a number of committees, which have been established to consider issues and strategies, within common areas, in order to advise and guide the Board. Ad-hoc committees are also established as the need arises. These committees comprise both executive and non-executive directors. Board committees that have operated during the year (unless otherwise indicated) are detailed below. Ad-hoc committees are created as and when necessary. The names of the members of the Board and committees appear in section 3 of this report.

### Directing committee

The Board has delegated all its powers, functions and authority to act for and on behalf of the company to the directing committee. The Chairman and members of the directing committee consist of the eight non-executive directors nominated for appointment to the Board by the committed shareholders. Committee meetings are held at the same time and on the same basis as Board meetings.

Non-executive Directors bring with them diversity of experience, insight, business acumen and skills, and independent judgement on issues of strategy, performance, resources and standards of conduct.

Non-executive Directors have no service contracts with the Company, and are nominated and appointed on a proportional basis by the shareholders of the company, who have an equity interest of more than ten percent in the Group. Recommendation for re-appointment as director is not automatic, but considered individually based on their contribution.

### Executive committee

This committee is responsible for ensuring that the decisions, strategies and views of the board are implemented. The committee consists of the four executive directors, as well as the Managing Director of Vodacom (Proprietary) Limited, who is not a Group board member, but who attends all Board meetings by invitation. Executive directors are considered for re-appointment annually. The Group follows a decentralised approach with regard to the day-to-day running of its businesses.

The executive committee meets each month under the chairmanship of the CEO. This committee is responsible for the day-to-day management of the Group's businesses and it also reviews strategic plans, potential acquisitions, major capital expenditure projects, company operating and financial performance and the central and administrative functions of the Group.

### Remuneration committee

The Remuneration Committee consists mainly of non-executive directors, and is advised by independent outside experts. Its written charter and specific terms of reference include direct authority for, or consideration and recommendation to the Board of, matters relating to *inter alia* general staff policy, strategy for employment, affirmative action, remuneration, performance bonuses, executive remuneration, directors' remuneration and fees, service contracts, deferred bonus incentive schemes and group pension and retirement funds. Two meetings of the committee are scheduled annually, with ad hoc meetings convened as and when required.

The broad objectives of the committee are to:

i) Ensure that the Group's Directors, and staff, are fairly rewarded for their individual contributions to the Group's overall performance;

ii) Approve the annual remuneration review of the Group and to ensure that salaries are market related;

iii) Approve profit sharing arrangements and annual bonuses; and

iv) Approve the allocation of share scheme participation.

Basic remuneration and short and long-term incentives are determined with reference to applicable market rates and practices. Performance-related remuneration practices and deferred bonus incentive schemes are considered important elements in attracting, rewarding and retaining high potential and high performance executive management. The annual financial statements accompanying this report reflect the total of executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act, 1973.

### Audit committee

The audit committee comprise entirely of non-executive directors. All the members are financially literate and no relationships exist which could possibly interfere with the committee member's independence from management. Both the internal and external auditors have unrestricted access to the committee, which ensures that their independence is in no way impaired or compromised. The committee meets at least three times a year. These meetings are attended by both the external and internal auditors and appropriate members of executive management including those involved in risk management, control and finance. The primary responsibility of the committee is to assist the board in carrying out its duties relating to the group's accounting policies, internal control, financial reporting practices, and identification of and exposures to significant risks.

The committee has a written charter from the Board and provides assistance to the Board with regards to:

i) Ensuring that management has created and maintained an effective control environment throughout the group, monitoring its effectiveness, and that management demonstrates and stimulates the necessary respect for the internal control structure;

ii) Ensuring compliance with the applicable legislation and the requirements of the regulatory authorities;

iii) Obtaining an appreciation of the state of the internal control systems;

iv) Reviewing and recommending internal audits, specifically the internal audit plan which is risk based, and internal audit policy, as well as reviewing their activity and significant findings;

v) Monitoring relationships with external auditors and reviewing the audit plans and policy, scope and activity, management reports and fees of the external auditors, and to discuss any significant findings, issues of concern or changes to the statutory and interim audits as well as setting principles for external auditors to do other work;

vi) Reviewing and considering the presentation and disclosure of the interim and preliminary results statements and the annual financial statements of the Group, considering accounting policies, and to report fully thereon to the board;

vii) Reviewing compliance with the group's code of ethics;

viii) Receiving the reports of the compliance officers and monitoring compliance with the King Code as updated from time to time; and

ix) Executing special projects and other investigations where deemed necessary.

Critical findings arising from both internal and external audit activities are formally reported to, and comprehensively addressed by, the audit committee.

In order to assess the principle of going concern, the audit committee reviews the operations and business competitiveness together with management. In addition to the historical and current year financial statements, the five year forecasts, budgets and cash flow projections are considered. Due consideration is also given to the information contained in the current initiative of effective ongoing risk management. The committee has reviewed and noted the assumptions taken on these issues and considers the going concern principle to be appropriate for the company and the Group as at the date of signing the annual financial statements.

## Risk management

Effective risk management is integral to the Group's objective of consistently adding value to the business. Management is continuously developing and enhancing its risk and control procedures to improve the mechanisms for identifying and monitoring risks.

The directors when setting strategy, approving budgets and monitoring progress against budget, consider the business risks identified.

Risk management is addressed in the areas of general business risks, worker safety, product liability, credit risks, exchange rate exposure, insurable losses, interest rate and liquidity risks.

Key policies and procedures in place to manage operating risk involve segregation of duties, transaction authorisation, supervision, monitoring and financial and managerial reporting.

A separate division, reporting directly to the Financial Director of Vodacom Group is tasked with identifying, measuring, and recording the core risks facing the Group as well as, where appropriate, implementing procedures to mitigate against pertinent risks. Risks are categorised and assessed as to:

i) whether the risk was insured, uninsured or uninsurable;

ii) the perceived financial impact;

iii) the cultural awareness of the risk.

Risks are continually reviewed and through risk mitigation processes rolled out to individual companies and formalised in part through policies and procedures. Compliance with these policies is enforced and monitored by internal audit. This process is as dynamic as the risks that face Vodacom. Professional advisors are invited from time to time to assist the directors in evaluating risk management strategies presented by management.

## Internal control systems

To meet its responsibility with respect to providing reliable financial information, the Group maintains financial and operational systems of internal control. These controls are designed to provide reasonable assurance that transactions are concluded in accordance with management's authority, that the assets are adequately protected against material loss of unauthorised acquisition, use or disposition and that transactions are properly authorised and recorded.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

### Responsibility for internal controls

The Board has overall responsibility for the Group's system of internal control. The Group's systems have been designed to provide the directors with reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a timely period.

### Control environment

The Board has established an organisational structure with clear operating procedures, lines of responsibility, segregation of duties, delegated authority, policies and procedures, including a Code of Ethics to foster a strong ethical climate, and the careful selection, training and development of people. These are communicated throughout the Group. The Board has delegated to executive management the establishment and implementation of appropriate internal control systems.

### Financial reporting system

The Group's operating procedures include a comprehensive system for reporting financial information to the directors. The principal elements of this include the formal review by the directors of:

i) Detailed budgets prepared by management and reviewed by the executive directors before formal adoption by the Board;

ii) Forecasts, revised on a quarterly basis, compared against budget; and

iii) Monthly management accounts with a comparison against the latest forecast and budget.

iv) An update, at least annually of the five year forecast, including key assumptions and indicators.

### Main control procedures

Written financial policies and procedures have been issued which specify the minimum requirements for financial and administrative matters within the Group. These policies and procedures address the areas of significant business risk and include financial limits on delegated authority and detailed policies and procedures regulating treasury activities which is approved annually.

Joint venture undertakings are monitored closely through attendance at their board meetings and review of key financial information. It is the Group's policy that its external auditors are appointed as external auditors of joint venture undertakings, where possible. Detailed post investment reviews of all the Group's investments are conducted on a regular basis.

### Review of effectiveness

The Board believes that the Group's system of internal control provides reasonable, but not absolute, assurance that problems are identified on a timely basis, and dealt with appropriately.

The Board confirm that they have reviewed the effectiveness of the system of internal control through the monitoring process set out above and are not aware of any significant weakness or deficiency in the Group's system of internal control during the period covered by this report.

## Internal audit

Group internal audit is an independent appraisal function to examine and evaluate the Group's activities. Its objective is to assist members of executive management in the effective discharge of their responsibilities. The scope of group internal audit is to review the reliability and integrity of financial and operating information, the risk management process, the systems of internal control, the means of safeguarding assets, the efficient management of the Group's resources, effective quality assurance, and the effective conduct of its operations. The function is fully mandated by, and accountable to, the Board and audit committee as an independent appraisal activity for the review of all operations.

There are clear procedures for monitoring the system of internal financial control. The significant components of these are:

i) Formal annual confirmation by subsidiary Managing Directors concerning the operation of internal control systems for which they are responsible;

ii) Group internal audit, while reporting directly to the Group Finance Director, has access to the audit committee, and which on a continuous risk assessment basis, undertakes periodic examination of business processes and reports on internal controls throughout the Group;

iii) Reports from the external auditors on internal controls and relevant financial reporting matters; and

iv) Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified.

The internal audit function also manages specific quality compliance of environmental, health and safety, information security and other quality issues.

## Code of ethics

Directors and employees are required to understand and maintain the highest standard of ethics ensuring that business practices are conducted in a manner which, in all reasonable circumstances, are beyond reproach. Ethical conduct must be an integral part of the organisation, a deeply ingrained tradition that is passed from one generation of employees to the next.

The Group has adopted a Code of Ethics, which complies with the highest standards of integrity, behaviour, honesty and ethics in dealing with all its stakeholders, including the Group's directors, managers, employees, customers, suppliers, competitors, shareholders, and society at large. The Code also spells out policies and guidelines regarding the personal conduct of directors and employees.

All new staff receive a copy of the Code and they are required to sign a declaration stating that they have received it, have read and understood it, and will comply with it. The Code was developed through a process of consultation throughout the Group. All new staff receive a presentation on the Code as part of the induction process. The Directors regularly review this Code to ensure it reflects best practice in corporate governance.

### Stakeholder communication and relationships

The Group has formalised its stakeholder philosophy and introduced structures of corporate governance to manage the interface with the various stakeholder groups. There are responsive systems of governance and practice which the Board and management regard as appropriate. Stakeholder communication and relationships are limited with the Group not being a public or listed company but does include, by invitation, two formal presentations to the investor community per year, on which the interim and annual results are presented.

Communication with stakeholders addresses material matters of significant interest to shareholders, other stakeholders and the financial and investment community, and is augmented by a group-wide disclosure policy. The quality of information is based on the guidelines of promptness, relevance, accuracy and transparency and is covered by our internal control processes. Detailed reports on how we comply with our responsibilities to society at large, specifically relating to social investment and environmental responsibility are attached as sections 11 and 12 of this report.

### Employees and employee participation

For employee-related matters, the Group is dependent on consultative committees of Vodacom (Proprietary) Limited and Vodacom Service Provider Company (Proprietary) Limited, the major subsidiaries within the Group, which contributes to employee policies within the Group. A consultative committee consists of a maximum of nine staff members with the Managing Director of the subsidiary concerned as the chairman. Members are elected by the employees of the company for a term of one year and may be re-elected.

The Group has designed employment policies, which are appropriate to its business and markets, and which attract, retain and motivate the quality of staff necessary. These policies are required to provide equal employment opportunities, without discrimination. Reports are made available to employees.

Employees are encouraged to become involved in the Group's affairs and to obtain a sound understanding of its activities. The Group employs a variety of participative structures, which focus on material issues affecting employees directly. These are designed to achieve good employer/employee relations through the effective sharing of relevant information and consultation, the speedy identification of potential conflict areas and the effective and prompt resolution of issues. We are committed to equity in the workplace, and a detailed report on human resources and employment equity is attached as section 10 of this report.

Employee participation structures embrace goals relating to values, productivity, training and retraining and serve as a means of encouraging empowerment through participation and information sharing, and of enhancing communication between employees and executive management.

Employees are informed of issues that affect their jobs and work environment, through a range of communication channels. Inhouse training courses and Group publications are provided for employees to enable them to maintain an understanding of the Group's activities.

When an employee is dissatisfied or feels that an injustice has been done, access is available through the Group's grievance procedures, whereby the employee's grievances are addressed, by management, without fear of discrimination or victimisation. Policies and practices have also been developed to identify issues of potential conflict and to effectively resolve them in a timely fashion.

Vodacom Group (Proprietary) Limited

# 10. Human resources and employment equity

March 31, 2003

## Introduction

Globally, there is an increasing recognition that people are the key to corporate performance and creation of a sustainable strategic advantage. The 2003 financial year was characterised by an increased tempo of change, demanding targets and the roll-out of a new network in the DRC. Vodacom Group again delivered strong results in a very tough market. The greatest contributors to our success are our employees – who through their tireless efforts, commitment and service delivery are a true embodiment of the Vodacom Way.

The strategic efforts of the Group's Human Resource function are administered centrally, in South Africa. Our other African operations will adopt policies and procedures as appropriate and may amend their policies to ensure that these are more relevant to local conditions and regulations. This section discusses the Group's HR activities, but focuses more on South African issues. Each of our other African operations has a section discussing that operation's unique HR activities.

## Key focus of activities

The thrust of our Human Resources strategy continues to be creating and re-enforcing a compelling value proposition for our employees that attracts the best talent and retains that talent within Vodacom. Our focus this year was on honing management skills, succession development and enhancing individual competencies to improve business performance. We will strive to create a pool of talented and capable people to meet the future needs of the business including expansion into the rest of the continent.

Vodacom Commercial Park staff canteen, Midrand Campus

## Employees

| | Year ending March 31, 2001 | 2002 | 2003 | 02/01 % | 03/02 % |
|---|---|---|---|---|---|
| **Number of employees incl. temps and contractors** | **4,272** | **4,353** | **4,406** | **1.9** | **1.2** |
| South Africa | 4,102 | 3,859 | 3,904 | (5.9) | 1.2 |
| Other African countries | 170 | 494 | 502 | 190.6 | 1.6 |
| Number of part-time staff included | 553 | 423 | 219 | (23.5) | (48.2) |
| Customers per employee | 1,220 | 1,577 | 1,963 | 29.3 | 24.5 |

Headcount increased by 1.2% to 4,406 (2002: 4,353). The Group performed very well in containing headcount growth despite a significant increase in customers and expansion into the DRC while meeting the resourcing needs of our rapidly expanding Tanzanian operations.

In the past three years there has been a steady increase in our organisational efficiencies as customers per employee grew from 1,220 in 2001 to 1,963 in 2003, which represents a 60.8% increase in our organisational efficiencies. The Group's labour turnover is at 7% compared to the South African average of 12%. We believe that this is because of Vodacom's challenging and nurturing work environment.

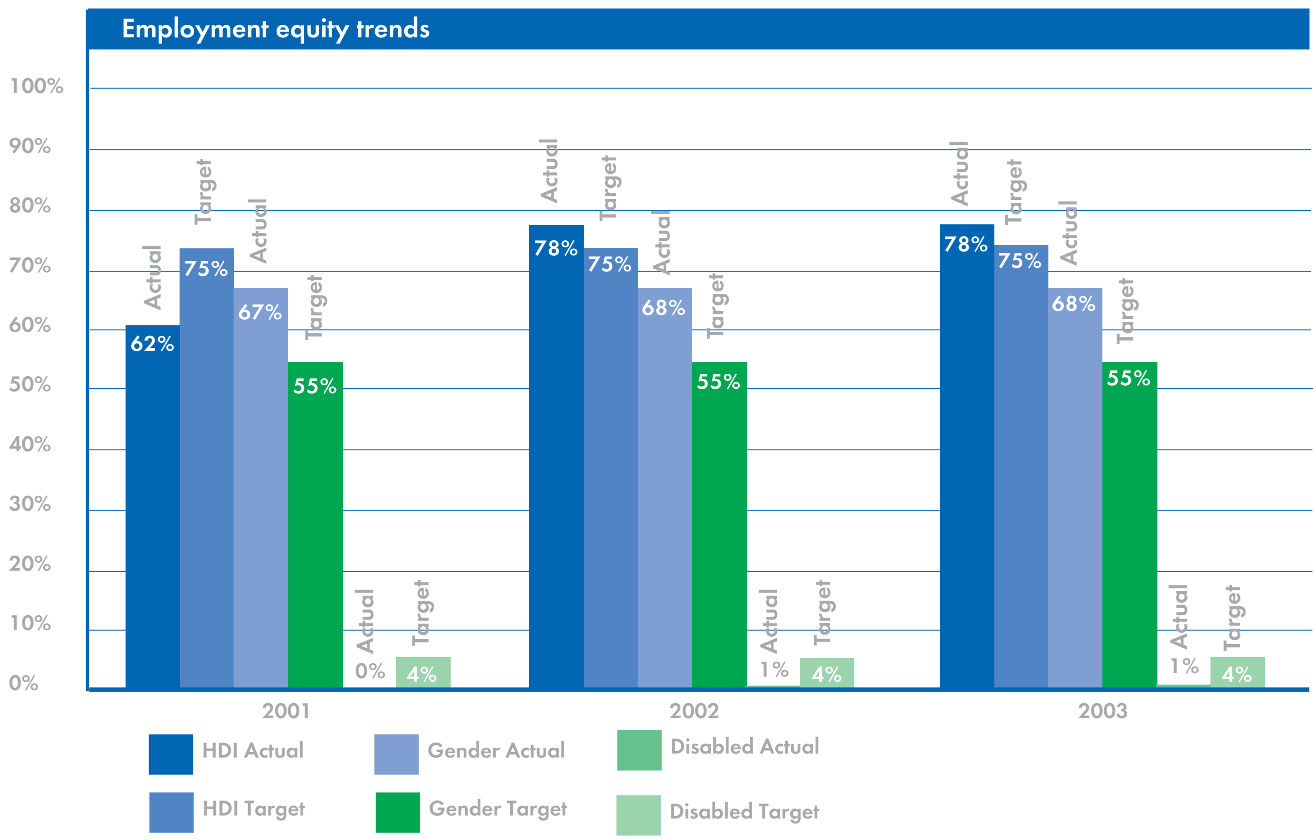
**Employment equity**

Vodacom is an equal opportunity employer committed to empowerment and has a stakeholder supported employment equity programme. There has been a positive trend of exceeding our overall EE targets, other than disabled, as set in our EE plan in the past two financial years and the Group prides itself on the advances it has made in having an employee profile that is highly representative of designated groups. As at March 31, 2003, 78% (2002: 72%) of our workforce were from designated groups, being black, asian, coloured, disabled and female employees. Employment equity and gender representivity at senior level and disability targets will continue to be a challenge, however Vodacom is confident that with the current initiatives such as succession development and management development programmes, we will meet our objectives.

## Human resources development

The Group's HR development strategy is driven by the passion to be the best in whatever we do. We believe that building capacity through developing managerial leadership and technical competencies achieves this. The Group's commitment to employee development is demonstrated by the heavy investment it continues to make in HR development. The past financial year the Group invested R9.5 million, or 5.1% of our payroll in HR development, far exceeding the 2.7% global benchmark of the American Society for Training & Development.

The Group's compliance with the Skills Development Act and continued participation in the Sector Educational and Trainee Authority's Information Systems, Electronics and Telecommunications learnership programmes,



has delivered over R3.6m in rebates, which has been ploughed back to fund further development initiatives. Vodacom is actively participating in these learnerships and currently the company is providing workplace experience to 14 telecommunications learners and 8 IT learners.

The succession development programme was rolled out in June 2001 with the strategic objective of ensuring adequate depth in internal managerial and technical competencies. It is used as a tool to identify and grow future leaders of the organisation. Since its inception, 23% of the candidates from the succession pool have already been promoted. More than 70% of participants are from previously disadvantaged backgrounds. There is strong support for participants through mentoring and coaching.

The Virtual Learning Centre has been extensively used for product training by employees, allowing self-paced learning and equipping them with a variety of skills.

## Education assistance

To facilitate learning and skills growth Vodacom extends educational assistance to its full-time employees through its "Yebo" bursary scheme. For the year ended March 31, 2003, the Group spent R3.0 million on the scheme (2002: R3.0 million). As at March 31, 2003, 627 employees (2002: 532) were participating in the bursary scheme. The scheme has been in operation for 5 years and to date 2,947 employees have benefited from the scheme, illustrating once again the premium the Group places on learning and acquisition of knowledge.

## HIV/AIDS

The HIV/AIDS epidemic continues to ravage vast sections of the world, particularly developing countries. Vodacom recognises the threat and serious impact that the HIV virus has on its most important resource, its employees. The company's policy on HIV and AIDS is therefore anchored around the principles of non-discrimination, fair and equal treatment of all employees and upholding confidentiality in all cases.

Vodacom not only recognises the threat, but also the social and emotional impact and has taken a decision to accelerate the fight on HIV and AIDS by going beyond the awareness and preventative campaigns. In November 2002 the Direct Aids Intervention programme was launched. This comprehensive programme extends support to employees who are HIV positive, by providing anti-retrovirals and case management by health professionals to employees and their immediate families ensuring as healthy and productive a life as possible.

These initiatives are a strong demonstration of our caring philosophy and the value we attach to our employees. In the absence of a cure, prevention and access to treatment is the best way to beat HIV/AIDS. Through this initiative Vodacom is joining the cadre of enlightened companies to fight the scourge of HIV/AIDS.

## Industrial relations

Vodacom has a harmonious relationship with our employees and this is facilitated through the various platforms of employee participation entrenched in our business.

Our Consultative Committees are the employees' voice and are key stakeholders in all business processes. Amongst others, they have representation in the Medical Aid Forum, the Policy Forum and the Vodacom Group Pension Fund Board of Trustees.

Trade Union representivity remains low at 6.4% of all employees in South Africa (2002: 5.8%).

## Conclusion

Numerous studies have demonstrated that effective management of talent contributes to a company's bottom line and creates a sustainable competitive advantage. We believe that the effective management of talent is embedded in the practices, policies and values that Vodacom employs in managing its employees. Application of these principles has created a culture and environment in which our employees thrive.

Vodacom Group (Proprietary) Limited

# 11. Report on corporate social investment

March 31, 2003

## Introduction

Vodacom is committed to the highest standards of corporate social responsibility. We invest in the communities through various social investment programmes in each country in which we operate. The discussion below focuses on the Vodacom Foundation, our South African vehicle through which we invest in the community.

## Vodacom foundation

For nearly five years now Vodacom, through the Vodacom Foundation, has made notable strides in changing the lives of many South Africans for the better.

The Foundation has done this through a direct investment of more than R130 million over the period, of which R20.3 million was spent in the current year. Such an investment underpins Vodacom's commitment to help South Africans to help themselves. The primary focus areas remain education, safety and security, and health – with environment, arts and culture as well as community sports being secondary areas.


2003 STTEP work shop at the STTEP premises in Pretoria

## Strategy

At the core of our successful corporate social investment strategy is the naturally ingrained spirit of caring for both our stakeholders and the larger community, in the Vodacom Way.

A key guiding criterion for our investments are the number of community members impacted. We continuously strive to identify major projects that touch the largest number of lives possible. Our projects are aimed at building capacity, ensuring sustainability and more importantly, involving the community. We actively seek opportunities where we can use technology to address social problems, in partnership with the relevant government departments.

## Recent projects

**Education – Expanding the knowledge base**

The Vodacom External Bursary Scheme remains our key success area in education. More than 300 students, specialising in electrical engineering, information technology and commerce, from across the country have received financial support. There are currently 150 students supported by the programme. Some of our bursars receive in-service training and in certain instances, employment. We believe that such an investment will ultimately benefit the entire economy. Vodacom's R1.6 million contribution to Digital Partnership South Africa, which seeks to make computers accessible for applications in education, will help establish 18 Vodacom/Digital Partnership community-based and school-based resource and e-learning centres in the country. These centres, the first of which was launched in Soweto in July last year, are Internet-enabled and are expected to contribute to the bridging of the digital divide, countrywide.

**Safety and security – Creating a safe environment**

Two critical projects through which the Vodacom Foundation, in partnership with the National Prosecutions Authority, is making a marked difference are the Thuthuzela Care centres and the sexual offences courts.

Computer centre in Soweto, Vodacom sponsored

The Thuthuzela care centres provide a one-stop support centre for victims of abuse. These centers are located in hospitals and are accessible around the clock, with specially trained staff under the guidance of a project manager.

The sexual offences courts, on the other hand, play a big role in addressing the perception that our criminal justice system has difficulty in successfully prosecuting the perpetrators of sexual violence against women and children. A police investigating officer, a nurse or doctor, a social worker and a prosecutor are always on standby to facilitate a speedy prosecution of the offender(s) concerned. The Vodacom Foundation and the National Prosecutions Authority plan to establish three Thuthuzela care centres in Nelspruit, Natalspruit and Kimberley, in addition to seven sexual offences courts in Umtata, Umlazi, George, Thohoyandou, Nelspruit, Vosloorus and Evander during the coming financial year.

**Health – Stepping up the fight against HIV/AIDS**

Complimenting Vodacom's internal commitment to AIDS programmes, the Vodacom Foundation has chosen to prioritise projects that support the fight against HIV/AIDS in its Health portfolio. To this end, an amount of R400,000 was invested in a Limpopo Province based NGO called the Women's Leadership and Training Programme, which promotes awareness about the pandemic in addition to building capacity amongst the youth in the area, to deal effectively with the challenges presented by HIV/AIDS.

The Vodacom Foundation has also been instrumental in the training of 75 "groundbreakers" for LoveLife, an initiative that promotes healthy lifestyles amongst the youth. The groundbreakers are youth community leaders that are trained and equipped with various life skills to be able to serve as peer group leaders in their communities.

As part of the partnership with LoveLife, no less than ten chill rooms were established within public health clinics for the purposes of encouraging debate and the sharing of experiences amongst the youth in a friendly atmosphere.

# 12. Occupational health and environmental responsibility

March 31, 2003

Mobile technology – available everywhere

## Occupational health and safety activities

Vodacom adheres to the highest international standards applicable to occupational health and safety management systems. The Occupational Health and Safety Assessment Series -18001 has been developed to facilitate the integration of quality, environmental and occupational health and safety management systems by organisations.

During this year we had a successful surveillance audit of our occupational health and safety management systems to the OHSAS 18001 standard, conducted by the internationally acclaimed DEKRA-ITS Certification Services.

We are very proud to state that the average legal compliance percentage with reference to the Occupational Health and Safety Act achieved by our South African operations was 92.3% in 2003. Because of the intricacies of local conditions and regulations, we have a more detailed approach to occupational health and safety in our other African countries.

During the year, we completed a process of designing a suitable framework for Vodacom Congo, bearing in mind international best practise, local regulations and our South African occupational health and safety systems. We are currently performing a gap analysis to identify shortcomings in Vodacom Congo's systems in relation to this framework.

Due to our outstanding workman's compensation claims record, Vodacom received a rebate from the Compensation Commissioner during the year under review.

Inspectors from the Department of Labour also recently visited the Bloemfontein Regional Office, unannounced, to evaluate Vodacom's safety system with regards to legal registers and appointments. No instances of non-compliance were found.

## Environmental Management

During the year under review, our ISO 14001 certification expired and we saw the successful re-certification of our Environmental Management System to the ISO 14001 standard, also certified by DEKRA-ITS Certification Services.

It is clear that our EMS has developed and matured into an extremely valuable system over the past three years. A number of highlights are listed below:

**The management of birds on base station structures**
Shortly after the first raptor nesting site was discovered on a mast in the Northern Cape, it became clear that our structures provided a popular choice for several species of raptors in that part of the country. Both Martial and Black eagles frequently utilise the structures with several smaller falcons and kestrels also nesting from time to time.

The real significance of these nesting sites is the conservation value that Vodacom provides. The Martial eagle is classified as "vulnerable" in the South African Red Data Book, a publication which lists all species of conservation concern.

A breeding pair of Martial eagles will pair up for life and utilise the same nest year after year. By proactively implementing strict management plans for each nesting site, Vodacom is able to minimise disturbance of the nest to almost zero during certain critical times of the breeding cycle.

During the winter of 2002, the breeding activity on most of the confirmed eagle nesting sites was successful. Vodacom masts also played host to breeding activiy of three pairs of Back Eagle during the year.

**The monitoring of key environmental indicators**
Despite the relatively low levels of environmental impact caused by the mobile telecommunications industry, certain indirect impacts can be reduced through effective management systems. Vodacom has implemented a system to monitor the consumption of electricity, water, paper and a number of other resources on a monthly basis during the year under review.

By reducing the company's consumption of these resources, we not only reduce the indirect environmental impacts but, as importantly, we reduce the cost to the company.

The next phase of this initiative, which includes broadening the scope of indicators, is to implement measures to increase the efficiencies of the business, which in turn will allow us to reduce consumption. We intend to implement a group-wide monitoring system over time.

**Environmental handbook for base transceiver station selection, construction and maintenance**
This handbook was developed to inform staff, consultants, contractors, and members of the public and regulatory bodies of Vodacom's efforts towards improved environmental management. It answers the questions that the various stakeholders may have about the way the Vodacom network works and its impact on the environment.

There are numerous other initiatives which have been implemented which are clear examples of the way in which Vodacom is meeting its commitments to ensuring legal compliance, pollution prevention, and, importantly, continual improvement of the company's environmental performance.

**Red data book about threatened species**
Vodacom, in partnership with the Endangered Wildlife Trust, The Conservation Breeding Specialist Group and the National Research Foundation undertook an assessment of some 295 marine and terrestrial mammal species, indigenous to South Africa, to determine their conservation status. The final product, a list of threatened mammal species, will be published mid 2003.

## Vodacom Group (Proprietary) Limited

# 13. Relationship with shareholders

**March 31, 2003**

The authorised (100 000 ordinary shares of 1 cent each) and issued (10 000 ordinary shares of 1 cent each) share capital remained unchanged during the year. Shareholder loans, due for repayment on June 30, 2003 have been given in the same proportion as the shareholder's percentage holding. During the year under review, Hosken Consolidated Investments, who owned 5% of Vodacom sold its stake to VenFin and Vodafone, bringing their respective stakes to the percentages below. The following are short corporates profile of our shareholders:

### Telkom SA Limited

Telkom is one of the largest companies registered in the Republic of South Africa and is the largest communications services provider on the African continent. Telkom is an integrated communication group with investments in Vodacom Group (Proprietary) Limited, Telkom Directory Services (Proprietary) Limited and Swiftnet (Proprietary) Limited. Telkom is currently the only national provider of public switched telecommunications services in South Africa, although a process has been commenced to liberalise the South African communications market, which will introduce competition in a number of their business areas. As of March 31, 2003, Telkom had 4.8 million telephone access lines in service and 99.8% of its telephone access lines were connected to digital exchanges. On March 4, 2003, Telkom listed on the JSE Securities Exchange and the New York Stock Exchange. On March 31, 2003, Telkom had a market capitalisation of R16.2 billion. After the initial public offering, the Government of the Republic of South Africa owned 39.3% of Telkom's issued share capital, Thintana Communications LLC, which is beneficially owned by SBC Communications and Telekom Malaysia, owned 30%, Ucingo Investments owned 3% and the public owned 27.7%. Telkom owns 50% of Vodacom Group (Proprietary) Limited.


Telkom listing event at the NYSE, March 6, 2003

Manchester United, sponsored by Vodafone

## Vodafone Group Plc

Vodafone is the world's largest mobile telecommunications company and is headquartered in Newbury in the United Kingdom. Vodafone has equity interests in 28 countries and Partner Networks in a further 8 countries. At March 31, 2003, Vodafone had 119.7 million proportionate customers worldwide (proportionate customers refer to the number of Vodafone Group Plc customers connected to Vodafone networks worldwide taking into account the company's shareholding in those networks.). By market capitalisation, Vodafone is one of the largest companies in the FTSE 100 and the Eurotop 300. Vodafone aims to be the world's leading wireless telecommunication and information provider generating more customers, more services and more value than any of its competitors. Vodafone's global strategy embraces voice, data and internet-based services, and focuses on satisfying customer's needs. This strategy will enable Vodafone to bring an ever wider and richer range of services to its customers, capitalising on new developments in technology. During the year under review, Vodafone purchased an additional 3.5% of Vodacom Group (Proprietary) Limited from previous shareholder HCI, bringing its ownership to 35% through its wholly owned subsidiary, Vodafone Holdings SA (Proprietary) Limited.

## VenFin Limited

VenFin is an investment holding company listed on the JSE Securities Exchange South Africa. It has investments in telecommunications, media, technology, financial services and other businesses.

VenFin focuses on technology oriented investments, in South Africa and internationally, which own proprietary intellectual property and have the potential to produce superior growth.

At the end of March 2003, VenFin's market capitalisation was approximately R8 billion.

During the year under review, VenFin purchased an additional 1.5% of Vodacom Group (Proprietary) Limited from previous shareholder HCI, bringing its ownership to 15% through its wholly owned subsidiary, Van Rijn Beleggingskorporasie Ltd.

Vodacom Group (Proprietary) Limited

# 14. Value-added statement

March 31, 2003

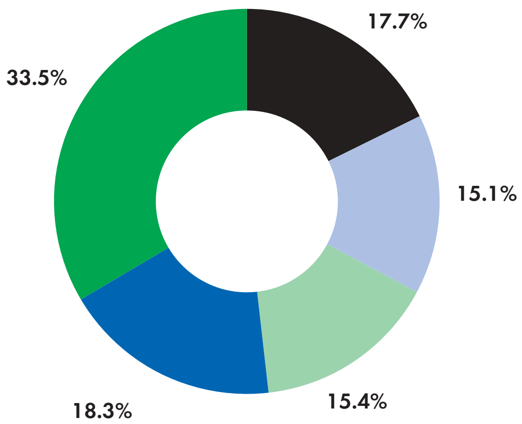
| | 2001 Rm | 2001 % | 2002 Rm | 2002 % | 2003 Rm | 2003 % |
|---|---|---|---|---|---|---|
| **VALUE ADDED** | | | | | | |
| Value added by operating activities | **5,352.8** | **99.5** | **6,769.9** | **89.0** | **7,722.2** | **91.2** |
| Revenue | 13,276.4 | | 16,150.7 | | 19,778.7 | |
| Net operating expenses | (7,923.6) | | (9,380.8) | | (12,056.5) | |
| **Value added by investing activities** | **27.7** | **0.5** | **840.4** | **11.0** | **742.4** | **8.8** |
| Income from investments | – | | 4.3 | | 5.1 | |
| Interest income | 27.7 | | 836.1 | | 737.3 | |
| | **5,380.5** | **100.0** | **7,610.3** | **100.0** | **8,464.6** | **100.0** |
| **VALUE DISTRIBUTED** | | | | | | |
| **Distributed to employees** | **950.6** | **17.7** | **1,135.2** | **14.9** | **1,018.6** | **12.0** |
| Salaries, wages, medical and other benefits | 908.1 | | 1,090.1 | | 960.7 | |
| Pension and retirement fund contributions | 42.5 | | 45.1 | | 57.9 | |
| **Distributed to providers of finance** | **986.8** | **18.3** | **1,468.2** | **19.3** | **2,146.3** | **25.4** |
| Finance costs | 506.8 | | 868.2 | | 1,546.3 | |
| Dividends | 480.0 | | 600.0 | | 600.0 | |
| **Distributed to government** | **811.3** | **15.1** | **1,078.7** | **14.2** | **1,301.0** | **15.4** |
| SA normal taxation | 748.3 | | 1,001.7 | | 1,223.3 | |
| Secondary taxation on companies | 60.5 | | 74.5 | | 75.0 | |
| Foreign taxation | 2.5 | | 2.5 | | 2.7 | |
| **Value reinvested** | **1,803.2** | **33.5** | **2,125.6** | **27.9** | **2,271.6** | **26.8** |
| Depreciation of property plant and equipment | 1,364.1 | | 1,857.3 | | 2,163.0 | |
| Amortisation of intangible assets | 271.5 | | 212.7 | | 210.7 | |
| Integration costs, disposals of operations and impairments | 213.2 | | (56.4) | | – | |
| Deferred taxation | (45.6) | | 82.7 | | (135.8) | |
| Foreign deferred taxation | – | | 29.3 | | 33.7 | |
| **Value retained** | **828.6** | **15.4** | **1,802.6** | **23.7** | **1,727.1** | **20.4** |
| Retained profit (adjusted for dividends) | 837.8 | | 1,773.0 | | 1,614.6 | |
| Outside shareholders' interest | (9.2) | | 29.6 | | 112.5 | |
| | **5,380.5** | **100.0** | **7,610.3** | **100.0** | **8,464.6** | **100.0** |

## Notes to the consolidated value-added statement

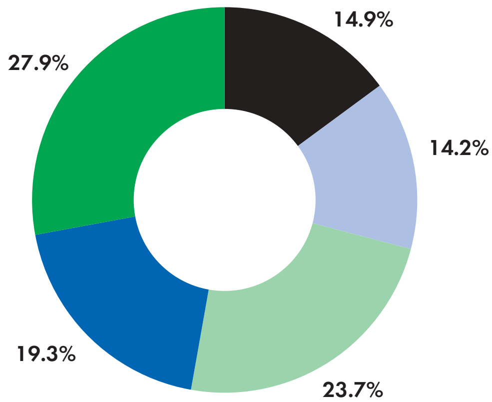
### 1. Net operating expenses

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Direct network operating costs | 6,916.4 | 8,369.8 | 10,860.4 |
| Other operating income | (48.5) | (29.2) | (68.0) |
| Marketing expenses | 514.6 | 542.0 | 652.5 |
| Administration expenses | 541.1 | 498.2 | 611.6 |
| | 7,923.6 | 9,380.8 | 12,056.5 |

**Value distributed 2001**

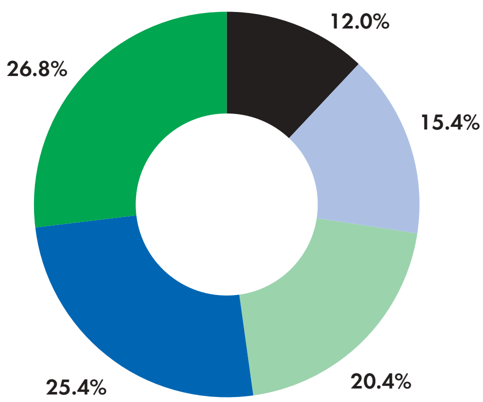



**Value distributed 2002**




1 Employees
2 Government
3 Retained
4 Finance providers
5 Reinvested

**Value distributed 2003**



Vodacom Group (Proprietary) Limited

# 15. Definitions

31 March 2003

| | |
|---|---|
| **AIDS** | Acquired Immune Deficiency Syndrome |
| **ARPU** | Average Revenue per customer per month |
| **BSC** | Base Station Controller |
| **BTS** | Base Transceiver Station |
| **Capex** | Capital Expenditure |
| **CDMA** | Code Division Multiple Access |
| **Cell C** | Cell C (Proprietary) Limited |
| **Celtel** | The brand used by MSI Cellular Investments Holdings B.V. in Africa |
| **CEO** | Chief Executive Officer |
| **CRM** | Customer Relationship Management |
| **DRC** | Democratic Republic of the Congo |
| **EBIT** | Earnings before Interest and Tax |
| **EBITDA** | Earnings before Interest, Tax, Depreciation and Amortisation |
| **EE** | Employment Equity |
| **EMS** | Environmental Management System |
| **Euribor** | Euro Interbank Offered Rate |
| **FEC** | Forward Exchange Contract |
| **GAAP** | Generally Accepted Accounting Practise |
| **GPRS** | General Packet Radio Service |
| **GSM** | Global System for Mobile Communications |
| **HDI** | Historically Disadvantaged Individual or Company |
| **HIV** | Human Immunodeficiency Virus |
| **HR** | Human Resources |
| **IAS** | International Accounting Standards |
| **ICASA** | Independent Communications Authority of South Africa |
| **iDEN** | Integrated Dispatch Enhanced Network |
| **IFRS** | International Financial Reporting Standards |
| **2G** | Second Generations |
| **2.5G** | Second Generation with feature enhancements |
| **IPO** | Initial Public Offering |
| **IT** | Information Technology |
| **IVR** | Interactive Voice Response |
| **King II** | King Committee Report on Corporate Governance 2002 |
| **LRIC** | Long Run Incremental Cost |
| **MMS** | Multimedia Messaging Service |
| **MOU** | Minutes of Use |
| **MSC** | Mobile services Switching Centre |
| **MTN** | MTN Group Limited |
| **Naca** | Nominal annual compounded annually |
| **Nacm** | Nominal annual compounded monthly |
| **Nacq** | Nominal annual compounded quarterly |
| **NEMEA** | Northern Europe Middle East and Africa |
| **NGO** | Non-Governmental Organisation |
| **NPA** | National Prosecutions Authority |
| **OHSAS** | Occupational Health and Safety Assessment Series |
| **PABX** | Private Automatic Branch Exchange |
| **PDA** | Personal Digital Assistant |
| **SMS** | Short Message Service |
| **SNO** | Second National public switched telecommunication service Operator |
| **Tanzanian Telecommunications Company** | Tanzanian Telecommunications Company Limited, a company incorporated in the United Republic of Tanzania |
| **Telkom** | Telkom SA Limited, a public company incorporated in the Republic of South Africa |
| **The Board** | The Vodacom Group Board of Directors |
| **The Group** | Vodacom Group (Proprietary) Limited and all its subsidiaries and joint ventures |
| **UMTS** | Universal Mobile Telecommunications System |
| **USSD** | Unstructured Supplementary Service Data |
| **VAS** | Value Added Services |
| **VenFin** | Venfin Limited, a public company incorporated in the Republic of South Africa |
| **Vodacom Congo** | Vodacom Congo (RDC) s.p.r.l., a company incorporated in the Democratic Republic of Congo |
| **Vodacom International Mauritius** | Vodacom International Limited, a company incorporated in the Republic of Mauritius |
| **Vodacom Lesotho** | Vodacom Lesotho (Proprietary) Limited, a company incorporated in the Kingdom of Lesotho |
| **Vodacom Tanzania** | Vodacom Tanzania Limited, a company incorporated in the United Republic of Tanzania |
| **Vodafone** | Vodafone Group Plc, a public company incorporated in the United Kingdom |
| **VSAT** | Very Small Aperture Terminal |
| **VSP** | Vodacom Service Provider Company (Proprietary) Limited |
| **VSPC** | Vodacom Service Provider Company (Proprietary) Limited |
| **WAP** | Wireless Application Protocol |
| **WASP** | Wireless Application Service Provider |
| **Zantel** | Zanzibar Telecom |

Vodacom Group (Proprietary) Limited
Registration no. 1993/005461/07

# 16. Annual financial statements

for the three years ended March 31, 2003

## Contents

Vodacom Group (Proprietary) Limited

# 16.1 Statement of responsibility by the Board of Directors

March 31, 2003

The directors are responsible for the preparation, integrity and fair presentation of the consolidated annual financial statements of Vodacom Group (Proprietary) Limited.

The consolidated annual financial statements have been audited by the independent accounting firms, PricewaterhouseCoopers Inc. and Deloitte & Touche, which were given unrestricted access to all financial records and related data, including minutes of meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. The report of the joint auditors is presented on the next page.

The consolidated annual financial statements for the three years ended March 31, 2003 presented on pages 58 to 129 have been prepared in accordance with International Financial Reporting Standards and South African Statements of Generally Accepted Accounting Practice. They are based on appropriate accounting policies which have been consistently applied, and which are supported by reasonable and prudent judgements and estimates. The going concern basis has been adopted in preparing the consolidated annual financial statements. The directors have no reason to believe that the Group will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The directors are also responsible for the Group's system of internal controls. These are designed to provide reasonable but not absolute assurance as to the reliability of the consolidated annual financial statements and to adequately safeguard, verify and maintain accountability of assets. These controls are monitored throughout the Group by management and employees with the necessary segregation of authority and duties. Processes are in place to monitor internal controls, to identify material breakdowns and implement timely corrective action.

The consolidated annual financial statements were approved by the board of directors on June 11, 2003 and are signed on its behalf:

WYN LUHABE
(Chairman)

ADC KNOTT-CRAIG
(Chief Executive Officer)

## Certificate by the company secretary

In my capacity as Company Secretary, I hereby confirm that for the year ended March 31, 2003, the Group has lodged with the Registrar of Companies all such returns required in terms of relevant company legislation and that all such returns are true, correct and up to date.

L CROUSE
(company secretary)

Vodacom Group (Proprietary) Limited

# 16.2 Report of the independent auditors

March 31, 2003

## To the members of Vodacom Group (Proprietary) Limited

We have audited the Group annual financial statements for each of the three years in the period ended March 31, 2003 set out on pages 58 to 129. These financial statements are the responsibility of the Group's directors. Our responsibility is to express an opinion on these financial statements based on our audits.

## Scope

We conducted our audit in accordance with statements of South African Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

## Audit opinion

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of the Group as at March 31, 2003, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with International Financial Reporting Standards, South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa, 1973.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net profit for each of the three years in the period ended March 31, 2003, 2002 and 2001 and the determination of shareholders' equity at March 31, 2003, March 31, 2002 and March 31, 2001, to the extent summarised in Note 43 to the consolidated financial statements.

Deloitte & Touche

Registered Accountants and Auditors
Chartered Accountants (SA)
Pretoria
June 11, 2003

PricewaterhouseCoopers Inc

Registered Accountants and Auditors
Chartered Accountants (SA)
Pretoria
June 11, 2003

A complete list of partners is available from any of our offices.

Vodacom Group (Proprietary) Limited

# 16.3 Directors' report

March 31, 2003

The directors have the pleasure of presenting their report, which forms part of the audited consolidated annual financial statements, for the three years ended March 31, 2003.

## 1. Nature of business

The principal nature of the business of Vodacom Group (Proprietary) Limited, a company incorporated in South Africa, is the investment in the telecommunications industry through it's subsidiaries and joint venture. The principal nature of business of the Group as a whole is the provision of voice and data communication services to it's customer base.

## 2. Material changes in the group

The Group's operations outside South Africa were expanded in December 2001 by acquiring a 51% interest in a licence to operate in the Democratic Republic of Congo. Shareholding of the operations in the Democratic Republic of Congo is held via Vodacom International Holdings (Proprietary) Limited and Vodacom International Limited, a company based in Mauritius. Further details of these and other investment activities are highlighted in note 7 below.

During 2002, the Group re-focused it's activities to concentrate on core business operations and as a result the investments in the subsidiaries Vodacom Sport & Entertainment (Proprietary) Limited and Film Fun (Holdings) (Proprietary) Limited trading as Teljoy, and the 40% equity interest in Vodacom World Online (Proprietary) Limited were disposed of. Further details of these disposals are highlighted in note 7 below.

## 3. Review of activities and results

Revenue for the year was R19.8 billion (2002: R16.2 billion; 2001: R13.3 billion), representing a 22.5% (2002: 21.6%; 2001: 38.7%) increase over the year. This is largely attributable to the 26.0% (2002: 31.7%; 2001: 66.4%) increase in the total customer base.

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| **Customer base** | | | |
| Total | 5 212 242 | 6 862 976 | 8 646 877 |
| Contract | 1 062 665 | 1 109 848 | 1 194 526 |
| Pre-paid | 4 124 854 | 5 725 194 | 7 414 331 |
| Community Services | 24 723 | 27 934 | 38 020 |
| **Location of customer base** | | | |
| South Africa | 98.0% | 95.5% | 91.0% |
| International | 2.0% | 4.5% | 9.0% |
| **Total ARPU** | | | |
| South Africa (R) | 208 | 182 | 183 |
| Tanzania (US$) | n/a | 27 | 22 |
| Lesotho (R) | n/a | 144 | 104 |
| Congo (US$) | n/a | n/a | 20 |

Profit from operations for the year was R4.3 billion (2002: R3.6 billion; 2001: R2.6 billion), representing a 19.6% (2002: 41.8%; 2001: 8.0%) increase over the prior year. The net profit for the year under review is R2.2 billion (2002: R2.4 billion; 2001: R1.3 billion). The 6.7% decrease (2002: 80.1% increase; 2001: 0.2% increase) in net profit was mainly due to a net finance cost expenditure of R803.9 million in 2003, compared to a R27.8 million net finance cost expenditure in 2002. The increase in net finance cost is mainly attributable to the significant appreciation of the South African Rand against all major currencies compared to its significant depreciation in 2002. The appreciation of the Rand resulted in significant losses in 2003 on the revaluation of foreign exchange contracts that are purchased on all foreign currency exposures of the South African operations. Although foreign exchange contracts are purchased only on committed foreign currency exposures, the Group does not qualify for hedge accounting, under IAS 39: Financial Instruments: Recognition and Measurement (Revised 2000).

The Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) for the year, was R6.7 billion (2002: R5.7 billion; 2001: R4.2 billion), representing a 17.8% (2002: 35.9%; 2001: 21.0%) increase over the

## 3. Review of activities and results *(continued)*

year. EBITDA as a percentage of revenue is currently 33.9% (2002: 35.2%; 2001: 31.6%). EBITDA as a percentage of turnover is 37.8% (2002: 39.2%; 2001: 37.5%) when mobile phone and accessory sales and profit thereon are excluded from the Group's results.

Further information on the activities, performance and financial position of the Group is presented in the consolidated income statement and notes thereto.

## 4. Dividends distribution

An ordinary dividend of R600.0 million (2002: R600.0 million, 2001: R480.0 million) was declared for the year:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Declared March 20, 2003 and payable June 30, 2003 | – | – | 600.0 |
| Declared March 21, 2002 and payable June 28, 2002 | – | 600.0 | – |
| Declared March 15, 2001 and payable June 29, 2001 | 480.0 | – | – |

The payment of the current ordinary dividend will be made on June 30, 2003 to all shareholders registered on June 28, 2003. The payment of the prior year ordinary dividend was made on June 28, 2002 to all shareholders registered on that date.

## 5. Change in accounting policy

During the 2002 financial year, the Group changed its accounting policy for the recognition and measurement of financial instruments by adopting IAS 39 Financial Instruments: Recognition and Measurement. Under the new policy, the Group does not qualify for hedge accounting to foreign exchange contracts entered into for foreign currency commitments and therefore all fair value adjustments are recognised in the consolidated income statement in the period in which they occur. Interest rate swaps are also recorded and measured at fair value. All changes in fair value are recognised in the consolidated income statement in the period in which they occur. The application of IAS 39 has had a material impact on net profit growth for the 2002 and 2003 year as discussed in note 3 above.

Details of the effect of this change in 2002 are disclosed in Note 23 to the consolidated annual financial statements.

## 6. Property, plant and equipment

During the year, the Group invested R3.4 billion (2002: R4.1 billion; 2001: R3.2 billion) in property, plant and equipment. Of this capital expenditure R2.8 billion (2002: R3.1 billion; 2001: R2.6 billion) was for cellular network infrastructure. Capital expenditure in South Africa comprised R2.5 billion (2002: R3.3 billion; 2001: R2.9 billion) of the total amount invested. The capital expenditure was funded by internal cash generation, extended supplier credits and bank credit.

Commitments at March 31, 2003 in respect of contracts for orders placed for the new financial year amount to R0.7 billion (2002: R1.5 billion; 2001: R1.6 billion). Commitments at March 31, 2003 not yet contracted for amount to R1.2 billion (2002: R0.9 billion; 2001: R3.7 billion).

Further information on the investment in property, plant and equipment of the Group is presented in Note 9 to the consolidated annual financial statements.

## 7. Investment activities

### 7.1 Vodacom International Holdings (Proprietary) Limited

Vodacom International Holdings (Proprietary) Limited was established as the holding company for the group of companies operating beyond South Africa's borders. As a result the Vodacom Group (Proprietary) Limited's investments in Vodacom International Limited, Vodacom Lesotho (Proprietary) Limited and Vodacom Congo (RDC) s.p.r.l. are held through Vodacom International Holdings (Proprietary) Limited. It is envisaged that Vodacom International Limited will hold all new investments in companies outside South African borders.

- **Vodacom Congo (RDC) s.p.r.l**

The company was incorporated on November 28, 2001 and the licence and infrastructure of an incumbent network was acquired in December 2001. The new infrastructure and newly branded Vodacom services were launched during May 2002. Vodacom International Holdings (Proprietary) Limited, via Vodacom International Limited, holds 51% of the ordinary share capital of the company. Vodacom International Limited issued redeemable preference shares totalling R383.1 million (US$39.0 million) to Vodacom Group (Proprietary) Limited during December 2001 to generate funding for those operations. In its first year of operations, Vodacom Congo (RDC) s.p.r.l. experienced substantial competition for market share. This necessitated lowering tariffs in order to achieve market share. Excellent customer growth was achieved, but the effect of the lower tariffs, is seen in the net loss attributable to the Group of R193.3 million for the year. The Group's 51% share of the company's financial results is proportionally consolidated.

## 7. Investment activities *(continued)*

### 7.1 Vodacom International Holdings (Proprietary) Limited *(continued)*

- **Vodacom Tanzania Limited**

  The Tanzanian operations continued to grow showing a steady increase in profitability and customers. No additional shareholder's loans (2002: $27.6 million; 2001: $3.9 million) were advanced by Vodacom Group (Proprietary) Limited to fund operations during the current year, but additional shareholder's loans of $14.9 million were advanced by the minority shareholders, with the financial assistance of the Group. The company secured project finance to the value of $65.0 million in 2003 via the international market to fund its operations. The draw down on the project finance is collateralised by a charge over 51% of the shares, the Tanzanian cellular license and the company's other tangible and intangible assets. Vodacom Group (Proprietary) Limited and the minority shareholders have subordinated their loans to the company in favour of the project financiers. Due to the project finance covenants all payment of dividends and interest to shareholders have been suspended until 2009.

### 7.2 Disposal of Non Core Operations

- **Vodacom Sport & Entertainment (Proprietary) Limited**

  The Group's 51% shareholding in the company was disposed of on February 27, 2002 for R45.0 million, resulting in a profit on the sale of R40.0 million. Refer to note 5.2 in the annual financial statements for additional information.

- **Vodacom World Online (Proprietary) Limited**

  The Group's 40% shareholding in the company was disposed of on November 30, 2001 for R31.8 million resulting in a profit on the sale of R30.1 million. Refer to note 5.1 in the annual financial statements for additional information.

- **Film Fun (Holdings) (Proprietary) Limited, and subsidiaries**

  The sale agreements were signed on March 27, 2002 with the effective dates of sale as follows:

  - Africell Cellular Services (Proprietary) Limited
    February 1, 2002
  - Teljoy Botswana (Proprietary) Limited
    March 1, 2002
  - Film Fun (Holdings) (Proprietary) Limited
    March 31, 2002

  The proceeds from the sale was R9.0 million, resulting in a loss on sale of R53.8 million. Refer to note 5.3 in the annual financial statements for additional information.

- **Vodacom Satellite Services (Proprietary) Limited, Previously Trading As Globalstar Southern Africa (Proprietary) Limited**

  During the 2001 financial year a decision was taken to cease the operations of Vodacom Satellite Services (Proprietary) Limited as no satellite license was issued by The Independent Communications Authority of South Africa. Globalstar L.P. filed for Chapter 11 bankruptcy and expects to finalise this process during the year. The assets of Vodacom Satellite Services (Proprietary) Limited have been taken over by Telkom SA Limited for no consideration. The total net asset value of the company was impaired by R102.5 million during 2001.

  The company changed its name during August 2002 to Vodacom Satellite Services (Proprietary) Limited.

  Refer to note 3.1 in the annual financial statements for additional information.

### 7.3 Other investment activities

Vodacom Group (Proprietary) Limited acquired an investment in Nova Risk Partners Limited for an insurance Cell Captive in the 2001 financial year. The Vodacom Cell Captive acts as insurer for the Vodacom Group of companies. The results of the Vodacom Cell Captive special purpose entity were consolidated for the first time during 2002. During the 2003 financial year, the results of Cell Captive were consolidated for 9 months to ensure a co-terminous financial year with Nova Risk Partners Limited whose financial year ends on December 31. The subsequent period was assessed for material transactions.

Further financial information in respect of interests in subsidiaries and joint ventures of the company are disclosed in Notes 41 and 42 to the consolidated annual financial statements, respectively.

## 8. Short-term portion of long-term funding

On March 17, 2003, Vodacom Group repaid the R400.0 million owing to Commerzbank AG and Credit Agricole Indosuez reducing the short-term portion of long-term funding. These loans were replaced with short-term funding.

## 9. Share capital and shareholder loans

| | Shareholding 2001 % | Shareholder loan balance 2001 Rm | Shareholding 2002 % | Shareholder loan balance 2002 Rm | Shareholding 2003 % | Shareholder loan balance 2003 Rm |
|---|---|---|---|---|---|---|
| Telkom SA Limited | 50.0% | 460.0 | 50.0% | 460.0 | 50.0% | 460.0 |
| Vodafone Group Plc | – | 124.3 | – | 124.3 | – | 124.3 |
| Vodafone Holdings (SA) (Proprietary) Limited | 31.5% | 165.5 | 31.5% | 165.5 | 35.0% | 197.7 |
| Van Rijn Beleggingskorporasie Limited | 13.5% | – | 13.5% | – | 15.0% | – |
| VenFin Finansieringskorporasie (Proprietary) Limited | – | 124.2 | – | 124.2 | – | 138.0 |
| Descarte Investments No.8 (Proprietary) Limited | 5.0% | 46.0 | 5.0% | 46.0 | – | – |
| | 100.0% | 920.0 | 100.0% | 920.0 | 100.0% | 920.0 |

The authorised and issued share capital remained unchanged during the year under review.

The issued share capital of R100 (2002: R100, 2001:R100) and shareholder loans of R920.0 million (2002: R920.0 million; 2001: R920 million) are ultimately held in the percentages as outlined above. During December 2002, Descarte Investments No. 8 (Proprietary) Limited sold its 5% shareholding in four tranches to Vodafone Holdings SA (Proprietary) Limited and Van Rijn Beleggingskorporasie Limited.

The Group has elected to repay the shareholder loans on June 30, 2003.

In terms of section 221 of the Companies Act, the directors do not have power to allot or issue shares of Vodacom Group (Proprietary) Limited without the prior approval of the Vodacom Group (Proprietary) Limited shareholders in a general meeting.

Refer to Note 20 to the consolidated annual financial statements for further details on the shareholder loans.

## 10. Events subsequent to the year end

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the consolidated annual financial statements, which significantly affected the financial position of the Group and the results of it's operations.

## 11. Registered office and postal addresses

**Registered office:**
Vodacom Corporate Park
082 Vodacom Boulevard
Vodavalley
MIDRAND

**Postal address:**
Private Bag X9904
SANDTON
2146

## 12. Country of incorporation

Vodacom Group (Proprietary) Limited is incorporated in South Africa.

## 13. Directors and secretary

The following movements in the directorate and company secretary took place during the year under review:

| | In office 31/03/2002 | Resignations | Appointments | In office 31/03/2003 |
|---|---|---|---|---|
| **Directors** | WYN Luhabe | AN Halford * | E Langston * | WYN Luhabe |
| | (Chairman) | (01/04/2002) | (01/04/2002) | (Chairman) |
| | ADC Knott-Craig | TM Barry # | SM McKenzie # | ADC Knott-Craig |
| | (Chief Executive Officer) | (30/08/2002) | (30/08/2002) | (Chief Executive Officer) |
| | AFB Mthembu | MD Kerckhoff # | CK Tan ^ | AFB Mthembu |
| | (Deputy Chief Executive Officer) | (30/08/2002) | (30/08/2002) | (Deputy Chief Executive Officer) |
| | MS Aziz-Joosub | | | MS Aziz-Joosub |
| | TM Barry # | | | L Crouse |
| | L Crouse | | | HA Kuropatwa * |
| | AN Halford * | | | E Langston * |
| | MD Kerckhoff # | | | J Malherbe |
| | HA Kuropatwa * | | | SM McKenzie # |
| | J Malherbe | | | SE Nxasana |
| | SE Nxasana | | | CK Tan ^ |
| | PR Williams * | | | PR Williams * |
| **Secretary** | L Crouse | | | L Crouse |
| **Alternate Directors** | PR Bamford* | PR Bamford*+ | PR Bamford*+ | CWJ Volschenk+ |
| | JM Horn-Smith | (01/04/2002) | (01/04/2002) | NT Moholi |
| | MJ Pitt | CWJ Volschenk + | NT Moholi | PR Bamford*+ |
| | JJ Durand | (30/08/2002) | (30/08/2002) | MJ Pitt * |
| | CWJ Volschenk | | CWJ Volschenk+ | JM Horn-Smith |
| | | | (30/08/2002) | JJ Durand |

# USA
^ Malaysia
* UK
+ PR Bamford and CWJ Volschenk resigned and were re-appointed as alternate directors for different directors.

## 14. Auditors

PricewaterhouseCoopers Inc. and Deloitte & Touche will continue in office in accordance with Section 270(2) of the Companies Act, 1973.

Vodacom Group (Proprietary) Limited

# 16.4 Consolidated income statements for the three years ended March 31, 2003

| | Notes | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|---|
| **Revenue** | 1 | 13,276.4 | 16,150.7 | 19,778.7 |
| Other operating income | | 48.5 | 29.2 | 68.0 |
| Direct network operating cost | | (6,916.4) | (8,369.8) | (10,860.4) |
| Depreciation | 4 | (1,364.1) | (1,857.3) | (2,163.0) |
| Staff expenses | | (950.6) | (1,135.2) | (1,018.6) |
| Marketing and advertising expenses | | (514.6) | (542.0) | (652.5) |
| General administration expenses | | (541.1) | (498.2) | (611.6) |
| Amortisation of intangible assets | 2 | (271.5) | (212.7) | (210.7) |
| Integration costs, disposal of operations and impairments | 3 | (213.2) | 56.4 | – |
| Profit from operations | 4 | 2,553.4 | 3,621.1 | 4,329.9 |
| Interest, dividends and other financial income received | 6 | 27.7 | 840.4 | 742.4 |
| Finance costs | 7 | (506.8) | (868.2) | (1,546.3) |
| **Profit before taxation** | | 2,074.3 | 3,593.3 | 3,526.0 |
| Taxation | 8 | (765.7) | (1,190.7) | (1,198.9) |
| **Profit after taxation** | | 1,308.6 | 2,402.6 | 2,327.1 |
| Minority interest | 17 | 9.2 | (29.6) | (112.5) |
| **Net profit** | | 1,317.8 | 2,373.0 | 2,214.6 |

| | | 2001 R | 2002 R | 2003 R |
|---|---|---|---|---|
| **Basic and diluted earnings per share** | 32 | 131,780 | 237,300 | 221,460 |
| **Dividend per share** | 32 | 48,000 | 60,000 | 60,000 |

Vodacom Group (Proprietary) Limited

# 16.5 Consolidated balance sheets as at March 31, 2003

| | Notes | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|---|
| **ASSETS** | | | | |
| NON-CURRENT ASSETS | | 8,871.6 | 11,213.3 | 12,125.9 |
| Property, plant and equipment | 9 | 7,696.2 | 9,896.6 | 10,675.0 |
| Intangible assets | 10 | 822.9 | 796.3 | 551.1 |
| Investments | 11 | 13.4 | 22.7 | 195.1 |
| Deferred taxation | 12 | 339.1 | 497.7 | 704.7 |
| CURRENT ASSETS | | 3,470.2 | 4,145.3 | 4,689.7 |
| Inventory | 13 | 398.4 | 306.0 | 238.8 |
| Accounts receivable | 14 | 2,273.4 | 2,845.9 | 3,158.9 |
| Short-term investments | 11 | – | 58.6 | 50.9 |
| Foreign currency derivatives | 38 | 0.8 | 215.6 | 34.6 |
| Bank and cash balances | 31 | 797.6 | 719.2 | 1,206.5 |
| TOTAL ASSETS | | 12,341.8 | 15,358.6 | 16,815.6 |
| **EQUITY AND LIABILITIES** | | | | |
| CAPITAL AND RESERVES | | 3,506.0 | 5,463.8 | 6,837.4 |
| Ordinary share capital | 15 | – | – | – |
| Non-distributable reserves | 16 | (2.3) | 106.1 | (132.3) |
| Retained earnings | | 3,508.3 | 5,357.7 | 6,969.7 |
| MINORITY INTEREST | 17 | (11.4) | 10.6 | 88.0 |
| NON-CURRENT LIABILITIES | | 1,580.2 | 1,894.4 | 2,881.6 |
| Interest bearing debt | 18 | 896.1 | 780.2 | 1,732.2 |
| Deferred taxation | 12 | 607.5 | 926.2 | 993.1 |
| Provisions | 22 | 76.6 | 188.0 | 156.3 |
| CURRENT LIABILITIES | | 7,267.0 | 7,989.8 | 7,008.6 |
| Accounts payable | 19 | 3,152.8 | 3,223.6 | 3,799.0 |
| Taxation payable | | 810.0 | 351.6 | 315.2 |
| Shareholder loans | 20 | 920.0 | 920.0 | 920.0 |
| Non-interest bearing debt | 21 | 32.4 | 4.3 | 4.3 |
| Short-term interest bearing debt | 18 | 0.5 | 1,015.9 | 286.1 |
| Provisions | 22 | 273.8 | 297.6 | 324.4 |
| Dividends payable | | 483.8 | 600.0 | 600.0 |
| Foreign currency derivatives | 38 | – | – | 200.6 |
| Bank overdraft | 31 | 1,593.7 | 1,576.8 | 559.0 |
| TOTAL EQUITY AND LIABILITIES | | 12,341.8 | 15,358.6 | 16,815.6 |
| COMMITMENTS AND CONTINGENT LIABILITIES | 33-35 | | | |

Vodacom Group (Proprietary) Limited

# 16.6 Consolidated statements of changes in equity for the three years ended March 31, 2003

| | Notes | Share capital and premium Rm | Retained earnings Rm | Non-distributable reserves Rm | Total Rm |
|---|---|---|---|---|---|
| BALANCE AT APRIL 1, 2000 | | – | 2,670.5 | 0.6 | 2,671.1 |
| Net profit for the year | | – | 1,317.8 | – | 1,317.8 |
| Dividends declared | | – | (480.0) | – | (480.0) |
| Net gains and losses not recognised in the income statement | 16 | | | | |
| Foreign currency translation reserve | | – | – | (2.9) | (2.9) |
| BALANCE AT MARCH 31, 2001 | | – | 3,508.3 | (2.3) | 3,506.0 |
| Change in accounting policy | 23 | – | 84.9 | – | 84.9 |
| BALANCE AT MARCH 31, 2001 – RESTATED | | – | 3,593.2 | (2.3) | 3,590.9 |
| Net profit for the year | | – | 2,373.0 | – | 2,373.0 |
| Dividends declared | | – | (600.0) | – | (600.0) |
| Contingency reserve | | – | (8.5) | 8.5 | – |
| Net gains and losses not recognised in the income statement | 16 | | | | |
| Foreign currency translation reserve | | – | – | 119.8 | 119.8 |
| Foreign currency translation reserve – deferred taxation | | – | – | (19.9) | (19.9) |
| BALANCE AT MARCH 31, 2002 | | – | 5,357.7 | 106.1 | 5,463.8 |
| Net profit for the year | | – | 2,214.6 | – | 2,214.6 |
| Dividends declared | | – | (600.0) | – | (600.0) |
| Contingency reserve | | – | (2.6) | 2.6 | – |
| Net gains and losses not recognised in the income statement | 16 | | | | |
| Foreign currency translation reserve | | – | – | (262.0) | (262.0) |
| Foreign currency translation reserve – deferred taxation | | – | – | 21.0 | 21.0 |
| BALANCE AT MARCH 31, 2003 | | – | 6,969.7 | (132.3) | 6,837.4 |

Vodacom Group (Proprietary) Limited

# 16.7 Consolidated cash flow statements for the three years ended March 31, 2003

| | Notes | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Cash receipts from customers | | 12,664.8 | 15,583.1 | 19,349.0 |
| Cash paid to suppliers and employees | | (8,001.2) | (9,395.0) | (12,627.9) |
| CASH GENERATED FROM OPERATIONS | 24 | 4,663.6 | 6,188.1 | 6,721.1 |
| Finance costs paid | 25 | (500.2) | (889.2) | (721.7) |
| Interest, dividends and other financial income received | 26 | 27.7 | 541.6 | 280.0 |
| Taxation paid | 27 | (567.6) | (1,539.1) | (1,337.4) |
| Integration costs | | (13.7) | – | – |
| Dividends paid – shareholders | | – | (480.0) | (600.0) |
| Dividends paid – minority shareholders in subsidiaries | | – | (6.3) | – |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 3,609.8 | 3,815.1 | 4,342.0 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment | 28 | (2,834.9) | (4,409.1) | (3,066.5) |
| Proceeds on disposal of property, plant and equipment | | 83.0 | 92.4 | 7.7 |
| Acquisition of intangible assets | 10 | – | (193.7) | – |
| Disposal of subsidiaries | 29 | – | 1.7 | 31.5 |
| Acquisition of subsidiaries | 29 | (113.8) | (0.1) | – |
| Disposal of joint ventures | 30 | – | 23.3 | – |
| Acquisition of joint ventures | 30 | – | – | – |
| Advance to minority shareholders | | – | – | (157.9) |
| Disposal of other investments | | 18.0 | – | 9.0 |
| Other investing activities | | (4.9) | (57.8) | (67.0) |
| NET CASH FLOWS UTILISED IN INVESTING ACTIVITIES | | (2,852.6) | (4,543.3) | (3,243.2) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Shareholder loans repaid | | (150.0) | – | – |
| Interest bearing debt raised | | – | 570.6 | 774.1 |
| Interest bearing debt repaid | | (847.4) | – | (426.1) |
| Non-interest bearing debt repaid | | (16.9) | – | – |
| Finance lease capital repaid | | (23.9) | – | (1.6) |
| Finance lease capital raised | | – | – | 13.2 |
| Funding received from minority shareholders | | – | – | 157.9 |
| NET CASH FLOWS FROM / (UTILISED) IN FINANCING ACTIVITIES | | (1,038.2) | 570.6 | 517.5 |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | (281.0) | (157.6) | 1,616.3 |
| Cash and cash equivalents at the beginning of the year | | (515.0) | (796.1) | (857.6) |
| Effect of foreign exchange rate changes | | (0.1) | 96.1 | (111.2) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 31 | (796.1) | (857.6) | 647.5 |

# 16.8 Accounting policies March 31, 2003

## Basis of preparation

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards and South African Statements of General Accepted Accounting Practice and have been prepared on the historical cost basis, unless otherwise indicated. The consolidated annual financial statements have been presented in South African Rands, as this is the currency in which the majority of the Group's transactions are denominated.

The principal accounting policies are consistent in all material respects with those applied in the previous period, except where disclosed elsewhere.

The following are the principal accounting policies adopted by the Group in the preparation of these consolidated annual financial statements:

## Accounting policies

## A. Consolidation

### A.1 Basis of consolidation

The consolidated annual financial statements include the consolidated financial position, results of operations and cash flows of Vodacom Group (Proprietary) Limited and its subsidiaries, both foreign and domestic, up to March 31, 2003.

Joint ventures are included using the proportionate consolidation method, whereby the Group's share of the assets, liabilities, income, expenses and cash flows of joint ventures are combined on a line-by-line basis with similar items in the consolidated annual financial statements.

Subsidiaries and joint ventures where control is intended to be temporary, as they are acquired and held exclusively with a view to their subsequent disposal in the near future or the subsidiary or joint venture is operating under severe long-term restrictions, which significantly impairs its ability to transfer funds, are not consolidated, or proportionately consolidated. Such subsidiaries and joint ventures are accounted for as investments available for sale in terms of the accounting policy for Financial Instruments.

Minority interests in the consolidated balance sheet and income statement are separately presented.

Goodwill, on the acquisition of subsidiaries and joint ventures is accounted for in accordance with the Group's accounting policy for Intangible Assets set out below.

### A.2 Business combinations

- Acquisitions of a business

Business combination acquisitions are accounted for using the purchase method of accounting, whereby the acquisition is accounted for at its cost plus any costs directly attributable to the acquisition. Cost represents the cash or cash equivalents paid or the fair value or other consideration given, at the date of the acquisition, of the purchase consideration. Business combinations include the acquisition of subsidiaries and joint ventures.

On acquisition, the identifiable assets and liabilities of the relevant subsidiaries or joint ventures are measured based upon the Group's interest in their fair value at the date of acquisition.

- Disposals

On subsequent disposal, the profit or loss on disposal is the difference between the selling price and the fair value of net assets and liabilities disposed of, adjusted for any related goodwill to the extent that it has not been amortised in the consolidated income statement in accordance with the Group's accounting policies.

### A.3 Subsidiaries

Subsidiaries are those entities controlled by the Group. Control is presumed to exist where the Group has an interest of more than one half of the voting rights and the power to control the financial and operating activities of the entities so as to obtain benefits from its activities. All subsidiaries are consolidated.

## A. Consolidation *(continued)*

### A.3 Subsidiaries *(continued)*

Inter-company balances and transactions, and resulting unrealised profits between Group companies, are eliminated in full on consolidation.

Where necessary, accounting policies of subsidiaries are adjusted to ensure that the consolidated annual financial statements are prepared using uniform accounting policies.

Investments in subsidiaries are consolidated from the date on which the Group has power to exercise control, up to the date on which power to exercise control ceases.

### A.4 Joint ventures

Joint ventures, for the purpose of these consolidated annual financial statements, are those entities in which the Group has joint control through a contractual arrangement with one or more other venturers.

Investments in joint ventures are proportionately consolidated from the date on which the Group has power to exercise joint control, up to the date on which power to exercise joint control ceases.

The Group's proportionate share of inter-company balances and transactions, and resulting unrealised profit or losses, between Group companies and jointly controlled entities are eliminated on consolidation.

## B. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, if any. Land is not depreciated and is recorded at cost less impairment losses, if any.

Cost of property, plant and equipment includes all directly attributable expenditure incurred in the acquisition, establishment and installation of such assets so as to bring them to a working condition for their intended use. Interest costs are not capitalised.

Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight-line basis, over their estimated useful lives to its estimated residual value. Depreciation commences when the asset is ready for its intended use (in the case of infrastructure assets this is deemed to be the date of acceptance). The estimated useful lives of depreciable property, plant and equipment are as follows:

| | |
|---|---|
| General-purpose buildings | 50 years |
| Special purpose buildings | 15 years |
| Infrastructure | |
| – GSM | 8 years |
| – Value added services equipment | 8 years |
| – Value added services software | 3 years |
| Community services | |
| – Containers | 5 years |
| – Cellular equipment | 2 years |
| Information services | |
| – Equipment | 4 years |
| – Software | 3 years |
| SIM centre | 4 years |
| Office automation | 2 – 3 years |
| Other assets | |
| – Motor vehicles | 4 years |
| – Furniture and fittings | 5 years |
| – Office equipment | 4 years |

General purpose buildings are classified as owner-occupied. They are therefore held at cost and depreciated as property, plant and equipment, and not regarded as investment properties.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Maintenance and repairs, which neither materially add to the value of the assets nor appreciably prolong their useful lives, are recognised as an expense in the period incurred. Minor plant and equipment items are also recognised as an expense in the period incurred.

Profits or losses on the retirement or disposal of property, plant and equipment, determined as the difference between the actual proceeds and the carrying amount of the assets, are recognised in the consolidated income statement in the period in which they occur.

## C. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The residual value of intangible assets is assumed to be zero. Intangible assets are amortised to the consolidated income statement on a straight-line basis over their estimated useful lives, which are reviewed on an annual basis. Amortisation

## C. Intangible assets *(continued)*

commences when the intangible asset is available for use. The estimated useful lives of intangible assets are currently as follows:

| | |
|---|---|
| Licenses | |
| – Mobile | 5 – 20 years |
| Other intangible assets | |
| – Contract mobile customers | 5 years |
| – Internet customer related | 3 years |
| – Trademarks | 5 – 10 years |
| – Goodwill | (Note C.4) |

The following are the main categories of intangible assets:

### C.1 Licenses

Licenses, which are acquired to yield an enduring benefit, are capitalised at cost and amortised from the date of commencement of usage rights over the shorter of the economic life or the duration of the license agreement.

### C.2 Customer bases

Cost of contract customer bases represents the purchase price on the acquisition of mobile or internet customer bases. Customer bases are amortised on a straight-line basis over their estimated useful lives.

### C.3 Trademarks and brands

Purchased trademarks and brands are capitalised at cost and amortised over their estimated useful lives. Expenditure incurred to develop, maintain and renew trademarks and brands internally is recognised as an expense in the period incurred.

### C.4 Goodwill

Goodwill represents the excess of the cost of the acquisition of a subsidiary or joint venture, over the Group's interest in the fair value of identifiable assets and liabilities at the date of acquisition, and is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Goodwill is amortised on a straight-line basis over its estimated useful life, not exceeding 20 years.

## D. Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing it to its present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and the estimated costs necessary to make the sale.

The amount of any write-down of inventory to net realisable value and all losses of inventory is recognised as an expense in the period the write-down or loss occurs.

## E. Foreign currencies

### E.1 Transactions and Balances

Foreign currency transactions are translated, on initial recognition, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at settlement date or balance sheet date whichever occurs first. Exchange differences on the settlement or translation of monetary assets or liabilities are included in finance costs in the period in which they arise.

### E.2 Foreign entities

The annual financial statements of foreign entities are translated into South African Rands for incorporation into the consolidated annual financial statements. Assets and liabilities are translated at the foreign exchange rates ruling at balance sheet date. Income, expenditure and cash flow items are translated at the actual foreign exchange rate or average foreign exchange rates for the period.

Gains and losses on the translation of equity loans to foreign entities that are intended to be permanent are recognised in equity.

All resulting unrealised exchange differences are classified as equity. On disposal, the cumulative amounts of unrealised exchange differences that have been deferred are recognised in the consolidated income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Group and translated at the foreign exchange rates ruling at transaction date.

### E.3 Foreign currency hedges

Foreign currency hedges are dealt with in the Financial Instruments accounting policy.

## F. Taxation

### F.1 Current taxation

The charge for current taxation is based on the results for the period and is adjusted for items that are non-assessable or disallowed. Current taxation is measured at the amount expected to be paid, using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date.

### F.2 Deferred taxation

Deferred taxation is provided using the balance sheet liability method for all temporary differences arising between the carrying amounts of assets and liabilities, on the consolidated balance sheet, and their

## F. Taxation *(continued)*

### F.2 Deferred taxation *(continued)*

respective taxation bases. Deferred taxation is not provided on differences relating to goodwill for which amortisation is not deductible for taxation purposes nor on the initial recognition of assets or liabilities, which is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and joint ventures, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the associated unused taxation losses or credits and deductible temporary differences can be utilised.

Provision for taxation, which could arise if undistributed retained profit of certain subsidiaries is remitted, is only made where a decision has been taken to remit such retained profits.

### F.3 Secondary taxation on companies

Secondary Taxation on Companies (STC) is provided for at a rate of 12.5% on the amount of the net dividend declared by Vodacom Group (Proprietary) Limited. It is recorded as a tax expense when dividends are declared.

## G. Employee benefits

### G.1 Post-employment benefits

The Group provides defined contribution funds for the benefit of employees, the assets of which are held in separate funds. The funds are funded by payments from employees and the Group. Contributions to the fund are recognised as an expense in the period in which the employee renders the related service.

The Group has no liability for contributions to the medical aid of retired employees.

### G.2 Short-term and long-term benefits

The cost of all short-term employee benefits, such as salaries, employee entitlements to leave pay, bonuses, medical aid and other contributions, are recognised during the period in which the employee renders the related service. The Group recognises the expected cost of bonuses only when the Group has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

### G.3 Accumulative termination benefits

Accumulative termination benefits are payable whenever:

- an employee's employment is terminated before the normal retirement date, or
- an employee accepts voluntary redundancy.

The Group recognises termination benefits when it is constructively obliged to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits fall due more than 12 months after balance sheet date, they are discounted to present value. In the case of an offer to encourage voluntary redundancy and if the amount can be reasonably estimated, the measurement of termination benefits is based on the number of employees expected to accept the offer.

### G.4 Compensation benefits

Employees of the wholly owned subsidiaries, including executive directors, are eligible for compensation benefits in the form of a Deferred Bonus Incentive Scheme. Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. Benefits of eligible employees arising from the entitlements are determined with reference to the present value per entitlement, which is determined annually based on profits as per the audited consolidated annual financial statements of Vodacom Group (Proprietary) Limited.

The fair value of the entitlements is calculated as the difference in the entitlement value at balance sheet date and the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant. Any change in entitlement value is recorded in the income statement based on the present value of the expected future cash out flows and recorded as a liability in the balance sheet. Participating employees are entitled to cash in the entitlements over a six-year period.

## H. Revenue recognition

Revenue, which excludes Value Added Taxation and sales between Group companies, represents the invoiced value of goods and services supplied by the Group. The Group measures revenue at the fair value of the consideration received or receivable. Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue,

## H. Revenue recognition *(continued)*

and associated costs incurred or to be incurred, can be measured reliably. If necessary, revenue is split into separately identifiable components.

The main categories of revenue and basis of recognition for the Group are:

### H.1 Contract products

These contracts may include a subsidised handset, 24-month service, activation, SIM-card and a user manual. Revenue is recognised as follows:

- The loss on the subsidised handset, which includes the costs of the handset, the SIM-card and manual, is recognised upon activation by the customer.
- Activation fee revenue received from the customer is recognised upon activation by the customer.
- Monthly access revenue received from the customer is recognised in the period in which the service is delivered.
- Airtime revenue is recognised on the usage basis. The terms and conditions of the bundled airtime products allow the carry over of unused minutes and the accumulation to a maximum of five times the monthly allocation. The unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in income.
- Any other costs incurred as a result of a new customer, are expensed upon activation as this is treated as a customer acquisition cost.

### H.2 Prepaid products

- Airtime

Upon purchase of an airtime voucher the customer receives the right to make outgoing calls. Revenue is recognised as the customer utilises the voucher.

- Remaining elements of prepaid packages

When a prepaid package is sold, all the costs, which include the costs of the SIM-card and manual, together with the commission, is treated as a customer acquisition cost and the loss is recognised upon activation by the customer. If a handset is bundled with a prepaid package, the cost is also treated as a customer acquisition cost.

The residual revenue related to the remaining elements of the prepaid packages is not separable since no objective evidence of fair value exists. The Group currently recognises this residual amount upon activation.

### H.3 Equipment sales

All equipment sales are recognised only when delivery and acceptance has taken place. Equipment sales to third party service providers are recognised when delivery is accepted. No rights of return exist on sales to third party service providers.

### H.4 Other revenue and income

- Interconnect income

Interconnect income is recognised on the usage basis.

- Dividends

Dividends from investments are recognised when the right to receive payment has been established.

- Interest

Interest is recognised on a time proportion basis with reference to the principal amount receivable and the effective interest rate applicable.

## I. Leases

### I.1 Lease classification

Leases involving property, plant and equipment whereby the lessor provides finance to the lessee with the asset as security, and where the lessee assumes the significant risks and rewards of ownership of those leased assets, are classified as finance leases.

Leases of property, plant and equipment to the lessee, under which the lessor effectively retains the significant risks and rewards of ownership of those leased assets, are classified as operating leases.

### I.2 Group as lessee

- Finance leases

Lessee finance leases are capitalised, as property, plant and equipment, at their cash equivalent cost and a corresponding finance lease liability is raised. The cash equivalent cost is the lower of fair value or the present value of the minimum lease payments, at inception of the lease. Such assets are depreciated in terms of the accounting policy on property, plant and equipment stated above.

Lease payments are allocated between lease finance costs and a capital reduction of the finance lease liability. Lease finance costs are allocated to the consolidated income statement over the term of the lease using the effective interest rate method, so as to produce a constant periodic rate of return on the remaining balance of the liability for each period.

## I. Leases *(continued)*

### I.1 Group lessee *(continued)*

- Operating leases

Lessee operating lease rental payments are expensed in the consolidated income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease term has expired any payment to the lessor that is required, by way of penalty, is recognised as an expense in the period in which termination takes place.

## J. Derivative instruments

Prior to April 1, 2001, the Group entered into foreign exchange forward contracts to hedge the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. Up to March 31, 2001, gains and losses on forward contracts designated as hedges of identifiable foreign currency firm commitments were deferred and included in the measurement of the related foreign currency transactions.

The portion of the premium paid or received relating to the commitment period was included in the measurement of the basis of the related foreign currency transaction when recorded. Any remaining premium was amortised over the remaining life of the forward contract.

Foreign exchange contract costs incurred in covering foreign currency loans are expensed over the period of the contract and are included in finance costs.

Effective April 1, 2001, the Group adopted IAS 39: Financial Instruments: Recognition and Measurement (Revised 2000) ("IAS 39"), which requires that all derivative instruments be recorded on the balance sheet at fair value, including certain derivative instruments embedded in other contracts. Changes in the fair value of forward contracts are recorded each period in current earnings, as the forward contracts do not qualify as hedges under IAS 39. Upon initial application of IAS 39, the Group recorded the fair value of the existing forward contracts on the balance sheet and the corresponding gain was recognised as an adjustment of the opening balance of retained earnings.

Prior to April 1, 2001, the Group entered into interest rate swap agreements in order to manage interest rate exposure. The net interest paid or received on the swaps was recognised as interest expense. Gains resulting from the early termination of interest rate swap agreements were deferred and amortised as adjustments to interest expense over the remaining period originally covered by the terminated swap.

Effective April 1, 2001 interest rate swaps are fair valued and recorded on the balance sheet in accordance with IAS 39.

The Group does not use derivatives for trading or speculative purposes.

## K. Financial instruments – other than derivatives

### K.1 Initial recognition and measurement

All financial instruments, other than derivatives, which are dealt with above, are recognised on the consolidated balance sheet. Financial instruments are initially recognised when the Group becomes party to the contractual terms of the instruments and are measured at cost, which is the fair value of the consideration given (financial asset) or received (financial liability or equity instrument) for it. Financial liabilities and equity instruments issued by the Group are classified at initial recognition as debt or equity or compounded instruments in terms of IAS 32: Financial Instruments: Disclosure and Presentation ("IAS 32") on the basis of their contractual terms. Transaction costs are included in the initial measurement of the financial instrument. Subsequent to initial recognition, these instruments are measured as set out below.

### K.2 Financial assets

The Group's principal financial assets are investments, foreign currency assets, receivables and bank and cash balances:

- Investments

Investments in equity instruments, excluding those in subsidiaries and joint ventures, are classified as available for sale and are stated at fair value. Gains and losses from changes in fair value of available for sale financial assets are recognised directly in equity until the financial asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement.

Investments acquired principally for the purpose of generating a profit from the short-term fluctuations in price, are classified as held for trading and are recorded and measured at fair value. Gains and losses on these investments are recorded in the consolidated income statement.

Interest bearing investments, including investments in finance leases, are stated at original investment less principal payments, and amortisations, and less accumulated impairment.

## K. Financial instruments – other than derivatives *(continued)*

### K.2 Financial assets *(continued)*

- Receivables

Receivables originated by the Group by providing goods or services directly to the customer are carried at original invoice amount less provision for doubtful receivables. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

The provision for doubtful receivables covers losses where there is objective evidence that probable losses are present in components of the receivable portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the customers and reflecting the current economic climate in which the borrowers operate. When a receivable is uncollectable, it is written off to the income statement; subsequent recoveries are credited to the income statement.

The Group invoices its independent service providers and dealers (agents) for the revenue billed by them on behalf of the Group. The Group, within its contractual arrangements with its agents, pays them administrative fees. The Group receives in cash, the net amount equal to the gross revenue earned less the administrative fees payable to the agents.

- Bank and cash balances

The accounting policy for bank and cash balances is dealt with under cash and cash equivalents set out below.

### K.3 Financial liabilities

The Group's principal financial liabilities are shareholder loans, interest bearing debt, non-interest bearing debt, accounts payable, dividends payable, provisions and bank borrowings and other short-term debt:

- Shareholder loans

Shareholder loans are recognised at the original proceeds received less principal payments.

- Interest bearing debt

Interest bearing debt, including finance lease obligations, is recognised at amortised cost, namely original debt less principal payments and amortisations. The accounting policy for finance lease obligations is dealt with under leases set out above.

- Accounts payable

Accounts payable are stated at their cost.

- Dividends payable

Dividends payable are stated at amounts declared.

- Provisions

Provisions are recognised when the Group has a present legal or constructive obligation resulting from past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. A past event is deemed to give rise to a present obligation if, taking into account the available evidence, it is more likely than not that a present obligation exists at balance sheet date.

The amount recognised as a provision, is the best estimate of the expenditure required to settle the present obligation at balance sheet date, taking into account risks and uncertainties surrounding the provision.

- Bank borrowings and other short-term debt

The accounting policy for bank borrowings and other short-term debt is dealt with under cash and cash equivalents set out below.

### K.4 Equity instruments

The Group's principal equity instrument is ordinary share capital, which is recorded at original cost.

### K.5 De-recognition

Financial assets (or a portion thereof) are de-recognised when the Group realises the rights to the benefits specified in the contract, the rights expire or the Group surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On de-recognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the consolidated income statement.

Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. On de-recognition, the difference between the carrying amount of the financial liability, including related unamortised costs and amounts paid for it are included in the consolidated income statement.

### K.6 Fair value methods and assumptions

The fair value of financial instruments traded in an organised financial market are measured at the applicable quoted prices.

## K. Financial instruments – other than derivatives *(continued)*

### K.6 Fair value methods and assumptions *(continued)*

The fair value of financial instruments not traded in an organised financial market, is determined using a variety of methods and assumptions that are based on market conditions and risk existing at balance sheet date, including independent appraisals and discounted cash flow methods.

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

### K.7 Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

## L. Impairment of assets

The carrying amounts of assets, mentioned in the accounting policy notes, are assessed at each balance sheet date or earlier if there is a triggering event, to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset, being the higher of the asset's net selling price and its value in use. An impairment loss is recognised if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognised as an expense in the consolidated income statement immediately.

The net selling price represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

The value in use of an asset represents the expected future cash flows, from continuing use and disposal that are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.
An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount. The impairment loss is allocated to reduce the carrying amount of the assets of the cash-generating unit, first to goodwill in respect of the cash generating unit, if any, and then to the other assets on a pro-rata basis based on their carrying amounts.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation or amortisation charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its estimated residual value, on a systematic basis over its remaining useful life.

For goodwill, a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that event.

## M. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call, net of bank borrowings, all of which are available for use by the Group unless otherwise stated. Cash on hand is measured at its face value. Deposits held on call are classified as loans originated by the company and carried at amortised cost. Due to the short-term nature of these, the amortised cost approximates its fair value.

Bank borrowings, consisting of interest bearing short-term bank loans repayable on demand and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## N. Borrowing costs

Borrowing costs are expensed as they are incurred.

## O. Expenses

Marketing and advertising costs are expensed as they are incurred. Prepaid costs related to annual events sponsorships are written off over the duration of the event.

## P. Incentives

Incentives paid to service providers and dealers for new activations, retention of existing customers and reaching specified sales targets are expensed as incurred.

Distribution incentives paid to service providers and dealers for exclusivity, distribution assets and distribution subsidies are deferred and expensed over the contractual relationship period.

## Q. Discontinuing operations

Discontinuing operations are significant, distinguishable components of an enterprise that have been sold, abandoned or are the subject of formal plans for disposal or discontinuance.

The profit or loss on the sale or abandonment of a discontinuing operation is determined from the earlier of the enterprise entering into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation, or, the approval and announcement of a detailed, formal plan of discontinuance by the board of directors.

## R. Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

## S. Comparatives

Certain comparative figures have been reclassified, where required or necessary, in accordance with current period classifications and presentation.

# 16.9 Notes to the consolidated financial statements March 31, 2003

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **1. Revenue** | | | |
| Airtime and access | 7,255.1 | 9,486.5 | 11,301.1 |
| Interconnect revenue | 3,260.1 | 4,300.9 | 5,309.2 |
| Equipment sales | 2,042.3 | 1,627.4 | 2,263.7 |
| International airtime | 260.0 | 301.1 | 539.1 |
| Other | 458.9 | 434.8 | 365.6 |
| | 13,276.4 | 16,150.7 | 19,778.7 |
| **2. Amortisation of intangible assets** | | | |
| Goodwill | (150.1) | (98.9) | (96.4) |
| Licenses | (7.2) | (9.4) | (12.9) |
| Trademarks | (16.8) | (7.1) | (4.1) |
| Customer bases | (97.4) | (97.3) | (97.3) |
| | (271.5) | (212.7) | (210.7) |
| **3. Integration costs, disposal of operations and impairments** | | | |
| Vodacom Satellite Services (Proprietary) Limited excluding goodwill of R24.7 million for 2001 (Note 3.1) | (148.0) | 37.7 | – |
| Impairment of property, plant and equipment | (97.7) | – | – |
| Impairment of shareholder loan | (4.8) | – | – |
| Satellite phones – onerous contract | (45.5) | 45.5 | – |
| Recoupment of Gateway assets accrual (Note 35) | – | 15.0 | – |
| Management fees paid to Telkom SA Limited in respect of the Delareyville earth station (Note 35) | – | (22.8) | – |
| Net capital gain on disposal of discontinued operations (Note 5) | 1.6 | 19.0 | – |
| Joycell Shops (Proprietary) Limited and Yellow Lizard Web Design (Proprietary) Limited | 1.6 | 2.7 | – |
| Vodacom Sport & Entertainment (Proprietary) Limited | – | 40.0 | – |
| Film Fun (Holdings) (Proprietary) Limited | – | (53.8) | – |
| Vodacom World Online (Proprietary) Limited | – | 30.1 | – |
| Write-off of investment in GSM Companies | – | (0.3) | – |
| Vodacom Service Provider Company (Proprietary) Limited – Integration costs (Note 3.2) | (36.5) | – | – |
| Film Fun (Holdings) (Proprietary) Limited, trading as Teljoy – Integration costs (Note 3.3) | (30.3) | – | – |
| | (213.2) | 56.4 | – |

## 3. Integration costs, disposal of operations and impairments *(continued)*

### 3.1 Vodacom Satellite Services (Proprietary) Limited

Vodacom Group (Proprietary) Limited acquired 100% of the share capital of Vodacom Satellite Services (Proprietary) Limited with effect from August 1, 2000. The principal nature of the business of the company is that of a provider of wholesale satellite airtime to cellular networks in Southern Africa. During the 2001 financial year the total goodwill on acquisition of R24.7 million (disclosed as part of the Goodwill amortisation – Notes 2 and 10) and the total net asset value of the company was impaired by R102.5 million, as no satellite license was issued by the Independent Communications Authority of South Africa and the international satellite company Globalstar Limited Partnership, a United States listed company, was expected to go into Chapter 11 bankruptcy.

During the year ended March 31, 2001, a provision was made to reflect a contractual obligation of R45.5 million to purchase satellite phones. Since a satellite license was not issued to Vodacom Satellite Services (Proprietary) Limited, these phones could not be utilised. The provision was reversed during the year ended March 31, 2002 as the Group was subsequently released from this contractual obligation, and a recoupment of R15.0 million was made on certain of the Gateway assets that were impaired in 2001.

### 3.2 Vodacom Service Provider Company (Proprietary) Limited

On July 1, 2000 the businesses of GSM Cellular (Proprietary) Limited and Vodac (Proprietary) Limited were integrated with the business of Teljoy Cellular Services (Proprietary) Limited. Effective July 1, 2000, Teljoy Cellular Services (Proprietary) Limited changed its name to Vodacom Service Provider Company (Proprietary) Limited.

The activities of Vodacare (Proprietary) Limited and Vodacom Equipment Company (Proprietary) Limited were also integrated into Vodacom Service Provider Company (Proprietary) Limited on November 1, 2000.

### 3.3 Film Fun (Holdings) (Proprietary) Limited

Film Fun (Holdings) (Proprietary) Limited, trading as Teljoy was acquired as part of the Teljoy Holdings Limited Group during January 2000. Non-profitable branches were closed during the 2001 financial year and the billing system, which was not operational, was written off.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **4. Profit from operations** | | | |
| The profit from operations (including integration costs, disposal of operations and impairments (Note 3)) is arrived at after taking the following income / (expenditure) into account: | | | |
| Net profit on disposal of property, plant and equipment | 0.4 | 3.4 | 2.6 |
| Loss on disposal of property, plant and equipment | (8.2) | (2.6) | (0.9) |
| Profit on disposal of property, plant and equipment | 8.6 | 6.0 | 3.5 |
| Depreciation of property, plant and equipment (Note 9) | (1,364.1) | (1,857.3) | (2,163.0) |
| Buildings | (10.5) | (12.7) | (16.6) |
| Infrastructure | (1,008.1) | (1,388.5) | (1,657.6) |
| Information services | (177.9) | (332.1) | (379.5) |
| Community services | (7.4) | (11.1) | (12.4) |
| Motor vehicles | (6.7) | (19.6) | (20.1) |
| Furniture | (4.1) | (16.3) | (18.0) |
| Office equipment | (2.3) | (14.3) | (16.8) |
| Leasehold improvements | (2.9) | (31.0) | (39.1) |
| Other assets | (144.2) | (31.7) | (2.9) |

## 4. Profit from operations *(continued)*

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Auditors' remuneration – audit fees | (5.0) | (6.2) | (5.4) |
| Current year audit fees | (4.8) | (5.7) | (6.0) |
| Prior year over / (under) provision of audit fees | (0.1) | (0.1) | 0.4 |
| Telkom SA Limited IPO related fees | – | (0.3) | (28.2) |
| Expenses | (0.1) | (0.1) | (0.1) |
| Recovered from Telkom SA Limited | – | – | 28.5 |
| Auditors' remuneration – other services | (10.3) | (6.4) | (7.4) |
| For other services | (11.6) | (9.6) | (11.2) |
| Capitalised | 1.3 | 3.2 | 3.8 |
| Consultancy services – professional fees | (28.2) | (102.1) | (117.8) |
| Operating lease rentals | (471.5) | (474.2) | (546.3) |
| GSM transmission and data lines | (332.3) | (336.0) | (460.8) |
| Office accommodation | (66.8) | (79.7) | (27.8) |
| Other accommodation | (54.3) | (49.4) | (54.4) |
| Office equipment | (13.1) | (7.6) | (3.3) |
| Motor vehicles | (5.0) | (1.5) | – |
| Payment to other operators | (821.8) | (1,378.1) | (2,217.2) |
| License fees – GSM | (328.8) | (384.4) | (503.7) |
| Staff expenses – pension and provident fund contributions | (42.5) | (45.1) | (57.9) |
| Pension fund contributions | (42.5) | (42.8) | (52.5) |
| Provident fund contributions | – | (2.3) | (5.4) |
| Increase in provision for obsolete inventory | (1.3) | (10.5) | (36.5) |
| Bad debts written off | (107.4) | (111.2) | (31.1) |
| (Increase) / decrease in provision for doubtful receivables | (49.0) | 64.9 | (15.5) |

The headcount of the Group as at March 31, 2003 was 4,406 (2002: 4,353, 2001: 4,272).

## 5. Discontinued operations

### 5.1 Vodacom World Online (Proprietary) Limited

On November 9, 2001, the Group entered into a sale agreement to dispose of its 40% interest in the joint venture company of Vodacom World Online (Proprietary) Limited to Tiscali International BV, the other party to the joint venture. The company carried out the Group's internet service provider operations. The disposal was completed on November 30, 2001, on which date control of Vodacom World Online (Proprietary) Limited passed to Tiscali International BV. A profit of R30.1 million arose on the disposal of Vodacom World Online (Proprietary) Limited, being the proceeds of disposal of R31.8 million less the realisation of the shareholder's loan of R134.9 million, net liabilities of R34.9 million and deferred profit of R98.3 million on the sale of the internet division by Vodacom (Proprietary) Limited in the 2000 financial year now realised. No tax charge or credit arose from the transaction. The results were deconsolidated from November 30, 2001.

### 5.2 Vodacom Sport & Entertainment (Proprietary) Limited

On September 1, 2001, the Group entered into a sale agreement to dispose of its 51% interest in Vodacom Sport & Entertainment (Proprietary) Limited to South African Investments Limited (SAIL). The company carried out the Group's sport and entertainment marketing operations. The disposal was completed on February 27, 2002, on which date control of Vodacom Sport & Entertainment (Proprietary) Limited passed to SAIL. The results were deconsolidated from February 28, 2002. A profit of R40.0 million arose on the disposal of Vodacom Sport & Entertainment (Proprietary) Limited, being the proceeds of disposal less the carrying amount of the subsidiary's net assets (Note 29.1 a). No tax charge or credit arose from the transaction.

## 5. Discontinued operations *(continued)*

### 5.3 Film Fun (Holdings) (Proprietary) Limited, Teljoy Botswana (Proprietary) Limited and Africell Cellular Services (Proprietary) Limited

The 100% shareholding in Film Fun (Holdings) (Proprietary) Limited, Teljoy Botswana (Proprietary) Limited and Africell Cellular Services (Proprietary) Limited was sold to a management consortium for R9.0 million. These disposals were effected in order to dispose of non-core operations. A loss of R53.8 million was realised, being the proceeds of disposal less the carrying amount of the subsidiary's net assets (Note 29.1 b). The sale agreements were signed on March 27, 2002. The results were de-consolidated from March 31, 2002. The goodwill associated with the entities was allocated on the initial acquisition of the Teljoy Group on January 31, 2000.

### 5.4 Results and cash flows

The results and cash flows of Vodacom Sport & Entertainment (Proprietary) Limited (VSE), Vodacom World Online (Proprietary) Limited (VWOL), Film Fun (Holdings) (Proprietary) Limited (FFH), which have been included in the consolidated financial statements, were as follows:

| 2001 | VSE Rm | VWOL Rm | FFH Rm |
|---|---|---|---|
| **Income statement** | | | |
| Revenue | 48.9 | 43.0 | 215.2 |
| Expenditure | (32.3) | (55.1) | (218.1) |
| Profit / (loss) before taxation | 16.6 | (12.1) | (2.9) |
| Taxation | (6.0) | – | 4.5 |
| Profit / (loss) after taxation | 10.6 | (12.1) | 1.6 |
| **Cash flow statement** | | | |
| Net cash flows from / (utilised in) operating activities | (5.4) | (9.1) | 29.8 |
| Net cash flows from / (utilised in) investing activities | (0.8) | (5.8) | (17.5) |
| Net cash flows from / (utilised in) financing activities | – | 4.0 | 48.4 |
| Net (decrease) / increase in cash and cash equivalents | (6.2) | (10.9) | 60.7 |

| 2002 | VSE Rm | VWOL Rm | FFH Rm |
|---|---|---|---|
| **Income statement** | | | |
| Revenue | 52.8 | 36.1 | 160.7 |
| Expenditure | (38.0) | (56.0) | (148.0) |
| Profit / (loss) before taxation | 14.8 | (19.9) | 12.7 |
| Taxation | (4.3) | – | (0.1) |
| Profit / (loss) after taxation | 10.5 | (19.9) | 12.6 |
| **Cash flow statement** | | | |
| Net cash flows from / (utilised in) operating activities | (2.8) | 1.4 | 54.2 |
| Net cash flows from / (utilised in) investing activities | (2.6) | – | (0.3) |
| Net cash flows from / (utilised in) financing activities | – | 4.8 | (129.4) |
| Net (decrease) / increase in cash and cash equivalents | (5.4) | 6.2 | (75.5) |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 6. Interest, dividends and other financial income received

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Interest received – banks and loans | 25.4 | 27.7 | 51.4 |
| Dividends received – unlisted investments | – | 4.3 | 5.1 |
| Gain on remeasurement of minority shareholder loan * | – | – | 92.8 |
| Guarantee fees | – | – | 14.7 |
| Other interest | – | 4.9 | 1.4 |
| Gain on foreign liability revaluation | – | 18.3 | 301.4 |
| Gain on foreign exchange contract revaluation | – | 778.4 | 244.7 |
| Realised foreign exchange gains | 2.3 | 2.5 | 6.7 |
| Interest rate swaps revaluation | – | 4.3 | 18.2 |
| Interest rate swap interest | – | – | 6.0 |
| | 27.7 | 840.4 | 742.4 |

* This amount of R92.8 million (2002: Rnil; 2001: Rnil) relates to a loan from Caspian Construction Company Limited and Planetel Communication Limited, that was remeasured at amortised cost, at an effective interest rate of LIBOR plus 5% for which no consideration has been recorded.

## 7. Finance costs

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Shareholder loans | (157.9) | (144.2) | (167.9) |
| Finance leases | (60.8) | (98.9) | (123.8) |
| Funding loans | (65.7) | (87.2) | (127.3) |
| Bank and other interest | (162.9) | (86.1) | (50.0) |
| Interest on minority shareholder loan** | – | – | (9.7) |
| Other finance costs | – | – | (6.8) |
| Foreign exchange premiums | (58.4) | – | – |
| Loss on foreign liability revaluation | – | (247.8) | (163.4) |
| Loss on foreign exchange contract revaluation | – | (199.0) | (831.2) |
| Realised foreign exchange losses | – | (5.0) | (62.2) |
| Interest rate swap interest | (1.1) | – | (4.0) |
| | (506.8) | (868.2) | (1,546.3) |

** This amount of R9.7 million (2002: Rnil; 2001: Rnil) relates to notional interest on the loan from Caspion Construction Company Limited and Planetel Communication Limited, that was remeasured at amortised cost at an effective interest rate of LIBOR plus 5%, for which no consideration has been recorded.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 8. Taxation

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| South African normal taxation | (748.3) | (1,001.7) | (1,223.3) |
| Current year | (763.8) | (1,022.9) | (1,231.5) |
| Prior year over provision | 15.5 | 21.2 | 8.2 |
| Deferred taxation | 45.6 | (82.7) | 135.8 |
| Current year | 50.3 | (79.7) | 154.0 |
| Prior year under provision | (4.7) | (3.0) | (18.2) |
| Secondary taxation on companies | (60.5) | (74.5) | (75.0) |
| Current year | (60.5) | (75.5) | (75.0) |
| Prior year over provision | – | 1.0 | – |
| Foreign taxation | (2.5) | (2.5) | (2.7) |
| Current year | (2.4) | (3.7) | (2.7) |
| Prior year over / (under) provision | (0.1) | 1.2 | – |
| Foreign deferred taxation – current year | – | (29.3) | (33.7) |
| Current year | – | (29.3) | (79.9) |
| Prior year over provision | – | – | 46.2 |
| | (765.7) | (1,190.7) | (1,198.9) |

| | 2001 Rm | 2001 % | 2002 Rm | 2002 % | 2003 Rm | 2003 % |
|---|---|---|---|---|---|---|
| **Reconciliation of rate of taxation** | | | | | | |
| Normal taxation on profit before taxation | 622.3 | 30.0 | 1,078.0 | 30.0 | 1,057.8 | 30.0 |
| Adjusted for: | | | | | | |
| Exempt income | (1.5) | (0.1) | (1.3) | – | (0.9) | – |
| Disallowed expenditure | – | – | 6.7 | 0.1 | 28.5 | 0.7 |
| Goodwill | 43.7 | 2.1 | 27.8 | 0.7 | 27.0 | 0.7 |
| Prior year over provision | (3.9) | (0.2) | (19.4) | (0.5) | (36.2) | (0.9) |
| Unutilised assessed loss | 42.8 | 2.1 | 21.9 | 0.6 | – | – |
| Utilisation of assessed loss | (2.2) | (0.1) | (0.6) | – | – | – |
| Foreign taxation rate differences | – | – | 14.1 | 0.4 | 66.3 | 1.9 |
| Secondary taxation on companies | 60.5 | 2.9 | 74.5 | 2.1 | 75.0 | 2.1 |
| Utilisation of investment deductions | – | – | – | – | (18.6) | (0.5) |
| Temporary differences in subsidiaries not provided for | 4.0 | 0.2 | (11.0) | (0.3) | – | – |
| Vodacom Satellite Services (Proprietary) Limited | – | – | (4.1) | (0.1) | – | – |
| Vodacom Tanzania Limited | 4.0 | 0.2 | – | – | – | – |
| Other | – | – | (6.9) | (0.2) | – | – |
| | 765.7 | 36.9 | 1,190.7 | 33.1 | 1,198.9 | 34.0 |

## 9. Property, plant and equipment

| 2001 | Cost Rm | Accumulated depreciation Rm | Net book value Rm |
|---|---|---|---|
| Land and buildings | 456.6 | (21.4) | 435.2 |
| Infrastructure | 9,428.6 | (3,005.4) | 6,423.2 |
| Information services | 932.1 | (471.4) | 460.7 |
| Community services | 80.1 | (48.6) | 31.5 |
| Motor vehicles | 15.0 | (6.2) | 8.8 |
| Furniture | 46.5 | (31.6) | 14.9 |
| Office equipment | 21.0 | (13.1) | 7.9 |
| Leasehold improvements | 11.2 | (6.3) | 4.9 |
| Other assets | 757.7 | (448.6) | 309.1 |
| | 11,748.8 | (4,052.6) | 7,696.2 |
| **2002** | | | |
| Land and buildings | 795.7 | (34.0) | 761.7 |
| Infrastructure | 12,559.1 | (4,393.9) | 8,165.2 |
| Information services | 1,606.3 | (936.6) | 669.7 |
| Community services | 85.2 | (55.6) | 29.6 |
| Motor vehicles | 67.0 | (25.8) | 41.2 |
| Furniture | 96.7 | (48.6) | 48.1 |
| Office equipment | 69.0 | (42.6) | 26.4 |
| Leasehold improvements | 196.6 | (76.1) | 120.5 |
| Other assets | 56.2 | (22.0) | 34.2 |
| | 15,531.8 | (5,635.2) | 9,896.6 |
| **2003** | | | |
| Land and buildings | 879.3 | (50.7) | 828.6 |
| Infrastructure | 14,818.4 | (5,922.5) | 8,895.9 |
| Information services | 1,979.6 | (1,298.9) | 680.7 |
| Community services | 78.3 | (49.8) | 28.5 |
| Motor vehicles | 109.7 | (68.2) | 41.5 |
| Furniture | 109.5 | (62.3) | 47.2 |
| Office equipment | 80.6 | (60.1) | 20.5 |
| Leasehold improvements | 211.4 | (114.4) | 97.0 |
| Other assets | 56.4 | (21.3) | 35.1 |
| | 18,323.2 | (7,648.2) | 10,675.0 |

## 9. Property, plant and equipment *(continued)*

| 2001 | Land and buildings Rm | Infra-structure Rm | Information services Rm | Community services Rm | Motor vehicles Rm | Furniture Rm | Office equipment Rm | Leasehold improvements Rm | Other assets Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|---|---|
| Opening balance | 369.0 | 4,870.7 | 310.2 | 20.4 | 4.4 | 9.7 | 7.6 | 4.5 | 257.6 | 5,854.1 |
| Additions | 109.7 | 2,562.8 | 331.6 | 18.5 | 11.2 | 9.3 | 9.8 | 5.0 | 126.3 | 3,184.2 |
| Disposals | (33.0) | – | (3.2) | – | (0.1) | – | (11.9) | (1.7) | (55.6) | (105.5) |
| Depreciation | (10.5) | (1,008.1) | (177.9) | (7.4) | (6.7) | (4.1) | (2.3) | (2.9) | (144.2) | (1,364.1) |
| Impairment and business combinations | – | (2.2) | – | – | – | – | 4.7 | – | 125.0 | 127.5 |
| Closing balance | 435.2 | 6,423.2 | 460.7 | 31.5 | 8.8 | 14.9 | 7.9 | 4.9 | 309.1 | 7,696.2 |
| **2002** | | | | | | | | | | |
| Opening balance as previously reported | 435.2 | 6,423.2 | 460.7 | 31.5 | 8.8 | 14.9 | 7.9 | 4.9 | 309.1 | 7,696.2 |
| Asset category transfers | – | – | 95.6 | – | – | – | (0.1) | (0.1) | (95.4) | – |
| Restated opening balance | 435.2 | 6,423.2 | 556.3 | 31.5 | 8.8 | 14.9 | 7.8 | 4.8 | 213.7 | 7,696.2 |
| Additions | 339.6 | 3,050.3 | 476.4 | 9.5 | 20.5 | 39.2 | 15.9 | 94.2 | 39.7 | 4,085.3 |
| Disposals | (0.5) | (48.4) | (17.5) | (0.3) | (0.1) | (4.1) | (0.1) | (0.1) | (17.8) | (88.9) |
| Foreign currency translation | 0.1 | 128.9 | 0.7 | – | 1.5 | 0.5 | 0.1 | 1.0 | – | 132.8 |
| Depreciation | (12.7) | (1,388.5) | (332.1) | (11.1) | (19.6) | (16.3) | (14.3) | (31.0) | (31.7) | (1,857.3) |
| Other | – | – | (0.1) | – | – | (0.1) | – | – | 1.3 | 1.1 |
| Business combinations | – | – | (12.2) | – | (0.2) | (4.4) | (1.0) | – | (54.8) | (72.6) |
| Asset category transfers | – | (0.3) | (1.8) | – | 30.3 | 18.4 | 18.0 | 51.6 | (116.2) | – |
| Closing balance | 761.7 | 8,165.2 | 669.7 | 29.6 | 41.2 | 48.1 | 26.4 | 120.5 | 34.2 | 9,896.6 |
| **2003** | | | | | | | | | | |
| Opening balance | 761.7 | 8,165.2 | 669.7 | 29.6 | 41.2 | 48.1 | 26.4 | 120.5 | 34.2 | 9,896.6 |
| Additions | 85.0 | 2,795.4 | 412.9 | 11.3 | 24.2 | 17.8 | 12.0 | 36.3 | 4.4 | 3,399.3 |
| Disposals | – | (3.1) | (0.2) | – | (1.3) | (0.2) | (0.1) | – | (0.2) | (5.1) |
| Foreign currency translation | (2.4) | (421.8) | (22.4) | – | (2.4) | (1.5) | (0.4) | (1.7) | (0.2) | (452.8) |
| Depreciation | (16.6) | (1,657.6) | (379.5) | (12.4) | (20.1) | (18.0) | (16.8) | (39.1) | (2.9) | (2,163.0) |
| Asset category transfer | 0.9 | 17.8 | 0.2 | – | (0.1) | 1.0 | (0.6) | (19.0) | (0.2) | – |
| Closing balance | 828.6 | 8,895.9 | 680.7 | 28.5 | 41.5 | 47.2 | 20.5 | 97.0 | 35.1 | 10,675.0 |

## 9. Property, plant and equipment *(continued)*

| | 2001 Net book value Rm | 2002 Net book value Rm | 2003 Net book value Rm |
|---|---|---|---|
| **Freehold land and buildings** | | | |
| Portions 859, 847, 827, the remaining extent of Portion 45 (a portion of Portion 9), and Portion 828 (a portion of Portion 9) of farm Randjesfontein No. 405, Registration division J.R., Province of Gauteng, RSA | – | 32.4 | 32.4 |
| 43 Kwale Road, Dar es Salaam, Tanzania | – | 6.8 | 4.7 |
| Stand 172 Sandton, RSA | 0.5 | – | – |
| Holding 359 Erand Agricultural Holdings Ext 1, RSA | – | – | 1.6 |
| Stand 200 Chelmsfordville, RSA | 0.1 | 0.1 | 0.5 |
| 1046 Mama Yemo Avenue, Lubumbashi, Province De Katanga, Democratic Republic of Congo | – | – | 1.5 |
| MSC Building, Maseru West, Lesotho | – | – | 0.7 |
| | 0.6 | 39.3 | 41.4 |
| **Leasehold land and buildings** | | | |
| Portion 827 and 828 of farm Randjesfontein No. 405, RSA | – | 279.4 | 273.7 |
| Portion 769 of farm Randjesfontein No. 405, RSA | 155.9 | 164.8 | 162.1 |
| Stand 34083 Bellville, City of Tygerberg, RSA | 111.1 | 109.5 | 107.9 |
| Erf 5259 and 5260 Montague Gardens, RSA | 99.6 | 98.1 | 96.5 |
| Holding 350 Erand Agricultural Holdings Ext. 1, RSA | 66.4 | 62.2 | 58.1 |
| Stand 207 Erand Agricultural Holdings Ext. 28, RSA | – | 6.8 | 88.9 |
| Holding 359 Erand Agricultural Holdings Ext. 1, RSA | 1.6 | 1.6 | – |
| | 434.6 | 722.4 | 787.2 |
| Total freehold and leasehold land and buildings | 435.2 | 761.7 | 828.6 |

Debt is collateralised over leasehold land and buildings and the fair value of the lease liability is R884.9 million (2002: R790.6 million; 2001: R496.6 million).

## 10. Intangible assets

| | Cost Rm | Accumulated amortisation Rm | Net book value Rm |
|---|---|---|---|
| **2001** | | | |
| Goodwill | 597.4 | (238.3) | 359.1 |
| Licenses | 108.8 | (47.6) | 61.2 |
| Trademarks | 67.2 | (24.2) | 43.0 |
| Customer bases | 486.9 | (127.3) | 359.6 |
| | 1,260.3 | (437.4) | 822.9 |
| **2002** | | | |
| Goodwill | 669.4 | (326.5) | 342.9 |
| Licenses | 221.3 | (56.9) | 164.4 |
| Trademarks | 51.5 | (24.8) | 26.7 |
| Customer bases | 486.9 | (224.6) | 262.3 |
| | 1,429.1 | (632.8) | 796.3 |
| **2003** | | | |
| Goodwill | 669.4 | (422.9) | 246.5 |
| Licenses | 184.7 | (67.7) | 117.0 |
| Trademarks | 51.5 | (28.9) | 22.6 |
| Customer bases | 486.9 | (321.9) | 165.0 |
| | 1,392.5 | (841.4) | 551.1 |

| **Reconciliation 2001** | Opening net book value Rm | Additions Rm | Foreign currency translation Rm | Business combination Rm | Amortisation Rm | Closing net book value Rm |
|---|---|---|---|---|---|---|
| Goodwill | 373.8 | – | – | 135.4 | (150.1) | 359.1 |
| Licenses | 63.7 | – | 1.5 | 3.2 | (7.2) | 61.2 |
| Trademarks | 44.5 | – | – | 15.3 | (16.8) | 43.0 |
| Customer bases | 457.0 | – | – | – | (97.4) | 359.6 |
| | 939.0 | – | 1.5 | 153.9 | (271.5) | 822.9 |
| **Reconciliation 2002** | | | | | | |
| Goodwill | 359.1 | 98.5 | – | (15.8) | (98.9) | 342.9 |
| Licenses | 61.2 | 95.2 | 17.5 | (0.1) | (9.4) | 164.4 |
| Trademarks | 43.0 | – | – | (9.2) | (7.1) | 26.7 |
| Customer bases | 359.6 | – | – | – | (97.3) | 262.3 |
| | 822.9 | 193.7 | 17.5 | (25.1) | (212.7) | 796.3 |
| **Reconciliation 2003** | | | | | | |
| Goodwill | 342.9 | – | – | – | (96.4) | 246.5 |
| Licenses | 164.4 | – | (34.5) | – | (12.9) | 117.0 |
| Trademarks | 26.7 | – | – | – | (4.1) | 22.6 |
| Customer bases | 262.3 | – | – | – | (97.3) | 165.0 |
| | 796.3 | – | (34.5) | – | (210.7) | 551.1 |

## 11. Investments

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **Held for trading** | | | |
| Money market investments (Note 11.1) | – | 65.0 | 60.4 |
| Less: Short-term portion of investments (Note 11.2) | – | (58.6) | (50.9) |
| **Available for sale** | | | |
| Other | 0.9 | – | – |
| **Originating loans** | | | |
| South African Investments Limited | – | 11.8 | – |
| Long-term portion of the note receivable issued as part of the consideration for the disposal of Vodacom Sport & Entertainment (Proprietary) Limited. Interest is charged on this amount receivable at the prime lending rate minus one percent per annum from the transaction date. | | | |
| Loan to Planetel Communication Limited and Caspian Construction Company Limited | 11.2 | 4.0 | – |
| Planetel Communication Limited | – | – | 54.2 |
| The loan of US$6.8 million issued during the current year, bears interest at LIBOR plus 5%. Planetel Communication Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all cash distributions and a pledge over the shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding. (Note 18) | | | |
| Caspian Construction Company Limited | – | – | 64.4 |
| The loan of US$8.1 million issued during the current year, bears interest at LIBOR plus 5%. Caspian Construction Company Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all cash distributions and a pledge over the shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding. (Note 18) | | | |
| ABSA Bank Limited | – | – | 67.0 |
| The Group's share of Vodacom Congo (RDC) s.p.r.l's deposit account amounts to € 7.8 million, which is charged as security for the extended credit facility of Vodacom Congo (RDC) s.p.r.l, and bears interest at EURIBOR less 0.2%. The deposit is refundable once the extended credit facility is repaid. (Note 18) | | | |
| Other | 1.3 | 0.5 | – |
| | 13.4 | 22.7 | 195.1 |

## 11. Investments *(continued)*

| 2002 | Maturity period Rm | Interest rate Rm | Market value Rm |
|---|---|---|---|
| **11.1 Money market investments** | | | |
| Details of the maturity periods and interest rates of the money market investments at year end are as follows: | 0 – 6 months | 9.1% – 9.6% | 36.2 |
| | 6 – 12 months | 10.0% – 11.1% | 18.4 |
| | Over 12 months | 9.7% – 12.0% | 10.4 |
| | | | 65.0 |
| **2003** | | | |
| Details of the maturity periods and interest rates of the money market investments at year end are as follows: | 0 – 6 months | 9.1% – 11.1% | 18.7 |
| | 6 – 12 months | 11.3% | 32.2 |
| | Over 12 months | 9.7% | 9.5 |
| | | | 60.4 |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **11.2 Short-term portion of investments** | | | |
| Money market investment (Note 11.1) | – | 54.6 | 50.9 |
| Short–term loans | – | 4.0 | – |
| | – | 58.6 | 50.9 |

## 12. Deferred taxation

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Deferred taxation asset | 339.1 | 497.7 | 704.7 |
| Deferred taxation liability | (607.5) | (926.2) | (993.1) |
| | (268.4) | (428.5) | (288.4) |
| **12.1 Components** | | | |
| Capital allowances | (497.7) | (822.9) | (877.5) |
| Foreign equity revaluation reserve | – | (17.9) | 1.1 |
| Remeasurement of shareholder loan liability | – | – | (48.9) |
| Remeasurement of shareholder loan asset | – | – | 46.3 |
| Assessed losses | 107.2 | 295.9 | 276.0 |
| Provisions and deferred income | 227.6 | 160.8 | 378.1 |
| Prepayments and other allowances | 4.3 | 41.0 | (18.0) |
| Acquisition of customer base | (109.8) | (77.5) | (48.7) |
| Other | – | (7.9) | 3.2 |
| | (268.4) | (428.5) | (288.4) |
| **12.2 Reconciliation** | | | |
| Balance at the beginning of the year | (309.8) | (268.4) | (428.5) |
| Income statement income / (expense) | 45.6 | (112.0) | 102.1 |
| Foreign equity revaluation reserve | – | (19.9) | 21.0 |
| Movement due to IAS 39 adjustment | – | (36.5) | – |
| Business combinations | | | |
| Acquisition of customer base | (4.5) | 2.7 | – |
| Foreign exchange differences on consolidation of foreign subsidiaries | – | 7.2 | 17.0 |
| Disposal of subsidiaries | 0.3 | (1.6) | – |
| Balance at the end of the year | (268.4) | (428.5) | (288.4) |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 12. Deferred taxation *(continued)*

### 12.3 Utilisation of assessed losses

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Opening assessed loss | – | 439.3 | 1,068.4 |
| Foreign exchange movement on opening assessed loss | – | – | (304.7) |
| Prior year adjustment | – | – | 113.9 |
| Current year assessed loss created | 439.3 | 682.4 | 305.6 |
| Subsidiaries liquidated | – | – | (63.9) |
| Disposal of subsidiaries and joint ventures | – | (53.3) | – |
| Closing assessed loss | 439.3 | 1,068.4 | 1,119.3 |
| Utilised to reduce net deferred taxation liability | (357.4) | (986.3) | (949.5) |
| Deferred taxation at 35% | – | – | (4.3) |
| Deferred taxation at 30% | (357.4) | (986.3) | (884.6) |
| Deferred taxation at 15% | – | – | (60.6) |
| Tax holiday | – | – | (169.8) |
| Assessed losses available to reduce deferred taxation | 81.9 | 82.1 | – |

There are unused tax losses to the value of Rnil (2002: R82.1 million; 2001: R81.9 million) available to reduce the net deferred taxation liability. The effect of this would be Rnil (2002: R24.6 million; 2001: R 24.6 million) reduction in the net deferred taxation liability for the year to R288.4 million (R2002: R403.9 million; 2001: R243.8 million).
A deferred tax asset was not recognised during the 2002 and 2001 financial years for the above-mentioned unused tax losses, as uncertainty existed as to whether future taxable profits would be available to utilise the asset against.
During the 2003 year Vodacom Congo (RDC) s.p.r.l was granted a tax holiday for three to five years based on the different tax regions within the Democratic Republic of the Congo. There is uncertainty as to whether the accumulated losses incurred during the tax holiday period will be available to reduce future taxable profits after expiry of the tax holiday period and therefore no deferred tax asset was raised.

## 13. Inventory

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Finished goods | 392.1 | 305.3 | 229.1 |
| Other inventory | 6.3 | 0.7 | 9.7 |
| | 398.4 | 306.0 | 238.8 |

### 13.1 Inventory valuation allowance included above

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Balance at the beginning of the year | – | (1.3) | (11.8) |
| Charged to costs and expenses | (1.3) | (10.5) | (36.5) |
| Balance at the end of the year | (1.3) | (11.8) | (48.3) |

## 14. Accounts receivable

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Trade debtors | 1,971.4 | 2,395.2 | 2,660.2 |
| Deferred incentives | 70.1 | 56.8 | 235.3 |
| Prepayments | 174.0 | 262.5 | 185.4 |
| Interest rate swap asset | – | 9.4 | 27.6 |
| Value added taxation | 57.9 | 31.3 | 11.0 |
| Deferred proceeds from disposal of investments | | | |
| South African Investments Limited | – | 11.8 | – |
| Short-term portion of the note receivable issued as consideration for the disposal of Vodacom Sport & Entertainment (Proprietary) Limited. Interest is charged on this amount receivable at the prime-lending rate minus one percent per annum from the transaction date. | | | |
| Film Fun (Holdings) (Proprietary) Limited | – | 9.0 | – |
| Other | – | 69.9 | 39.4 |
| | 2,273.4 | 2,845.9 | 3,158.9 |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 14. Accounts receivable *(continued)*

### 14.1 Doubtful receivable allowance included above

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Balance at the beginning of the year | (92.9) | (141.9) | (77.0) |
| Foreign exchange movement on opening balance | – | – | 9.9 |
| Charged to costs and expenses | (49.0) | 64.9 | (15.5) |
| Balance at the end of the year | (141.9) | (77.0) | (82.6) |

## 15. Ordinary share capital

| | 2001 R | 2002 R | 2003 R |
|---|---|---|---|
| Authorised | | | |
| 100,000 ordinary shares of 1 cent each | 1,000 | 1,000 | 1,000 |
| Issued | | | |
| 10,000 ordinary shares of 1 cent each | 100 | 100 | 100 |

Unissued share capital is not under the control of the board of directors.

## 16. Non-distributable reserves

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Foreign currency translation reserve | (2.3) | 117.5 | (144.5) |
| Deferred taxation on foreign currency translation reserve | – | (19.9) | 1.1 |
| Contingency reserve | – | 8.5 | 11.1 |
| | (2.3) | 106.1 | (132.3) |
| **Reconciliation** | | | |
| Balance at the beginning of the year | 0.6 | (2.3) | 106.1 |
| Foreign currency translation reserve | (2.9) | 99.9 | (241.0) |
| Foreign currency translation | (2.9) | 119.8 | (262.0) |
| Deferred taxation | – | (19.9) | 21.0 |
| Other non-distributable reserves | | | |
| Transferred from distributable reserves – Contingency reserve | – | 8.5 | 2.6 |
| Balance at the end of the year | (2.3) | 106.1 | (132.3) |

Deferred taxation on the foreign currency translation reserve relates only to the translation of equity loans advanced to foreign subsidiaries.

## 17. Minority interest

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Distributable reserves | (10.1) | 12.0 | 124.5 |
| Non-distributable reserves | (1.3) | (1.4) | (36.5) |
| | (11.4) | 10.6 | 88.0 |

The debit balances reflected in 2001 resulted from losses incurred by certain subsidiaries whose shareholders have a binding obligation to fund their percentage of the losses.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **Reconciliation** | | | |
| Balance at the beginning of the year | (2.2) | (11.4) | 10.6 |
| Profit / (loss) transferred from distributable reserves | (9.2) | 29.6 | 112.5 |
| Foreign currency translation reserve | (1.4) | (0.1) | (35.1) |
| (Disposal) / acquisition | 5.2 | (4.7) | – |
| Dividend | (3.8) | (2.8) | – |
| Balance at the end of the year | (11.4) | 10.6 | 88.0 |

## 18. Interest bearing debt

| | 2001 Short-term portion Rm | 2001 Long-term portion Rm | 2001 Total Rm | 2002 Short-term portion Rm | 2002 Long-term portion Rm | 2002 Total Rm |
|---|---|---|---|---|---|---|
| Finance leases | 0.5 | 496.1 | 496.6 | 10.4 | 780.2 | 790.6 |
| Funding loans | – | 400.0 | 400.0 | 440.0 | – | 440.0 |
| Other short-term loans | – | – | – | 565.5 | – | 565.5 |
| | 0.5 | 896.1 | 896.6 | 1,015.9 | 780.2 | 1,796.1 |

| | 2003 Short-term portion Rm | 2003 Long-term portion Rm | 2003 Total Rm |
|---|---|---|---|
| Finance leases | 13.5 | 871.4 | 884.9 |
| Funding loans | 266.4 | 860.8 | 1,127.2 |
| Other short-term loans | 6.2 | – | 6.2 |
| | 286.1 | 1,732.2 | 2,018.3 |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **18.1 Finance leases** | | | |
| Vodacom (Proprietary) Limited | 495.7 | 502.4 | 594.3 |
| The finance leases are collateralised by various land and buildings with a book value of R513.5 million (2002: R443.0 million; 2001: R444.9 million), bear interest at fixed effective interest rates of between 13.7% and 18.3% per annum and are repayable between 5 and 9 years. | | | |
| Vodacom Service Provider Company (Proprietary) Limited | – | 288.2 | 290.6 |
| The finance leases are collateralised by various land and buildings with a book value of R273.7 million (2002: R279.4 million), and bear interest at a fixed effective interest rate of 14.8% per annum. Payments are made every six months in arrear and commenced on March 1, 2002. The finance lease expires on September 1, 2011. | | | |
| Teljoy Holdings Limited | 0.9 | – | – |
| The finance lease bore interest at an effective interest rate of 14.5% and was repayable by March 2004. This subsidiary was disposed of in the 2002 financial year. (Note 29.1 b) | | | |
| Less: Short-term portion of finance leases | | | |
| Vodacom Service Provider Company (Proprietary) Limited | – | (3.3) | (1.3) |
| Teljoy Holdings Limited | (0.5) | – | – |
| Vodacom (Proprietary) Limited | – | (7.1) | (12.2) |
| Short-term portion of finance leases | (0.5) | (10.4) | (13.5) |
| Long-term portion of finance leases | 496.1 | 780.2 | 871.4 |

The fair value of the Group's finance lease liability is R884.9 million (2002: R790.6 million; 2001: R496.6 million).

## 18. Interest bearing debt *(continued)*

### 18.1 Finance leases *(continued)*

| | 2004 Rm | 2005 Rm | 2006 Rm | 2007 Rm | 2008 Rm | 2009 onwards Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| Future minimum lease payments | 98.1 | 127.7 | 169.7 | 188.4 | 209.1 | 781.8 | 1,574.8 |
| Finance costs | (84.6) | (99.4) | (120.1) | (110.8) | (97.3) | (177.7) | (689.9) |
| Net present value | 13.5 | 28.3 | 49.6 | 77.6 | 111.8 | 604.1 | 884.9 |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **18.2 Funding loans** | | | |
| Commerzbank AG | 200.0 | 200.0 | – |
| The loan was uncollateralised, bore interest at a fixed quarterly rate of 13.7% and was repaid on March 17, 2003. | | | |
| Crédit Agricole Indosuez | 200.0 | 200.0 | – |
| The loan was uncollateralized, bore interest at a fixed quarterly rate of 14.0% NACQ and was repaid on March 17, 2003. | | | |
| Planetel Communication Limited | – | 18.3 | 48.5 |
| The shareholder loan of US$10.0 million (2002: US$1.6 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 (2002: 1%), and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan became non-interest bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5% (Note 11). The gain on remeasurement was included in the income statement (Note 6) | | | |
| Caspian Construction Company Limited | – | 21.7 | 40.9 |
| The shareholder loan of US$8.4 million (2002: US$1.9 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 (2002: 1%), and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan became non-interest bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5% (Note 11). The gain on remeasurement was included in the income statement (Note 6). | | | |
| Project finance funding for Vodacom Tanzania Limited | – | – | 501.6 |
| The drawn down portion of the project finance funding from external parties includes the following:<br>Netherlands Development Finance Company: US$ 11.3 million<br>DEG: € 11.5 million<br>Standard Corporate and Merchant Bank: US$ 20.0 million<br>Barclays Bank (Local Syndicate Tanzania): TSH 19,744.0 million<br>and is collateralised by a charge over 51% of the shares, the license and Vodacom Tanzania Limited's tangible and intangible assets. The loans bear interest based upon the foreign currency denomination of the project financing between 5.5% and 13.0% per annum and will be fully repaid by March 2009. | | | |
| Balance carried forward | 400.0 | 440.0 | 591.0 |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 18. Interest bearing debt *(continued)*

### 18.2 Funding loans *(continued)*

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Balance brought forward | 400.0 | 440.0 | 591.0 |
| Extended credit facility of Vodacom Congo (RDC) s.p.r.l | – | – | 335.7 |
| The Group's share of Vodacom Congo (RDC) s.p.r.l's extended credit facility amounts to €38.9 million, which is partially collateralised by guarantees and cash deposits (Note 11), and bears interest at EURIBOR plus 1.75% and is repayable on April 30, 2004. (Note 39) | | | |
| Revolving credit facility of Vodacom Congo (RDC) s.p.r.l. | – | – | 130.0 |
| The Group's share of the short-term revolving credit facility provided by ABSA amounts to US$16.3 million. The credit facility is collateralised by guarantees provided by the Group and a letter of comfort, which bears interest at an effective interest rate of LIBOR plus 1.5% and is available until December 31, 2004. | | | |
| Loan to Vodacom Congo (RDC) s.p.r.l | – | – | 70.5 |
| The group's share of the loan provided by Standard Finance (Isle of Man) Limited amounts to US$8.8 million. The loan is collateralised by a letter of comfort, bears interest at an effective rate of 2.74% and is repayable on July 1, 2003 | | | |
| Less: Short-term portion of funding loans | | | |
| Commerzbank AG | – | (200.0) | – |
| Crédit Agricole Indosuez | – | (200.0) | – |
| Caspian Construction Company Limited | – | (18.3) | – |
| Planetel Communications Limited | – | (21.7) | – |
| Project finance to Vodacom Tanzania Limited | – | – | (65.9) |
| Revolving credit facility of Vodacom Congo (RDC) s.p.r.l | – | – | (130.0) |
| Loan to Vodacom Congo (RDC) s.p.r.l | – | – | (70.5) |
| Short-term portio.n of funding loans | – | (440.0) | (266.4) |
| Long-term portion of funding loans | 400.0 | – | 860.8 |

The fair value of the Group's funding loan liability is R1,127.2 million (2002: R444.6 million; 2001: R413.9 million).

### 18.3 Other short-term loans

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Vodacom Tanzania Limited | – | 539.4 | – |
| The loan of US$47.2 million from Standard Bank of London was uncollateralised, bore interest at an effective interest rate of LIBOR plus 1.5% and was repaid during August 2002. | | | |
| Vodacom (Proprietary) Limited | – | 26.1 | – |
| Vodacom Congo (RDC) s.p.r.l | – | – | 6.2 |
| The Group's share of the short–term loan amounts to US$0.8 million, repayable in equal monthly installments by June 30, 2003. | | | |
| | – | 565.5 | 6.2 |

The fair value of the Group's short-term loans is R6.2 million (2002: R565.5 million; 2001: Rnil)

## 18. Interest bearing debt *(continued)*

### 18.4 Repayment of interest bearing debt

| | 2004 Rm | 2005 Rm | 2006 Rm | 2007 Rm | 2008 Rm | 2009 onwards Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **Finance leases** | | | | | | | |
| Vodacom (Proprietary) Limited | 12.2 | 21.8 | 36.7 | 56.7 | 81.2 | 385.7 | 594.3 |
| Vodacom Service Provider Company (Proprietary) Limited | 1.3 | 6.5 | 12.9 | 20.9 | 30.6 | 218.4 | 290.6 |
| **Funding loans** | | | | | | | |
| Planetel Communication Limited | – | – | – | – | – | 48.5 | 48.5 |
| Caspian Construction Company Limited | – | – | – | – | – | 40.9 | 40.9 |
| Project finance funding to Vodacom Tanzania Limited | 65.9 | 84.6 | 108.7 | 111.7 | 58.7 | 72.0 | 501.6 |
| Extended credit facility of Vodacom Congo (RDC) s.p.r.l | – | 335.7 | – | – | – | – | 335.7 |
| Revolving credit facility of Vodacom Congo (RDC) s.p.r.l | 130.0 | – | – | – | – | – | 130.0 |
| Loan to Vodacom Congo (RDC) s.p.r.l | 70.5 | – | – | – | – | – | 70.5 |
| **Other short-term loans** | 6.2 | – | – | – | – | – | 6.2 |
| | 286.1 | 448.6 | 158.3 | 189.3 | 170.5 | 765.5 | 2,018.3 |

## 19. Accounts payable

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Trade creditors | 1,423.7 | 2,012.2 | 2,068.5 |
| Revenue charged in advance | 782.6 | 610.4 | 920.5 |
| Capital expenditure creditors | 664.8 | 457.8 | 707.9 |
| Reduced subscriptions | – | 17.8 | 61.0 |
| Value added taxation | 45.5 | 16.3 | – |
| Interest accrual | 28.9 | 5.7 | – |
| Sundry accounts payable and accruals | 207.3 | 103.4 | 41.1 |
| | 3,152.8 | 3,223.6 | 3,799.0 |

## 20. Shareholder loans

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Telkom SA Limited | 460.0 | 460.0 | 460.0 |
| Vodafone Group Plc | 124.3 | 124.3 | 124.3 |
| Vodafone Holdings (SA) (Proprietary) Limited | 165.5 | 165.5 | 197.7 |
| VenFin Finansieringskorporasie (Proprietary) Limited | 124.2 | 124.2 | 138.0 |
| Descarte Investments No. 8 (Proprietary) Limited | 46.0 | 46.0 | – |
| | 920.0 | 920.0 | 920.0 |

The shareholder loans are uncollateralised and bear interest at a rate of prime plus 2%. The average effective interest rate during the financial year was 18.35% (2002: 15.69%; 2001: 17.16%). The loans are repayable on demand of all the shareholders by no later than March 31, 2019. The shareholders have deferred their right to claim or accept payment of the amounts owing to them in favor of all other creditors in the event of the liquidation of the Group or should similar events occur. The shareholders have elected to have the loans repaid on June 30, 2003.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 21. Non-interest bearing debt

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Vodacom Tanzania Limited | 28.1 | – | – |
| Shareholder loans from Planetel Communication Limited of R15.3 million, and from Caspian Construction Company Limited of R12.8 million respectively. These loans are uncollateralised and no repayment terms have been determined. | | | |
| During the 2002 financial year the terms of these loans were amended and as of April 1,2002 they bear interest. (Note 18.2) | | | |
| Vodacom Lesotho (Proprietary) Limited | 4.3 | 4.3 | 4.3 |
| The shareholder's loan is uncollateralised and no repayment terms have been determined. The fair value of the Group's non-interest bearing debt liabilities could not be readily determined. | | | |
| | 32.4 | 4.3 | 4.3 |

## 22. Provisions

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Deferred bonus incentive provision | 214.4 | 311.4 | 231.7 |
| Bonus provision | 66.0 | 95.8 | 128.8 |
| Leave pay provision | 33.6 | 44.6 | 52.4 |
| Warranty provision | – | 1.8 | 9.5 |
| Other | 36.4 | 32.0 | 58.3 |
| | 350.4 | 485.6 | 480.7 |

| Reconciliation 2001 | Deferred bonus incentive provision Rm | Bonus provision Rm | Leave pay provision Rm | Warranty provision Rm | Other Rm |
|---|---|---|---|---|---|
| Balance at the beginning of the year | 123.8 | 48.1 | 27.0 | – | 38.5 |
| Provision created | 133.4 | 48.1 | 13.1 | – | 69.5 |
| Provision utilised | (42.8) | (30.2) | (6.5) | – | (71.6) |
| Balance at the end of the year | 214.4 | 66.0 | 33.6 | – | 36.4 |
| **Reconciliation 2002** | | | | | |
| Balance at the beginning of the year | 214.4 | 66.0 | 33.6 | – | 36.4 |
| Provision created | 161.8 | 112.0 | 19.5 | 39.8 | 76.1 |
| Provision utilised | (64.8) | (82.2) | (8.5) | (38.0) | (80.5) |
| Balance at the end of the year | 311.4 | 95.8 | 44.6 | 1.8 | 32.0 |
| **Reconciliation 2003** | | | | | |
| Balance at the beginning of the year | 311.4 | 95.8 | 44.6 | 1.8 | 32.0 |
| Provision created | 16.7 | 141.1 | 13.4 | 9.2 | 43.3 |
| Provision utilised | (96.4) | (108.1) | (5.6) | (1.5) | (17.0) |
| Balance at the end of the year | 231.7 | 128.8 | 52.4 | 9.5 | 58.3 |

## 22. Provisions *(continued)*

| Timing of Provisions | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Within one year | 273.8 | 297.6 | 324.4 |
| After one year | 76.6 | 188.0 | 156.3 |
| | 350.4 | 485.6 | 480.7 |

### 22.1 Deferred bonus incentive provision

The deferred bonus incentive provision represents the present value of bonus entitlements at the balance sheet date. The value of the bonus entitlements are determined based upon the audited consolidated financial statements of the Group. Periodically, a number of entitlements are issued to employees, the value of which depends on the level of the employee.

The participating rights of employees vest in two equal portions after three and six years respectively and employees are entitled to cash in their entitlements within one year after the participating rights have vested. The provision created represents the present value of the expected future cash outflows of the entitlement value at the balance sheet date less the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant.

The provision is utilised when eligible employees receive the value of vested entitlements.

### 22.2 Bonus provision

The bonus provision consists of a performance bonus based on profit achievement. The performance bonus is payable in May each year to members of management and is payable bi-annually in December and May to staff members. The maximum bonus payable is determined by applying a specific formula based upon the Group achieving a pre-determined profit and the employee's achievement of specified performance targets. Management and staff must be in service on May 31, to qualify for the bonus.

### 22.3 Leave pay provision

The leave pay provision relates to vested leave pay to which employees may become entitled upon leaving the employment of the Group. The provision arises as employees render a service that increases their entitlement to future compensated leave. The provision is utilised when employees who are entitled to leave pay, leave the employment of the Group or when the accrued leave due to an employee, is utilised.

### 22.4 Warranty provision

During the 2002 financial year, the warranty provision was created to cover manufacturing defects in the second year of warranty on handsets sold to customers.

## 23. Change in accounting policy

The Group changed its accounting policy for foreign exchange contracts and other financial instruments due to the adoption of International Accounting Standard 39 – Financial Instruments: Recognition and Measurement, during the year ended March 31, 2002. Under IAS 39, the Group does not qualify to apply hedge accounting to foreign exchange contracts and therefore all fair value adjustments are recognised in the income statement in the period in which they occur.

Interest rate swaps are also recorded and measured at fair value. All changes in fair value are recognised in the income statement in the period in which they occur.

These changes have had the effect of increasing net profit for the 2002 year and retained profit at the beginning of the 2002 year, and have been applied prospectively from April 1, 2001.

| | 2002 Net profit Rm | 2002 Opening retained earnings Rm |
|---|---|---|
| Gross effect | 352.3 | 121.4 |
| Foreign exchange contracts | 347.4 | 104.2 |
| Derivatives – Interest rate swaps | 4.9 | 17.2 |
| Taxation effect | (105.7) | (36.5) |
| Foreign exchange contracts | (104.2) | (31.3) |
| Interest rate swaps | (1.5) | (5.2) |
| | 246.6 | 84.9 |

## 24. Cash generated from operations

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Profit from operations | 2,553.4 | 3,621.1 | 4,329.9 |
| Adjusted for: | | | |
| Depreciation of property, plant and equipment | 1,364.1 | 1,857.3 | 2,163.0 |
| Net profit on disposal of property, plant and equipment | (0.4) | (3.4) | (2.6) |
| Revaluation of equity investment | – | 8.9 | – |
| Recoupment of Gateway asset accrual | – | (15.0) | – |
| Bad debts written off | 107.4 | 111.2 | 31.1 |
| Capital (profit) / loss on disposal of subsidiaries | 213.2 | (16.3) | – |
| GSM investment write-off | – | 0.3 | – |
| Impairment of assets | – | (1.0) | – |
| Amortisation of intangible assets | 271.5 | 212.7 | 210.7 |
| Cash flow from operations before working capital changes | 4,509.2 | 5,775.8 | 6,732.1 |
| Increase in accounts receivable | (718.9) | (264.5) | (241.9) |
| Decrease / (Increase) in inventory | (162.5) | 93.3 | 52.0 |
| Increase in accounts payable and provisions | 1,035.8 | 583.5 | 178.9 |
| Cash generated from operations | 4,663.6 | 6,188.1 | 6,721.1 |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 25. Finance costs paid

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Shareholder loans | (157.9) | (144.2) | (167.9) |
| Finance leases | (60.8) | (98.9) | (123.8) |
| Funding loans | (65.7) | (87.2) | (127.3) |
| Bank and other interest | (162.9) | (86.1) | (50.0) |
| Interest on minority shareholder loan | – | – | (9.7) |
| Other finance costs | – | – | (6.8) |
| Interest accrual at the beginning of the year | (22.3) | (28.9) | (5.7) |
| Interest accrual at the end of the year | 28.9 | 5.7 | – |
| | (440.7) | (439.6) | (491.2) |
| Foreign exchange premiums | (58.4) | – | – |
| Loss on foreign liability revaluation | – | (247.8) | (163.4) |
| Loss on foreign exchange contract revaluation | – | (199.0) | (831.2) |
| Realised foreign exchange losses | – | (5.0) | (62.2) |
| Interest rate swaps | (1.1) | – | (4.0) |
| Unrealised losses on revaluation of foreign exchange contracts | – | – | 808.8 |
| Unrealised losses on spot rate revaluation of creditor | – | – | 11.8 |
| Unrealised losses on interest rate swap | – | 2.2 | – |
| Other non-cash flow items | – | – | 9.7 |
| | (500.2) | (889.2) | (721.7) |

## 26. Interest, dividends and other financial income received

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Interest received – banks and loans | 25.4 | 27.7 | 51.4 |
| Dividends received – unlisted investments | – | 4.3 | 5.1 |
| Gain on remeasurement of minority shareholder loan | – | – | 92.8 |
| Guarantee fees | – | – | 14.7 |
| Other interest | – | 4.9 | 1.4 |
| Interest accrual at the end of the year | – | – | (10.3) |
| | 25.4 | 36.9 | 155.1 |
| Gain on foreign liability revaluation | – | 18.3 | 301.4 |
| Gain on foreign exchange contract revaluation | – | 778.4 | 244.7 |
| Realised foreign exchange gains | 2.3 | 2.5 | 6.7 |
| Interest rate swap revaluation | – | – | 18.2 |
| Interest rate swap interest | – | 4.3 | 6.0 |
| Unrealised gain on revaluation of foreign exchange contracts | – | (220.4) | (213.4) |
| Unrealised gain on spot rate revaluation of creditor | – | (41.0) | (113.0) |
| Unrealised gain on interest rate swap revaluation | – | – | (18.2) |
| Other non-cash flow items | – | (37.4) | (107.5) |
| | 27.7 | 541.6 | 280.0 |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 27. Taxation paid

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Taxation per the income statement | (765.7) | (1,190.7) | (1,198.9) |
| Taxation payable at the beginning of the year | (560.1) | (810.0) | (351.6) |
| Taxation payable at the end of the year | 810.0 | 351.6 | 315.2 |
| Deferred taxation at the beginning of the year | (309.8) | (268.4) | (428.5) |
| Deferred taxation at the end of the year | 268.4 | 428.5 | 288.4 |
| Business combination | (10.4) | (0.9) | – |
| Movement due to IAS 39 adjustment | – | (36.5) | – |
| Movement due to foreign equity revaluation reserve | – | (19.9) | 21.0 |
| Exchange difference on consolidation of foreign subsidiary | – | 7.2 | 17.0 |
| | (567.6) | (1,539.1) | (1,337.4) |

## 28. Additions to property, plant and equipment

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Additions to property, plant and equipment (Note 9) | (3,184.2) | (4,085.3) | (3,399.3) |
| Less: Vodacom (Proprietary) Limited finance leases | 106.3 | – | 81.1 |
| Vodacom Service Provider Company (Proprietary) Limited finance leases | – | 282.2 | – |
| Skyprops 157 (Proprietary) Limited finance leases | – | – | 1.6 |
| Increase / (decrease) in capex related creditors | 243.0 | (606.0) | 250.1 |
| | (2,834.9) | (4,409.1) | (3,066.5) |

## 29. Disposal/(acquisition) of subsidiaries

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **Disposals of subsidiaries** | | | |
| Vodacom Sport & Entertainment (Proprietary) Limited (Note 29.1 a) | – | 17.9 | 22.5 |
| Film Fun (Holdings) (Proprietary) Limited (Note 29.1 b) | – | (16.2) | 9.0 |
| | – | 1.7 | 31.5 |
| **Acquisition of subsidiaries** | | | |
| Skyprops 157 (Proprietary) Limited (Note 29.2.a) | – | – | – |
| Vodacom International Holdings (Proprietary) Limited and Vodacom International Limited (Note 29.2 b) | – | (0.1) | – |
| Vodacom Satellite Services (Proprietary) Limited (Note 29.2 c) | (91.1) | – | – |
| Vodacom Sport & Entertainment (Proprietary) Limited (Note 29.2 d) | 7.9 | – | – |
| Film Fun (Holdings) (Proprietary) Limited (Note 29.2 e) | (8.5) | – | – |
| Vodacom Tanzania Limited (Note 29.2 f) | (28.9) | – | – |
| Vodacom Tanzania Limited (Note 29.2 g) | 6.8 | – | – |
| | (113.8) | (0.1) | – |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 29. Disposal/(acquisition) of subsidiaries *(continued)*

### 29.1 Subsidiaries disposed

**a) Vodacom Sport & Entertainment (Proprietary) Limited**

On February 27, 2002, the Group disposed of it's 51% interest in Vodacom Sport & Entertainment (Proprietary) Limited.

The fair value of the assets and liabilities disposed were as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Carrying amount of net assets disposed of | – | 9.8 | – |
| Property, plant and equipment | – | 1.3 | – |
| Investments | – | 2.7 | – |
| Inventory | – | 0.5 | – |
| Accounts receivable | – | 228.6 | – |
| Deferred taxation | – | 1.6 | – |
| Cash and cash equivalents | – | 4.6 | – |
| Accounts payable | – | (227.9) | – |
| Taxation payable | – | (0.4) | – |
| VAT payable | | (1.2) | |
| Minority interest | – | (4.8) | – |
| Capital gain on disposal | – | 40.0 | – |
| Selling price | – | 45.0 | – |
| Cash and cash equivalents | – | (4.6) | – |
| Cash consideration | – | 40.4 | – |
| Less: Amount receivable | – | (22.5) | – |
| | – | 17.9 | – |
| Selling price satisfied by: | – | 45.0 | 22.5 |
| Cash | – | 22.5 | 22.5 |
| The consideration was deferred during 2002 for settlement in two equal installments on August 31, 2002 and August 31, 2003 (Notes 11 & 14). | – | 22.5 | – |

A total amount of R25.7 million, which includes accrued interest, was received during the 2003 financial year.

## 29. Disposal/(acquisition) of subsidiaries *(continued)*

### 29.1 Subsidiaries disposed *(continued)*

**b) Film Fun (Holdings) (Proprietary) Limited**

On March 31, 2002, the Group disposed of its interest in Film Fun (Holdings) (Proprietary) Limited, Africell Cellular Services (Proprietary) Limited and Teljoy (Botswana) (Proprietary) Limited.

The fair value of the assets and liabilities disposed were as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Carrying amount of net assets disposed of | – | 62.8 | – |
| Property, plant and equipment | – | 64.7 | – |
| Loan – Teljoy Holdings Limited | – | 28.0 | – |
| Goodwill | – | 15.9 | – |
| Cash and cash equivalents | – | 16.2 | – |
| Accounts receivable | – | 7.2 | – |
| Inventory | – | 5.3 | – |
| Shareholding in subsidiaries | – | 4.2 | – |
| Investments | – | 3.3 | – |
| Taxation receivable | – | 1.1 | – |
| Accounts payable | – | (64.2) | – |
| Provision for licenses | – | (25.0) | – |
| Deferred taxation | – | (2.7) | – |
| Non-distributable reserve | – | (0.2) | – |
| Trademark | – | 9.0 | – |
| Capital loss on disposal | – | (53.8) | – |
| Selling price | – | 9.0 | – |
| Cash and cash equivalents | – | (16.2) | – |
| Cash consideration | – | (7.2) | – |
| Less: Amount receivable | – | (9.0) | – |
| | – | (16.2) | – |
| Selling price satisfied by: | – | 9.0 | 9.0 |
| Cash | – | – | 9.0 |
| Deferred consideration | – | 9.0 | – |

The deferred consideration was received in cash from the new owners on May 15, 2002.

### 29.2 Subsidiaries acquired

**a) Skyprops 157 (Proprietary) Limited**

During the 2003 financial year the Group exercised its option included in the finance lease agreement and acquired 100% of Skyprops 157 (Proprietary) Limited.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| The fair value of the net assets acquired are as follows: | – | – | – |
| Property, plant and equipment | – | – | 1.6 |
| Long-term loan | – | – | (1.6) |
| Purchase price | – | – | – |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 29. Disposal/(acquisition) of subsidiaries *(continued)*

### 29.2 Subsidiaries acquired *(continued)*

**b) Vodacom International Holdings (Proprietary) Limited and Vodacom International Limited**

Both companies became operational from April 1, 2001. Vodacom Group (Proprietary) Limited holds 100% of the issued share capital of Vodacom International Holdings (Proprietary) Limited, who in turn holds 100% of the issued share capital of Vodacom International Limited, a company based in Mauritius. The fair value of the share capital acquired is as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Share capital | – | (0.1) | – |

**c) Vodacom Satellite Services (Proprietary) Limited**

During the 2001 financial year the Group acquired 100% of Vodacom Satellite Services (Proprietary) Limited. The fair value of the assets acquired and liabilities assumed were as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Fair value of net assets acquired | (43.5) | – | – |
| Property, plant and equipment | 96.6 | – | – |
| Inventory | 0.7 | – | – |
| Accounts receivable | 1.9 | – | – |
| Cash and cash equivalents | 10.0 | – | – |
| Shareholder loans | (33.0) | – | – |
| Accounts payable | (32.7) | – | – |
| Goodwill (amortised over 5 years) | (24.6) | – | – |
| Shareholder loans | (33.0) | – | – |
| Purchase price | (101.1) | – | – |
| Cash and cash equivalents | 10.0 | – | – |
| Cash consideration | (91.1) | – | – |

**d) Vodacom Sport & Entertainment (Proprietary) Limited**

During the financial year ended March 31, 2000, Vodacom Sport & Entertainment (Proprietary) Limited was treated as a joint venture and proportionately consolidated at 51%, but from the 2001 financial year, it was consolidated in full.

The adjustments that were made are as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Fair value of net assets acquired | (1.0) | – | – |
| Property, plant and equipment | 0.9 | – | – |
| Deferred taxation | 0.3 | – | – |
| Investments | 0.1 | – | – |
| Accounts receivable | 9.3 | – | – |
| Cash and cash equivalents | 7.9 | – | – |
| Accounts payable | (15.0) | – | – |
| Taxation | (2.5) | – | – |
| Net assets acquired | 8.9 | – | – |
| Cash consideration | 7.9 | – | – |

## 29. Disposal/(acquisition) of subsidiaries *(continued)*

### 29.2 Subsidiaries acquired *(continued)*

**e) Film Fun (Holdings) (Proprietary) Limited**

During the 2000 financial year the group acquired 100% of Teljoy Holdings Limited. Included in this acquisition, the Group acquired 100% of Film Fun (Holdings) (Proprietary) Limited trading as Teljoy. The investment was consolidated from the 2001 financial year. The fair value of the assets acquired and liabilities assumed were as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Fair value of net assets acquired | (19.2) | - | - |
| Long-term loans | (20.4) | - | - |
| Property, plant and equipment | 126.9 | - | - |
| Intangible assets | 0.3 | - | - |
| Investments | 0.3 | - | - |
| Inventory | 12.9 | - | - |
| Accounts receivable | 17.2 | - | - |
| Accounts payable | (46.7) | - | - |
| Cash and cash equivalents | (8.4) | - | - |
| Trademark | 15.0 | - | - |
| Deferred taxation – trademark | (4.5) | - | - |
| Shareholder loans | (70.0) | - | - |
| Taxation | (3.4) | - | - |
| Goodwill (amortised over 5 years) | (26.6) | - | - |
| Purchase price | (45.8) | - | - |
| Net cash flow on acquisition of wholly-owned subsidiary | 54.3 | - | - |
| Cash consideration | (8.5) | - | - |

**f) Vodacom Tanzania Limited**

On July 14, 2000, the Group acquired an additional 14% of Vodacom Tanzania Limited. The fair value of the assets acquired and liabilities assumed were as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Fair value of net assets acquired | (9.6) | - | - |
| Property, plant and equipment | 6.7 | - | - |
| Intangible assets | 6.8 | - | - |
| Inventory | 10.2 | - | - |
| Accounts receivable | 6.8 | - | - |
| Cash and cash equivalents | 2.7 | - | - |
| Shareholder loans | (39.2) | - | - |
| Accounts payable | (3.6) | - | - |
| Minority interest | (3.4) | - | - |
| Investments previously recognised | (4.9) | - | - |
| Goodwill (amortised over 5 years) | (30.2) | - | - |
| Cash consideration | (28.9) | - | - |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 29. Disposal/(acquisition) of subsidiaries *(continued)*

### 29.2 Subsidiaries acquired *(continued)*

**g) Vodacom Tanzania Limited**

During the financial year ended March 31, 2000, Vodacom Tanzania Limited was treated as a joint venture and proportionately consolidated at 51%, but from the 2001 financial year, it was consolidated in full as the change in shareholding changed the nature of the investment. The additional percentage acquired resulted in Vodacom Group (Proprietary) Limited obtaining control. The adjustments that were made are as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Fair value of net assets acquired | (1.0) | – | – |
| Property, plant and equipment | 0.7 | – | – |
| Intangible assets | 3.2 | – | – |
| Investments | 4.7 | – | – |
| Accounts receivable | 0.4 | – | – |
| Cash and cash equivalents | 6.8 | – | – |
| Non-distributable reserve | 0.1 | – | – |
| Shareholder loans | (16.0) | – | – |
| Accounts payable | (0.9) | – | – |
| Net assets acquired | 7.8 | – | – |
| Cash consideration | 6.8 | – | – |

## 30. Disposal/(acquisition) of joint ventures

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **Disposal of joint ventures** | | | |
| Vodacom World Online (Proprietary) Limited (Note 30.1 a) | – | 23.3 | – |
| **Acquisition of joint ventures** | | | |
| Vodacom Congo (RDC) s.p.r.l. | – | – | – |

During the 2002 financial year Vodacom Congo (RDC) s.p.r.l. was formed and financed by the Group and accordingly it had no cash effect on the Group's cash flow.

### 30.1 Joint ventures disposed

**a) Vodacom World Online (Proprietary) Limited**

On November 30, 2001, the Group disposed of it's 40% joint venture shareholding in Vodacom World Online (Proprietary) Limited. The fair value of the assets and liabilities disposed were as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Carrying amount of net assets disposed | – | 1.7 | – |
| Property, plant and equipment | – | 6.7 | – |
| Inventory | – | 0.6 | – |
| Accounts receivable | – | 6.6 | – |
| Taxation payable | – | (0.1) | – |
| Cash and cash equivalents | – | 8.5 | – |
| Accounts payable | – | (20.6) | – |
| Capital gain on disposal | – | 30.1 | – |
| Selling price | – | 31.8 | – |
| Cash and cash equivalents | – | (8.5) | – |
| Cash consideration | – | 23.3 | – |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 31. Cash and cash equivalents at end of year

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Bank and cash balances | 797.6 | 719.2 | 1,206.5 |
| Bank overdraft | (1,593.7) | (1,576.8) | (559.0) |
| | (796.1) | (857.6) | 647.5 |

## 32. Earnings and dividend per share

### 32.1 Basic and diluted earnings per share

| | 2001 R | 2002 R | 2003 R |
|---|---|---|---|
| The calculation of basic earnings per ordinary share is based on earnings of R2,214.6 million (2002: R2,373.0 million; 2001: R1,317.8 million) and 10,000 issued ordinary shares (2002: 10,000; 2001: 10,000). | 131,780 | 237,300 | 221,460 |

Due to no dilution factors being present, basic earnings per share equals diluted earnings per share.

### 32.2 Dividend per share

The calculation of the dividend per ordinary share is based on a declared ordinary dividend of R600.0 million (2002: R600 million; 2001: R480.0 million) and 10,000 issued ordinary shares (2002: 10,000; 2001: 10,000).

The dividends were declared as follows:

| | 2001 R | 2002 R | 2003 R |
|---|---|---|---|
| Declared March 20, 2003 to shareholders registered on June 28, 2003 and payable June 30, 2003 (Final) | – | – | 60,000 |
| Declared March 21, 2002 and payable June 28, 2002 (Final) | – | 60,000 | – |
| Declared March 15, 2001 and payable June 29, 2001 (Final) | 48,000 | – | – |
| | 48,000 | 60,000 | 60,000 |

## 33. Capital commitments

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Commitments for orders in respect of existing contracts: | | | |
| Vodacom (Proprietary) Limited | 1,272.1 | 1,005.2 | 517.8 |
| Vodacom Congo (RDC) s.p.r.l | – | 303.7 | 62.0 |
| Vodacom Tanzania Limited | 47.5 | 78.9 | 70.4 |
| Vodacom Service Provider Company (Proprietary) Limited | 290.8 | 59.9 | 10.6 |
| Vodacom International Holdings (Proprietary) Limited | – | 2.2 | – |
| Vodacom Group (Proprietary) Limited | – | 0.3 | 0.3 |
| Vodacom Lesotho (Proprietary) Limited | 5.1 | – | 0.6 |
| | 1,615.5 | 1,450.2 | 661.7 |
| Commitments not yet contracted for: | | | |
| Vodacom (Proprietary) Limited | 2,871.9 | 805.5 | 852.8 |
| Vodacom Tanzania Limited | 484.5 | 10.3 | 221.0 |
| Vodacom Congo (RDC) s.p.r.l | – | 16.0 | 126.3 |
| Vodacom Service Provider Company (Proprietary) Limited | 250.8 | 15.9 | 35.1 |
| Vodacom International Holdings (Proprietary) Limited | – | – | 3.0 |
| Vodacom Lesotho (Proprietary) Limited | 23.5 | 1.9 | 4.3 |
| Vodacom Group (Proprietary) Limited | 2.7 | – | – |
| Other | 32.9 | – | – |
| | 3,666.3 | 849.6 | 1,242.5 |

The capital expenditure of the Group will be financed through internal cash generated, extended supplier credit and bank credit.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 34. Other commitments

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Operating leases | 3,749.3 | 2,313.7 | 3,046.5 |
| Sport and marketing contracts | 388.8 | 321.1 | 457.0 |
| | 4,138.1 | 2,634.8 | 3,503.5 |

| | Within one year Rm | Between two and five years Rm | After five years Rm | Total Rm |
|---|---|---|---|---|
| **34.1 Operating leases** | | | | |
| Transmission and data lines GSM | 456.1 | 1,813.7 | – | 2,269.8 |
| Office equipment | 0.2 | 1.1 | – | 1.3 |
| Other operating leases | 67.0 | 276.7 | 431.7 | 775.4 |
| | 523.3 | 2,091.5 | 431.7 | 3,046.5 |
| **34.2 Sport and marketing contracts** | 246.9 | 210.1 | – | 457.0 |

### 34.3 License fees

Network operators in the group pay monthly license fees based on their net operational income as defined in the license agreement. Net operational income is defined as the total invoiced revenue of the licensee excluding discounts, Value Added Taxation and other direct taxes derived from customers of the licensee for the provision to them of the service, less net interconnect fees and bad debts actually incurred.

### 34.4 Interception of Communications and Provision of Communication-related Information Act ("the Act")

The Act was assented and published on January 22, 2003, but will only become effective at some point in future of which the date is currently uncertain. Due to the fact that certain provisions of the Act are still being finalised a reliable estimate of capital and operating costs that will potentially be incurred in order to comply with the provisions of the Act, cannot be estimated at this stage.

## 35. Contingent liabilities

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Vodacom Satellite Services (Proprietary) Limited | | | |
| An invoice amounting to R34.0 million was raised and issued to Vodacom Satellite Services (Proprietary) Limited on May 22, 2001, for services rendered at the earth station in Delareyville, over a period of 26 months. The invoice was under dispute as no formal agreement was in place with the supplier, Telkom SA Limited, for those services rendered. Vodacom Satellite Services (Proprietary) Limited and Telkom SA Limited reached an agreement during the course of the 2002 financial year whereby an invoice of R22.8 million, inclusive of VAT, was issued and paid in December 2001 (Note 3). | 34.0 | – | – |
| The functionality of the Gateway assets is under dispute and Vodacom Satellite Services (Proprietary) Limited and Vodafone Satellite Services Limited do not recognise the liability of US$0.9 million to Globalstar LP. This amount has been written back to income in the 2002 year as the success of this claim is deemed to be remote (Note 3). | – | 15.0 | 7.8 |
| HGL Advertising Company Limited | – | – | 70.1 |
| Vodacom Tanzania Limited is a defendant in a court case in the high court of Tanzania in which the plaintiff, HGL Advertising Company Limited, is demanding compensation of US$ 8.8 million for losses and damages allegedly incurred by them as a result of an illegal breach of contract. The facts of the case show there was no contract but rather a request to tender. The company's legal counsel is of the opinion that the case has a very limited chance of success. Should the plaintiff be successful no reliable estimate of the damages awarded can be estimated. | | | |
| Various other legal matters | – | 5.0 | 5.5 |
| | 34.0 | 20.0 | 83.4 |

## 35. Contingent liabilities *(continued)*

### 35.1 Vodacom Congo (RDC) s.p.r.l.

The Group has a 51% equity interest in Vodacom Congo (RDC) s.p.r.l., ("Vodacom Congo"), which commenced business on December 11, 2001. This investment is governed by a shareholders' agreement, which provides the other shareholder with certain protective and participating rights and therefore, in terms of IAS 31: "Accounting for interest in Joint Ventures", Vodacom Congo may not be consolidated as a subsidiary as it is considered to be a joint venture resulting in it being proportionally consolidated in the financial statements at March 31, 2003 and 2002 and for the years then ended.

The Group, in terms of the shareholders' agreement, is however ultimately responsible for the funding of the operations of Vodacom Congo. The shareholders' agreement also gives the Group the right to appoint management and the majority of the Board of the company. The Group also has a management agreement to manage the company on a day-to-day basis. Currently Vodacom Congo is incurring losses, which are expected to continue in the short term. The 49% portion attributable to the joint venture partner of the liabilities and losses as at March 31, 2003 and 2002 were as follows:

| | 2002 Rm | 2003 Rm |
|---|---|---|
| Net loss for the year | (19.3) | (185.7) |
| Total liabilities | (29.7) | (521.5) |
| Total assets | 440.3 | 657.7 |
| Preference shares | (368.1) | (368.1) |

Furthermore, the following guarantees were approved but not issued by the Group in respect of Vodacom Congo (RDC) s.p.r.l at the balance sheet date:

| March 31, 2003 | Details | Beneficiary | Date issued | € Mil |
|---|---|---|---|---|
| Approved not issued | Guarantees not yet issued | ABSA Bank Limited | n/a | 4.0 |

All guarantees issued are disclosed in Note 39.

### 35.2 Negative working capital ratio

For financial years ending 2003, 2002 and 2001 the Group had a negative working capital ratio. A negative working capital ratio arises when the group's current liabilities are greater than the current assets. The Group's management believes that based on its operating cash flow, it will be able to meet liabilities as they arise and that it is in compliance with all covenants contained in the borrowing agreements.

## 36. Retirement benefits

All eligible employees of the Group are members of the Vodacom Group Pension Fund, a defined contribution pension scheme. Certain executive employees of the Group are also members of the Vodacom Executive Provident Fund, a defined contribution provident scheme. Both schemes are administered by ABSA Consultants and Actuaries (Proprietary) Limited. Current contributions to the pension fund amounted to R52.5 million (2002: R42.8 million; 2001: R42.5 million). Current contributions to the provident fund amounted to R5.4 million (2002: R2.3 million; 2001: Rnil). South African funds are governed by the Pension Funds Act of 1956.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|

## 37. Related party transactions

### 37.1 Balances with related parties

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **Included in accounts receivable:** | | | |
| Telkom SA Limited – Interconnect | 516.4 | 529.4 | 497.3 |
| Telkom SA Limited – Other | 13.8 | 14.1 | 9.3 |
| Vodafone Group Plc | 1.0 | 1.6 | 3.8 |
| **Included in accounts payable:** | | | |
| Telkom SA Limited – Interconnect | 50.1 | 78.2 | 67.8 |
| Telkom SA Limited – Other | – | 3.0 | 2.0 |
| Vodafone Group Plc | 0.8 | – | 2.7 |
| **Shareholder loans (Note 20)** | | | |
| Telkom SA Limited | 460.0 | 460.0 | 460.0 |
| Vodafone Group Plc | 124.3 | 124.3 | 124.3 |
| Vodafone Holdings (SA) (Proprietary) Limited | 165.5 | 165.5 | 197.7 |
| VenFin Finansieringskorporasie (Proprietary) Limited | 124.2 | 124.2 | 138.0 |
| Descarte Investments No. 8 (Proprietary) Limited | 46.0 | 46.0 | – |

### 37.2 Transactions with related parties

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **Telkom SA Limited** | 1,699.3 | 1,854.6 | 1,802.2 |
| Interconnect income | 2,729.1 | 2,942.5 | 2,945.2 |
| Cellular usage | 43.4 | 24.1 | 32.8 |
| IPO Co-operation fee | – | – | 50.0 |
| Interest (paid) / received – commercial | – | 0.4 | (0.5) |
| Audit fees recovered | – | – | 28.5 |
| Lease of transmission lines | (321.1) | (336.0) | (445.4) |
| Interconnect fees | (297.0) | (305.7) | (348.5) |
| Interest payments on shareholder loan | (78.9) | (72.1) | (83.9) |
| Telephone landline usage | (20.4) | (34.6) | (21.4) |
| Installation of transmission lines | (34.3) | (32.7) | (36.9) |
| Management fees | – | (20.0) | – |
| Site costs | (6.5) | (11.3) | (17.7) |
| Shareholder loan repayment | (75.0) | – | – |
| Dividend paid | (240.0) | (300.0) | (300.0) |
| **Vodafone Group Plc** | (70.2) | (25.5) | (30.5) |
| Roaming income (transacted within the Vodafone Group) | 24.1 | 27.4 | 38.2 |
| Roaming expense (transacted within the Vodafone Group) | (24.6) | (33.4) | (46.0) |
| Interest payments on shareholder loan | (22.4) | (19.5) | (22.7) |
| Shareholder loan repayment | (47.3) | – | – |
| **Vodafone Holdings (SA) (Proprietary) Limited** | (178.5) | (215.0) | (243.3) |
| Interest payments on shareholder loan | (27.3) | (26.0) | (33.3) |
| Dividend paid | (151.2) | (189.0) | (210.0) |

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| **37. Related party transactions *(continued)*** | | | |
| **37.2 Transactions with related parties *(continued)*** | | | |
| VenFin Finansieringskorporasie (Proprietary) Limited | (81.1) | (56.8) | (53.8) |
| Interest payments on shareholder loan | (21.3) | (19.5) | (24.0) |
| Interest payments on overdraft account | (39.6) | (37.3) | (29.3) |
| Facilities | – | – | (0.5) |
| Shareholder loan repayment | (20.2) | – | – |
| Descarte Investments No.8 (Proprietary) Limited | (39.4) | (37.2) | (4.0) |
| Interest payments on shareholder loan | (7.9) | (7.2) | (4.0) |
| Shareholder loan repayment | (7.5) | – | – |
| Dividend paid | (24.0) | (30.0) | – |
| Van Rijn Beleggingskorporasie Limited | | | |
| Dividend paid | (64.8) | (81.0) | (90.0) |
| **37.3 Directors' emoluments** | | | |
| Directors' remuneration | (20.6) | (25.2) | (21.2) |
| Executive directors – fees as directors: salaries | (4.6) | (5.1) | (13.4) |
| Executive directors – fees as directors: fringe benefits | (0.3) | (0.4) | (0.4) |
| Executive directors – fees as directors: bonuses | (15.2) | (19.1) | (6.8) |
| Non-executive directors – fees as directors | (0.5) | (0.6) | (0.6) |
| Included in directors' remuneration | (0.5) | (0.9) | (1.5) |
| Pension fund employer contributions | (0.4) | (0.4) | (0.5) |
| Provident fund employer contributions | – | (0.4) | (0.8) |
| Medical aid employer contributions | (0.1) | (0.1) | (0.2) |
| Directors' remuneration and emoluments paid by: | (20.6) | (25.2) | (21.2) |
| Vodacom Group (Proprietary) Limited | (14.6) | (17.4) | (16.9) |
| Subsidiaries | (6.0) | (7.8) | (4.3) |

## 38. Financial instruments and risk management

The Group purchases or issues financial instruments in order to finance its operations and to manage the interest rate and currency risks that arise from its operations and sources of finance. Various financial balances for example trade debtors, trade creditors, accruals, and provisions, arise directly from the Group's operations. Changing market conditions expose the Group to various financial risks and have highlighted the importance of financial risk management as an element of control for the Group. Principal financial risks faced in the normal course of the Group's business are foreign currency rate risk, interest rates risk, credit risk, and liquidity risk.

The Group finances its operations through a mixture of retained profits, bank borrowings and long-term loans. Long-term financing is arranged locally by the South African entities. A treasury division within Vodacom Group (Proprietary) Limited has been established to provide treasury related services within the Group, including co-ordinating access to domestic and international financial markets, and the managing of various financial risks relating to the Group's operations.

The Group utilises derivative instruments, the objective of which is to reduce exposure to fluctuations in foreign currency rates and interest rates, and to manage the liquidity of cash resources within the Group. Trading in derivative instruments for speculative purposes is strictly prohibited.

Group treasury policies, risk limits, and control procedures are continuously monitored by management and the board of directors, through the Audit Committee, the objective being to minimise exposure to foreign currency risk, interest rate risk, credit risk and liquidity risk. These risks are managed within an approved Treasury Policy.

## 38. Financial instruments and risk management *(continued)*

### 38.1 Foreign currency management

The Group enters into foreign exchange contracts to buy specified amounts of various foreign currencies in the future at a predetermined exchange rate. The contracts are entered into in order to manage the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. The contracts are matched with anticipated future cash flows in foreign currencies primarily from purchases of capital equipment. The Group's policy is to enter into foreign exchange contracts for 100% of the committed net foreign currency payments.

The Group has entered into numerous foreign exchange contracts to cover foreign capital commitments in respect of future imports of GSM infrastructure. The total value of foreign exchange contracts at year-end was:

| **Forward contracts to buy foreign currency** | **Foreign contract value** | **Forward value** | **Fair value adjustment** |
|---|---|---|---|
| **2001** | **Mil** | **Rm** | **Rm** |
| United States Dollar | 130.2 | 995.0 | 68.4 |
| Deutschmark | 90.2 | 322.7 | 8.9 |
| Euro | 41.3 | 300.2 | (0.1) |
| Pound Sterling | 0.9 | 10.9 | 0.1 |
| Swedish Krona | 1.7 | 1.3 | – |
| Swiss Franc | 0.1 | 0.6 | – |
| | | 1,630.7 | 77.3 |
| **2002** | | | |
| United States Dollar | 102.6 | 1,099.4 | 119.0 |
| Euro | 134.8 | 1,285.6 | 95.7 |
| Pound Sterling | 0.2 | 2.6 | (0.1) |
| | | 2,387.6 | 214.6 |
| **2003** | | | |
| United States Dollar | 61.0 | 604.2 | (103.4) |
| Swiss Franc | 0.6 | 3.5 | – |
| Euro | 111.5 | 1,078.9 | (97.2) |
| Pound Sterling | 0.1 | 1.0 | – |
| | | 1,687.6 | (200.6) |
| **Forward contracts to sell foreign currency** | | | |
| **2001** | | | |
| United States Dollar | 1.6 | 12.4 | (0.6) |
| Euro | 1.2 | 9.3 | – |
| Deutschmark | 14.0 | 52.1 | 0.3 |
| | | 73.8 | (0.3) |
| **2002** | | | |
| United States Dollar | 3.6 | 42.7 | 0.7 |
| Euro | 6.1 | 63.3 | 0.3 |
| Pound Sterling | 0.1 | 1.0 | – |
| | | 107.0 | 1.0 |
| **2003** | | | |
| United States Dollar | 7.0 | 69.4 | 11.8 |
| Euro | 20.9 | 205.5 | 22.8 |
| | | 274.9 | 34.6 |

Forward value represents the foreign contract value multiplied by the contracted forward exchange rate.

## 38. Financial instruments and risk management *(continued)*

### 38.2 Interest rate risk management

The Group has entered into interest rate swap contracts that entitle, or oblige it to receive interest at fixed rate on notional principal amounts and entitle, or oblige it to pay interest at floating rates on the same notional principal amounts. The interest rate swaps allow the Group to swap long-term debt from fixed rates into floating rates that are lower, or higher, than those available if it had borrowed at floating rates directly. Under the interest rates swaps, the Group agrees with other parties to exchange, at specified quarterly intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

At March 31, 2003 the Group had three interest rate swaps:

- Vodacom Group (Proprietary) Limited – the Group swapped its fixed interest rate of 14.9% NACQ (Nominal Annual Compounded Quarterly) for a floating rate, linked to the BA (Banker's Acceptance) rate plus margin of 2.00%.
- Vodacom (Proprietary) Limited – the Company swapped its fixed interest rate of 20.1% NACQ (Nominal Annual Compounded Quarterly) for a floating rate linked to the BA (Banker's Acceptance) rate plus margin of 2.25%.
- Vodacom (Proprietary) Limited – the Company swapped its fixed interest rate of 12.9% NACM (Nominal Annual Compounded Monthly) for a floating rate linked to the BA (Banker's Acceptance) rate plus margin of 2.00%.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Fair value of interest rate swap asset | 17.2 | 9.4 | 27.6 |

The fair value of the interest rate swap asset is represented by a notional principal amount of R238.0 million (2002: R148.8 million; 2001: R146.9 million) at a weighted average floating interest rate of 15.4% NACM (Nominal Annual Compounded Monthly) (2002: between 12.1% and 12.6%; 2001: 12.6%).

### 38.3 Credit risk management

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash, short-term deposits and trade receivables. The Group's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions. Trade receivables are presented net of an allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and stringent credit approval processes for contracted subscribers.

The Group does not have any significant exposure to any individual customer or counter-party, except commercially to Telkom SA Limited (the Group's largest shareholder), Mobile Telecommunications Network (Proprietary) Limited, the Group's largest competitor, and Cell C (Proprietary) Limited, the country's third network operator.

With respect to the forward exchange contracts, the Group's exposure is on the full amount of the foreign currency payable on settlement. The Group minimises such risk by limiting the counter-parties to a group of major international banks, and does not expect to incur any losses as a result of non-performance by these counter-parties. The positions in respect of these counter-parties are closely monitored.

The carrying amounts of financial assets included in the consolidated balance sheet represent the Group's exposure to credit risk in relation to these assets. The credit exposure of forward exchange contracts is represented by the fair value of the contracts.

### 38.4 Liquidity risk management

The Group is exposed to liquidity risk as a result of uncertain debtor related cash flows and the capital commitments of the Group. In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments through utilisation of undrawn borrowing facilities (Note 39). In terms of its long-term liquidity risk, a reasonable balance is maintained between the period over which assets generate funds and the period over which the respective assets are funded. (Note 35.2)

### 38.5 Fair value of financial instruments

At the balance sheet date, the carrying amounts of cash and short-term deposits, accounts receivables, accounts payable and accrued expenses, and short-term debt approximated their fair values due to the short-term maturities of these assets and liabilities.

The fair value of forward exchange contracts and interest rate swaps are determined using quoted prices or, where such prices are not available, a discounted cash flow analysis is used. These amounts reflect the approximate values of the derivative positions at balance sheet date.

## 39. Undrawn borrowing facilities and guarantees

### 39.1 Rand denominated facilities and guarantees

The Group has a Rand denominated credit facility totaling R4,082.0 million with R4,082.0 million unutilised at March 31, 2003. The facilities are uncommitted and can also be utilised for foreign loans and are subject to review at various dates (usually on an annual basis).

| | Details | Beneficiary | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|---|---|
| Vodacom (Proprietary) Limited | All guarantees less than R0.2 million in terms of various lease agreements | Third parties | 1.9 | 1.9 | 2.1 |
| Vodacom (Proprietary) Limited | Electricity supply | Eskom | 1.0 | 1.0 | 1.0 |
| Vodacom Service Provider Company (Proprietary) Limited | All guarantees less than R0.1 million in terms of various lease agreements | Third parties | 0.4 | 0.4 | 0.6 |
| Vodacom Service Provider Company (Proprietary) Limited | Electricity supply | Midrand Town Council | 1.0 | 1.0 | 1.0 |
| Vodacom Group (Proprietary) Limited | Guarantee for the receipt of independent intermediaries of premiums on behalf of short-term insurers and Lloyd's underwriters, and relating to short-term insurance business carried on in RSA | SA Insurance Association for benefit of insurers | – | – | 9.5 |
| | | | 4.3 | 4.3 | 14.2 |

### 39.2 Foreign denominated facilities and guarantees

Vodacom Tanzania Limited has project funding facilities of US$65.1 million, which were fully utilised at March 31, 2003. Vodacom Congo (RDC) s.p.r.l has bridging facilities of €101.6 million of which €25.3 million are unutilised at March 31, 2003. Vodacom Congo (RDC) s.p.r.l also has a revolving credit facility of US$49.5 million of which US$5.0 million was unutilised at March 31, 2003. Foreign currency term facilities are predominantly US Dollar based, at various maturities and are utilised for bridging and short-term working capital needs.

| | Details | Beneficiary | Currency | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|---|---|---|
| Vodacom (Proprietary) Limited | Standby letters of credit * | Alcatel CIT | €27.0 million (2002: €30.0. million; 2001: €5.1 million) | 36.2 | 299.9 | 233.0 |
| Vodacom Group (Proprietary) Limited | Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l ** | ABSA | €49.8 million (2002: €nil; 2001: €nil) | – | – | 429.7 |
| Vodacom Group (Proprietary) Limited | Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l's revolving credit facility ** | ABSA | US$ 32.0 million (2002: US$nil 2001: US$nil) | – | – | 255.0 |
| | | | | 36.2 | 299.9 | 917.7 |

* Amounts drawn down on the standby letters of credit amounted to R66.8 million (2002: R98.4 million; 2001: R13.7 million) and are included as liabilities in the balance sheet.

** Guarantees amounting to R349.2 million (2002: Rnil; 2001: Rnil) are included as liabilities in the balance sheet.

Companies within the Group have provided the following guarantees:

Vodacom (Proprietary) Limited provides an unlimited guarantee for borrowings entered into by Vodacom Group (Proprietary) Limited.

## 40. Segmental information

The Group is primarily an integrated mobile telecommunication and data communication business located in South Africa but does have businesses in other African countries. The primary reporting format therefore comprises the business segments of the Group.

| 2001<br>BUSINESS SEGMENTS | Unallocated<br><br>Rm | Networks provider<br>Rm | Service provider<br>Rm | Other<br><br>Rm | Eliminations<br><br>Rm | Total<br><br>Rm |
|---|---|---|---|---|---|---|
| **Segment revenue** | 106.3 | 10,728.2 | 3,538.6 | 332.7 | (1,429.4) | 13,276.4 |
| External | – | 10,608.9 | 2,361.6 | 305.9 | – | 13,276.4 |
| Inter-segment | 106.3 | 119.3 | 1,177.0 | 26.8 | (1,429.4) | – |
| **Segment (loss) / profit from operations** | (182.8) | 2,755.4 | 13.1 | (55.9) | 23.6 | 2,553.4 |
| Interest, dividends and other financial income received | | | | | | 27.7 |
| Finance costs | | | | | | (506.8) |
| **Profit before taxation** | | | | | | 2,074.3 |
| **Included in segment (loss) / profit from operations** | | | | | | |
| **Depreciation and amortisation** | (2.1) | (1,287.5) | (92.0) | (53.8) | (200.2) | (1,635.6) |
| Property, plant and equipment | (2.1) | (1,280.4) | (35.2) | (46.4) | – | (1,364.1) |
| Intangible assets | – | (7.1) | (56.8) | (7.4) | (200.2) | (271.5) |
| **Bad debts written off** | – | – | (107.4) | – | – | (107.4) |
| **Integration costs, disposals of operations and impairments** | (165.0) | (50.3) | (173.4) | (42.1) | 217.6 | (213.2) |
| **Capital expenditure** | (5.3) | (3,096.4) | (80.4) | (33.5) | 31.4 | (3,184.2) |
| Property, plant and equipment | (5.3) | (3,096.4) | (80.4) | (33.5) | 31.4 | (3,184.2) |
| Intangible assets | – | – | – | – | – | – |
| **Assets** | | | | | | |
| Segment assets | 3,292.8 | 9,831.3 | 1,557.7 | 262.1 | (2,941.2) | 12,002.7 |
| Deferred taxation asset | | | | | | 339.1 |
| | | | | | | 12,341.8 |
| **Liabilities** | | | | | | |
| Segment liabilities | (1,418.2) | (5,423.2) | (1,313.5) | (107.8) | 1,316.8 | (6,945.9) |
| Deferred taxation liability | | | | | | (607.5) |
| Taxation liability | | | | | | (810.0) |
| Dividends payable | | | | | | (483.8) |
| | | | | | | (8,847.2) |

## 40. Segmental information *(continued)*

| 2002 BUSINESS SEGMENTS | Unallocated Rm | Networks Rm | Service provider Rm | Other Rm | Eliminations Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Segment revenue** | – | 13,898.2 | 3,185.6 | 311.6 | (1,244.7) | 16,150.7 |
| External | – | 13,892.7 | 2,008.8 | 249.2 | – | 16,150.7 |
| Inter-segment | – | 5.5 | 1,176.8 | 62.4 | (1,244.7) | – |
| **Segment (loss) / profit from operations** | (85.0) | 3,446.2 | 343.6 | (32.6) | (51.1) | 3,621.1 |
| Interest, dividends and other financial income recieved | | | | | | 840.4 |
| Finance costs | | | | | | (868.2) |
| **Profit before taxation** | | | | | | 3,593.3 |
| **Included in segment (loss) / profit from operations** | | | | | | |
| **Depreciation and amortisation** | (2.3) | (1,774.0) | (66.3) | (31.9) | (195.5) | (2,070.0) |
| Property, plant and equipment | (2.3) | (1,762.6) | (60.7) | (31.7) | – | (1,857.3) |
| Intangible assets | – | (11.4) | (5.6) | (0.2) | (195.5) | (212.7) |
| **Bad debts written off** | – | – | (111.2) | – | – | (111.2) |
| **Integration costs, disposals of operations and impairments** | (109.9) | 45.5 | (3.5) | (20.0) | 144.3 | 56.4 |
| **Capital expenditure** | (36.1) | (3,660.2) | (562.4) | (21.7) | 1.4 | (4,279.0) |
| Property, plant and equipment | (36.1) | (3,466.5) | (562.4) | (21.7) | 1.4 | (4,085.3) |
| Intangible assets | – | (193.7) | – | – | – | (193.7) |
| **Assets** | | | | | | |
| Segment assets | 4,737.3 | 12,976.0 | 2,466.5 | 679.7 | (5,998.6) | 14,860.9 |
| Deferred taxation assets | | | | | | 497.7 |
| | | | | | | 15,358.6 |
| **Liabilities** | | | | | | |
| Segment liabilities | (2,427.0) | (6,389.1) | (2,103.7) | (139.8) | 3,053.2 | (8,006.4) |
| Deferred tax liabilities | | | | | | (926.2) |
| Taxation liabilities | | | | | | (351.6) |
| Dividends payable | | | | | | (600.0) |
| | | | | | | (9,884.2) |

## 40. Segmental information *(continued)*

| 2003 BUSINESS SEGMENTS | Unallocated Rm | Networks Rm | Service provider Rm | Other Rm | Eliminations Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Segment revenue** | – | 17,486.2 | 4,371.0 | 81.0 | (2,159.5) | 19,778.7 |
| External | – | 17,181.6 | 2,556.6 | 40.5 | – | 19,778.7 |
| Inter-segment | – | 304.6 | 1,814.4 | 40.5 | (2,159.5) | – |
| **Segment profit / (loss) from operations** | 42.9 | 4,087.3 | 448.9 | (62.5) | (186.7) | 4,329.9 |
| Interest, dividends and other financial income received | | | | | | 742.4 |
| Finance costs | | | | | | (1,546.3) |
| **Profit before taxation** | | | | | | 3,526.0 |
| **Included in segment profit / (loss) from operations** | | | | | | |
| **Depreciation and amortisation** | (2.8) | (2,075.1) | (107.9) | (1.2) | (186.7) | (2,373.7) |
| Property, plant and equipment | (2.8) | (2,056.8) | (102.4) | (1.0) | – | (2,163.0) |
| Intangible assets | – | (18.3) | (5.5) | (0.2) | (186.7) | (210.7) |
| **Bad debts written off** | – | (10.0) | (21.1) | – | – | (31.1) |
| **Integration costs, disposals of operations and impairments** | – | – | – | – | – | – |
| **Capital expenditure** | (4.5) | (3,325.7) | (66.0) | (3.1) | – | (3,399.3) |
| Property, plant and equipment | (4.5) | (3,325.7) | (66.0) | (3.1) | – | (3,399.3) |
| Intangible assets | – | – | – | – | – | – |
| **Assets** | | | | | | |
| Segment assets | 3,953.7 | 13,766.3 | 2,137.8 | 924.4 | (4,671.3) | 16,110.9 |
| Deferred taxation assets | | | | | | 704.7 |
| | | | | | | 16,815.6 |
| **Liabilities** | | | | | | |
| Segment liabilities | (1,718.5) | (6,730.6) | (2,412.5) | (148.7) | 3,028.4 | (7,981.9) |
| Deferred tax liabilities | | | | | | (993.1) |
| Taxation liabilities | | | | | | (315.2) |
| Dividends payable | | | | | | (600.0) |
| | | | | | | (9,890.2) |

"Unallocated" comprises the reporting relevant to Vodacom Group (Proprietary) Limited, the parent company in the Group, which is primarily an investment holding company, but also offers combined administrative and shared-function services to companies within the Group.

"Networks" comprise services provided by cellular networks within South Africa and other African countries. Services offered by the companies include the standard voice telecommunication services of cellular networks as well as data communication services through the cellular network, including short message servicing (SMS) and wireless application protocol (WAP).

"Service providers" comprise services provided by cellular telecommunication, satellite telecommunication and Internet service providers within South Africa. Cellular and satellite telecommunication service providers act as agents for the respective networks and sells airtime to customers. Internet service providers provide their customer base access to the World Wide Web. The internet service provider was disposed off on November 30, 2001.
The disclosure of revenue from the service providers has been restated for the 2002 and 2001 financial years to disclose revenue earned as opposed to gross revenue billed as previously included.

"Other" comprises of other business lines of the Group, including the providing of promotion and event services as well as providing television rental and related rental services, neither of which fall within the Group's strategic focus nor do they constitute a separately reportable segment. The promotion and event service business, and the rental service business were disposed of on February 27, 2002 and March 31, 2002 respectively.

## 40. Segmental information *(continued)*

| 2001<br>GEOGRAPHICAL SEGMENTS | South Africa<br>Rm | Other African countries<br>Rm | Eliminations<br>Rm | Total<br>Rm |
|---|---|---|---|---|
| **Segment revenue** | 13,208.0 | 184.4 | (116.0) | 13,276.4 |
| External | 13,092.0 | 184.4 | – | 13,276.4 |
| Inter-segment | 116.0 | – | (116.0) | – |
| **Segment profit / (loss) from operations** | 2,583.3 | (31.6) | 1.7 | 2,553.4 |
| Interest, dividends and other financial income received | | | | 27.7 |
| Finance costs | | | | (506.8) |
| **Profit before taxation** | | | | 2,074.3 |
| **Included in segment profit / (loss) from operations** | | | | |
| **Depreciation and amortisation** | (1,596.6) | (34.7) | (4.3) | (1,635.6) |
| Property, plant and equipment | (1,329.8) | (34.3) | – | (1,364.1) |
| Intangible assets | (266.8) | (0.4) | (4.3) | (271.5) |
| **Bad debts written off** | (107.4) | – | – | (107.4) |
| **Integration costs, disposals of operations and impairments** | (213.2) | – | – | (213.2) |
| **Capital expenditure** | (2,861.6) | (354.0) | 31.4 | (3,184.2) |
| **Assets** | | | | |
| Segment assets | 11,515.3 | 470.2 | 17.2 | 12,002.7 |
| Deferred taxation asset | | | | 339.1 |
| | | | | 12,341.8 |
| **Liabilities** | | | | |
| Segment liabilities | (6,525.8) | (396.4) | (23.7) | (6,945.9) |
| Deferred taxation liability | | | | (607.5) |
| Taxation liability | | | | (810.0) |
| Dividends payable | | | | (483.8) |
| | | | | (8,847.2) |

## 40. Segmental information *(continued)*

| 2002<br>GEOGRAPHICAL SEGMENTS | South Africa<br>Rm | Other African countries<br>Rm | Eliminations<br>Rm | Total<br>Rm |
|---|---|---|---|---|
| **Segment revenue** | 15,415.4 | 740.4 | (5.1) | 16,150.7 |
| External | 15,410.3 | 740.4 | – | 16,150.7 |
| Inter-segment | 5.1 | – | (5.1) | – |
| **Segment profit / (loss) from operations** | 3,545.7 | 81.5 | (6.1) | 3,621.1 |
| Interest, dividends and other financial income received | | | | 840.4 |
| Finance costs | | | | (868.2) |
| **Profit before taxation** | | | | 3,593.3 |
| **Included in segment profit / (loss) from operations** | | | | |
| **Depreciation and amortisation** | (1,939.2) | (124.7) | (6.1) | (2,070.0) |
| Property, plant and equipment | (1,737.2) | (120.1) | – | (1,857.3) |
| Intangible assets | (202.0) | (4.6) | (6.1) | (212.7) |
| **Bad debts written off** | (111.2) | – | – | (111.2) |
| **Integration costs, disposals of operations and impairments** | 56.4 | – | – | 56.4 |
| **Capital expenditure** | (3,292.0) | (988.4) | 1.4 | (4,279.0) |
| **Assets** | | | | |
| Segment assets | 13,179.1 | 1,787.5 | (105.7) | 14,860.9 |
| Deferred tax assets | | | | 497.7 |
| | | | | 15,358.6 |
| **Liabilities** | | | | |
| Segment liabilities | (7,152.6) | (945.1) | 91.3 | (8,006.4) |
| Deferred taxation liabilities | | | | (926.2) |
| Taxation liabilities | | | | (351.6) |
| Dividends payable | | | | (600.0) |
| | | | | (9,884.2) |

## 40. Segmental information *(continued)*

| 2003<br>GEOGRAPHICAL SEGMENTS | South Africa<br>Rm | Other African countries<br>Rm | Eliminations<br>Rm | Total<br>Rm |
|---|---|---|---|---|
| **Segment revenue** | 18,636.3 | 1,236.2 | (93.8) | 19,778.7 |
| External | 18,543.7 | 1,235.0 | – | 19,778.7 |
| Inter-segment | 92.6 | 1.2 | (93.8) | – |
| **Segment profit / (loss) from operations** | 4,340.3 | (4.3) | (6.1) | 4,329.9 |
| Interest, dividends and other financial income received | | | | 742.4 |
| Finance costs | | | | (1,546.3) |
| **Profit before taxation** | | | | 3,526.0 |
| **Included in segment profit / (loss) from operations** | | | | |
| **Depreciation and amortisation** | (2,131.2) | (236.4) | (6.1) | (2,373.7) |
| Property, plant and equipment | (1,938.2) | (224.8) | – | (2,163.0) |
| Intangible assets | (193.0) | (11.6) | (6.1) | (210.7) |
| **Bad debts written off** | (30.1) | (1.0) | – | (31.1) |
| **Integration costs, disposals of operations and impairments** | – | – | – | – |
| **Capital expenditure** | (2,487.9) | (911.4) | – | (3,399.3) |
| **Assets** | | | | |
| Segment assets | 14,971.0 | 2,281.4 | (1,141.5) | 16,110.9 |
| Deferred tax assets | | | | 704.7 |
| | | | | 16,815.6 |
| **Liabilities** | | | | |
| Segment liabilities | (6,676.5) | (1,654.6) | 349.2 | (7,981.9) |
| Deferred taxation liabilities | | | | (993.1) |
| Taxation liabilities | | | | (315.2) |
| Dividends payable | | | | (600.0) |
| | | | | (9,890.2) |

"South Africa", which is also the home country of the parent, comprises the segment information relating to the South African based cellular network as well as all the segment information of the service providers and other business segments. "Other African countries" comprise of only cellular networks and are located in Tanzania, Lesotho and the Democratic Republic of Congo, it also includes the international holding company situated in Mauritius.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

Segment information is prepared in conformity with accounting policies adopted for preparing and presenting the consolidated financial statements.

Segment revenue excludes value-added taxation and includes inter-Group revenue. Net revenue represents segment revenue from which inter-Group revenue has been eliminated. Sales between segments are made on a commercial basis. Segment profit / (loss) from operations represents segment revenue less segment operating expenses. Segment expenses include direct and operating expenses. Integration costs, disposals of operations and impairments, depreciation and amortisation have been allocated to the segments to which they relate.

The segment assets and liabilities comprise all assets and liabilities of the different segments including those relating to operating, investing and financing activities. Unallocated assets and liabilities comprise of deferred taxation and other unallocatable balances.

Capital expenditure in property, plant and equipment and intangible assets have been allocated to the segments to which they relate.

## 41. Interest in subsidiaries

The information discloses interests in subsidiaries material to the financial position of the Group. The interest in the ordinary share capital is representative of the voting power.

| | Country of incorporation | Issued share capital 2001 | Issued share capital 2002 | Issued share capital 2003 | Interest in issued ordinary share capital 2001 % | Interest in issued ordinary share capital 2002 % | Interest in issued ordinary share capital 2003 % |
|---|---|---|---|---|---|---|---|
| **Cellular network operators** | | | | | | | |
| Vodacom (Proprietary) Limited (C) | RSA | R100 | R100 | R100 | 100 | 100 | 100 |
| Vodacom Lesotho (Proprietary) Limited (C) | LES | M4,180 | M4,180 | M4,180 | 88.3 | 88.3 | 88.3 |
| Vodacom Tanzania Limited (C) | TZN | US$100 | US$100 | US$100 | 65 | 65 | 65 |
| **Service providers** | | | | | | | |
| VSP Holdings (Proprietary) Limited (INV) | RSA | R1,020 | R1,020 | R1,020 | 100 | 100 | 100 |
| Vodacom Service Provider Company (Proprietary) Limited (C) | RSA | R20 | R20 | R20 | 100 | 100 | 100 |
| Vodacom Satellite Services (Proprietary) Limited previously known as Globalstar SA (Proprietary) Limited (S) * | RSA | R100 | R100 | R100 | 100 | 100 | 100 |
| Vodac (Proprietary) Limited (C) * | RSA | R1 | R1 | R1 | 100 | 100 | 100 |
| GSM Cellular (Proprietary) Limited (C) * | RSA | R1,200 | R1,200 | R1,200 | 100 | 100 | 100 |
| **Other** | | | | | | | |
| Teljoy Holdings Limited (INV) | RSA | R158,999 | R158,999 | R158,999 | 100 | 100 | 100 |
| Film Fun (Holdings) (Proprietary) Limited (TV) | RSA | R100 | – | – | 100 | – | – |
| Vodacom Sport & Entertainment (Proprietary) Limited (SE) | RSA | R100 | – | – | 51 | – | – |
| Vodacom Equipment Company (Proprietary) Limited * | RSA | R100 | R100 | R100 | 100 | 100 | 100 |
| Vodacare (Proprietary) Limited (C) * | RSA | R100 | R100 | R100 | 100 | 100 | 100 |
| Vodacom International Holdings (Proprietary) Limited (INV) | RSA | – | R100 | R100 | – | 100 | 100 |
| Vodacom International Limited (INV) | MAU | – | US$100 | US$100 | – | 100 | 100 |
| Skyprops 157 (Proprietary) Limited (INV) | RSA | – | – | R100 | – | – | 100 |

RSA – Republic of South Africa; TZN – Tanzania; LES – Lesotho; MAU – Mauritius; C – Cellular; S – Satellite; SE – Sport and entertainment contracts manager; TV – Television and related rental services; INV – Investment holding company;

* – Dormant as at March 31, 2003.

## 42. Interest in joint ventures

The Group's joint ventures during the 2002 financial year included Vodacom World Online (Proprietary) Limited and Vodacom Congo (RDC) s.p.r.l. Effective November 30, 2001, the Group disposed of the interest in Vodacom World Online (Proprietary) Limited. Details of the disposal are presented in Note 30 to the consolidated financial statements. The Group acquired its interest in Vodacom Congo (RDC) s.p.r.l. on December 11, 2001, which is the only remaining joint venture at March 31, 2003.

| | **2001 Vodacom World Online (Proprietary) Limited** | **2002 Vodacom World Online (Proprietary) Limited** |
|---|---|---|
| Interest held | 40% | 40% |
| | **Rm** | **Rm** |
| The Group's proportionate share of assets and liabilities: | | |
| Property, plant and equipment | 9.9 | – |
| Intangible assets | 38.4 | – |
| Current assets | 4.9 | – |
| | 53.2 | – |
| Non-current liabilities | – | – |
| Current liabilities | (22.2) | – |
| Net assets | 31.0 | – |
| The Group's proportionate share of revenue and expenditure: | | |
| Revenue | 43.0 | 36.1 |
| Loss before taxation | (45.0) | (19.9) |
| Taxation | – | – |
| Net loss | (45.0) | (19.9) |
| The Group's proportionate share of cash flows: | | |
| Net cash flows from / (utilised in) operating activities | (9.1) | 1.4 |
| Net cash flows from / (utilised in) investing activities | (5.8) | – |
| Net cash flows from / (utilised in) financing activities | 4.0 | 4.8 |
| Net cash flow | (10.9) | 6.2 |
| The Group's proportionate share of contingent liabilities and capital commitments: | | |
| Contingent liabilities (Note 35) | – | – |
| Capital commitments | 0.2 | – |

## 42. Interest in joint ventures *(continued)*

| | 2002 Vodacom Congo (RDC) s.p.r.l | 2003 Vodacom Congo (RDC) s.p.r.l |
|---|---|---|
| Interest held | 51% | 51% |
| | Rm | Rm |
| The Group's proportionate share of assets and liabilities: | | |
| Property, plant and equipment | 87.0 | 433.6 |
| Intangible assets | 216.5 | 160.1 |
| Current assets | 154.9 | 90.7 |
| | 458.4 | 684.4 |
| Non-current liabilities | – | (284.1) |
| Current liabilities | (30.9) | (258.6) |
| Net assets | 427.5 | 141.7 |
| The Group's proportionate share of revenue and expenditure: | | |
| Revenue | 5.7 | 258.8 |
| Loss before taxation | (20.1) | (193.3) |
| Taxation | – | – |
| Net loss | (20.1) | (193.3) |
| The Group's proportionate share of cash flows: | | |
| Net cash flows from / (utilised in) operating activities | (72.3) | (172.9) |
| Net cash flows from / (utilised in) investing activities | (275.8) | (445.9) |
| Net cash flows from / (utilised in) financing activities | 388.0 | 552.4 |
| Net cash flow | 39.9 | (66.4) |
| The Group's proportionate share of contingent liabilities and capital commitments: | | |
| Contingent liabilities (Note 35) | – | – |
| Capital commitments | 319.7 | 188.3 |

In terms of a shareholders agreement, the Group's joint venture partner in Vodacom Congo (RDC) s.p.r.l, Congolese Wireless Network s.p.r.l ("CWN") has a put option which comes into effect 3 years after the commencement date, December 1, 2001, and for a maximum of 5 years thereafter. In terms of the option, CWN shall be entitled to put to Vodacom International Limited such numbers of shares in and claims on loan account against Vodacom Congo (RDC) s.p.r.l as constitute 19% of the entire issued share capital of that company. CWN can exercise this option in a maximum of three tranches and each tranche must consist of at least 5% of the entire issued share capital of Vodacom Congo (RDC) s.p.r.l. The option price will be the fair market value of the related shares at the date the put is exercised.

## 43. US GAAP information

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which differs in certain respects from Generally Accepted Accounting Principles in the United States ("US GAAP"). The effect of applying US GAAP principles to net profit and shareholders' equity is set out below along with an explanation of applicable differences between IFRS and US GAAP:

| | Notes | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|---|
| **Net profit as reported in accordance with IFRS** | | 1,317.8 | 2,373.0 | 2,214.6 |
| Items increasing / (decreasing) net profit: | | | | |
| Deferred bonus incentive scheme | (a) | 7.0 | 20.9 | (30.7) |
| Goodwill – non-amortisation | (b) | – | 1.9 | 98.9 |
| Goodwill – translation differences on amortisation | (c) | (0.3) | (4.0) | (2.5) |
| Derivative financial instruments – reclassification of transition adjustments | (e) | – | 52.0 | 7.8 |
| Income tax – rate differences | (f) | (118.3) | (227.4) | (205.7) |
| Income tax effect of US GAAP adjustments | (g) | (2.6) | (27.5) | 16.1 |
| Joint venture | (i) | 45.0 | (80.0) | – |
| Net profit in accordance with US GAAP before cumulative effect of change in accounting policy | | 1,248.6 | 2,108.9 | 2,098.5 |
| Change in accounting policy upon adoption of SFAS 133: | | | | |
| Derivative financial instruments – transition adjustments | (e) | – | 17.2 | – |
| Income tax effect on above | (g) | – | (6.5) | – |
| Net profit in accordance with US GAAP after cumulative effect of change in accounting policy | | 1,248.6 | 2,119.6 | 2,098.5 |
| **Shareholders' equity as reported in accordance with IFRS** | | 3,506.0 | 5,463.8 | 6,837.4 |
| Items increasing / (decreasing) shareholders' equity: | | | | |
| Deferred bonus incentive scheme | (a) | 37.0 | 57.9 | 27.2 |
| Goodwill – non-amortisation | (b) | – | 1.9 | 100.8 |
| Goodwill – translation differences on accumulated amortisation | (c) | (0.3) | (4.3) | (6.8) |
| Goodwill – accumulated translation differences | (c) | 4.6 | 31.7 | (8.8) |
| Income tax – rate differences | (f) | (418.4) | (655.2) | (860.9) |
| Income tax effect of US GAAP adjustments | (g) | (13.9) | (21.8) | (2.7) |
| Joint venture | (i) | 80.0 | – | – |
| Shareholders' equity in accordance with US GAAP | | 3,195.0 | 4,874.0 | 6,086.2 |
| **Movements in shareholders' equity in accordance with US GAAP** | | | | |
| Balance at beginning of period | | 2,424.7 | 3,195.0 | 4,874.0 |
| Net profit for the year | | 1,248.6 | 2,119.6 | 2,098.5 |
| Dividends declared | | (480.0) | (600.0) | (600.0) |
| Foreign currency translation reserve adjustment | | 1.7 | 127.0 | (281.5) |
| Cumulative effect adjustment of adoption of SFAS 133, net of taxation | | – | 64.8 | – |
| Gain on derivatives – reclassified to earnings, net of taxation | | – | (32.4) | (4.8) |
| Balance at end of period | | 3,195.0 | 4,874.0 | 6,086.2 |

## 43. US GAAP information *(continued)*

### Summary of differences between IFRS and accounting principles generally accepted in the US.

A summary of the principal differences and additional disclosures applicable to the Group are set forth below:

**(a) Deferred bonus incentive scheme**

Under IFRS, the total value of deferred bonus entitlements as calculated at the end of each financial period is based on the net present value of expected future cash payments as determined under the bonus formula over the vesting period.

Under US GAAP, in accordance with FIN 28: "Accounting for Stock Appreciation Rights and Other Variable Stock Option Awards Plans an Interpretation of APB Opinions no. 15 and 25", compensation cost is recognised over the service period or the vesting period if the service period is not defined, based upon the undiscounted value of the entitlements.

**(b) Goodwill – non-amortisation**

Under IFRS, goodwill and intangible assets arising in business combinations are amortised over their estimated useful lives.

Under US GAAP, accounting for goodwill and intangible assets was substantially the same as IFRS until the adoption of SFAS No. 141: Business Combinations ("SFAS 141") and SFAS No. 142: Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 is effective for all business acquisitions consummated after June 30, 2001. SFAS 141 requires all business combinations consummated after June 30, 2001 to be accounted for under the purchase method. SFAS 141 also sets forth guidelines for applying the purchase method of accounting in the determination of intangible assets, including goodwill, acquired in a business combination.

SFAS 142 addresses the initial and ongoing financial accounting and reporting for acquired goodwill and other intangible assets. SFAS 142 requires that goodwill be separately disclosed from other intangible assets in the balance sheet, and no longer be amortised but tested for impairment at least annually (or more frequently if impairment indicators arise). SFAS 142 is effective for financial statements for periods beginning on or after December 15, 2001. Additionally, the amortisation provisions of SFAS 142 are applicable to goodwill arising in all business acquisitions consummated after June 30, 2001, regardless of the adoption date of SFAS 142. Accordingly, goodwill arising from the investment in Vodacom Congo (RDC) s.p.r.l is not subject to amortisation.

The Group adopted SFAS 142 generally with effect from April 1, 2002. From that date all goodwill is no longer amortised.

The Group has carried out the initial impairment testing of goodwill required by SFAS 142 as at April 1, 2002 and determined that no impairment needs to be recognised upon the adoption of SFAS 142.

**(c) Goodwill – translation of goodwill arising on the acquisition of a foreign entity**

Under IFRS, goodwill arising on the acquisition of a foreign entity is treated as an asset of the Group and translated at the foreign exchange rate ruling at the transaction date – based on the historical rate.

Under US GAAP, goodwill arising on the acquisition of Vodacom Congo (RDC) s.p.r.l and Vodacom Tanzania Limited is translated at the actual exchange rate at the end of the period. The resulting foreign exchange transaction gain or loss increases or decreases the net investment in Vodacom Congo (RDC) s.p.r.l. and Vodacom Tanzania Limited. The adjustments shown in the income statements are due to the amortisation of such gain or loss recorded in goodwill under US GAAP.

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| A reconciliation of goodwill reported under IFRS at the balance sheet date to the approximate amounts determined under US GAAP is as follows: | | | |
| Included in total goodwill reported under IFRS | 359.1 | 342.9 | 246.5 |
| Goodwill not amortised under US GAAP | – | 1.9 | 100.8 |
| Additional goodwill – income tax rate change (Note 43 f) | 28.5 | 20.1 | 20.1 |
| Translation difference on amortisation | (0.3) | (4.3) | (6.8) |
| Translation difference on goodwill balance | 4.6 | 31.7 | (8.8) |
| Goodwill in joint ventures (Note 43 i) | – | (110.8) | (78.8) |
| As adjusted under US GAAP | 391.9 | 281.5 | 273.0 |

## 43. US GAAP information *(continued)*

### (d) Income taxes – additional temporary differences

Under IFRS, no deferred tax liability was recognised in respect of intangible assets acquired other than in a business combination where there was a difference at the date of acquisition between the assigned values and the tax bases of the assets.

Under US GAAP, a deferred tax liability (and corresponding increase in assets acquired) is recognised for all temporary differences between the assigned values and the tax bases of intangible assets acquired. The recording of such deferred tax liability has no net impact on net income or shareholder's equity as determined under US GAAP as the decrease in income tax expense is offset by a corresponding increase in amortisation (Note 43 g).

### (e) Derivative financial instruments

The Group adopted IAS 39 and SFAS 133: Accounting for Derivative Instruments and Hedging Activities ("SFAS 133") on April 1, 2001.

Under IFRS, upon adoption of IAS 39, the difference between previous carrying amounts and the fair value of derivatives, which prior to the adoption of IAS 39 had been designated as either fair value or cash flow hedges but do not qualify as hedges under IAS 39, is recognised as an adjustment of the opening balance of retained earnings at the beginning of the financial year IAS 39 is initially applied. Changes in fair value of derivatives acquired after April 1, 2001 are recorded in the income statement.

Under US GAAP, upon adoption of SFAS 133, the difference between previous carrying amounts and fair value of derivatives, which prior to the adoption of SFAS 133 had been cash flow type hedges but do not qualify as hedges under SFAS 133, is recognised as a cumulative effect adjustment of other comprehensive income in the year SFAS 133 is initially applied. This amount is subsequently released into earnings in the same period or periods during which the hedged transaction affects earnings. During the year ended March 31, 2003 R7.8 million (2002: R52.0 million) was released into earnings. The difference between previous carrying amounts and fair value of derivatives, which prior to the adoption of SFAS 133 had been fair value type hedges, is recognised as a cumulative effect adjustment in earnings. Changes in fair value of derivatives acquired after April 1, 2001 are recorded in the income statement.

### (f) Income tax – rate differences

The tax rate in South Africa varies depending on whether income is distributed. The income tax rate is 30% but upon distribution an additional tax (Secondary Tax on Companies or "STC") of 12.5% is due based on the amount of the dividends net of the STC credit for dividends received during a dividend cycle.

In conformity with IFRS, the Group reflects the STC as a component of the income tax charge for the period in which dividends are declared. IFRS also requires that deferred tax be provided for at the undistributed rate of 30%.

For the purpose of US GAAP, the Group believes that under SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109") temporary differences should be tax effected using the tax rate that will apply when income is distributed, i.e. an effective rate of 37.78% including STC.

The Group has therefore computed the estimated STC that would become payable upon distribution of relevant undistributed earnings and accrued that amount as an additional liability for US GAAP purposes.

The use of the higher rate not only affects the measurement of deferred tax assets and liabilities, and hence the tax charge for any period, but because temporary differences in a business combination need to be tax effected at the higher rate there is a consequent effect on the amount of goodwill recognised in a business combination under US GAAP.

## 43. US GAAP information *(continued)*

### (g) Deferred taxation

The tax effects of the US GAAP adjustments have been calculated based on the enacted tax rate of 37.78% (2002: 37.78%; 2001: 37.78%).

A reconciliation of the deferred tax balances under IFRS to the approximate amounts determined under US GAAP, where materially different, is as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Net deferred tax liabilities: | | | |
| As reported under IFRS | 268.4 | 428.5 | 288.4 |
| Additional temporary differences (Note 43 d) | 35.3 | 62.2 | 53.7 |
| Income tax – rate difference (Note 43 f) | 446.9 | 675.3 | 873.5 |
| Tax effect of US GAAP adjustments | 13.9 | 21.8 | 2.7 |
| As adjusted under US GAAP | 764.5 | 1,187.8 | 1,218.3 |

Under IFRS, deferred tax assets on deductible temporary differences are only recognised to the extent that it is probable that the future taxable profit will allow the deferred tax asset to be recovered.

Under US GAAP, deferred tax assets are recognised on all temporary differences. A valuation allowance is recognised if it is more likely than not that the asset will not be recovered. For US GAAP purposes, an additional deferred tax asset and a corresponding valuation adjustment allowance of Rnil (2002: R31.0 million; 2001: R31.0 million) have no effect on the net shareholder's equity for the current year.

### (h) Capitalised interest

Under IFRS, interest cost incurred during the construction period is expensed as incurred.

Under US GAAP, interest cost incurred during the construction period (i.e. period of time necessary to bring a constructed fixed asset to the condition and location necessary for its intended use) is capitalised. The capitalised interest is recorded as part of the asset to which it relates and is amortised over the asset's estimated useful life. Capitalised interest was nil for the years ended March 31, 2003, 2002 and 2001 as the effect of capitalising interest, as compared with the effect of expensing interest, was not material.

### (i) Joint ventures

Under IFRS, investments qualifying as joint ventures are accounted for under the proportionate consolidation method of accounting. Under the proportionate consolidation method, the venturer records its share of each of the assets, liabilities, income and expenses of the jointly controlled entity on a line-by-line basis with similar items in the venturer's financial statements. The venturer continues to record its share of losses in excess of its net investment of the joint venture.

Under US GAAP, joint ventures are accounted for under the equity method of accounting. Under the equity method, an investment in a joint venture is shown in the balance sheet of an investor as a single amount. Likewise, an investor's share of earnings or losses from its investment is ordinarily shown in its income statement as a single amount. Typically an investor discontinues applying the equity method when its net investment (including net advances) is reduced to zero, unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support from the investee.

Under IFRS, Vodacom World Online (Proprietary) Limited was proportionately consolidated in 2001 and 2002. In 2001 the Group proportionately consolidated losses to the value of R45.0 million that was in excess of the Group's net investment in Vodacom World Online (Proprietary) Limited. Under US GAAP, these losses are not considered in calculating net income as the value of the investment was reduced to zero and the Group does not have further financial obligations to this joint venture. Upon disposal of the investment in Vodacom World Online (Proprietary) Limited in 2002, the gain on the sale was less based on a different basis in the net investment.

In 2002 and 2003, the Group also proportionately consolidated Vodacom Congo (RDC) s.p.r.l. The summarised financial statement information for Vodacom World Online (Proprietary) Limited and Vodacom Congo (RDC) s.p.r.l. relating to the Group's pro rata interest is set out in Note 42. Currently under US GAAP, the Group's share of losses of Vodacom Congo (RDC) s.p.r.l does not exceed the carrying amount of the investment in the joint venture.

## 43. US GAAP information *(continued)*

### (i) Joint ventures (continued)

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Investment in Vodacom Congo (RDC) s.p.r.l under US GAAP is as follows: | | | |
| Initial investment in Vodacom Congo (RDC) s.p.r.l reported under IFRS | – | 388.1 | 388.1 |
| Group's share in accumulated losses of the joint venture | – | (20.1) | (213.3) |
| Foreign currency translation reserve under IFRS | – | 43.8 | (12.8) |
| US GAAP adjustments: | | | |
| Goodwill not amortised | – | 1.9 | 7.2 |
| Translation difference on goodwill | – | 14.4 | (17.7) |
| Translation difference on amortisation | – | (0.1) | – |
| Investment in associate under US GAAP | – | 428.0 | 151.5 |

### (j) Comprehensive income

Comprehensive income under US GAAP and accumulated other comprehensive income balances under US GAAP are summarised as follows:

| | 2001 Rm | 2002 Rm | 2003 Rm |
|---|---|---|---|
| Net income under US GAAP | 1,248.6 | 2,119.6 | 2,098.5 |
| Other comprehensive income: | | | |
| Foreign currency translation adjustment | 1.7 | 127.0 | (281.5) |
| Cumulative effect adjustment of adoption of SFAS 133 | – | 64.8 | – |
| Gain on derivatives - reclassified to earnings | – | (32.4) | (4.8) |
| Other comprehensive income | 1.7 | 159.4 | (286.3) |
| Comprehensive income | 1,250.3 | 2,279.0 | 1,812.2 |
| | | | |
| Accumulated other comprehensive income balances: | | | |
| Cumulative foreign currency translation adjustments | 2.3 | 129.3 | (152.2) |
| Cumulative effect adjustment of adoption of SFAS 133 | – | 32.4 | 27.6 |

### (k) Impairment of assets

Under IFRS, the Group is required to annually assess at the balance sheet date or earlier should a triggering event occur, whether there are any indications that an asset may be impaired. Should there be such an indicator, the asset must be tested for impairment. An impairment loss must be recognised in the income statement, should an assets carrying amount exceed its recoverable amount. The impairment loss is the difference between the assets carrying amount and its recoverable value. The recoverable amount is the higher of the asset's net selling price or its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market determined rate that reflects the current assessment of the time value of money and the risks specific to the asset. The reversal of an impairment loss in subsequent periods is permitted when there has been a change in economic conditions or the expected use of the asset.

Under US GAAP, the Group is required to test for impairment whenever there is an indication of impairment. For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. If there is no impairment by reference to undiscounted cash flows, no further action is required but the useful life of the asset must be reconsidered. If impairment exists the Group must measure impairment by comparing the assets fair value to its carrying value. Fair value is either market value (if an active market for the asset exists) or the sum of discounted future cash flows. The discount rate reflects the risk that is specific to that asset. For assets to be disposed of, the loss recognised is the excess of the assets carrying amount over its fair value less costs to sell. The reversal of previously recognised impairment losses is prohibited.

During 2001 the Group recognised an impairment loss in accordance with IFRS amounting to R102.5 million, which consists of an impairment of property, plant and equipment amounting to R97.7 million and a shareholder loan of R4.8 million. No part of that impairment loss was subsequently reversed.

During the same period the Group recognised a loss of R45.5 million in respect of a onerous contract (Note 3) in accordance with paragraph 8 of SFAS 5, "Accounting for Contingencies" ("SFAS 5"). Subsequent to the issuance of the 2001 financial statements, it became clear that the other party to the contract was prepared to waive its right to

## 43. US GAAP information *(continued)*

### (k) Impairment of assets (continued)

supply satellite phones and instead was prepared to enter into a revised contract to supply mobile phones. Accordingly, management determined that, based on the change in circumstances arising from the willingness of the other party to revise the contract, the Group would no longer incur a loss under the contract and therefore reversed the loss previously provided for. The reversal of the provision, based on a change in circumstances, is not the recovery of impaired assets but rather it represents the reversal in a subsequent period of a provision for an estimated loss.

The Group currently has no material GAAP difference for impairment of assets.

### (l) Revenue recognition

Under IFRS, the Group recognises activation fee revenue and costs up to the amount of the related activation revenue immediately upon activation of a new customer. Any excess costs incurred are recognised up front upon activation of a new customer.

Under US GAAP, activation fee revenues and costs up to the amount of activation revenue would be deferred and recognised over the customer relationship.

The Group has not presented the deferral of activation fees in the above US GAAP reconciliation, as the amounts are immaterial.

### (m) Recent accounting pronouncements

**New accounting pronouncements adopted at March 31, 2003**

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of" ("SFAS 121"). However, this Statement retains the fundamental provisions of SFAS 121 for recognition and measurement of the (a) impairment of long-lived assets to be held and used and (b) long-lived assets to be disposed of by sale. The Group adopted SFAS 144 effective April 1, 2002 (Note 43 k), and it had no material impact on the Group's results of operations and financial position.

In June 2002, the FASB issued Statement of Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). SFAS 146 eliminates the definition and requirements for recognition of exit costs in EITF 94-3. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognised when the liability is incurred. Under EITF 94-3, a liability for an exit cost as defined in EITF 94-3 was recognised at the date of an entity's commitment to an exit plan. SFAS 146 also concluded that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS 146 also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 is effective for all exit or disposal activities initiated after December 31, 2002. The Group adopted SFAS 146 on January 1, 2003. The adoption of SFAS 146 had no impact on the Group's results of operations and financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others (an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of Interpretation No. 34)" ("FIN 45"). This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognise, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognised liability over the term of the related guarantee. This interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness to Others", which is being superseded. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Group adopted the disclosure requirements in the year ended March 31, 2003.

## 43. US GAAP information *(continued)*

### (m) Recent accounting pronouncements (continued)

#### New accounting pronouncements adopted at March 31, 2003 *(continued)*

The interpretive guidance incorporated without change from Interpretation 34 continues to be required for financial statements for fiscal years ending after June 15, 1981 – the effective date of Interpretation 34. The Group adopted the initial recognition and initial measurement provisions of FIN 45 and it has no material impact on the Group's results of operation and financial positions.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation. Transition and Disclosure" ("FAS 148"). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro-forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in tabular format. Additionally. SFAS 148 requires dislosure of the pro-forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements of SFAS 148 are effective for interim periods beginning after December 15, 2002. As the Group has no stock based compensation plans subject to the provisions of SFAS 123, SFAS 148 is not applicable to the Group in the year ended March 31. The Group continues to apply the provisions in APB opinion No. 25, Accountng for Stock Issued to Employees as interpreted by FIN 28 with respect to its deferred bonus scheme.

#### New accounting pronouncements not adopted at March 31, 2003

In August 2001, the FASB issued Statement of Financial Accounting Standards No.143, "Accounting for Obligations, Associated with the Retirement of Long-Lived Assets" ("SFAS 143"). SFAS 143 establishes accounting standards for recognition and measurement of a liability at fair value for an asset retirement obligation and an addition to the associated asset retirement cost. The accretion of interest expense each period is subsequently recorded as an expense and added to the liability. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Group adopted SFAS 143 on April 1, 2003 and is currently evaluating the impact it will have on its results of operations and financial position. However, the Group does not believe that the adoption of SFAS 143 will have a material impact on its results of operations and financial position.

In April 2002, the FASB issued Statements of Accounting Standards No. 145, "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of "7 April 2002" ("SFAS 145"). SFAS 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS no. 64, "Extinguishments of Debt made to satisfy Sinking-Fund requirements." As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in Accounting Principles Boards Opinion 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In addition, SFAS 145 amends SFAS 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions.

SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Group adopted all provisions of SFAS 145 in the year ended March 31, 2003, except for the provisions related to the rescission of Statement 4, which was adopted on April 1, 2003 as permitted by the standard. The Group is currently evaluating the impact that the adoption of the latter will have on its results of operations and financial position. However, the Group does not believe that the adoption of SFAS 145 will have a material impact on its results of operations and financial position. The adoption of all other provisions had no material impact on the Group's results of operations and financial position.

In November 2002, the Emerging Issues Task Force reached a final consensus related to Revenue Arrangement with Multiple Deliverables (EITF 00-21). The consensus requires that revenue arrangements with multiple deliverables should be divided into separate units of accounting if (a) a delivered item has value to the customer on stand alone basis, (b) there is objective and reliable evidence of the fair value of the undelivered item and (c) if the arrangement includes a general right of return, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair value and appropriate revenue recognition criteria would be applied to each separate unit of accounting. The Group has not yet determined what effect, if any, EITF 00-21 would have on revenue and net income determined in accordance with US GAAP. The Task Force agreed the effective date for the consensus will be for all revenue arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The Group is still evaluating the impact of this EITF on its financial statements. This EITF will be effective for the Group for revenue arrangements entered into after April 1, 2004.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities – and Interpretation of ARB No. 51" ("FIN 46"). This interpretation of Accounting Research Bulletin No.51, "Consolidated Financial Statements", addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics:

## 43. US GAAP information *(continued)*

### (m) Recent accounting pronouncements (continued)

#### New accounting pronouncements not adopted at March 31, 2003 *(continued)*

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, which is provided through other interest that will absorb some or all of the expected losses of the entity.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
   a. The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights.
   b. The obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities.
   c. The right to receive the expected residual returns of the entity if they occur, which is the compensation for the risk of absorbing the expected losses.

This Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Interpretation applies to public enterprises as of the beginning of the applicable interim or annual period.

This Interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The Group is still evaluating the impact of this interpretation on its financial statements. However, the Group does not believe that the adoption of FIN 46 will have a material impact on its results of operations and financial position.

In April 2003 the Financial Accounting Standards Board issued Statement No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. In particular, it (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to the language used in FIN 45, and (4) amends certain other existing pronouncements.

SFAS 149 is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003.

The provisions of SFAS 149 that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. SFAS 149 should be applied prospectively.

The Group does not expect that the adoption of this Statement will have a material impact on its results of operations and financial position.

In May 2003 the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 modifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The Statement requires that those instruments be classified as liabilities in statements of financial position.

SFAS 150 affects an issuer's accounting for three types of freestanding financial instruments, namely:

- Mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets.
- Financial instruments, other than outstanding shares, that do or may require the issuer to buy back some of its equity shares in exchange for cash or other assets.
- Unconditional obligations that can be settled with equity shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's equity shares.

SFAS 150 does not apply to features embedded in financial instruments that are not derivatives in their entirety.

In addition to its requirements for the classification and measurement of financial instruments within its scope, SFAS 150 also requires disclosures about alternative ways of settling such instruments and the capital structure of entities, all of whose shares are mandatorily redeemable.

SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Group is currently evaluating the impact of SFAS 150 on its results of operations and financial position.

Vodacom Group (Proprietary) Limited

# 17. Disclaimer

March 31, 2003

This report has been prepared and published by Vodacom Group (Proprietary) Limited.

Vodacom Group (Proprietary) Limited is a private company and as such is not required by the Companies Act of 61 of 1973, as amended, to publish its results.

Vodacom Group (Proprietary) Limited makes no guarantee, assurance, representation and/or warranty as to the accuracy of the information contained in this report and will not be held liable for any reliance placed on the information contained in this report.

The information contained in this report is subject to change without notice and may be incomplete or condensed. In addition, this report may not contain all material information pertaining to Vodacom Group (Proprietary) Limited and its subsidiaries.

Without in anyway derogating from the generality of the aforegoing, it should be noted that:

- Many of the statements included in this report are forward-looking statements that involve risks and/or uncertainties and caution must be exercised in placing any reliance on these statements. Moreover, Vodacom Group (Proprietary) Limited will not necessarily update any of these statements after the date of this report either to conform them to actual results or to changes in our expectations.
- Insofar as the shareholder's of Vodacom Group (Proprietary) Limited are listed and offer their shares publicly for sale on recognised Stock Exchanges locally and/or internationally, potential investors in the shares of Vodacom Group (Proprietary) Limited's shareholders are cautioned not to place undue reliance on this report.