# A CULTURE OF MOBILITY

vodacom

**VODACOM** GROUP ANNUAL REPORT 2006

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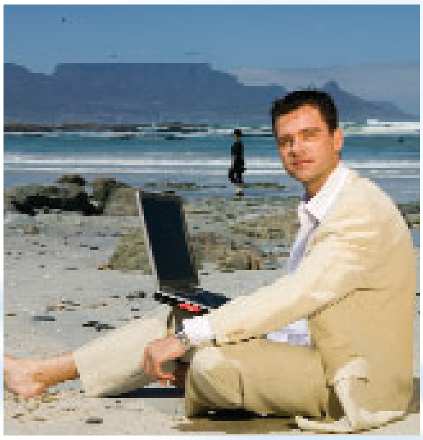

## A culture of **mobility**


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# HIGHLIGHTS

Total customers increased by **51.9%** to 23.5 million

- Customers increased by **49.3%** in South Africa to 19.2 million
- Customers increased by **74.1%** in Tanzania to 2.1 million
- Customers increased by **52.2%** in the Democratic Republic of Congo to 1.6 million
- Customers increased by **40.1%** in Lesotho to 206,000
- Customers increased by **84.9%** in Mozambique to 490,000

South Africa market share increased by 2% points to **58%**

Revenue increased by **24.6%** to R34.0 billion

Profit from operations increased by **36.9%** to R8.9 billion

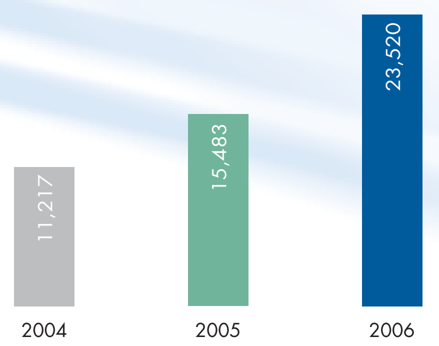
EBITDA increased by **23.1%** to R11.8 billion

Net profit after taxation increased by **32.0%** to R5.1 billion

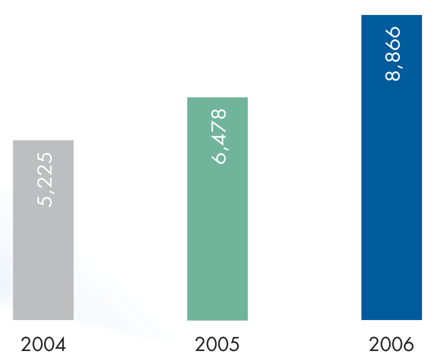
Cash generated from operations increased by **10.8%** to R11.1 billion

Dividends increased by **32.4%** to R4.5 billion

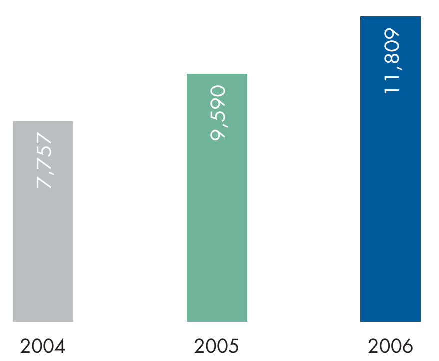
Total customers
'000



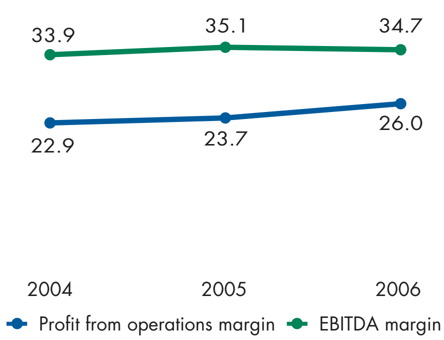

Profit from operations
Rand millions




EBITDA
Rand millions




Profit from operations and EBITDA margins
%



On April 2, 2006, **Vodacom** became the first cellular network in South Africa to offer **3G** with **HSDPA,** which is up to five times faster than 3G and faster than ADSL

# CHAIRMAN'S REVIEW

"Vodacom continues to play an important role in democratising telephony on the African continent."

Adv Oyama Mabandla
Chairman
Vodacom Group (Proprietary) Limited

## Introduction

It is my privilege and honour, as the newly appointed Chairman of the Vodacom Board, to present Vodacom's Annual Report for the financial year ended March 31, 2006. In a very competitive mobile arena and a rapidly changing regulatory environment, Vodacom, once again, excelled with operating and financial results, reaffirming its status as the irrefutable leader within the South African cellular industry.

## Shareholder changes

During the year, shareholding changed, due to a strategic and historic change-of-ownership transaction whereby Vodafone increased its effective shareholding in Vodacom from 35% to 50%. This was achieved by acquiring a 100% shareholding in VenFin Limited, who owns 15% in Vodacom Group (Proprietary) Limited. The transaction, first announced on November 3, 2005 and approved by the competition tribunal in January 2006, highlighted Vodafone's major commitment to Vodacom and the African continent.

## Industry developments

The current year was once again filled with several pronouncements by the Ministry of Communications. Two colloquiums on telecommunication prices were held, one in July 2005 and another in October 2005. Although a workgroup was established, no concrete actions were implemented at the time and various regulatory processes in which Vodacom participates still continue.

The introduction of mobile number portability ("MNP") as mandated by the Independent Communications Authority of South Africa ("ICASA"), is set to be implemented in the industry in September 2006. Vodacom will participate in the formation of a special purpose vehicle with MTN and Cell C which will host the central reference database necessary to render the required services.

Both the ICASA Amendment Bill and the Electronic Communication Bill ("ECB") (previously known as the Convergence Bill) were passed in December 2005. The President has sent the ICASA Bill back to Parliament for review and has signed the Electronic Communication Bill.

Vodacom concluded national roaming agreements with six under-serviced area licence ("USAL") holders. USALs will now be able to move their customers off the Vodacom network and provide services when their own infrastructure is in place. This will enable them to focus on building their own customer base and brand within the shortest possible timeframe, targeting the creation of positive cash flows, which can then fund the infrastructure roll-out as stipulated by their licences.

Vodacom understands that the key to customer satisfaction is to provide voice and data services according to consumer needs and it is in a good position to continue taking advantage of the convergence of voice and data services, despite the regulatory challenges facing the industry.

## Opportunities for growth

Although Vodacom realises that investment in Africa is the best vehicle to supplement growth, the South African market is far from maturity, with business confidence in the South African economy reaching all time highs. Given the 44% customer growth in the cellular industry for the 12 months since March 2005, Vodacom will continue to seek new viable commercial opportunities to expand its market share in South Africa.

Vodacom continues to play an important role in democratising telephony on the African continent. We continue to focus on expansion in Africa and are actively evaluating new investment opportunities. On February 14, 2006 Vodacom announced a substantial increase in infrastructure investment in Tanzania with the introduction of a third generation ("3G") high speed downlink packet access ("HSDPA") network, providing its fast growing customer base with high speed wireless data and video telephony, making it the third African country (South Africa and Mauritius being the other two) with a state of the art 3G network.

## Governance

Following the appointment of a Chief Governance Officer during the previous financial year, Vodacom expanded its focus on corporate governance within the Group. Due to the paramount importance of practising and maintaining good corporate governance, Vodacom will continue to follow the recommendations of the King Committee Report on Corporate Governance and best practice as it develops worldwide.

## Charter developments

The fifth draft of the Information and Communication Technology ("ICT") Charter was released for a last round of industry comments and Vodacom has made meaningful contributions to this release.

The Department of Trade and Industry ("DTI") released the second phase of the draft Codes of Good Practice on December 20, 2005 for public comment, which were due by March 30, 2006. The DTI requested comments at the same date on the treatment of indirect ownership in the measurement of BEE. The DTI Codes are anticipated to be completed by December 2006, after which the ICT Charter will be aligned with the Codes and published for public comment during 2007, in accordance with the relevant cabinet process. In the interim, the DTI Codes will be applicable. Vodacom is well positioned to comply with the DTI Codes and the ICT Charter requirements.

## Black economic empowerment

Vodacom has not deviated from its commitment to black economic empowerment and continues to drive participation vigorously in order to leverage economic opportunities and potential within the South African business arena.

In addition to its drive to remain a leader within the mobile communications arena, Vodacom also strives to be an employer of choice. Succession planning programmes and the retention of employees within strategic positions remain a top priority.

Currently, 80% (2005: 80%) of the employees from Vodacom Group and Vodacom's wholly owned subsidiaries in South Africa are from historically disadvantaged groups. Vodacom continues to support empowerment within its procurement process by maintaining the preferential procurement programme which incorporates suppliers from designated historically disadvantaged individuals ("HDIs"). Procurement from HDI suppliers reached R3.3 billion (2005: R2.4 billion), representing 66.2% of commercial spend in 2006.

## Corporate social responsibility

The Vodacom Way emphasises Vodacom's high regard for corporate social responsibility ("CSR") and recognises the responsibility placed on those privileged enough to be involved in the upliftment and reconstruction of our society. Vodacom is therefore proud to have been recognised in the 2005 Corporate Social Investment Handbook as the best company in the information technology sector due to its valuable contribution towards social development.

Vodacom actively supports the fight against the exploitation of children and child pornography in South Africa and understands the implications of the use of mobile phones in the unlawful distribution of such material. The Films and Publications Board ("FPB") has established a child pornography hotline and Vodacom has agreed to sponsor the FPB officers with 3G Vodafone Mobile Connect Cards and 3G SIM cards, enabling the hotline to perform at optimal speed and efficiency. Vodacom has implemented policies to regulate and limit access to pornographic content.

In respect of corporate social investment, R39.6 million (2005: R34.8 million) was invested by the Vodacom Foundation to support the communities in which Vodacom operates. Programmes covering education, health and welfare, as well as safety and security, were the main focus.

In addition, Vodacom is also involved in various medical and educational initiatives such as constructing a school in Rustenburg and providing library furniture and equipment to the Jabavu Library in Soweto. Vodacom also donated funds, via the South African government, to the Tanzanian Relief Fund to provide food to starving Tanzanians as a result of the current devastating droughts. Vodacom funded heart surgeries for infants via the Walter Sisulu Paediatric Clinic; two mobile clinics in the Eastern Cape; a care centre for abused children; cleft lip and palate operations for children; cataract operations to assist community members to regain most of their eye sight, to name but a few community and social upliftment projects.

With its involvement in these and various other projects, Vodacom reaffirms its commitment to playing a central role in community and social upliftment across the continent.

## Board of Directors

My appreciation is extended to Wendy Luhabe whose six year term as Chairman came to an end. During her term, Vodacom expanded its African operations to Tanzania, the Democratic Republic of Congo and Mozambique. Under her Chairmanship, Vodacom's total African customer base grew from 3.1 million in 2000 to over 23.5 million by the end of March 2006. For everyone at Vodacom it has been both a privilege and honour to work with Wendy Luhabe.

I would also like to express my appreciation to Sizwe Nxasana, Tshepo Mahloele and Joshua Malherbe, who resigned from the Board during the year, for their valuable contribution to Vodacom.

It gives me great pleasure to welcome Papi Moletsane, Reuben September and André Sokol to the Board. All appointees bring a wealth of experience and we look forward to their contribution.

## Conclusion

Vodacom acknowledges the timeless principle that people play a significant role in business success and I therefore wish to thank all Vodacom's employees for their significant contribution to our success. I also extend my appreciation to our customers and business partners who continue to inspire us to turn big ideas into bold realities.

Affordability is the key to market penetration in all markets and Vodacom will continue to re-evaluate its tariffs and introduce innovative products to stimulate demand. In an ever-changing economic and regulatory environment, Vodacom is well positioned to maintain and even improve its current market leadership.

**Adv Oyama Mabandla**
(Appointed January 1, 2006)
*Chairman*
*Vodacom Group (Proprietary) Limited*

# BOARD OF DIRECTORS
as at March 31, 2006

**Non-executive directors**

*Standing from left: Jeroen Visser, Reuben September, Gavin Darby, Adv Oyama Mabandla, Robbie Barr*
*Seated from left: Dr Marius Mostert, Papi Molotsane, André Sokol*

### Adv Oyama Mabandla (43) (Chairman)

*Appointed to the Board in 2006*

Oyama is a representative of Telkom and joined the Vodacom Board on January 1, 2006. He is Executive Chairman of the Langa Group, a corporate investment company. He is the former deputy Chief Executive Officer of South African Airways, where he also served as General Counsel and Executive Vice President for Strategy, Revenue Management and Network Planning. During the late 90s Oyama practised as a merchant banker at Union Bank of Switzerland and worked in London and Johannesburg. He later joined the Johannesburg Bar. He holds a Bachelor of Arts degree in Political Science from the University of California and a Juris Doctorate in Corporate Law from Columbia University.

### Mr Robbie Barr (47) (British)

*Appointed to the Board in 2005*

Robbie is a representative of Vodafone and joined the Vodacom Board on March 10, 2005. He is Vodafone Group Plc's Group Financial Controller and the Chief Financial Officer of Vodafone's Global Business Development unit. He joined Vodafone in 1993 and has held a number of senior finance roles in the Vodafone Group during this period. Robbie is currently a director of a number of Vodafone's subsidiary companies, as well as the French mobile telecommunications operator Société Française du Radiotéléphone S.A.

### Mr Gavin Darby (50) (British)

*Appointed to the Board in 2004*

Gavin is a representative of Vodafone and was appointed Chief Executive, Americas Region in Vodafone Group Plc on April 1, 2004. He recently took on the responsibility for the operations in Africa, China and India. He holds a Bachelor of Science (honours) degree in Management Sciences from the University of Manchester. Prior to Vodafone, he joined Coca-Cola GB in 1985 as Marketing Director. In 1988, he was appointed General Manager, Coca-Cola GB. From 1991 to 1998, Gavin held the positions of Benelux Region Manager and North West Europe Division President at Coca-Cola with responsibility for seven countries. In 1998, he became Division President of 23 countries in Central Europe for two years before being appointed Senior Vice President. He left Coca-Cola in February 2001 to take up the position of Chief Operating Officer at Vodafone UK. In September 2002, he became Chief Executive Officer of Vodafone UK.

### Mr Papi Molotsane (46)

*Appointed to the Board in 2005*

Papi is a representative of Telkom on the Vodacom Board. He was appointed Chief Executive Officer of Telkom SA Limited in September 2005. Prior to joining Telkom, he was the Group Executive of Transnet and has a broad-based professional background in engineering, systems, operations, sales, marketing and human resources. He is currently also a director of SA America's Cup Challenge. Previously he acted as a director of Ariviakom (Proprietary) Limited and Fike Investment (Proprietary) Limited. Papi holds a Bachelor of Science degree in Business, a Bachelor of Engineering Technology degree and a Master of Science degree in Business Administration.

### Dr Marius Mostert (46)

*Appointed to the Board in 2004*

Marius is a representative of Telkom. He qualified as a Chartered Accountant (South Africa), working for three years at the then auditing company Aiken and Carter (now part of KPMG). In 1985, he joined the Industrial Development Corporation ("IDC") where he worked for 14 years. In 1997 he was appointed to the Executive Management of IDC, first as General Manager, responsible for corporate finance and client care and later as Executive Vice President: Professional Services. In October 2001, he joined PSG Investment Bank as Financial Director. He held this position until the acquisition of PSG Investment Bank by ABSA Bank. Marius serves on the Board, Audit, Risk and Investment Management and Deal Committees of Decillion Limited.

### Mr Reuben September (48)

*Appointed to the Board in 2005*

Reuben was appointed Chief Operating Officer to Telkom SA Limited in September 2005. Prior to that, he served as Chief Technical Officer from May 2002 and as Managing Executive of Technology and Network Services from March 2000. He has worked in various engineering and commercial positions in Telkom since 1977. He is a member of the Professional Institute of Engineers of South Africa ("ECSA") and holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Cape Town.

### Mr André Sokol (33) (French)

*Appointed to the Board in 2006*

André is Group Director of Mergers and Acquisitions at Vodafone Group Plc. Prior to joining Vodafone, he was a Managing Director at UBS Investment Banking (which he joined in 1994, then known as S.G. Warburg). For over 10 years, André specialised in international mergers and acquisitions, executing some of the world's largest transactions. These included Vodafone's acquisition of Mannesmann, the largest hostile bid in history, as well as the sale of Orange Plc to France Telecom. André worked at UBS Investment Bank both in London and in Los Angeles. André was born in France and educated in the United Kingdom.

### Mr Jeroen Visser (43) (Dutch)

*Appointed to the Board in 2005*

Jeroen recently joined the Vodafone Global Business Development Organisation as Governance Director for Africa, Fiji and China. Prior to that, he was Director of Global Voice Platforms in Vodafone's Group Marketing where he launched the Vodafone Simply proposition. As Director of Global Consumer Products, Jeroen project managed the global launch of Vodafone live!. Prior to that he served as Marketing Director in Vodafone Ireland Limited.

## Alternate directors

### Sir Julian Horn-Smith (57) (British)

Representative of Vodafone, for Mr Jeroen Visser.

### Dr Thomas Nowak (42) (German)

Representative of Vodafone, for Mr Robbie Barr.

### Mr Philip Williams (55) (British)

Representative of Vodafone, for Mr Gavin Darby.

# BOARD OF DIRECTORS

as at March 31, 2006

### Executive directors

*From left: Pieter Uys, Shameel Aziz Joosub, Alan Knott-Craig, Leon Crouse*

## Mr Alan Knott-Craig (54)
## (Chief Executive Officer)

*Appointed to the Board in 1996*

Alan has served as Managing Director of Vodacom (Proprietary) Limited since 1993 and Chief Executive Officer of Vodacom Group (Proprietary) Limited since October 1996. Prior to that, Alan was Senior General Manager of Mobile Communications at Telkom SA Limited, until the inception of Vodacom. Alan holds a Bachelor of Science degree in Electrical Engineering (*cum laude*) from the University of Cape Town, a Master of Business Leadership degree from the University of South Africa and was awarded an honorary Doctorate in Business Leadership from the University of South Africa in 2006. He was inducted as one of the eight Gold Members of the GSM Association's 2001 inaugural "Roll of Honour" for his contribution to bringing mobile communication to Africa's masses. He serves as a Commissioner on the Presidential National Commission on Information Society and Development for Information and Communication Technologies.

## Mr Leon Crouse (53)
## (Chief Financial Officer)

*Appointed to the Board in 1996*

Leon has served as Group Finance Director and Chief Financial Officer since October 1996. Prior to that, he served as Vodacom's General Manager of Finance since Vodacom's inception in 1993. Leon is a qualified Chartered Accountant (South Africa).

## Mr Pieter Uys (43)
## (Chief Operating Officer)

*Appointed to the Board in 2004*

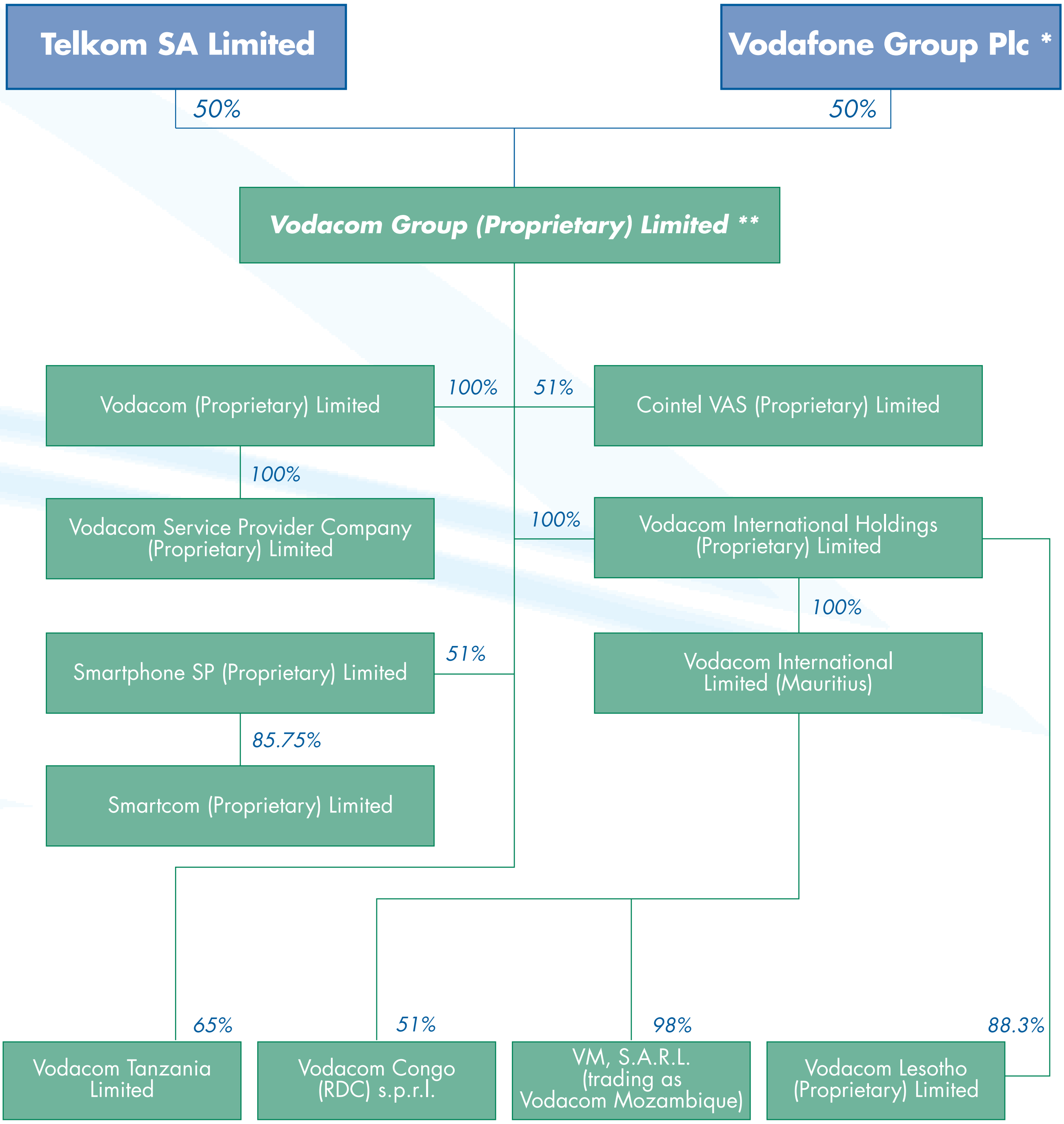
Pieter has served as the Chief Operating Officer for the Vodacom Group since April 1, 2004. He also served as Managing Director of Vodacom (Proprietary) Limited from December 1, 2001 until March 31, 2005. He holds a Bachelor of Science degree and a Master of Science degree in Engineering from the University of Stellenbosch and a Master of Business Administration degree from the Stellenbosch Business School. Pieter joined Vodacom in 1993 as a member of the initial engineering team.

## Mr Shameel Aziz Joosub (35)

*Appointed to the Board in 2000*

Shameel was appointed as Managing Director of Vodacom (Proprietary) Limited on April 1, 2005. He has served as Managing Director of Vodacom Service Provider Company (Proprietary) Limited and as a director of Vodacom Group (Proprietary) Limited since September 2000. Shameel was also Managing Director and founder of Vodacom Equipment Company (Proprietary) Limited, the handset distribution company in the Vodacom Group. He joined Vodacom in March 1994 and has held various positions within the Group. Shameel holds a Bachelor of Commerce (honours) degree from the University of South Africa and a Master of Business Administration degree from the University of Southern Queensland, Australia. He is an Associated General Accountant and Commercial and Financial Accountant (South Africa).

# OWNERSHIP AND CORPORATE STRUCTURE
as at March 31, 2006




* *During the year Vodafone Group Plc increased its effective shareholding in Vodacom Group (Proprietary) Limited from 35% to 50%. This was achieved by acquiring VenFin Limited, who owns 15% of Vodacom Group (Proprietary) Limited.*

** *The structure only includes major operating entities and holding companies.*


**Mobile TV** allows you to watch a wide variety of popular channels on your **3G** Vodafone live! cellphone

# CHIEF EXECUTIVE OFFICER'S REVIEW

"Vodacom remains in an excellent position to take advantage of growth opportunities in the cellular and converged communications industry."

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

## The year under review

*Introduction*

I am pleased to present the Vodacom Group Annual Report for 2006 in what has, once again, been another outstanding year in the history of Vodacom. Indeed the past year has arguably been our best year since the inception of Vodacom in 1993. Our strong financial performance continues to be underpinned by excellent growth in customers, improved market share, substantial growth in revenues and profits, strong free cash flows and a continued improvement in productivity.

From its inception on May 19, 1993 and the commencement of its commercial operations on June 1, 1994 in South Africa, Vodacom has become a real African success story. From its South African origins, the Group has grown organically and through selective acquisitions, today has operations in five countries in sub-Saharan Africa, with 5,459 employees serving 23.5 million customers. In addition to South Africa, Vodacom has operations in the Democratic Republic of Congo ("DRC"), Tanzania, Lesotho and Mozambique. Whilst entry into each of these markets was tough, these operations are starting to make a meaningful contribution to Vodacom's growth.

Vodacom, with its strong balance sheet, successful brand and established distribution channels, remains in an excellent position to take advantage of growth opportunities in the cellular and converged communications industry. The alliance with Vodafone Group Plc is expected to provide further impetus to revenue growth from innovative products, which will also support the Group's growth strategy for new technologies such as third generation ("3G") GSM technology and high speed downlink packet access ("HSDPA") which enhances 3G data speeds, where the focus remains on growing data revenues. Data revenue now constitutes 7.0% (2005: 5.6%) of service revenue (service revenue exludes equipment sales, starter pack sales and non-recurring revenue).

*Performance*

The Group delivered a strong financial performance for the year ended March 31, 2006 underpinned by explosive customer growth in all markets in which we operate. Growth has been driven by excellent performances from all the Group's operations, with the exception of Mozambique which is not yet profitable.

The exceptional customer growth during the year under review resulted in the customer base reaching a staggering 23.5 million (2005: 15.5 million) customers at March 31, 2006, a 51.9% increase compared to the previous year. Gross connections reached record levels at over 11.8 million (2005: 7.8 million), coupled with a much reduced churn of 19.6% (2005: 26.8%). We remain the market leader in all the countries in which we operate, with the exception of Mozambique.

Revenue continued its strong growth year on year, reaching R34.0 billion (2005: R27.3 billion), a 24.6% increase over 2005. This increase was driven by customer growth and a continued improvement in market share. Synonymous with strong customer growth is a declining average revenue per user ("ARPU"), which in South Africa amounts to R139 (2005: R163) per month as a result of lower spending customers being connected and a change in the customer mix. Nevertheless, the continued improvement in productivity has mitigated reducing ARPUs through the maintenance of ARPU margins.

Vodacom's other African operations contributed 8.7% (2005: 8.3%) to revenue and with 4.4 million (2005: 2.6 million) customers, these operations constitute 18.5% (2005: 17.1%) of the total customer base. All of Vodacom's other African operations, with the exception of Vodacom Mozambique, are profitable at the profit from operations level. Mozambique remains a tough challenge, but we remain confident that in the medium to long term it will also contribute to the overall growth of Vodacom.

As a result of sound cost management, Vodacom has ensured that its revenue growth has been translated into increased profits from operations, which increased by 36.9% to R8.9 billion (2005: R6.5 billion), exceeding the revenue growth of 24.6%. Vodacom's EBITDA increased by 23.1% to R11.8 billion (2005: R9.6 billion) and the EBITDA margin decreased slightly to 34.7% (2005: 35.1%).

## New technologies and services

Vodacom announced the launch of the long awaited Vodafone live! offering on April 18, 2005. With its alliance with Vodafone, Vodacom is now able to market Vodafone branded products and services, such as Vodafone Mobile Connect Cards, Vodafone live!, live TV channels and BlackBerry®. The alliance also brings to the table other benefits for Vodacom such as access to Vodafone's marketing and buying powers with respect to all GSM and 3G technologies.

The introduction of 3G in December 2004 has allowed Vodacom's customers to browse the internet, connect to company networks, send and receive e-mails and conduct video calls at the same rate as voice calls. Vodacom has also introduced 3G with HSDPA, giving its customers access to the ever-changing global playground of broadband communications, up to five times faster than 3G, and faster than ADSL. Vodacom's 3G HSDPA became commercially available on April 2, 2006.

During 2006, Vodacom became the first African operator ensuring billing information access to all its customers. Vodacom customers who are visually impaired now have full access to their Vodacom cellphone bill via the new Voice Bill service. Prior to this innovation these customers were dependent on others to communicate their printed bills.

An innovative roaming service called Vodafone World, with transparent and simplified roaming rates, was launched on September 14, 2005. This service enables Vodacom contract customers, who travel abroad, to calculate the costs of every call they make. It also allows for a discounted rate when the customer connects to a Vodafone preferred network.

Vodacom will continue to grow data revenues through mobilising useful office tools and software applications such as 3G, HSDPA, live TV streaming, Vodafone Mobile Connect Cards and BlackBerry®, at prices acceptable to our customers. BlackBerry®Connect as well as BlackBerry®Built-in will also become available on certain Motorola, Siemens and Sony Ericsson handsets, previously not possible.

On December 1, 2005 Vodacom became the first South African cellular network to bring its customers Mobile TV. This exciting new service allows customers to watch a wide variety of popular channels on their 3G Vodafone live! cellphone.

Vodacom has also introduced a number of loyalty programmes for its customers during the past financial year. Happy Hours provides a standard discounted tariff for all users between 5pm and 8pm, which effectively allows customers 50% off prepaid voice calls during those hours. Vodacom Talking Points is a loyalty programme exclusively for Vodacom South Africa prepaid customers. The programme allows prepaid customers to earn points for every recharge, which can be exchanged for rewards, including SMS bundles, talktime discounts and cellphones, when sufficient points have been accumulated.

The Yebo Millionaires Gameshow was introduced during the year. On average, 1.5 million SMSs are received per week, by customers entering the competition. At March 31, 2006 there have been 117,503 winners of prizes which include cash, airtime, cellphones, seven cars and so far there have been four winners of R500,000 each as well as one R1 million winner.

## Regulatory

Light touch regulation by all regulatory bodies have played an important role in the impressive market penetration achieved in South Africa and I sincerely hope that this will continue in the future. Both the Independent Communications Authority of South Africa ("ICASA") Amendment Bill and the Electronic Communications Bill ("ECB") (previously known as the Convergence Bill), have been passed by Parliament in December 2005. The President has assented to the ECB, but has referred the ICASA Amendment Bill back to Parliament.

Vodacom made written and oral presentations to Parliament on both bills. Although not all of Vodacom's concerns with regard to the ECB were addressed, the ECB was amended to address Vodacom's two key concerns, i.e. the grandfathering of all current licensees' rights and obligations, and the provisions which dealt with price regulation and other market regulatory interventions to include due process and proper market studies.

The draft Information and Communication Technology ("ICT") black economic empowerment ("BEE") Charter is expected to be aligned with the Department of Trade and Industry ("DTI") Codes of Good Practice during July 2006 and to be released for public comment. Vodacom is committed to comply with the ICT BEE Charter when it is finalised.

ICASA has promulgated the Number Portability Regulations and the industry implementation date is expected to be in September 2006. The introduction of this facility could cause a flurry of market activities and it also presents Vodacom with the opportunity to increase its market share.

The effective date of the Regulation of Interception of Communication and Provision of Communication-related Information Act ("RICA") was proclaimed on September 30, 2005. The sections of the interception and monitoring legislation prescribing a customer registration process comes into effect on June 30, 2006. Vodacom participated in developing an electronic customer registration solution based on the proposal made to, and agreed with, the Deputy Minister of Justice during November 2005. This cumbersome prepaid customer registration process will, however, have a significant negative impact on market penetration.

## Dividends

Importantly for Vodacom's shareholders, the dividend for the year was R4.5 billion (2005: R3.4 billion), a 32.4% increase over 2005. Vodacom aims to retain sufficient funds to pursue expansion opportunities while optimising the return to shareholders.

## Strategic acquisitions

There have been no acquisitions or investments in respect of African-based cellular networks.

Vodacom acquired a 51% stake in Cointel VAS (Proprietary) Limited for R83.6 million (excluding capitalised cost) on

August 1, 2005. Cointel's core business is to provide value added and m-commerce services to the telecommunications industry.

## African expansion

*Current operations*

Vodacom is well established in Africa, and has the scale and the efficiencies needed to continue growing organically and through selective acquisitions. One of Vodacom's focuses is raising the performance of its existing businesses which is expected to have many years of organic growth still ahead of them.

*Future prospects*

For expansion into new African markets, Vodacom works within the constraints of its shareholder agreement, as well as within the boundaries of investment criteria that meet strict legal, financial, corporate governance and due diligence requirements that are designed to deliver sufficient returns. While several expansion opportunities have been evaluated, none have been pursued. We will, however, continue to cautiously explore opportunities as they arise within the guidelines and constraints set by our shareholders.

Prospects for diversification within the South African market cannot be ignored, and we continue to explore entering different, but related markets within South Africa which will complement the Vodacom product offering.

## Human resources

The Group today employs a total of 5,459 employees, of which 4,302 are based in South Africa (including holding companies) and 1,157 in the other African operations. As the business grows, it is critical for Vodacom to develop, recruit and retain the people that will lead it into the future. The Group continues to increase its pool of potential leaders through succession development initiatives, so as to ensure a competitive advantage. Vodacom is committed to ensuring that its employees have the right skills and knowledge to service customers' needs. Our future success will be driven by strong and diverse management teams across all our operations.

## Vodacom's vision

Vodacom's vision is to democratise the telephone. Indeed democratising the telephone and telecommunications in general, is the most significant move in bridging the digital divide. And bridging the digital divide is critical if Africa is to be economically emancipated.

Mobile penetration in South Africa today stands at approximately 70%, a significant improvement over less than 10% in 1993.

We believe we can continue to achieve growth in revenues, profits and cash flows, while maintaining our leading market position in South Africa. Growing our existing other African operations and establishing new operations in other African countries remains a key focus area, while the continuous improvement in customer service will be a cornerstone of our strategy to maintain our market leadership in each of the markets in which we are present.

Remaining focused on our core business, whilst displaying intuitive innovation and courage in leading the way in introducing new technologies, will ensure a continued growth scenario for Vodacom.

## Conclusion

The Vodacom Group's success is inextricably linked to the capability and passion to win of our employees and business partners. It is to them that I must express our appreciation and recognise the contribution that they have made to our success over the last twelve years.

Ultimately, our success is dependent on the loyalty of our customers. To them, I commit to ensure that Vodacom goes out of its way to meet their expectations and that we will ensure that they will always have the most advanced communication products and solutions available to them.

Our consistent marketing and distribution strategy has played a major role in achieving yet another excellent financial year. By complementing this strategy with innovative products and staying at the forefront of technological advancements in communications, we will continue to deliver results which will ensure above average returns for our shareholders.

Nevertheless, untoward regulatory intervention poses the biggest threat to continued market penetration and growth in the cellular industry in all the markets in which we operate.

Finally, we believe we can and must continue to contribute in an accelerated fashion to the transformation of South Africa, for therein lies our only security for a sound and prosperous future.

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

3G HSDPA – for the fastest, wireless mobile connection to the internet, your office network and e-mail from your laptop


With **video SMS** from **Vodacom** you can capture the sound and motion of the moment as it happens

# CHIEF FINANCIAL OFFICER'S REVIEW

"With its strong brand and strong balance sheet, the Group is well positioned to remain the leading player in the main markets in which it operates."

Leon Crouse
Chief Financial Officer
Vodacom Group (Proprietary) Limited

**The year under review**

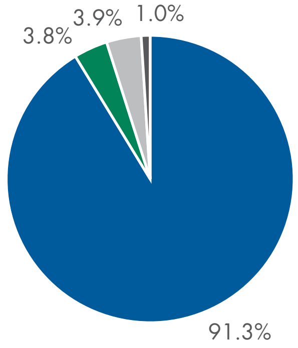
Vodacom once again generated significant value for its shareholders by increasing revenue by 24.6% to R34.0 billion (2005: R27.3 billion), profit from operations by 36.9% to R8.9 billion (2005: R6.5 billion), earnings before interest, taxation, depreciation, amortisation and impairment ("EBITDA") by 23.1% to R11.8 billion (2005: R9.6 billion) and net profit after taxation by 32.0% to R5.1 billion (2005: R3.9 billion).

KEY FINANCIAL INDICATORS

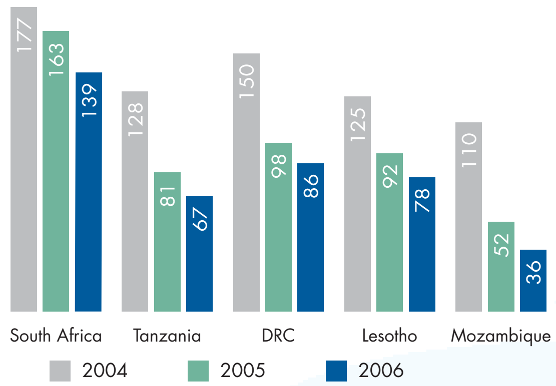
| Year ended March 31 | 2004 | 2005 | 2006 | % points change 05/04 | % points change 06/05 |
|---|---|---|---|---|---|
| Profit from operations margin | 22.9% | 23.7% | **26.0%** | 0.8 | **2.3** |
| EBITDA margin | 33.9% | 35.1% | **34.7%** | 1.2 | **(0.4)** |
| Net profit margin | 13.4% | 14.2% | **15.1%** | 0.8 | **0.9** |
| Net debt/EBITDA | 6.0% | 4.4% | **6.0%** | (1.6) | **1.6** |
| Net debt/equity | 6.1% | 5.4% | **8.2%** | (0.7) | **2.8** |
| Net debt/net assets (excluding intangible assets, including software) | 7.0% | 6.1% | **9.3%** | (0.9) | **3.2** |
| Capital expenditure additions (including software) as a % of revenue | 12.6% | 12.8% | **15.1%** | 0.2 | **2.3** |

## Revenue

Revenue composition
%




ARPU per country
Rand per customer per month




### REVENUE – GEOGRAPHICAL SPLIT

| | Rand millions | | | % change | |
|---|---|---|---|---|---|
| Year ended March 31 | 2004 | 2005 | 2006 | 05/04 | 06/05 |
| South Africa, including holding companies | 21,350 | 25,041 | **31,069** | 17.3 | **24.1** |
| Tanzania | 897 | 959 | **1,312** | 6.9 | **36.8** |
| DRC[1] | 476 | 1,075 | **1,334** | 125.8 | **24.1** |
| Lesotho | 119 | 137 | **170** | 15.1 | **24.1** |
| Mozambique | 13 | 103 | **158** | 692.3 | **53.4** |
| **Revenue** | **22,855** | **27,315** | **34,043** | **19.5** | **24.6** |
| DRC (49%)[1] | 457 | – | **–** | – | **–** |
| **Adjusted revenue** | **23,312** | **27,315** | **34,043** | **17.2** | **24.6** |

*Note*

1. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted revenue reflects 100% of Vodacom Congo's revenue for 2004 for comparative purposes.*

Revenue increased by 24.6% to R34.0 billion (2005: R27.3 billion). The increase in revenue was primarily driven by the 51.9% increase in the Group customer base coupled with a 7.2 percentage point drop in overall churn to 19.6%. Group average revenue per user ("ARPU") decreased by 16.0% to R127 per month due to the majority of the customer base growth being achieved in prepaid customers and the lower end of the contract market.

*South Africa*

South Africa accounts for 89.6% or R6.0 billion of the growth in revenue and is therefore by far the biggest contributor to Vodacom's growth. Vodacom South Africa's growth is driven by the vigorous growth in customers of 49.3% to 19.2 million (2005: 12.8 million) customers. Total ARPU decreased by 14.7% to R139 (2005: R163) per month.

Revenue growth was diluted by declining ARPUs, particularly in respect of penetration into the lower spending customer market. Prepaid ARPU decreased by 11.5% to R69 (2005: R78) per month, as a result of a reduction in the average prepaid usage per customer to 49 (2005: 52) minutes per month. South African contract ARPU decreased by 8.3% to R572 (2005: R624) per month for the year ended March 31, 2006. Average contract usage per customer decreased by 8.8% to 206 (2005: 226) minutes per month.

The number of contract customers increased by 26.2% to 2.4 million (2005: 1.9 million) and the number of prepaid customers increased by 53.3% to 16.8 million (2005: 10.9 million) as at March 31, 2006.

### *Other African countries*

Vodacom's revenue from its other African operations increased by 30.8% to R3.0 billion (2005: R2.3 billion) for the year ended March 31, 2006, contributing 8.7% (2005: 8.3%) to total revenue. The increase in revenue was driven by very strong prepaid customer growth, while ARPUs declined as market penetration increases.

Tanzania

Vodacom Tanzania's revenue increased by 36.8% to R1.3 billion or TSH237 billion (2005: R1.0 billion or TSH168 billion), driven primarily by the increase in the prepaid customer base. The total customer base at March 31, 2006 of 2.1 million (2005: 1.2 million) once again represents a significant increase of 74.1% on the prior year. The customer growth has been driven by additional coverage and innovative products, necessitated by a competitive environment. ARPU has decreased by 17.3% to R67 (2005: R81) per month.

Democratic Republic of Congo ("DRC")

Vodacom Congo's revenue increased by 24.1% to R1.3 billion or US$208 million (2005: R1.1 billion or US$172 million), driven by a 52.2% increase in customers to 1.6 million (2005: 1.0 million). Pressure on ARPU continues, resulting in a decline of 12.2% to R86 (2005: R98) per month, predominantly due to the connection of lower spending prepaid customers, coupled with the 10.5% devaluation of the local currency against the US Dollar, which resulted in lower disposable US Dollar income for customers.

Lesotho

Vodacom Lesotho's revenue increased by 24.1% to R170 million (2005: R137 million), mainly driven by the increase in its customer base by 40.1% to 206,000 (2005: 147,000). Total ARPU decreased by 15.2% to R78 (2005: R92) per month. Vodacom Lesotho's billing currency is the Maloti and is linked to the Rand on a 1:1 basis. Vodacom Lesotho became the first subsidiary outside of South Africa to declare dividends to shareholders to the amount of R7.5 million.

Mozambique

Vodacom Mozambique's revenue increased by 53.4% to R158 million or MZM616 billion (2005: R103 million or MZM354 billion). The total customer base increased by 84.9% to 490,000 (2005: 265,000) customers. With Vodacom Mozambique being the second entrant into the Mozambique mobile market, it is connecting lower spending customers, resulting in decreasing average customer usage and ARPU. Total ARPU decreased by 30.8% to R36 (2005: R52) per month, while usage decreased by 31.3% to 25.9 (2005: 37.7) minutes per month.

## REVENUE COMPOSITION

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % of total 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|---|---|---|
| Airtime, connection and access | 12,738 | 16,191 | **20,085** | 55.7 | 59.4 | **58.9** | 27.1 | **24.1** |
| Data revenue | 1,039 | 1,340 | **2,038** | 4.5 | 4.9 | **6.0** | 29.0 | **52.1** |
| Interconnection | 5,785 | 5,924 | **6,697** | 25.3 | 21.7 | **19.7** | 2.4 | **13.0** |
| Equipment sales | 2,275 | 2,687 | **3,986** | 10.0 | 9.8 | **11.7** | 18.1 | **48.3** |
| International airtime | 659 | 887 | **971** | 2.9 | 3.2 | **2.9** | 34.6 | **9.5** |
| Other sales and services | 359 | 286 | **266** | 1.6 | 1.0 | **0.8** | (20.3) | **(7.0)** |
| **Revenue** | **22,855** | **27,315** | **34,043** | **100.0** | **100.0** | **100.0** | **19.5** | **24.6** |

## DATA REVENUE – GEOGRAPHICAL SPLIT

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % of total 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|---|---|---|
| South Africa | 943 | 1,246 | **1,886** | 90.8 | 93.0 | **92.6** | 32.1 | **51.4** |
| Tanzania | 91 | 74 | **108** | 8.8 | 5.5 | **5.3** | (18.7) | **45.9** |
| DRC | – | 9 | **25** | – | 0.7 | **1.2** | – | **177.8** |
| Lesotho | 5 | 9 | **16** | 0.4 | 0.7 | **0.8** | 80.0 | **77.8** |
| Mozambique | – | 2 | **3** | – | 0.1 | **0.1** | – | **50.0** |
| **Data revenue** | **1,039** | **1,340** | **2,038** | **100.0** | **100.0** | **100.0** | **29.1** | **52.1** |

### *Airtime, connection and access*

Vodacom's airtime, connection and access revenue increased by 24.1% to R20.1 billion (2005: R16.2 billion) during the year ended March 31, 2006, primarily due to the increase in the number of customers, slightly offset by declining ARPUs in all operations.

Total customers increased by 51.9% to 23.5 million (2005: 15.5 million), primarily due to strong prepaid customer growth. In South Africa, gross contract connections of 702,000 (2005: 610,000) exceeded the prior year connections by 15.1%, while gross prepaid connections were 8.4 million which exceeded prior year connections by 51.3%. South African ARPU decreased 14.7% to R139 (2005: R163) per month due to the strong increase in prepaid customers as well as lower usage.

### *Data*

Vodacom's data revenue increased by 52.1% to R2.0 billion (2005: R1.3 billion), mainly due to new data initiatives such as 3G, HSDPA, Vodafone live!, BlackBerry®, Mobile TV as well as the popularity of SMS and other data products.

Vodacom South Africa transmitted 3.5 billion (2005: 2.4 billion) SMSs over its network during the year ended March 31, 2006, up 45.5% from 2005. The number of active data users on the South African network as at March 31, 2006 was: MMS users 867,119 (2005: 328,974); GPRS users 1,386,329 (2005: 579,581); 3G Vodafone Mobile Connect data card users 37,798 (2005: 5,101); 3G active handsets 179,576 (2005: 10,878); Vodafone live! users 351,427; Unique Mobile TV users 12,903.

The contribution to data revenue from other African operations increased to 7.4% (2005: 7.0%) of total data revenue. Data revenue now constitutes 7.0% (2005: 5.6%) of service revenue (service revenue excludes equipment sales, starter pack sales and non-recurring revenue). Data revenue in all countries increased substantially, confirming the trend of increased data spend by customers.

*Interconnection*

Vodacom's interconnection revenue increased by 13.0% during the year to R6.7 billion (2005: R5.9 billion), primarily due to growth in off-net incoming mobile traffic.

*Equipment sales*

Vodacom's revenue from equipment sales increased by 48.3% to R4.0 billion (2005: R2.7 billion) during the year. In South Africa, handset sale volumes increased by 58.3% to 3.8 million (2005: 2.4 million) units. The growth in equipment unit sales was primarily driven by growth in customer bases, cheaper Rand prices of new handsets coupled with added functionality of new phones based on new technologies.

*International airtime*

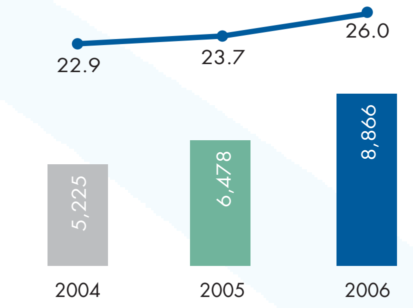
International airtime increased by 9.5% to R971 million (2005: R887 million) for the year ended March 31, 2006. International airtime revenues comprise international calls by Vodacom customers, roaming revenue from Vodacom's customers making and receiving calls while abroad and revenue from international visitors roaming on Vodacom's networks.

*Other sales and services*

Other sales and services revenue decreased by 7.0% to R266 million (2005: R286 million). Revenue from other sales and services includes revenue from Vodacom's cell captive insurance scheme, wireless application service provider ("WASP") revenue, site sharing rental income as well as other revenue from non-core operations.

## Profit from operations

Profit from operations and profit from operations margin




Certain new accounting policies were adopted during the year in terms of the newly released International Financial Reporting Standards ("IFRS") resulting in some changes to previously issued financial statements (refer to Note 23 of the Annual Financial Statements).

Profit from operations for the Group increased by 36.9% to R8.9 billion (2005: R6.5 billion) for the year ended March 31, 2006, fuelled by buoyant consumer spending and a low inflationary environment in South Africa as well as successful cost containment in all operations. A healthy increase in on-net traffic also contributed favourably to profit margins. Operating expenses increased by 20.8% which was lower than revenue growth of 24.6%. This resulted in Vodacom's profit from operations margin increasing to 26.0% (2005: 23.7%). The profit from operations for the Group was negatively impacted by losses in Mozambique of R144 million, acquisition costs associated with high levels of contract customer connections and retentions in South Africa and prepaid customer connections in all operations.

## PROFIT FROM OPERATIONS – GEOGRAPHICAL SPLIT

| | Rand millions | | | % change | |
|---|---|---|---|---|---|
| **Year ended March 31** | **2004** | **2005** | **2006** | **05/04** | **06/05** |
| South Africa, excluding holding companies[1] | 5,272 | 6,618 | **8,602** | 25.5 | **30.0** |
| Tanzania | 135 | 183 | **263** | 35.6 | **43.7** |
| DRC[2] | 10 | 50 | **117** | 400.0 | **134.0** |
| Lesotho | 1 | 25 | **51** | – | **104.0** |
| Mozambique | (88) | (454) | **(144)** | (415.9) | **68.3** |
| Holding companies | (105) | 56 | **(23)** | 153.3 | **(141.1)** |
| **Profit from operations** | **5,225** | **6,478** | **8,866** | **24.0** | **36.9** |
| DRC (49%)[2] | 10 | – | **–** | – | **–** |
| **Adjusted profit from operations** | **5,235** | **6,478** | **8,866** | **23.7** | **36.9** |

*Notes*

1. *The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The impact of these restatements is immaterial.*
2. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted profit from operations for 2004 reflects 100% of Vodacom Congo's profit from operations for comparative purposes.*

Profit from operations increased by 36.9% versus the EBITDA increase of 23.1%. This differential is mainly due to the reversal of the net amount of R53 million of the impairment of the Mozambique assets of R268 million provided for in 2005, as well as the reversal of infrastructure depreciation with the implementation of IAS 16: Property, Plant and Equipment.

### *South Africa*

Vodacom South Africa's profit from operations increased by 30.0% to R8.6 billion (2005: R6.6 billion) for the year and profit from operations margin increased to 27.7% (2005: 26.4%) for 2006 despite more competitive operating conditions and increased interconnect costs due to the negative impact of the change in traffic mix.

Operating expenses in South Africa grew by 22.7% versus the revenue growth of 24.1%, resulting in the increased South African margins.

### *Tanzania*

Vodacom Tanzania's profit from operations improved by 43.7% to R263 million (2005: R183 million) for the year and the profit from operations margin increased to 20.0% (2005: 19.1%). The improvement in profit from operations was driven by the growth in customers, aided by sound cost management.

### *Democratic Republic of Congo*

Vodacom Congo experienced excellent growth with profit from operations increasing by 134.0% to R117 million (2005: R50 million) for the year and operating profit margin increased to 8.8% (2005: 4.7%). The profit from operations improvement was as a result of sturdy cost management and increased revenue generated by the larger customer base.

### *Lesotho*

Vodacom Lesotho's profit from operations increased by 104.0% to R51 million (2005: R25 million) for the year and operating profit margin increased to 30.0% (2005: 18.2%), principally due to stringent cost management and increased revenue.

### *Mozambique*

Vodacom Mozambique's loss from operations decreased to R144 million (2005: R454 million loss) for the year, primarily due to the net impairment charge reversal of R53 million and increased revenue as a result of the increase in the customer base.

*Holding companies*

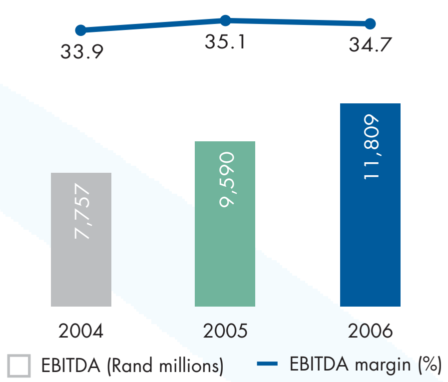
The holding companies had a loss from operations of R23 million (2005: R56 million profit), due to factors such as the provision for executive long-term incentives and costs incurred with the unsuccessful attempt to acquire an interest in the Nigerian market.

## EBITDA

EBITDA increased by 23.1% to R11.8 billion (2005: R9.6 billion) for the year ended March 31, 2006, with South Africa (including holding companies) contributing 93.4% and the other African operations contributing 6.6% to EBITDA. The EBITDA margin decreased to 34.7% (2005: 35.1%).

The decline in the EBITDA margin is primarily the result of the full year impact of the global alliance fees paid to Vodafone, higher transmission and infrastructure costs as well as higher call centre costs, especially in South Africa and Tanzania. Vodacom's EBITDA margin, adjusted for the impact of low margin cellular phone and equipment sales, was 39.9% (2005: 40.1%).

EBITDA and EBITDA margin




EBITDA – GEOGRAPHICAL SPLIT

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|
| South Africa, excluding holding companies[1] | 7,526 | 8,995 | **11,053** | 19.5 | **22.9** |
| Tanzania | 278 | 345 | **465** | 24.1 | **34.8** |
| DRC[2] | 97 | 252 | **373** | 159.8 | **48.0** |
| Lesotho | 27 | 48 | **67** | 77.8 | **39.6** |
| Mozambique | (71) | (111) | **(129)** | (56.3) | **(16.2)** |
| Holding companies | (100) | 61 | **(20)** | 161.0 | **(132.8)** |
| **EBITDA** | **7,757** | **9,590** | **11,809** | **23.6** | **23.1** |
| DRC (49%)[2] | 93 | – | **–** | – | **–** |
| **Adjusted EBITDA** | **7,850** | **9,590** | **11,809** | **22.2** | **23.1** |

*Notes*

1. *The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The impact of these restatements is immaterial.*
2. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted EBITDA for 2004 reflects 100% of Vodacom Congo's EBITDA for comparative purposes.*

## Operating expenses

### OPERATING EXPENSES COMPOSITION

| Year ended March 31 | Rand millions 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|
| Depreciation, impairment and amortisation | 2,532 | 3,112 | **2,943** | 22.9 | **(5.4)** |
| Payments to other network operators | 2,990 | 3,652 | **4,634** | 22.1 | **26.9** |
| Other direct network operating costs | 9,445 | 10,966 | **13,663** | 16.1 | **24.6** |
| Staff expenses | 1,332 | 1,653 | **2,042** | 24.1 | **23.5** |
| Marketing and advertising | 702 | 767 | **977** | 9.3 | **27.4** |
| General administration expenses | 687 | 751 | **1,043** | 9.3 | **38.9** |
| Other operating income | (58) | (64) | **(125)** | 10.3 | **95.3** |
| **Operating expenses[1]** | **17,630** | **20,837** | **25,177** | **18.2** | **20.8** |

*Note*

1. *The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The impact of these restatements is immaterial.*

*Depreciation, amortisation and impairment*

Depreciation, amortisation and impairment decreased by 5.4% to R2.9 billion (2005: R3.1 billion) in the year ended March 31, 2006. The implementation of IAS 16: Property, Plant and Equipment contributed to the lower depreciation charge for the period. A portion of Mozambique's asset impairment of the prior year was reversed due to an increase in the fair value of infrastructure assets (net impairment reversal for the year: R53 million). A comparison of the exchange rates applicable to Vodacom is presented under the section "Financial instruments and risk management".

*Payments to other network operators*

Payments to other network operators increased by 26.9% to R4.6 billion (2005: R3.7 billion) in 2006 as a result of an increased amount of outgoing traffic terminating on other cellular networks, rather than on fixed-line networks. As the cost of terminating calls on other cellular networks is materially higher than calls terminating on fixed-line networks and as mobile substitution increases with the growing number of total mobile users in South Africa, interconnection charges will continue increasing, putting pressure on margins.

*Other direct network operating costs*

Other direct network operating costs increased by 24.6% to R13.7 billion (2005: R11.0 billion) in the year ended March 31, 2006. Other direct network operating costs include the cost to connect customers onto the network as well as expenses such as cost of equipment and accessories sold, commissions paid to the distribution channels, customer retention expenses, regulatory and licence fees, distribution expenses, transmission costs as well as site and maintenance costs.

*Staff expenses*

Staff expenses increased by 23.5% in the year ended March 31, 2006 to R2.0 billion (2005: R1.7 billion), primarily as a result of an increase in headcount of 9.3% to 5,459 (2005: 4,993) employees in 2006, to support the growth in operations, an increase in the provision for Vodacom's bonus schemes due to increased profits, the first time provision for long-term incentives payable to executives as well as annual salary increases.

Total headcount in Vodacom's South African operations (including holding companies) increased by 8.8% to 4,302 (2005: 3,954) employees. Total headcount in other African operations increased by 11.4% to 1,157 (2005: 1,039) employees to meet the demands of the rapid expansion of these operations. Employee productivity has improved in all of Vodacom's operations, as measured by customers per employee, improving by 38.9% to 4,308 (2005: 3,101) customers per employee.

*Marketing and advertising*

Marketing and advertising expenses increased by 27.4% in 2006 to R977 million (2005: R767 million), mainly driven by new technologies and enhancing brand presence in all operations.

*General administration expenses*

General administration expenses increased by 38.9% to R1.0 billion (2005: R751 million), where the increase was primarily as a result of the customer care centre solutions and various other increases due to growth in the business. General administration expenses comprise expenses such as accommodation, information technology costs, office administration, consultant expenses, social economic investment and insurance.

*Other operating income*

Other operating income increased by 95.3% to R125 million (2005: R64 million). Other operating income comprises income that Vodacom does not consider as part of its core activities, such as cost recoveries for risk management and consultancy services and franchise fees received.

## Capital expenditure

CAPITAL EXPENDITURE ADDITIONS – GEOGRAPHICAL SPLIT

| | Rand millions | | | % of total | | | % change | |
|---|---|---|---|---|---|---|---|---|
| **Year ended March 31** | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** | **05/04** | **06/05** |
| South Africa, excluding holding companies | 1,654 | 2,777 | **4,384** | 57.2 | 79.5 | **85.3** | 67.9 | **57.9** |
| Tanzania | 351 | 234 | **318** | 12.1 | 6.7 | **6.2** | (33.3) | **35.9** |
| DRC[1] | 395 | 335 | **273** | 13.7 | 9.6 | **5.3** | (15.2) | **(18.5)** |
| Lesotho | 7 | 10 | **26** | 0.3 | 0.3 | **0.5** | 42.9 | **160.0** |
| Mozambique | 478 | 115 | **121** | 16.5 | 3.3 | **2.4** | (75.9) | **5.2** |
| Holding companies | 6 | 23 | **16** | 0.2 | 0.6 | **0.3** | 283.3 | **(30.4)** |
| **Capital expenditure for the year** | **2,891** | **3,494** | **5,138** | **100.0** | **100.0** | **100.0** | **20.9** | **47.1** |
| DRC (49%)[1] | 380 | – | **–** | – | – | **–** | – | **–** |
| **Adjusted capital expenditure** | **3,271** | **3,494** | **5,138** | **100.0** | **100.0** | **100.0** | **6.8** | **47.1** |

*Note*

1. *During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in the Group financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary after certain clauses granting the outside shareholders participating rights have been removed from the shareholders' agreement. The adjusted capital expenditure reflects 100% of Vodacom Congo's capital expenditure for the prior period for comparative purposes.*

## CUMULATIVE CAPITAL EXPENDITURE – GEOGRAPHICAL SPLIT

| | 2005 | | 2006 | |
|---|---|---|---|---|
| Year ended March 31 | R billions | Foreign | R billions | Foreign |
| South Africa, excluding holding companies (R billions) | 20.3 | – | **24.1** | **–** |
| Tanzania (TSH billions) | 1.4 | 240.1 | **1.5** | **297.6** |
| DRC (US$ millions) | 1.8 | 281.0 | **2.0** | **323.1** |
| Lesotho (Maloti millions) | 0.2 | 211.0 | **0.2** | **225.0** |
| Mozambique (MZM billions) | 0.7 | 2,173.7 | **0.6** | **2,644.6** |
| Holding companies (R billions) | – | – | **0.1** | **–** |
| **Cumulative capital expenditure** | **24.4** | **–** | **28.5** | **–** |

The total cumulative capital expenditure of the Group at March 31, 2006 increased by 16.8% to R28.5 billion (2005: R24.4 billion). The Group invested R5.1 billion (2005: R3.5 billion) in property, plant and equipment and computer software for 2006, of which R4.2 billion (2005: R2.8 billion) was for cellular network infrastructure (excluding software).

It is Vodacom's policy to hedge all foreign denominated commitments of South African operations. However, Vodacom does not qualify for hedge accounting in terms of IAS 39 and, therefore all capital expenditure in South Africa is recorded at the exchange rate ruling at the date of acceptance of the equipment. Capital expenditure of Vodacom's other African operations is translated at the average exchange rate of the Rand against the operation's reporting currency for the period, while closing capital expenditure is translated at the closing exchange rate of the Rand against the reporting currency. For this reason, Vodacom's capital expenditure in any given year cannot be properly evaluated without taking the exchange rate movements against the Rand into account, which are shown under the section "Financial instruments and risk management".

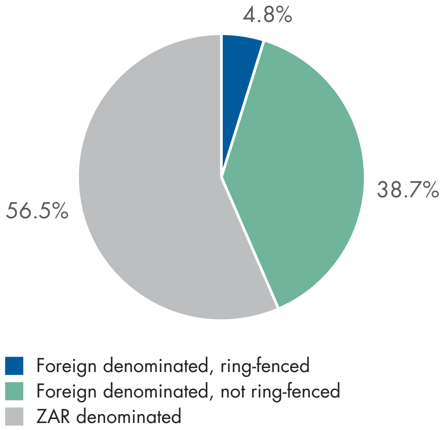
### Financial structure and funding

Vodacom's net debt position has increased to R709 million (2005: R426 million) as at March 31, 2006. The Group's net debt to EBITDA ratio was 6.0% (2005: 4.4%) while Vodacom's net debt to equity ratio increased to 8.2% (2005: 5.4%). However, the final dividend of R2.8 billion, which was paid on April 5, 2006, should be taken into account when evaluating the net debt to equity ratio. In addition, in terms of covenant calculations, intangible assets are excluded from the calculation. If the shareholders for dividends is included in, and intangible assets are excluded from the calculation, the net debt to equity ratio at March 31, 2006, increased to 45.9% (2005: 32.0%).

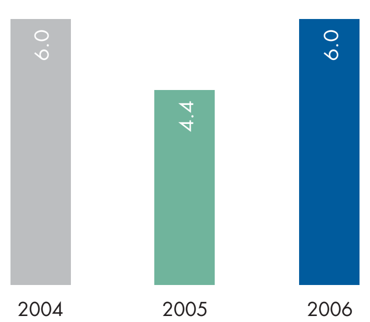
## SUMMARY OF NET DEBT AND MATURITY PROFILE

| | Rand millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Repayment of 2006 debt | | | | | |
| Year ended March 31 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 onwards |
| **Finance leases** | | | | | | | | |
| South Africa | 858 | **808** | 79 | 114 | 192 | 99 | 162 | 162 |
| **Funding loans** | | | | | | | | |
| Vodacom Tanzania shareholder and project finance loans | 369 | **275** | 184 | – | – | – | – | 91 |
| Vodacom Congo medium-term loan | 1,129 | **1,114** | 1,114 | – | – | – | – | – |
| Vodacom Congo preference share liability | 232 | **229** | 229 | – | – | – | – | – |
| Vodacom Lesotho minority shareholders' loan | 4 | **4** | 4 | – | – | – | – | – |
| Other | 7 | **39** | 39 | – | – | – | – | – |
| **Debt excluding bank overdrafts** | **2,599** | **2,469** | **1,649** | **114** | **192** | **99** | **162** | **253** |
| Bank overdrafts | 1,817 | **1,386** | | | | | | |
| **Gross debt** | **4,416** | **3,855** | | | | | | |
| Bank and cash balances | (3,990) | **(3,146)** | | | | | | |
| **Net debt** | **426** | **709** | | | | | | |

Gross debt composition including bank overdrafts
R3,855 million




Net debt/EBITDA
%



## Funding sources

Vodacom's ongoing objective is to fund all its other African operations by means of project finance, structured such that there is no recourse to our South African operations. Strong South African cash flows would therefore be utilised principally to pay dividends and make new growth-enhancing investments. The Group utilises own funds and supported funding structures, subject to South African Reserve Bank's approval, to fund offshore investments in the initial stages of the investment, until the project is able to support project funding.

While Vodacom has project funding in place for their Tanzania investment, at this stage, Vodacom Congo and Vodacom Mozambique are still substantially dependent on funding from South Africa. These operations are funded by a mix of market priced direct loans, as well as security to facilitate their own credit lines.

In South Africa, debt consists of finance lease liabilities of R808 million (2005: R858 million) and net positive bank balances of R1.8 billion (2005: R2.2 billion) held principally on money market at variable rates. Vodacom has funded all of its major properties by way of finance leases.

## Financial instruments and risk management

Subject to central bank regulations in the various countries as well as the local market condition restrictions, Vodacom actively manages foreign currency risk, interest rate risk, credit risk and liquidity risk on an ongoing basis. Management believes that Vodacom's procedures are adequate for the organisation. The Group's risk management procedures are described fully in the Group's Annual Financial Statements.

FOREIGN EXCHANGE RATES

| | Rand exchange rate | | | % change | |
|---|---|---|---|---|---|
| Year ended March 31 | 2004 | 2005 | 2006 | 05/04 | 06/05 |
| **US Dollar** | | | | | |
| Average | 7.17 | 6.24 | **6.40** | 13.0 | **(2.6)** |
| Closing | 6.32 | 6.27 | **6.19** | 0.8 | **1.3** |
| **Tanzanian Shilling** | | | | | |
| Average | 163.31 | 175.01 | **180.72** | 7.2 | **3.3** |
| Closing | 174.19 | 176.68 | **198.03** | 1.4 | **12.1** |
| **Mozambican Metical** | | | | | |
| Average | 3,734.52 | 3,418.17 | **3,891.25** | (8.5) | **13.8** |
| Closing | 3,745.36 | 3,122.82 | **4,372.15** | (16.6) | **40.0** |

## Taxation

The taxation expense increased by 17.8% to R3.1 billion (2005: R2.6 billion) for the year ended March 31, 2006, mainly due to a significant increase in secondary taxation on companies ("STC") paid on higher dividends, unutilised tax losses in Mozambique as well as higher South African normal taxation. Vodacom's effective tax rate decreased to 37.5% (2005: 40.2%) primarily as a result of the reduction in the statutory South African tax rate of 1% point to 29.0% (2005: 30.0%), as well as no additional Mozambique impairments being raised in the current period for which no deferred taxation asset was recognised. STC increased Vodacom's effective tax rate by 6.9% (2005: 6.6%).

## Shareholder distributions

Dividends declared for the 2006 financial year totalled R4.5 billion (2005: R3.4 billion), an increase of 32.4%. The final dividend of R2.8 billion was paid on April 5, 2006.

## Cash flow

Vodacom had a positive free cash flow before shareholder distributions and financing activities of R3.2 billion (2005: R3.9 billion), a decrease of 17.3% compared to the prior year, mainly due to the increase of capital expenditure of R1.5 billion as well as increased tax on higher profits and higher STC on increased dividends. The cash generated from operations had a positive variance of R1.1 billion.

## Conclusion

Vodacom has performed well in an evolving and competitive African market. The South African market continues its robust trend and management believes that the market is far from being saturated. The strong cash generation ability of Vodacom's South African operations ensured a healthy consolidated balance sheet, despite substantial dividend payouts. High confidence levels in the success of all its operations remains unscathed despite the competitive playing field and rigorous challenges presented by regulatory constraints. In South Africa, Vodacom intends to strategically position itself to negate the impact of the pending deregulation of the South African market and plans to seize any emerging opportunities. With its strong brand and strong balance sheet, the Group is well positioned to remain the leading player in the main markets in which it operates.

**Leon Crouse**
*Chief Financial Officer*
*Vodacom Group (Proprietary) Limited*

On December 1, 2005, **Vodacom** became the first South African cellular network to bring you **Mobile TV**

# CHIEF OPERATING OFFICER'S REVIEW

"Vodacom is well placed to compete in the African markets in which it operates."

Pieter Uys
Chief Operating Officer
Vodacom Group (Proprietary) Limited

## Year under review

The past financial year has once again proven to be a very successful year for Vodacom. Our customer base has shown growth of 51.9% to 23.5 million (2005: 15.5 million). The African countries contributed 8.7% (2005: 8.3%) to revenue, 22.7% (2005: 20.6%) to customer gross connections and 18.5% (2005: 17.1%) to the total customer base for the year ended March 31, 2006.

These results have been achieved in challenging competitive, regulatory and fiscal environments.

## South Africa

Vodacom South Africa experienced excellent customer base growth which once again exceeded expectations, by increasing with 49.3% to 19.2 million (2005: 12.8 million) customers. The growth in customers was fuelled by a record number of gross connections in a robust economy, coupled with lower churn. Vodacom South Africa increased its estimated market share to 58% (2005: 56%) for the year ended March 31, 2006.

Vodacom South Africa remains the cornerstone of Vodacom's success and is well positioned to take advantage of the further growth opportunities expected in this market.

## Other African operations

Vodacom managed to improve or retain its market position in all its other African operations during the year under review.

*Tanzania*

Under the leadership of Managing Director, Romeo Kumalo who was appointed on April 1, 2005, Vodacom Tanzania has continued to improve its overall performance in respect of customer growth, profit from operations, EBITDA, redesign of its distribution channel and cost management.

Vodacom Tanzania achieved a substantial 74.1% increase in customers to 2.1 million (2005: 1.2 million), primarily through increases in the prepaid customer base.

Vodacom Tanzania has achieved exceptional growth in profit from operations with an increase of 43.7% and customer growth of 74.1% during the year despite a slight decrease in its market share to 58% (2005: 59%) in 2006.

Infrastructure investment in Tanzania will continue by rolling out the GSM network to rural areas, increasing network capacity and rolling out a 3G network. A significant amount of goodwill was created by donating one billion Tanzanian Shillings to the Tanzanian Relief Fund. These funds will be used to provide food to thousands of starving Tanzanians who have been affected by the current devastating drought.

*The Democratic Republic of Congo ("DRC")*

Vodacom Congo has also improved its operational performance over the past year with solid growth in customers, profits from operations and EBITDA under the leadership of Managing Director, Dietlof Maré. Vodacom Congo's focus on being competitive in coverage and quality has been very successful.

DRC's presidential and parliamentary elections are planned for the coming year after an official postponement was announced in June 2005. The outcome of the elections will determine political stability and economic growth.

Vodacom Congo achieved a 52.2% increase in customers to 1.6 million (2005: 1.0 million) as a result of substantial gross new customer connections. Profit from operations increased by 134.0% to R117 million (2005: R50 million).

Vodacom Congo continues to be the market leader with an estimated market share of 48% (2005: 47%) on March 31, 2006. The success of the various distribution channels of Vodacom Congo have contributed to the growth in market share.

*Lesotho*

Given the market size of the country, Vodacom Lesotho has delivered exceptional operating results during the past year under the leadership of the Managing Director, Mervyn Visagie. Vodacom Lesotho has delivered significant growth in customers with an increase of 40.1%. Profit from operations increased by 104.0% and EBITDA by 39.6%.

Vodacom Lesotho increased its customer base by 40.1% to 206,000 (2005: 147,000) customers as at March 31, 2006, constituted mainly of prepaid customers resulting from substantial growth in gross new customer connections.

Vodacom Lesotho has retained its estimated 80% share of the market by continually providing excellent coverage, brand management and distribution of products and services.

*Mozambique*

Vodacom Mozambique has completed its second full year of operations. Although customer growth was satisfactory, the low minutes of use and ARPUs were disappointing. On the positive side, Vodacom Mozambique has rolled out a competitive network from a coverage and quality point of view. Macro economic indicators are moving in the right direction, which is encouraging.

Vodacom Mozambique increased its customer base substantially by 84.9% to 490,000 (2005: 265,000) customers as at March 31, 2006.

Following his success in Tanzania, José dos Santos took over the position of Managing Director in 2006 to lead Vodacom Mozambique.

## Conclusion

The coming financial year will again be challenging with increased pressure being exerted by competitors and regulators. As a result of African markets being seen as the most lucrative growth opportunities, these pressures will increase as more players enter the market. Vodacom is well placed to compete in the African markets in which it operates.

In South Africa, Vodacom is mainly faced with opportunities and challenges posed by the Electronic Communications Bill, number portability and customer registration.

**Pieter Uys**
*Chief Operating Officer*
*Vodacom Group (Proprietary) Limited*

# REVIEW OF OPERATIONS

## VODACOM SOUTH AFRICA

Shameel Aziz Joosub
Managing Director
Vodacom (Proprietary) Limited

### Structure

The review of Vodacom's South African ("VSA") operations comprises Vodacom (Proprietary) Limited, Vodacom Service Provider Company (Proprietary) Limited ("VSPC") and Vodacom Properties No. 2 (Proprietary) Limited operations, but excludes Cointel VAS (Proprietary) Limited, Smartphone SP (Proprietary) Limited and its subsidiaries.

### Service providers

Vodacom (Proprietary) Limited has contracts with a number of companies for the distribution of its services. These companies are referred to as service providers. They each have their own individual brand, manage the customer interface, are responsible for the billing and credit control of their own customers on behalf of Vodacom (Proprietary) Limited and provide individualised value-added services such as customer care, insurance, itemised billing, etc. Vodacom distributes its services through five service providers.

VSPC is one of those service providers and distributes only Vodacom services. VSPC remains the flagship of our service provider channel, managing 70.9% (2005: 66.7%) of the total customer base and 75.1% (2005: 73.5%) of the contract base.

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

- Global Telematics (Proprietary) Limited, trading as Orchid; and
- Smartphone SP (Proprietary) Limited, a 51% subsidiary of Vodacom Group, trading as Smartcall and incorporating Smartcom (Proprietary) Limited.

Together the Vodacom Group controlled service providers, control 99.3% of the prepaid customer base and 83.5% of the contract customer base.

Vodacom services are also distributed through our valued independent (non-exclusive) service providers:

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

## Sales and marketing

*Brand*

The year under review produced another round of sterling brand performances in the annual Markinor-Sunday Times Top Brands survey, with Vodacom maintaining its position as the number one telecommunications brand in South Africa and third place as the overall favourite brand in the country (preceded by Coca-Cola and SAB in first and second positions, respectively). Brand Metrics was tasked to value the Vodacom brand during the year and calculated the value at a staggering R31 billion.

Vodacom's advertising has gained momentum over the year, with increased media efficiencies and high liking scores resulting in highly effective communications. This contributed to it being ranked in the top ten of "coolest" South African brands and taking the lead in the new category "favourite advertisers" – a tribute to the consistent popularity of the brand advertising. Vodacom's iconic Yebo Gogo advertising is rated as one of the most popular and successful campaigns ever produced in South Africa. The "Meerkat" television commercial for Vodacom's Yebo Feva summer promotion was voted as South Africa's best liked television commercial for 2005.

Vodacom remains the undisputed telecommunications leader in South Africa, with the most clearly differentiated and positive image in the market. As the South African market continues to mature and consumers become more discerning, Vodacom will need to continue evolving its image and offering to meet specific market segment needs – becoming a truly customer-centric brand.

*Sponsorship*

Vodacom continues to invest in sports sponsorships and is seen as the "greatest supporter of South African supporters". The list of sponsorships includes high profile sporting teams, such as the Springboks, and events such as the Vodacom Super 14 and Vodacom Challenge. Other sponsorships include the Vodacom Durban July, the Vodacom Blue Bulls, Vodacom Cheetahs, Vodacom Stormers, Bafana Bafana, Kaizer Chiefs and Orlando Pirates. The umbrella marketing campaigns around these sponsorships have increased brand popularity among South African supporters.

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

*Distribution channels*

As at March 31, 2006, Vodacom's distribution network consisted of the following:

- Vodaworld: a unique one-stop mobile telecommunications mall, showcasing the latest technology in cellular hardware;
- Dealers and franchises: 610 company and independently owned cellular dealer and franchise outlets which include Vodashop, Vodacare, Vodacom 4U and Vodacom Active stores;
- National chains: 9,870 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;
- Wholesale: a significant channel representing the informal sector comprising of street vendors serving under-serviced areas; and
- Service provider distribution: consisting of direct, corporate dealers and franchise stores e.g. Smartcall, Smartcom, Nashua, Autopage, etc.

## Customers and traffic

*Customer growth and connections*

The South African customer base continued to grow at exceptional rates this year, illustrating that the market is larger than previously forecasted. The total number of customers has increased by 49.3% to 19.2 million (2005: 12.8 million), with the majority of the growth coming from the prepaid market. The number of prepaid customers has increased by 53.3% to 16.8 million, while the number of contract customers has increased by 26.2% to 2.4 million. The strong growth in customers was a direct result of the remarkable number of gross connections achieved, with continued levels of handset support to service providers in respect of the contract base, coupled with decreased churn in the prepaid base.

Contract gross connections increased by 15.1% to 702,000 (2005: 610,000), while prepaid gross connections increased by 51.3% to 8.4 million (2005: 5.6 million), bringing the total number of connections for the year to 9.1 million (2005: 6.2 million). The growth in the contract connections was largely due to the increased connections in the hybrid product, Family Top Up. This product, allowing the customer to control his spend, has been particularly popular in the youth market.

The year under review was another year of records in South Africa, with over one million prepaid gross connections achieved in December 2005, the highest ever monthly figure; 44.3% more than the previous record of almost 700,000 in December 2004. Contract gross connections of 88,000, achieved in December 2005, was also the highest ever, 44.3% higher than the previously reported record of 61,000 in December 2004.

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

*Average revenue per user ("ARPU")*

The developing market through the prepaid service has continued to drive market penetration in 2006 and has made up 92.1% (2005: 90.1%) of all gross connections. During the period under review, ARPU decreased to R140 (2005: R163) per month due to the continued dilution caused by the higher proportion of lower ARPU prepaid and contract connections and lower usage due to the lower end of the market being penetrated.

Contract customer ARPU has decreased by 8.3% to R572 (2005: R624) per month. The main contributing factor to this decrease has been the high growth in data customers as well as in the low end hybrid, Family Top Up package. The prepaid customer ARPU has decreased by 11.5% to R69 (2005: R78) per month.

Community services ARPU has decreased by 22.6% to R1,796 (2005: R2,321) per month due to increased competition mainly from Cell C.

*Churn*

The cost of acquiring contract customers in a highly developed market is considerable. Vodacom has therefore implemented upgrade and retention policies over the last couple of years to administer this. Through the continued high level of handset support to service providers and an improvement in service to customers, Vodacom has maintained a very low contract churn of 10.0% (2005: 9.1%) in 2006.

The developing prepaid market is characterised by low acquisition costs due to the flexibility required by this market to access our services. The decrease in prepaid churn experienced during the year under review to 18.8% (2005: 30.3%) is a result of a combination of the introduction of innovative products and services, loyalty initiatives and changes in business rules to ensure incentives are paid on factual connections.

*Traffic and minutes of use*

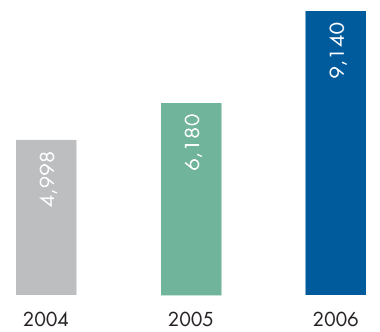
Total traffic on the network, excluding the impact of national and international roaming, has shown an increase of 20.0% to 17.1 billion (2005: 14.2 billion) minutes in 2006. This growth was mainly due to the 49.3% growth in the total customer base from 12.8 million to a base of 19.2 million as at the end of March 2006. Also evident was a marked change in customer calling patterns, with total mobile-to-mobile traffic increasing by 26.1% while total mobile-to-fixed and fixed-to-mobile traffic increased by only 1.7%.

Minutes of use is reflective of voice trends outside and in excess of the bundle and shows a stabilised trend for the period under review. Contract minutes show an 8.8% decrease to 206 (2005: 226) minutes per customer per month for 2006, as a result of high sales on the low end hybrid product and prepaid minutes show a 5.8% decrease to 49 (2005: 52) minutes per customer per month in 2006.

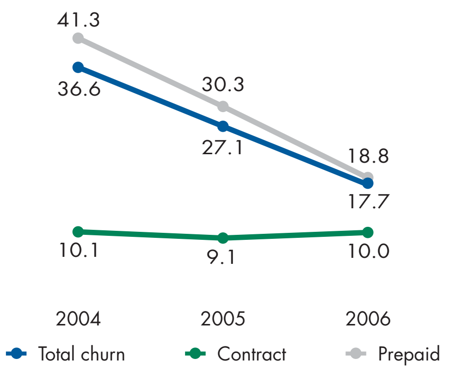
*Market share*

Despite strong competition, Vodacom has retained its leadership in the South African market with an estimated 58% (2005: 56%) market share as at March 31, 2006. The improved market share is as a result of the high growth in prepaid sales and the low

South Africa gross connections
'000




South Africa churn history
%




churn in both contract and prepaid. The cellular industry in South Africa has grown by an estimated 44% since March 2005, of which Vodacom has contributed approximately 63%. The market penetration of the cellular industry is now an estimated 71% (2005: 49%) of the population with a total cellular market of approximately 33 million (2005: 23 million) customers. Prepaid customers continue to dominate the market and comprise an estimated 85% (2005: 84%) of the total cellular market.

## Customer relationship management

As the cellular market in South Africa approaches saturation, it has become even more important to acquire and retain the right customers. To this end, customer relationship management remains a key strategic focus area.

This year, most of our efforts in this area, were focused on rewarding customers for their loyalty. The launch of Yebo Millionaires, an SMS game show that is only open to Vodacom customers, whereby all customers receive two free SMSs to play the game and stand a chance of winning R1 million per week, is one of the loyalty initiatives launched this year. This initiative has been extremely successful and proved to be very popular in the emerging market. The Talking Points prepaid loyalty programme whereby prepaid customers earn points every time they recharge and can exchange these points for rewards such as cellphones, SMS bundles and call discounts has proved to be equally successful. Both these programmes have significantly contributed to the high levels of satisfaction among Vodacom's customers, evident in the customer satisfaction surveys conducted by the Department of Trade and Industry, where Vodacom achieved the highest score in the telecommunications and banking sectors. Similar surveys, based on best practices used by Vodafone, were conducted internally and rendered equally high scores for Vodacom.

These surveys enable Vodacom to better understand customer likes and dislikes and how customers would like Vodacom to interact with them. Using these insights, we ensure that our staff are trained to interact with customers in a customer-centric manner and that our business processes support our customer relationship management principles.

### Customer Care

Customer Care was split into two focus areas, namely Systems Support and Operations, and Retentions. This has provided greater focus and more effective span of control.

The outsourcing strategy was further expanded with directory enquiries and basic prepaid calls being managed by Bytes Technology and Dimension Data, respectively. This had a positive impact on the overall service level and freed in-house call centres to manage more complex type queries, particularly the growth in data. The interactive voice response ("IVR") now handles 75% of all customer interactions and escalated calls have reduced to 1% of all interactions. The e-mail contact centre was established and has experienced significant growth, with response times meeting set turn around targets.

The growth of the customer base has necessitated recruitment of an additional 1,000 customer care staff with 75% of the resources to be placed in the frontline to improve call handling capacity. The primary allocation of the additional resources was used to fill existing seating capacity in the Western Cape, Port Elizabeth and Midrand, however, the bulk is allocated to a new call centre in the city centre of Johannesburg. In March 2006, 250 flexi agents were selected and staggered training commenced on April 10, 2006. The go-live date for the first 250 agents in the Johannesburg call centre is scheduled for July 1, 2006. This will have a positive effect on service levels throughout customer care.

### Walk-in customer care

Dedicated customer care centres located in busy centres across the country continue to be highly successful in providing customers with a one stop shop, to address their customer service requirements. The success of these outlets is evident from the year on year increase of 19% in the foot traffic to these centres and contributed to the decision to increase the number of centres from four to five. In addition to the four centres currently located at Vodaworld in Midrand, Canal Walk in Cape Town, Gateway in Durban and Greenacres in Port Elizabeth, a fifth centre will soon be opened in Mimosa Mall in Bloemfontein. As data services have become more popular, all of these centres have been upgraded to be able to assist customers with queries of a technical nature and in the case of the Vodaworld centre, a dedicated data centre has been created where customers receive personalised attention in resolving their highly technical data queries.

### Vodacare

Vodacare specialises in cellular repairs and consists of 28 branches and franchises in all the major centres providing walk-in customer support to Vodacom customers and an advanced repair centre hub for high level repairs situated in Midrand. With an average of over 60,000 repairs per month, this dedicated customer service support centre differentiates our offering from that of our competitors.

Vodacom's primary focus with respect to repairs is to manage and facilitate the process of putting the customer back on the air with as little interruption as possible. This is achieved by using a combination of repairs, swaps, refurbished handsets, loan handsets, the 48 hour swap programme, and managed repairs through third parties. Vodacom is proud of the fact that it is the only network to offer a two year warranty on phones that it supplies.

14% of high level repair customers have opted to use the 48 hour swap programme with the remainder of the high level repair customers selecting to use the seven day turnaround time programme by the advanced repair centre. The balance of the low level repair customers, which comprises 80% of the business, are serviced within 24 hours by the franchise service centres.

## Products and services

Vodacom has a culture of innovation and our record of accomplishments with regard to our product offering bears testimony to this. Recent significant products launched include HSDPA, 3G, BlackBerry® and Vodafone live!. Vodacom offers contract, prepaid, value-added voice and data services.

*Contract services*

Vodacom offers contract customers a range of mobile service packages designed to appeal to specific customer segments. Packages range from Weekend Everyday for consumer customers and business packages, such as Business Call, for business customers.

As of March 31, 2006, 12.3% (2005: 14.6%) of Vodacom's customers were contract customers. The high spending contract customer market is of strategic importance and therefore a number of retention and upgrade strategies have been implemented to retain these customers. The decrease in churn rates for contract customers bears testimony to our continued success in achieving this goal.

The innovative Top Up product launched in 2003, designed to facilitate migrations to contract packages from existing prepaid packages has proven highly successful and has contributed to the growth in contract customers. As at March 31, 2006, 27.6% (2005: 19.8%) of Vodacom's contract customers comprised Top Up customers.

*Prepaid services*

The majority of Vodacom's customers are prepaid customers and at March 31, 2006 prepaid comprised 87.5% (2005: 85.2%) of the customer base.

Vodacom has three prepaid products, namely: Vodago, SmartStep and 4U. Our 4U offering, which is our per second billing option, continues to prove highly successful and as of March 31, 2006, 77.0% (2005: 70.7%) of Vodacom's prepaid customers were 4U customers.

*Value-added voice and data services*

A comprehensive value-added services ("VAS") portfolio complements our contract and prepaid offerings. Vodacom's current data portfolio includes various pay-as-you-use and bundled GPRS as well as 3G offerings available to prepaid, Top Up and contract customers.

Vodacom was the first operator to introduce a commercial 3G offer into the local market in December 2004 and has created a new niche market in data-related products and services. The take-up by customers during this initial period of deployment has been encouraging. The number of active 3G handsets on the network as at March 31, 2006 was 179,576 (2005: 10,878). The 3G launch included a number of innovative products such as the Vodafone Mobile Connect Card. As at March 31, 2006 we already connected 37,798 (2005: 5,105) users.

Vodacom was also the first to launch BlackBerry® devices into the South African market, shifting the focus to data and e-mail on demand. As at March 31, 2006 we had acquired 12,028 BlackBerry® users.

During the year there was an increase in the usage of GPRS, with the number of GPRS users increasing to 1,386,329 (2005: 579,581) at March 31, 2006.

A major contributor to the number and volume of GPRS and 3G data traffic is Vodafone live!, which was launched on March 22, 2005 and by March 31, 2006 there were 351,427 users. On December 1, 2005 Vodafone Release 7 was launched with Welcome Tones and Mobile TV as major new services. By March 31, 2006 there were 16 channels available with 12,903 users.

On the VAS side, new and innovative additions include HSDPA, E-Billing and Look4me. Further additions and enhancements include SMS-only roaming; video telephony charged at the same rate as voice calls; video mail and the missed call keeper service.

Vodacom continued to deliver on its data strategy, which is centred on a wireless application service provider ("WASP") model for ease of connectivity and standardised interfaces. Currently, the WASP model is driven largely by consumer applications, with the majority of interest being in premium-rated outgoing SMS and bulk incoming SMS services. As of March 31, 2006, 152 (2005: 136) WASPs had applied for connectivity to the Vodacom network.

Premium rated SMS content is still focused on competitions, information and alert services. Consumer sensitivity to pricing appears to be stabilising, as average monthly volumes have grown to 13 million (2005: 7 million) premium rated SMSs.

## Community services

By March 31, 2006 Vodacom had deployed 30,287 (2005: 25,224) community service telephones in under-serviced areas, compared to the licence obligation of 22,000. These phones enable the residents of these areas to make phone calls at a highly subsidised price and continue to have a profound positive effect on residents in its vicinity.

## Handset sales

The number of handsets sold during the year was 3.8 million (2005: 2.4 million) units, an all-time high, which represented a year on year growth of 58.3% from 2005. Our state of the art warehouse in Midrand handled an average of 2,130 orders per day, up by 29.7% from the prior year figure of 1,642 orders per day. As a testimony to our proficiency at effective distribution, 98.1% of all deliveries to our distribution channels are finalised within 48 hours of receiving the order.

The Vodafone live! handset portfolio has increased significantly during the course of the year, which has accounted for 17% of our total sales for the year. 3G handset pricing has also reduced significantly in the last few months making the 3G handsets now more affordable. 3G data card sales have increased significantly since the launch in December 2004, accounting for 2% of total sales for the year. Bundling offers of the 3G data card with laptops, will be increased in the coming year with the introduction of embedded 3G modules in the laptops. Camera technology in the phones has improved with 1.3 mega pixel cameras being the standard, two mega pixel cameras now available on high end phones and up to five mega pixels will be available later in 2006. HSDPA handsets will also make their way into the market from May 2006.

## International and national roaming services

As at March 31, 2006, Vodacom had international roaming agreements with 350 mobile communications network operators in 169 countries (2005: 301 network operators in 153 countries) for contract telephony services, 93 (2005: 31) GPRS roaming contracts, 36 (2005: 5) 3G roaming contracts and 22 (2005: 17) inbound prepaid roaming telephony contracts. Planned actions for 2007 will focus on the networks in the more popular destinations and to conclude 3G, GPRS, prepaid and SMS agreements with Vodafone and other networks to further enhance data offerings for roamers and visitors alike.

Vodacom has a national roaming agreement with Cell C which offers Cell C national roaming coverage for 15 years until March 31, 2019.

## Network infrastructure and technology

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

As at March 31, 2006 Vodacom had achieved the following rates based on statistics, carried out through vehicle trailing:

- 99.62% (2005: 99.54%) call set-up success rate;
- 99.64% (2005: 99.61%) call retention rate; and
- 99.26% (2005: 99.15%) call success rate.

The network continued to show improved performance as clearly reflected by the preceding trailing results. Extensive efforts were put into increasing the available MSC capacity through wide-spread upgrades to larger capacity power nodes. This has had an extremely positive impact on network call processor loads during high peak periods.

As at March 31, 2006 Vodacom's infrastructure covered an estimated 97.5% of the population, based on the available census information of 2001, and 69.4% of the geographical area of South Africa. The network's core GSM infrastructure as at March 31, 2006 consisted of:

- 58 mobile switching centres (including the VLRs and gateways);
- 280 base station controllers;
- 4,873 macro-base transceiver stations;
- 1,528 micro-base transceiver stations;
- 57,223 transceivers;

- 5,882 sites (macro/micro combination) are activated with CS3 and 4;
- 1,153 sites are activated with EDGE; and
- GPRS functionality across the network.

The network's UMTS (3G) infrastructure as at March 31, 2006 consisted of:

- 14 radio network controllers;
- 1,504 UMTS base transceiver stations (NodeB);
- 4,512 UMTS transceivers; and
- HSDPA functionality across the 3G network.

Vodacom's transmission network comprised of 18,596 (2005: 15,036) E1 links and 228 (2005: 67) broadband (STM-1/4 and TUG3) links leased from Telkom, which are managed by a comprehensive next generation SDH, digital cross-connect and multi-services platform infrastructure. In addition, Vodacom operates an extensive data network for its internal and commercial data requirements, based on internet protocol (IP MPLS). It comprised more than 50 nodes and is supported (for transport) by the Ethernet over SDH.

Vodacom continues to deploy GSM 1800 MHz radio equipment in all regions to provide additional customer capacity as necessitated by the increase in network traffic. Vodacom has operational dual band base stations in 1,599 locations in South Africa. These sites are comprised of 13,945 GSM 1800 MHz transceivers.

BASE TRANSCEIVER STATIONS

| | Year ended March 31 | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| Macro-base transceiver stations | 4,158 | 4,518 | **4,873** |
| Micro-base transceiver stations | 1,555 | 1,508 | **1,528** |
| **Total** | **5,713** | **6,026** | **6,401** |

## Procurement

Vodacom solicits bids for all goods and services in excess of R1 million. Bids are by invitation only via a closed tender system. A multi-disciplinary cross-functional team evaluates and awards bids to the best supplier based on the best overall score, taking into account technical specification, delivery time, costing, financial viability and black economic empowerment ("BEE"). Vodacom spent 66.2% of its eligible procurement expenditure with BEE companies against a target of 66% for the year. Vodacom seeks to utilise at least two suppliers for all critical equipment where possible, to minimise supply risk. Vodacom's main technology suppliers are Siemens for the core network and Alcatel and Motorola for the radio networks.

## Regulatory affairs

The regulatory environment has been vibrant over the past financial year with *inter alia* the Minister of Communications exercising her statutory authority to liberalise certain markets, the licensing of seven of the under-serviced licensees and the publication of the Convergence Bill by the Parliamentary Portfolio Committee on Communications. The Information and Communication Technology ("ICT") BEE Charter, after more than a year of continued industry consultation and negotiation, is also nearing finalisation. The Charter will be subject to alignment with minimum requirements of the Department of Trade and Industry's ("DTI") Codes of Good Practice.

*Ministerial determinations*

The Minister published liberalisation determinations in terms of the Telecommunications Act during September 2004. The effective date of the above-mentioned determinations was February 1, 2005. From this date, Vodacom's obligation to obtain its fixed links from Telkom has been lifted. The effect of the facilities provisioning determination is that Vodacom may self-provide its fixed links. Vodacom was awarded a frequency spectrum licence in the 38 GHz band to self-provide fixed links.

Additional applications were made for frequency spectrum in the 7 GHz and 15 GHz bands for fixed links, the 3.5 GHz band for WiMax (Fixed Wireless Access), and the C band (4/6 GHz) for fixed links via satellite. The prohibition on value-added network providers ("VANS") to carry voice on their facilities was also lifted. This resulted in Telkom decreasing international rates and has created opportunities for Vodacom to conclude agreements with VANS to terminate traffic on the Vodacom network.

### *Under-serviced area licences ("USAL")*

Vodacom succeeded in concluding regional roaming agreements with six of the seven originally licensed USAL licensees. The closing date for bids for USAL licences for the next 14 USAL areas was April 22, 2005. A total of 43 companies and consortiums submitted bids. Vodacom has had contact with 18 of them and will proceed with negotiations with the potential USALs. The year provided feedback on the performance of the seven USALs that were licensed, which hopefully, will influence thinking around the licensing of the additional 14 USALs.

### *Electronic Communications Act*

The Electronic Communications Act, No. 36 of 2005 (previously known as the Convergence Bill) was signed by the President and published on April 18, 2006. The Act introduces a new regulatory framework aimed at stimulating service-based competition and will come into operation on a date determined by the President by proclamation in the Gazette. The ICASA Amendment Bill was referred back to Parliament.

### *ICT BEE Charter*

The draft ICT BEE Charter is expected to be aligned with the DTI Codes of Good Practice during July 2006 and released for public comment as a section 9(5) Sector Code. Implementation of the ICT Sector Code is projected for the end of 2006 by the Department of Communications. The final charter is due for implementation at the beginning of 2007. At the same time, the DTI developed Codes of Good Practice, which are presently being aligned with the Charter. The Codes are due for finalisation in July 2006.

### *1800 MHz and 3G spectrum*

From a technical regulatory perspective, Vodacom is well positioned for future growth. Vodacom has permanent 1800 MHz and 3G spectrum licences. Both the 1800 MHz and 3G spectrum fees are the same as the 900 MHz spectrum fees. In light of this, Vodacom has accepted the additional universal service obligations imposed by ICASA, i.e. 2.5 million SIM cards and 125,000 handsets to be distributed over a period of five years to under-served persons in under-serviced areas and internet connectivity to 5,140 schools over a period of eight years. The Department of Communication has assisted in the identification of some beneficiaries within various government departments. The licence stipulates that roll-out can only commence upon approval of the implementation plans by ICASA. The implementation plans in respect of 1800 MHz and 3G was submitted to ICASA in August 2005, but approval has not yet been received. The airtime used on the SIM cards will be charged at a uniform commercial prepaid rate to be agreed between all three mobile cellular operators and the internet usage rates at a 50% discounted rate, as provided for in the Telecommunications Act.

### *Number portability*

On September 30, 2005, ICASA published the number portability regulations and functional specification for mobile number portability ("MNP"), which required that MNP must be implemented by June 30, 2006. The industry implementation date is expected to be in September 2006. Vodacom is an active participant in the mobile industry body which was established to ensure the smooth implementation of MNP.

This body is well advanced in its preparation for the launch of MNP and has issued a request for proposals for a vendor to provide a centralised reference database solution to handle MNP. ICASA and the cellular operators have been in consultation over the past 10 months to agree to the functional and technical specifications to ensure compliance with the Act.

### *Regulation of Interception of Communication and Provision of Communication-related Information Act ("RICA")*

The effective date of RICA was proclaimed at September 30, 2005 with the exception of the provisions dealing with customer registration which comes into effect on June 30, 2006. The cellular operators have succeeded in obtaining support in principle by the Department of Justice for an electronic registration process. The legislative amendments necessary to allow for such an electronic registration process have not yet been effected, but are anticipated prior to the effective date of June 30, 2006. Vodacom has until May 28, 2006 to acquire and implement the monitoring and interception facilities as per the technical specifications of the facilities agreed upon between Vodacom and the Department of Justice and promulgated on November 28, 2005.

## Conclusion

Vodacom has had a phenomenal year. We have managed to exceed all of the goals set for this year and have been successful in increasing our estimated market share by 2% to 58%. Vodacom has also increased its customer base by 49.3% from 12.8 million to 19.2 million customers in a single year. This increase is attributable to the high number of gross connections, as well as the significant decrease in our churn rate. The decrease in the churn rate is particularly encouraging as it is indicative of the efficiency within the business. From a profitability perspective EBITDA has grown from R8.7 billion to R10.7 billion, an increase of 23.0% over the last year. Profit from operations has grown from R6.5 billion to R8.4 billion, an increase of 29.2% over the last year. An exceptional achievement on all counts.

One of the highlights of the year has been the ability to build on the early launch of 3G and recently HSDPA ahead of our competitors. In addition, our alliance with Vodafone has enabled us to bring products and services to the South African market that would ordinarily not be available in the market, including innovative products such as the Vodafone Mobile Connect card, the BlackBerry® and Vodafone live!. We will concentrate on growing our customer base with the addition of new and innovative products, services and tariffs.

Although the cellular industry is faced with a number of challenges in the year ahead, Vodacom is well positioned to maintain its position as the market leader in South Africa.

**Shameel Aziz Joosub**
*Managing Director*
*Vodacom (Proprietary) Limited*

# SOUTH AFRICA CONSOLIDATED KEY OPERATIONAL INFORMATION

## SOUTH AFRICA (VODACOM SOUTH AFRICA, SMARTCALL, SMARTCOM AND COINTEL)

| | Year ended March 31 | | | % change | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 05/04 | 06/05 |
| **Customers ('000)[1]** | **9,725** | **12,838** | **19,162** | **32.0** | **49.3** |
| Contract | 1,420 | 1,872 | **2,362** | 31.8 | **26.2** |
| Prepaid | 8,282 | 10,941 | **16,770** | 32.1 | **53.3** |
| Community services | 23 | 25 | **30** | 8.7 | **20.0** |
| **Gross connections ('000)** | **4,998** | **6,180** | **9,140** | **23.6** | **47.9** |
| Contract | 377 | 610 | **702** | 61.8 | **15.1** |
| Prepaid | 4,617 | 5,566 | **8,422** | 20.6 | **51.3** |
| Community services | 4 | 4 | **16** | – | **300.0** |
| **Inactives (3 months – %)** | **n/a** | **7.9** | **8.7** | **n/a** | **0.8** |
| Contract | n/a | 1.5 | **2.4** | n/a | **0.9** |
| Prepaid | n/a | 9.0 | **9.6** | n/a | **0.6** |
| **Total churn (%)[2]** | **36.6** | **27.1** | **17.7** | **(9.5)** | **(9.4)** |
| Contract | 10.1 | 9.1 | **10.0** | (1.0) | **0.9** |
| Prepaid | 41.3 | 30.3 | **18.8** | (11.0) | **(11.5)** |
| **Traffic (millions of minutes)[3]** | **12,172** | **14,218** | **17,066** | **16.8** | **20.0** |
| Outgoing | 7,647 | 9,231 | **11,354** | 20.7 | **23.0** |
| Incoming | 4,525 | 4,987 | **5,712** | 10.2 | **14.5** |
| **ARPU (Rand per month)[4]** | **177** | **163** | **139** | **(7.9)** | **(14.7)** |
| Contract | 634 | 624 | **572** | (1.6) | **(8.3)** |
| Prepaid | 90 | 78 | **69** | (13.3) | **(11.5)** |
| Community services | 2,155 | 2,321 | **1,796** | 7.7 | **(22.6)** |
| **Minutes of use per month[5]** | **96** | **84** | **74** | **(12.5)** | **(11.9)** |
| Contract | 263 | 226 | **206** | (14.1) | **(8.8)** |
| Prepaid | 56 | 52 | **49** | (7.1) | **(5.8)** |
| Community services | 3,061 | 3,185 | **2,327** | 4.1 | **(26.9)** |
| **South Africa cumulative capex[6]** | **18,132** | **20,358** | **24,095** | **12.3** | **18.4** |
| Vodacom South Africa | 18,101 | 20,308 | **24,035** | 12.2 | **18.4** |
| Other | 31 | 50 | **60** | 61.3 | **20.0** |
| **Capex per customer (Rand)** | **1,720** | **1,515** | **1,257** | **(13.5)** | **(17.0)** |
| **Number of employees** | **3,848** | **3,954** | **4,148** | **2.8** | **4.9** |
| Vodacom South Africa employees | 3,848 | 3,809 | **3,893** | (1.0) | **2.2** |
| Smartcall and Smartcom employees | – | 145 | **206** | – | **42.1** |
| Cointel employees | – | – | **49** | – | **–** |
| **Customers per employee** | **2,527** | **3,247** | **4,619** | **28.5** | **42.3** |
| **Market share (%)[7]** | **54** | **56** | **58** | **2.0** | **2.0** |

*Notes*

1. *Customer totals are based on the total number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as at the end of the period indicated.*
2. *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.*
3. *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. Traffic for 2005 was restated to exclude packet switch data traffic.*
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 national and international users roaming on Vodacom's networks.*
5. *Minutes of use per month is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. Minutes of use exclude calls to free services, bundled minutes and data minutes.*
6. *Cumulative capital expenditure ("capex") includes software.*
7. *Market share is calculated based on Vodacom's total reported customers and the estimated total reported customers of MTN and Cell C.*

Mark Attieh
Managing Director of
Smartphone SP (Proprietary) Limited
and Director of Smartcom (Proprietary) Limited

# SMARTCALL AND SMARTCOM

## Overview

Vodacom Group (Proprietary) Limited acquired a 51% interest in Smartphone SP (Proprietary) Limited, trading as Smartcall, on March 1, 2004. Smartphone SP (Proprietary) Limited acquired an 85.75% interest in Smartcom (Proprietary) Limited effective April 16, 2004.

The companies have performed well in a favourable South African market, with revenues significantly better in the second half of the year compared to the first half.

## Smartphone SP (Proprietary) Limited trading as Smartcall

Smartcall achieved excellent results and has exceeded expectations in a more competitive environment. The business was significantly more profitable towards the end of the financial year, as the business model followed requires investment in stock a few months before the customer connects.

Smartcall has been developing new voucher distribution solutions over the past financial year and is currently able to print large volumes of vouchers at point-of-sale. Smartcall has also developed PIN management solutions and plans to sell more prepaid cellular value-added products and services to the market over the next few months.

Smartcall offers products exclusively to the prepaid market and at March 31, 2006 their customer base was 4,734,000 (2005: 3,577,000).

## Smartcom (Proprietary) Limited

Smartcom's distribution channels performed well with sales of both Family Top Up and data sales packages doing exceptionally well. All distribution channels are being actively monitored and strengthened where required. Smartcom managed to maintain very good customer care service levels and are poised for further growth in the year ahead.

Due to the extreme competitive market, payphone operators are experiencing margin pressure which has resulted in the consolidation of this market.

Smartcom offers products exclusively to the contract market and at March 31, 2006 their customer base was 128,000 (2005: 90,000).

## Products and services

Smartcall launched Smartvoucher in the current financial year. The product has been well received by the market and is growing at a steady pace.

Smartcall launched games where players win vouchers. These have proven to be popular as well as enhancing the company's image and increasing our brand loyalty.

All our distributors have been supplied with proprietary billing and administration software, which enables them to effectively monitor their performance and that of their dealers on a daily basis.

## Employees

Smartcall and Smartcom have a combined staff complement of 206 (2005: 145) employees.

## Prospects

The cellular market continues to show strong growth and Smartcall and Smartcom continue to benefit from this through their well developed distribution channels.

Smartcall is known for its innovation in the prepaid market and is currently exploring novel customised concepts to enhance recharge and voucher distribution solutions. Smartcall is also aggressively developing its retail distribution channels and is well positioned to take advantage of any mobile virtual network operator ("MVNO") legislation when it is promulgated.

The brand loyalty has grown over the last few years and we continue to stimulate this through all mediums.

Smartcall and Smartcom are well positioned to show continued subscriber growth as well as continued growth in net income and cash flow.

Nick Zografos
Chief Executive Officer
Smartcom (Proprietary) Limited

**Mark Attieh**
*Managing Director of*
*Smartphone SP (Proprietary) Limited and*
*Director of Smartcom (Proprietary) Limited*

**Nick Zografos**
*Chief Executive Officer*
*Smartcom (Proprietary) Limited*

# REVIEW OF OPERATIONS

Gary Nunez
*Managing Director*
Cointel VAS (Proprietary) Limited

## COINTEL

### Overview

Vodacom Group (Proprietary) Limited acquired a 51% interest in Cointel VAS (Proprietary) Limited ("Cointel") on August 1, 2005. The remaining 49% is owned by individual shareholders, the majority of whom comprise key management at Cointel VAS (Proprietary) Limited.

Cointel, an entrepreneurial driven telecommunications company, is one of the largest telecommunications value-added and m-commerce service providers in South Africa. Since inception in 1996, the company has received wide-spread recognition for its contribution to the development of cellular technology.

Cointel's work involves a combination of technical expertise and creativity. It brings together technologies from different environments and works innovatively with those specifically created for the cellular industry. In so doing it is able to translate clever ideas into working services that meet market needs.

Cointel's technical services team creates dynamic customer-focused solutions in the form of value-added services ("VAS").

### Products and services

*Airtime Top Up solutions*

Cointel has through innovative partnering, developed various automated recharge facility products that eliminate paper-based transactions and replace the need for physical recharge vouchers. The Vodago autocharge and Fonerecharge products are automated recharge products that facilitate automated individual recharging as well as automated selling of airtime. The SIGI autocharge product is an automated Public Access Telephone recharge facility that Vodacom community service franchisees use to recharge their phones. This product ensures real time recharging allowing the franchisee time to manage his business while the network is guaranteed to receive funds from all automated recharges.

*Wireless application service providers ("WASP") services*

Cointel has created in excess of 1,500 customised m-commerce and VAS applications, utilising a range of bearer channels such as interactive voice response, SMS, unstructured supplementary service data and online billing services.

*Mobile commerce*

Cointel's proprietary developed technologies facilitate the extension of the payments franchise to the mobile phone and thereby enable mobile banking, mobile transacting, mobile bill payments and the ability for retailers and merchants to accept payments on their phones instead of on a point-of-sale terminal.

### Employees

Cointel has a staff complement of 49 employees.

### Prospects

Cointel has entered into an alliance with Vodacom (Proprietary) Limited, which will give momentum to the deployment of additional community services payphones into the market. This will result in excellent growth prospects as well as have a positive effect on the lives of people operating and utilising these phones. Community services phones ensure lower call costs for consumers and the greater the deployment, the easier the accessibility to affordable communication.

Cointel expects to increase its international presence in the coming financial year with its m-commerce platform.

**Gary Nunez**
*Managing Director*
*Cointel VAS (Proprietary) Limited*

# REVIEW OF OPERATIONS

## VODACOM TANZANIA

Romeo Kumalo
*Managing Director*
Vodacom Tanzania Limited

### Overview

Vodacom Group (Proprietary) Limited owns a 65% interest in Vodacom Tanzania Limited; two local shareholders, Planetel Communications Limited and Caspian Construction Limited hold the remaining 16% and 19% respectively. Vodacom Tanzania was issued its licence in December 1999 and commenced operations in August 2000. Vodacom Tanzania became the largest mobile operator in the country within one year of launching and remains the largest mobile communications network operator in Tanzania.

The company's operating results were well above expectations for the year ended March 31, 2006, driven primarily by the substantial growth in the subscriber base.

### Infrastructure

Vodacom Tanzania focused its infrastructure investment in building core capacity to accommodate the substantial growth in the subscriber base during the year. New network coverage has been at acceptable levels with an emphasis on building capacity sites to improve quality of service in the existing coverage areas.

### Products and services

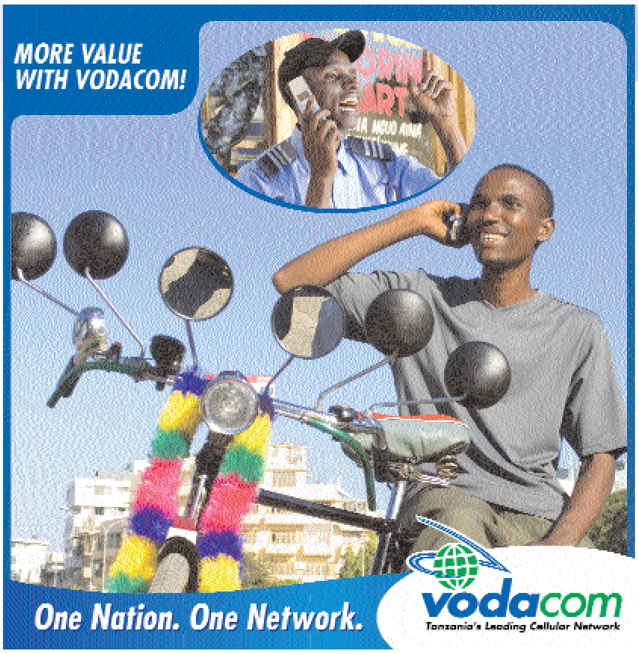
During the course of the year the company introduced Vodafasta, a dynamic recharge product which allows prepaid customers to electronically recharge airtime via registered vendors. This product enhances the availability of Vodago prepaid airtime and reduces the cost of physical distribution. It is anticipated that this will become the preferred recharge method for public phone operators with less reliance placed on the traditional "Adondo" unit. Vodachoice continues to be the preferred contract package although Vodajazza, a contract hybrid product offered on the prepaid billing platform, has gained popularity in the corporate market. Vodatariffa, a premium rated SMS-based information service, continues to support the standard SMS product.

### Customers

The Vodacom Tanzania customer profile is currently 99.6% (2005: 99.3%) prepaid, 0.3% (2005: 0.4%) contract and 0.1% (2005: 0.3%) public phones. The total customer base at March 31, 2006 was 2,091,000 (2005: 1,201,000), a substantial increase of 74.1%. This growth has primarily been achieved by an increase in the prepaid customer base of 74.4% to 2,081,000 (2005: 1,193,000). Gross connections of 1,353,000 (2005: 746,000), represents an increase of 81.4% over the year. The churn rate has decreased to a rate of 28.5% (2005: 29.6%). The company continues to introduce more effective methods and channels of distribution to ensure product availability throughout the country.

### Competition

There are three other mobile operators licensed in Tanzania namely Mobitel, Celtel and Zantel. Zantel, which had historically operated exclusively on the island of Zanzibar, moved onto the




mainland during the year and enhanced their coverage by entering into a national roaming agreement with Vodacom Tanzania, effective from July 31, 2005. Tanzanian Telecommunications Company Limited ("TTCL") relinquished their majority shareholding position in Celtel and subsequently Celtel International B.V. was acquired by Mobile Telecommunications Company ("MTC") of Kuwait.

There was no national prepaid tariff reduction during the year. Contract off-net tariffs were reduced in order to re-align them with the competition. The benefits of diversification of the international carriers allowed Vodacom Tanzania to reduce international call tariffs towards the end of the year. The estimated market share is 58% (2005: 59%).

## Employees

Vodacom Tanzania had a total headcount of 438 (2005: 340) employees as at March 31, 2006. Included in the headcount were 10 secondees, employed out of Vodacom International Limited (Mauritius).

Vodacom Tanzania continues to support the development of local Tanzanian skills and views employee relations as a key factor in ensuring a positive working environment. Staff issues are addressed via a consultative forum where staff are given a platform to address issues. Agreed actions are monitored on a monthly basis.

## Regulatory

The regulatory environment has been dominated by the negotiation of the terms and conditions of migration of Vodacom's existing licence to the new regulatory framework, which has not been finalised at year end. Vodacom Tanzania also applied for its own international gateway licence as part of this process.

In February 2006, the Tanzanian Communications and Regulatory Authority, after review, issued new interconnection rates for both mobile and fixed operators. The mobile termination rate was reduced from 8.9 US cents to 8.0 US cents from March 1, 2006, slightly above the glide path previously published at 7.9 US cents. This rate will remain in place until December 31, 2007.

## Poverty relief

Among other donations, Vodacom Tanzania handed over a contribution of TSH1 billion (US$820,000) to the government, which was used towards the national drought emergency that crippled the country. This contribution, in response to government's call for private sector support, went a long way towards encouraging other Tanzanian corporations to provide cash and in-kind support. The total private contribution is presently valued at TSH3 billion.

## Prospects

Vodacom is anticipating substantial growth in its existing business, customer base and profitability in the coming financial year, which will be achieved by improved coverage and quality of service to existing customers. In addition, the company will also initiate the implementation of a comprehensive data strategy, which will include the implementation of 3G HSDPA.

The ability to manage costs in line with the ARPUs and harness skills and resources to expand existing business and introduce new products and services will be critical to achieving the company's objectives going forward.

**Romeo Kumalo**
*Managing Director*
*Vodacom Tanzania Limited*

## KEY INDICATORS

| | Year ended March 31 | | | % change | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 05/04 | 06/05 |
| **Customers ('000)**[1] | **684** | **1,201** | **2,091** | **75.6** | **74.1** |
| Contract | 5 | 5 | **7** | – | **40.0** |
| Prepaid | 676 | 1,193 | **2,081** | 76.5 | **74.4** |
| Community services | 3 | 3 | **3** | – | **–** |
| **Gross connections ('000)** | **404** | **746** | **1,353** | **84.7** | **81.4** |
| **Churn (%)** | **30.0** | **29.6** | **28.5** | **(0.4)** | **(1.1)** |
| **ARPU (Rand)**[2] | **128** | **81** | **67** | **(36.7)** | **(17.3)** |
| **Cumulative capex (Rand millions)** | **1,146** | **1,359** | **1,503** | **18.6** | **10.6** |
| **Number of employees**[3] | **316** | **340** | **438** | **7.6** | **28.8** |
| **Customers per employee** | **2,165** | **3,532** | **4,774** | **63.1** | **35.2** |
| **Mobile penetration (%)**[4] | **3.3** | **5.1** | **9.2** | **1.8** | **4.1** |
| **Mobile market share (%)**[4] | **57** | **59** | **58** | **2.0** | **(1.0)** |

*Notes*

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. *Headcount includes secondees.*
4. *Penetration and market share is calculated based on Vodacom estimates.*

# REVIEW OF OPERATIONS

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

## VODACOM CONGO

### Overview

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

Vodacom Congo is performing exceptionally well under a highly competitive and demanding environment. Despite aggressive competition for market share, Vodacom has been able to surpass competition and retain dominance in the Congolese cellular market. The main contributing factors in achieving customer and profit growth include coverage roll-out in strategic areas, implementation of an effective and aggressive sales and distribution strategy, and improvement in consumer confidence and spending.

Congo's presidential and parliamentary elections are planned for the coming year after an official postponement was announced in June 2005. The outcome of the elections will determine political stability and economic growth. The current coverage and market share levels put Vodacom Congo in a very favourable position to benefit from such an economic upturn.

### Infrastructure

Vodacom Congo invested more than R273 million or US$43 million this financial year to maintain and expand its high-quality network throughout the country. Network coverage has been rolled out in all of the nine provinces of the Congo. This includes roll-out in 184 (2005: 130) towns and consists of 373 (2005: 289) base stations and 4 (2005: 4) MSCs.

The company's cumulative capital expenditure to March 31, 2006 was R2.0 billion or US$323 million (2005: R1.8 billion or US$281 million).

### Products and services

Vodacom Congo offers contract, prepaid and public phone services. The contract product is aimed at the corporate market, with a focus on value-added services and customer service. Service to contract customers was further enhanced this financial year with the possibility to migrate to Top Up options and the introduction of the corporate PABX product. The prepaid and public phone products are aimed at the general Congolese market, with the main competitive advantage being coverage, network quality and distribution.

To further enhance data revenue streams, Vodacom Congo commercially launched GPRS in February 2006. The application was introduced to support data transfer requirements during the electoral process and meet the data demands of local businesses and corporate clients.

In May 2005, the company launched an electronic voucher solution known as Voda-E in order to strengthen its distribution capabilities and enable customers to recharge to the value of R1.92 or US$0.3 (previous lowest denomination R6.40 or US$1) and to transfer airtime among users via text messaging with the use of a standard handset. The new airtime distribution platform currently accounts for 30% of all voucher sales on the network.

## Customers

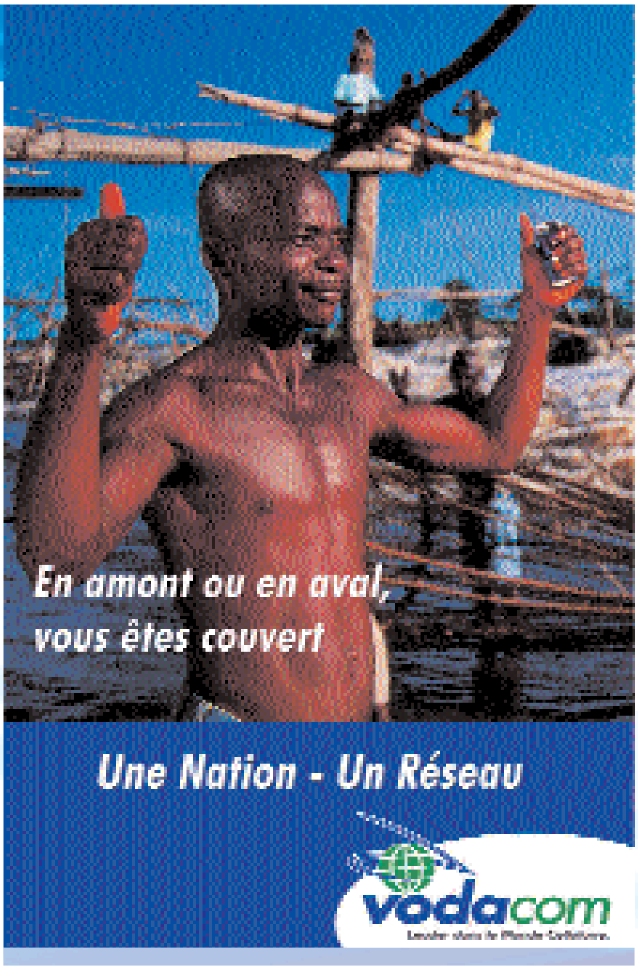
Vodacom Congo's customer base increased by 52.2% to 1,571,000 (2005: 1,032,000) customers at the end of the financial year under review. This was the result of 892,000 (2005: 565,000) gross connections and a churn percentage of 28.1% (2005: 23.1%). Vodacom's key success factors in the market remain the ability to source the lowest priced quality handsets; effective distribution channels; access to new areas through a successful coverage roll-out plan and sound network quality supported by the strong Vodacom multi-national brand.

## Market share and competition

Vodacom Congo remains the leading telecommunication network in DRC with an estimated market share of 48% (2005: 47%) as at March 31, 2006. Vodacom's main competitor Celtel, controls approximately 44% (2005: 46%) of the market. The remaining balance of the market is shared with SAIT and Congo Chine Telecom accounting for 2% (2005: 4%) and 6% (2005: 3%), respectively.

## Employees

Vodacom Congo ended the financial year with 479 (2005: 527) employees, which includes secondees. Management remains committed to the skill transfer process through the evaluation, identification and intensive training of local staff.




Upstream or downstream, you're covered

One Nation – One Network

## Regulatory

The National Regulatory Agency ("NRA") has been active during the year working with international consultants appointed by the World Bank on the reformation of the telecommunication legislative framework and regulations. Key focus areas included:

- Spectrum (national planning, management and fees);
- Interconnection guidelines and principles;
- Cost modelling;
- Numbering (national planning, management and fees); and
- Universal service fund (constitution and funding mechanisms).

Draft guidelines and regulations were submitted to network operators for consultation purposes.

The NRA has also been holding public hearings in regards to the introduction of 3G technology. The NRA's findings will soon be submitted to the government.

In addition to its GSM licence rights, Vodacom Congo was granted additional exploitation rights for PABX (including an assigned spectrum for corporate direct connection) and internet/WiMax.

## Social responsibility

Vodacom Congo remains committed to the social uplifting and community enhancement of the DRC through the implementation and funding of several social responsibility programmes. Vodacom has invested more than R9.6 million or US$1.5 million to date in social activities which focuses on a four pillar strategy: health, education, welfare and environment.

## Prospects

Vodacom Congo is well placed to take advantage of opportunities in the market as it continues to build on the foundation of providing the highest quality and best value in wireless voice and data telecommunication. The ability to effectively manage costs and margins will ensure continued growth in EBITDA and profit from operations given that the country's economic and political environment remains stable.

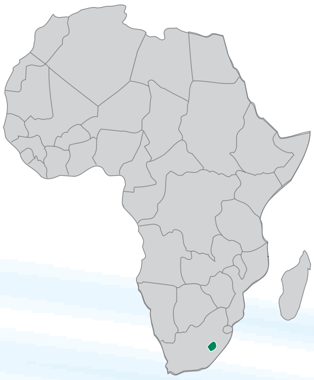
**Dietlof Maré**
*Managing Director*
*Vodacom Congo (RDC) s.p.r.l.*

### KEY INDICATORS (ALL INDICATORS INCLUDE 100% OF VODACOM CONGO)

| | Year ended March 31 | | | % change | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 05/04 | 06/05 |
| **Customers ('000)[1]** | **670** | **1,032** | **1,571** | **54.0** | **52.2** |
| Contract | 8 | 10 | **14** | 25.0 | **40.0** |
| Prepaid | 653 | 1,010 | **1,538** | 54.7 | **52.3** |
| Community services | 9 | 12 | **19** | 33.3 | **58.3** |
| **Gross connections ('000)** | **513** | **565** | **892** | **10.1** | **57.9** |
| **Churn (%)** | **20.2** | **23.1** | **28.1** | **2.9** | **5.0** |
| **ARPU (Rand)[2]** | **150** | **98** | **86** | **(34.7)** | **(12.2)** |
| **Cumulative capex (Rand millions)** | **1,432** | **1,759** | **2,000** | **22.8** | **13.7** |
| **Number of employees[3]** | **334** | **527** | **479** | **57.8** | **(9.1)** |
| **Customers per employee** | **2,006** | **1,958** | **3,279** | **(2.4)** | **67.5** |
| **Mobile penetration (%)[4]** | **2.3** | **3.5** | **5.5** | **1.2** | **2.0** |
| **Mobile market share (%)[4]** | **47** | **47** | **48** | **–** | **1.0** |

*Notes*
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 the 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. *Headcount includes secondees.*
4. *Penetration and market share is calculated based on Vodacom estimates.*

# VODACOM LESOTHO



Mervyn Visagie
Managing Director
Vodacom Lesotho (Proprietary) Limited

## Overview

Vodacom owns an 88.3% interest in Vodacom Lesotho (Proprietary) Limited and the remaining 11.7% stake is owned by the local Sekha-Metsi Enterprises (Proprietary) Limited.

Vodacom Lesotho launched its commercial operations in May 1996 and, although a small operation by South African standards, its strategic geographic importance in terms of market share, justifies its inclusion in the Vodacom portfolio.

## Infrastructure

The network consists of 59 BTSs, one MSC, two BSCs, one SMSC, one intelligent network platform and one voicemail platform. Vodacom Lesotho's cumulative capital expenditure to March 31, 2006 amounts to R225 million (2005: R211 million). The additional investment is an indication of the company's drive to expand and optimise the existing infrastructure ensuring the highest coverage and service levels to its customer base.

## Products and services

The Vodacom Lesotho product offerings consist of a variety of prepaid and contract products. The current prepaid offering is known as Mocha-o-chele. The contract offerings namely, SuperTalk50 and SuperTalk100 are the first and only contracts in Lesotho offering bundled minutes and subsidised handsets. Additional contract packages include the Corporate Executive, Master Plan, Budget Plan and Family Plan, all of which provide connectivity options without bundled services or subsidised handsets. In addition to the abovementioned products, Vodacom Lesotho also offers public phone services as well as a direct connect service, allowing customers to access the mobile network directly from their PABX.

Distribution is maintained via eight Vodashop branches, six Super Dealers and four retail groups. Products can be purchased from hundreds of outlets and customers are serviced via either the walk-in customer care centre or the customer care call centre.

## Customers

During the year under review, Vodacom Lesotho once again managed to increase its customer base by 40.1% to 206,000 (2005: 147,000) as at March 31, 2006. The prepaid plan is consistently the most popular and accounts for 97.1% (2005: 96.6%) of the total customers.

The substantial increase in total customers is a result of 98,000 (2005: 70,000) gross connections for the year, as well as a churn rate of 22.3% (2005: 17.3%), resulting in a net growth in customers of 59,000 (2005: 67,000).

## Competition

Econet-Ezicell remains the only direct competitor in the region with Vodacom Lesotho still maintaining superior coverage and infrastructure. Vodacom Lesotho has implemented 13 additional sites during the year under review. The company has also increased its international roaming agreements to match that of Econet-Ezicell. This will remain a priority for the 2007 year with its core focus on retaining and expanding its estimated 80% (2005: 80%) market share.

## Employees

The headcount for Vodacom Lesotho increased to 67 (2005: 63) employees as at March 31, 2006. The number of customers per employee improved by 31.6% from 2,333 to 3,071.

## Regulatory

The regulatory environment in Lesotho continues to prove challenging. Changes in the operating environment include the licensing of a third network operator, Bethlehem Technologies, with an international gateway providing data services and a further amendment to the Telecom Lesotho licence allowing it to provide a product, Lekomo Flexi, which consists of a mobile service using the Econet-Ezicell infrastructure. In addition to Telecom Lesotho challenging Bethlehem Technology through court action, the government of Lesotho has taken a decision to extend Telecom Lesotho's exclusivity rights for an additional 12 month period.

The poor quality of service by Telecom Lesotho was remedied only through the approval of the regulator of an increased termination rate for calls to South Africa, while the interconnection rate on national operators remained unchanged. This has increased the interconnection rate for calls to South Africa without any balancing effect on the termination rates on national calls. Negotiations with Telecom Lesotho regarding the implementation of the new interconnect rates have been hindered by the regulatory approval of the tariff rebalancing for Telecom Lesotho.

## Prospects

Vodacom Lesotho has proven itself as a worthy market leader within its sphere of operations. The new management structure, excellent team work, wide product range and good service levels have all greatly contributed to the company's performance. We anticipate further growth in the short to medium term. Due to its geographical importance we will continue to provide the necessary support and guidance required to ensure success at all levels.

**Mervyn Visagie**
*Managing Director*
*Vodacom Lesotho (Proprietary) Limited*

## KEY INDICATORS

| | Year ended March 31 2004 | 2005 | 2006 | % change 05/04 | 06/05 |
|---|---|---|---|---|---|
| **Customers ('000)**[1] | **80** | **147** | **206** | **83.8** | **40.1** |
| Contract | 3 | 4 | **3** | 33.3 | **(25.0)** |
| Prepaid | 76 | 142 | **200** | 86.8 | **40.8** |
| Community services | 1 | 1 | **3** | – | **200.0** |
| **Gross connections ('000)** | **51** | **70** | **98** | **37.3** | **40.0** |
| **Churn (%)** | **65.1** | **17.3** | **22.3** | **(47.8)** | **5.0** |
| **ARPU (Rand)**[2] | **125** | **92** | **78** | **(26.4)** | **(15.2)** |
| **Cumulative capex (Rand millions)** | **201** | **211** | **225** | **5.0** | **6.6** |
| **Number of employees**[3] | **68** | **63** | **67** | **(7.4)** | **6.3** |
| **Customers per employee** | **1,176** | **2,333** | **3,071** | **98.4** | **31.6** |
| **Mobile penetration (%)**[4] | **5.1** | **7.4** | **12.9** | **2.3** | **5.5** |
| **Market share (%)**[4] | **80** | **80** | **80** | **–** | **–** |

*Notes*

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. *Headcount includes secondees.*
4. *Penetration and market share is based on Vodacom estimates.*


Vodacom Lesotho became the first subsidiary outside of South Africa to declare dividends to shareholders

José dos Santos
Managing Director
VM, S.A.R.L. t/a Vodacom Mozambique

# VODACOM MOZAMBIQUE

## Overview

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

Vodacom Mozambique's licence is a second generation ("2G") global system for mobile communication ("GSM") licence and will expire in December 2018.

The company is functioning in an extremely challenging environment which is underpinned by fierce competition, unstable regulatory regime, the complete rebuild of the distribution channel, low minutes of use and low ARPUs.

## Infrastructure

Vodacom Mozambique's infrastructure roll-out consists of one MSC, four BSCs and 169 BTSs as at March 31, 2006. The network had a home location register ("HLR") capacity of one million customers as at that date, with an increase to a capacity of 1.5 million planned for 2007.

Vodacom Mozambique's cumulative capital expenditure (excluding the licence) at March 31, 2006 amounts to MZM2,644.6 billion (2005: MZM2,173.7 billion), or R605 million (2005: R696 million). General packet radio service ("GPRS")/enhanced data for GSM evolution ("EDGE") will be implemented by the end of June 2006 for contract customers and at the end of July 2006 for prepaid customers.

## Products and services

The current package offerings consist of: Bazza Bazza, a prepaid product; Fale 50, 100 and 150, bundled airtime contract products; and Fale Mais 236, Fale Mais 500 and Empresas, hybrid contract products. The community service product named Alo, Alo, was launched in October 2005 to cater for the needs of the under-serviced communities in Mozambique.

This year marked the launch of a range of new and innovative product and promotional offerings. These include: Bradas, offering friends and family discount on three on-net numbers; free hours offering free talktime on weekends based on spend targets; bonus SMS on recharges; airtime transfer, for both contract to prepaid and prepaid to prepaid; premium rated SMS and interactive voice response ("IVR") competition lines; ringtones and logos; flexible Top Up hybrid offerings and various others.

These, together with tariff rationalisation, have stimulated growth and enhanced the customer value proposition. The year ahead


## One Nation, One Mozambique
## Bringing people together

will witness the introduction of GPRS/EDGE and related services on a national basis to further enhance Vodacom's product offering, especially to the high-value corporate market.

### Customers

During the year under review, Vodacom Mozambique managed to increase its customer base by 84.9% to 490,000 (2005: 265,000) as at March 31, 2006.

The substantial increase in total customers is a result of 342,000 (2005: 225,000) gross connections for the year, offset by a churn rate of 32.2% (2005: 11.3%). Prepaid packages account for 98.6% (2005: 98.5%) of the gross connections.

The complete redesign of the super dealer incentive structures, moving to an exclusive distribution arrangement, expansion of the distribution network and the introduction of regional distribution centres all contributed to these results.

This growth is primarily due to the restructuring of the commercial incentive model to distribution partners which included a growth incentive and stretch parameters.

### Competition and market share

Vodacom Mozambique's only competition is Moçambique Cellular ("mCel"), a company owned by Telecommunicações de Moçambique ("TDM"), the state-owned fixed line operator.

Given mCel's parastatal heritage, it is in the unique position to have derived extraordinary benefits due to it being part of the larger system of state-owned enterprises. Consequently, Vodacom has had to deal with the situation where factors within the Mozambican business environment have not always resulted in the realisation of equitable market dynamics.

Vodacom Mozambique has managed to maintain its market share of 30% (2005: 33%) by focusing on coverage expansion, building sound distribution and delivering innovative value propositions underscored by a warm and receptive brand identity. A unique point of differentiation for Vodacom Mozambique has come from its corporate social investment projects which saw the complete reconstruction of a school in Maputo and the donation of sorely needed books and encyclopaedias to schools nationally.

mCel continues to be an aggressive competitor and has displayed a pattern of imitation on the basis of having introduced exact copies of Vodacom's product offerings. Given their greater financial and market power they remain a formidable opponent in the foreseeable future. As of February 2006, mCel had soft-launched its GPRS offering to contract customers in the Maputo area.

## Employees

The headcount for Vodacom Mozambique was 170 (2005: 109) as at March 31, 2006.

Vodacom Mozambique continues to support the development of local skills. A succession plan and development programmes were implemented to transfer skills and knowledge to the local employees. Staff issues are addressed via a consultative forum where they are given a platform to address issues. Vodacom Mozambique embarked on an HIV/Aids education and awareness campaign in December 2005 that included an industrial theatre and various speakers. This was well received by the employees.

## Regulatory

The Ministry of Commerce and Trade is preparing a competition policy for Mozambique. The project is funded by United States Agency for International Development ("USAID") and the World Bank. A discussion document has been circulated for comment and Vodacom Mozambique is a member of the ministerial task force that is assisting in the development of the policy.

All operators have been informed by the Instituto Naçional das Communicaçoes de Moçambique ("INCM") that all licences are to be re-issued in compliance with the new Telecommunications Law of 2004. This will mainly affect TDM and mCel as they had up to now not been issued with formal licences. Vodacom Mozambique was invited to submit suggestions to any amendments it wishes to make to its existing licence.

In March 2006 the INCM was formally notified by the Administrative Tribunal that, upon Vodacom Mozambique's application, Resolution 10/05 of December 20, 2005 that established significantly lower interconnection rates have been suspended. The INCM is waiting to reduce interconnection rates. Current attempts are being resisted to ensure that the proper procedure is followed.

INCM's consultants, Intelecon, released their report on the proposed pilot project to introduce universal access followed by a workshop to discuss the pilot project and proposed legislation to govern administration of the universal access fund. The pilot project will focus on areas in Zambezia and Nampula provinces in the northern parts of Mozambique. The project will be funded by the World Bank and a subsidy of US$3.2 million is to be allocated to the successful bidder. Operators are invited to bid for the project. Apart from providing the necessary coverage, the winning operator is expected to roll-out over 900 community payphones and provide the necessary support to the operators of these phones. The tender document is expected to be released by September 2006, with the project to commence in December 2006.

## Prospects

The fledgling operation has demonstrated exemplary performance despite the challenges of inequitable market dynamics. Vodacom Mozambique is optimistic that the year ahead will prove to offer further growth insofar as its customer base and profitability is concerned as we drive to redress the present financial loss situation.

The ability to strictly manage costs in the face of low ARPUs and low minutes of usage, whilst expanding coverage and distribution and intensifying the promotional and product offerings will be critical to achieving improved results.

**José dos Santos**
*Managing Director*
*VM, S.A.R.L. t/a Vodacom Mozambique*

## KEY INDICATORS

| | Year ended March 31 | | | % change | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 05/04 | 06/05 |
| **Customers ('000)**[1] | **58** | **265** | **490** | **356.9** | **84.9** |
| Contract | 1 | 4 | **8** | 300.0 | **100.0** |
| Prepaid | 57 | 261 | **482** | 357.9 | **84.7** |
| **Gross connections ('000)** | **58** | **225** | **342** | **287.9** | **52.0** |
| **Churn (%)** | **0.3** | **11.3** | **32.2** | **11.0** | **20.9** |
| **ARPU (Rand)**[2] | **110** | **52** | **36** | **(52.7)** | **(30.8)** |
| **Cumulative capex (Rand millions)** | **478** | **696** | **605** | **45.6** | **(13.1)** |
| **Number of employees**[3] | **43** | **109** | **170** | **153.5** | **56.0** |
| **Customers per employee** | **1,349** | **2,431** | **2,885** | **80.2** | **18.7** |
| **Mobile penetration (%)**[4] | **2.6** | **4.2** | **8.4** | **1.6** | **4.2** |
| **Mobile market share (%)**[4] | **11** | **33** | **30** | **22.0** | **(3.0)** |

*Notes*

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. *Headcount includes secondees.*
4. *Penetration and market share is calculated based on Vodacom estimates.*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# CORPORATE GOVERNANCE

"The implementation of the Board and Director Development Programme, the Ethics Along the Way Programme, and the CMT Compliance Programme is improving the governance profile and performance of the Group of Companies."

Thomas Beale
Chief Governance Officer
Vodacom Group (Proprietary) Limited

## Introduction

Corporate governance is a responsibility shared by all directors, chief officers and executives in the Vodacom Group of companies. The role of the Chief Governance Officer is to work with these individuals to co-ordinate, strengthen and improve the performance of governance structures and processes in the areas identified in the King Committee Report on Corporate Governance 2002.

The King Committee identified five focus areas for corporate governance: boards and directors, risk management, internal audit, sustainability reporting and accounting and auditing. The Governance Group takes a leading role in respect of board and director development and two areas of risk management: business ethics and compliance with laws relating to the prevention and combating of corruption, money laundering and terrorism ("CMT").

## Boards and directors

*Board and committee meetings*

The Group Board of Directors and the boards of the network operating companies met quarterly during the financial year. Remuneration and Audit Committees have been established for all non-South African operating companies. The Group Remuneration and Audit Committees provided oversight on these matters in respect of the South African network and service provider companies. All Audit Committees have adopted the same or consistent charters and agendas. All Remuneration Committees met three times during the year; the Group Audit Committee met four times and the operating company Audit Committees met three times during the year.

*Board and Director Development Programme*

During the past year, the Governance Group has been formulating and implementing a Board and Director Development Programme, which currently consists of the following elements:

Institute of Directors memberships

The Group sponsors memberships in the Institute of Directors in Southern Africa ("IOD"), for over one hundred Vodacom directors, chief officers, executives, company secretaries and governance officers. Membership in the IOD heightens the awareness of these individuals of their roles and responsibilities in respect of corporate governance.

Director training and development

Director, officer and executive training and development remained a key focus area during the year. The IOD course on corporate governance, directorship and board effectiveness has been presented in all operating countries to over one hundred directors, officers and executives. This course will be repeated from time to time to ensure that all directors, officers and executives have an opportunity to attend the course.

Directors, officers and executives are also encouraged to take advantage of self-development opportunities offered through other training courses presented by the IOD and other reputable institutions. The Governance Group works together with Group Human Resources to monitor and record such activities in the individual's personal development programme.

Register of directors

A master register of members of the Boards of Directors of all Vodacom Group companies is being maintained by the Governance Group in co-operation with the company secretaries within the Group.

Registers of interests

The statutory registers of director interests are kept by various company secretaries. The Governance Group is developing a Group policy and procedure on, and a master register of, interests for all directors, officers and executives in the Group companies.

Company secretaries

The Governance Group encourages and sponsors the further training of company secretaries as well as their participation in conferences.

## Risk management

The Group's Risk Management Division is responsible for the Group-wide implementation of the Enterprise Risk Management ("ERM") Programme. The Governance Group focuses on two risk management programmes: the Ethics Along the Way Programme and the CMT Compliance Programme.

*ERM Programme*

The Group Risk Management Committee currently meets quarterly and is effective in managing and overseeing the implementation of the ERM Programme in the Vodacom Group of companies. The critical and high strategic risks are updated annually and approved by the Group Audit Committee. The current list of critical and high strategic risks was approved by the Group Audit Committee in May 2006.

A series of risk management training courses are currently under way for all executive heads of divisions in the Group. The training is based on Vodacom's risk methodology and will assist management in identifying, assessing and monitoring risks within their respective areas of responsibility. To assist management with this process risk champions have been identified in each division. The risk champions will facilitate the process of updating current risk assessments, identifying new risks and updating the risk database. The roll-out and training of risk champions is currently in progress.

ERM will be embedded in the non-South African operating companies during the next financial year. This will be achieved through the training of management on the principles of ERM, the appointment of risk champions and the provision of assistance to management in identifying and assessing risks.

Finally, during this financial year, Vodacom procured an external Ethics and Whistle-Blowing Hotline service, which was implemented in May 2005. It was initially launched internally in Vodacom South Africa and will now be extended to Vodacom companies in other countries.

*CMT Compliance Programme*

International best practice indicates that corporate ethics and compliance programmes are key elements of any risk management strategy aimed at the prevention and detection of CMT. Developments in respect of Vodacom's ethics programme are highlighted below. The focus here is on the CMT Compliance Programme.

International and country databases on CMT risk and CMT policy, law and administration are being updated and improved. Legal counsel and consultants on CMT continue to provide specialist advice and updates on political, socio-economic and CMT risk in selected countries.

Country and company CMT risk assessments have been carried out for Vodacom Group and all network operating companies; these are updated on an annual basis. Based on the findings, CMT risk management strategies and programmes have been designed to manage the various levels of risk.

The Group CMT Code of Compliance was approved in the 2005 financial year and is being implemented in the Group and all network operating companies. The directors, officers and executives of the companies have been briefed on their responsibilities in this regard.

Governance officers have been appointed for the Group and the operating companies. Country-specific CMT policies and procedures have been put into place to inform and guide the implementation of the Group CMT Code of Compliance. The country policies and procedures are being implemented by management in respect of their various functional groups and divisions, according to risk profile, in four basic steps. Firstly, governance officers assist line management in adding CMT requirements into various functional policies and procedures. Secondly, an appropriate due diligence questionnaire is developed for the function. The due diligence process is then initiated in respect of the establishment of new business relationships and, over time, the review of existing ones. Finally, based on the results of the due diligences, appropriate CMT clauses are inserted into new and existing contracts and agreements. The Tanzanian and South African operations have made substantial progress and the others are now gaining momentum.

It should also be noted that, during the year, considerable resources were allocated to assist with CMT risk assessments and due diligences in respect of a number of proposed investment opportunities.

Towards the end of the year, the Governance Group employed an executive head of the division who will be responsible for CMT audits, investigations and enforcement and will work with Group Risk Management and Group Human Resources to complement the CMT risk management effort.

*Ethics Along the Way Programme*

Given the challenging environments in which the Vodacom Group operates, the management of ethical risk is a critical requirement for corporate sustainability and success. Consistent with the recommendations of the King Committee and international best practice, an ethics development programme called Ethics Along the Way is being implemented in Vodacom Group and all operating companies. The Vodacom Way, which sets forth Vodacom's key strategic, job and ethical values, serves as the focal point for the Programme.

The first phase of the Programme was to conduct ethics risk assessments, which focused on the Group and the five operating companies. The assessments were conducted using qualitative (interview) and quantitative (questionnaire) analysis techniques. Based on the findings of these risk assessments regarding the opportunities and threats facing the companies, a second phase of the Programme has been designed to enhance strengths and correct weaknesses in two main areas: thinking about ethics, and institutionalising and managing ethics.

The following internal interventions have been planned:

- Senior management will be given training on how to think about and manage ethics in the business environment.

They will then work with the Governance Group to raise the awareness of their staff about values and ethics, both by including it in general management practices and by providing some basic ethics training at junior management and staff levels. The goal is to have all employees share in the ownership of Vodacom's ethical values and standards.

- The Vodacom Way will be emphasised, appropriated and applied throughout the Group of companies. This will be achieved through further training, communication campaigns and workshops, which will provide the means for employees to review and discuss the ethical content of the Vodacom Way, to learn how to apply its ethical content in everyday business and possibly even to propose amendments to the Vodacom Way.
- The Vodacom Group Code of Ethics will be appropriated and applied in various companies, so that it can be related to ethical behaviour in their day-to-day operations. Management and staff will receive further training on how to apply it to their specific job environments. It is possible that individual companies may refine or elaborate on the Group Code to address specific cultural concerns and challenges presented in their operating environment.

The first intervention mentioned above has been initiated in South Africa, Tanzania, the DRC and Lesotho. Senior management in Mozambique received their initial training in May 2006.

*Registers of gifts and hospitality received*

Each Vodacom Group company maintains a register of gifts and hospitality received by personnel. These registers are submitted to the Group Remuneration Committee for scrutiny at regular intervals. This year, the Group policy and procedure was updated and a new electronic system of registration was developed. These measures will be implemented during the next financial year.

## Sustainability reporting

Various executives at Group and operating company level take responsibility for championing one or more of the key elements of corporate sustainability. Ethics and organisational integrity has been reported on here. Sustainability issues relating to human resource development and stakeholder relations are covered in the following two reports.

## Conclusion

Progress continues to be made in the enhancement of governance structures and processes. The implementation of the Board and Director Development Programme, the ERM Programme, the Ethics Along the Way Programme, and the CMT Compliance Programme is improving the governance profile and performance of the Group of companies.

**Thomas Beale**

*Chief Governance Officer*

*Vodacom Group (Proprietary) Limited*

# HUMAN RESOURCES

"The branding of Vodacom as an employer of choice and offering a great working experience are as important as delighting our customers."

Lungi Ndlovu
Chief Human Resources Officer
Vodacom Group (Proprietary) Limited

## Introduction

The upswing in the South African economy, the convergence of technologies and the publication of the draft BEE Codes of Good Practice are only a few of the external factors that continue to present the Group with numerous challenges and opportunities. In this competitive environment the branding of Vodacom as an employer of choice and offering a great working experience are as important as delighting our customers. Without the best available talent the Group will be unable to deliver on our strategic objectives and therefore, the Human Resources function focuses on the implementation of an integrated approach to the management of our human capital.

The primary strategic objective of Group Human Resources ("HR") is to leverage human capital competitiveness as a core driver and differentiator for business performance in this highly competitive industry. Group HR plays a pivotal role in facilitating an institutional people framework that is conducive to attracting and retaining the best talent who continue to be enthused and excited about the challenges provided at Vodacom.

## Key focus of activities

HR's strategic thrust is underpinned by the objective of attracting, retaining and developing employees to meet the growth need of the organisation. The Group's focus over the past year was the enhancement of executive and management skills; succession development; the training of our technical staff with regards to the latest technology; expanding the use of our e-learning methodology; introducing a programme to expand the pool of females in core areas of the business; continuing to address the HIV/Aids challenge through pro-active treatment and care; strengthening our employee wellness programme; the rolling out of learnerships and other skills development initiatives; refining our recruitment and selection processes and the continuous enhancement of our reward strategy.

## HEADCOUNT

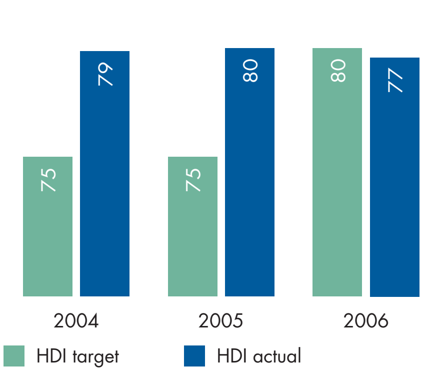
| | Year ended March 31 | | | % change | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **05/04** | **06/05** |
| **Number of employees including temps and contractors** | **4,609** | **4,993** | **5,459** | **8.3** | **9.3** |
| South Africa including holding companies | 3,848 | 3,954 | **4,302** | 2.8 | **8.8** |
| Other African countries | 761 | 1,039 | **1,157** | 36.5 | **11.4** |
| **Total customers per employee** | **2,434** | **3,101** | **4,308** | **27.4** | **38.9** |

### Headcount and movements

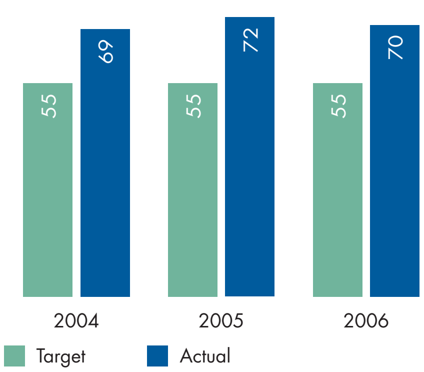
The Group continues to manage headcount to ensure operational effectiveness and efficiencies and contain administration overheads. Actual headcount increased in the Group in the last financial year by only 9.3% to 5,459 (2005: 4,993). The increase in headcount is conservative in comparison to the 51.9% increase in the Group's subscriber base to 23.5 million customers. The South African operations experienced a headcount increase of 8.8% over the last year. Included in the South African headcount (including holding companies) are 34 employees in Vodacom International Limited (Mauritius) (seconded to Vodacom's African operations), 206 employees in the Smartphone Group and 49 employees in Cointel. Group-wide customers per employee, as a measure of organisational efficiency, increased to 4,308 (2005: 3,101) in 2006, which represents a 38.9% increase in employee productivity for the year.

The annualised voluntary turnover for the Group stands at 11.6% (2005: 9.6%) as at end of March 2006. However, the labour turnover is still within our target of 12%. The average age in the Group is 34 years, 66% of employees are between the ages of 21 and 35 years, a relatively young population. This impacts man-power planning, as well as employee benefits and retention strategies in creating the right appeal to attract and retain young talent.

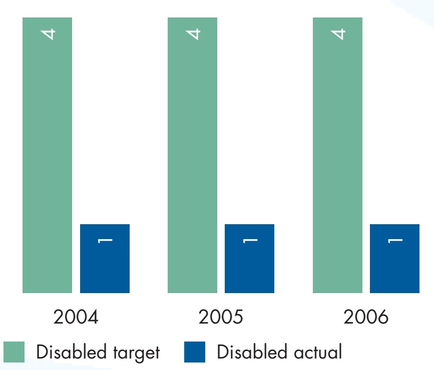
Historically disadvantaged individuals ("HDI") actual versus target
%



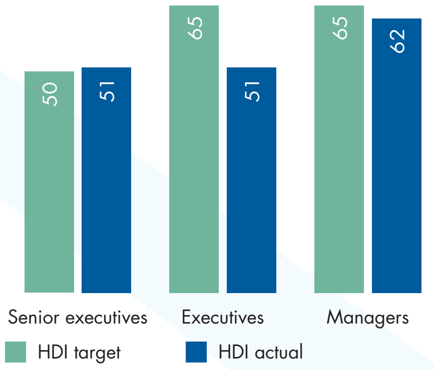

Black female as a % of total female actual versus target
%



Disabled actual versus target
%




HDI at management level 2006
%




## Employment equity

The Employment Equity ("EE") Act continues to be an integral part of the Group's strategy and is viewed by the Board and senior management as a driving force in ensuring that the Group retains its competitive edge in the market place. The Group also strongly supports the objectives of the Broad-based Black Economic Empowerment ("BBBEE") Act and recognises the important role that the Codes of Good Practice will play in the meeting of these objectives through the provision of clear guidance to all stakeholders on the implementation of the BBBEE Act. As the need to understand, accept and embrace diversity has definitely become a strategic business imperative in the South African business environment, the Group also places considerable emphasis on the management of diversity. A large part of the business has undergone diversity management workshops which focus on assisting individuals to understand the past and present as well as the need to deal with prejudices and stereotypes. Furthermore, all new employees to the Group undergo training on EE issues as part of the Group orientation programme. Success in meeting this vital imperative is expected to maximise future opportunities and long-term shareholder value.

Vodacom's progress in the area of EE continues to be closely monitored by the Board. Over the last few years there has been a trend of exceeding our overall EE targets, with the exception of the disabled. This trend has largely continued through this financial year with the exception again of the disabled as well as HDI at some management levels.

The Group has made considerable progress in ensuring that its employee profile is highly representative of the demographic profile of South Africa. To facilitate the achievement of EE plans, during the year 77% (2005: 88%) of Vodacom's new appointments were from the previously disadvantaged group. As at March 31, 2006, 68% (2005: 67%) of our workforce was from this Group, excluding white women.

While EE and gender representation at certain senior levels and disability targets continue to be a challenge, advancements have been made over the last year in this regard with the appointment of highly regarded senior black executives in corporate strategy, commercial and a new venture company. Vodacom is confident that, with emphasis on executive development, focus on an executive pipeline, targeted resourcing at senior levels and stretch assignments, it will meet its objectives. At the end of March 31, 2006, Vodacom has made significant progress towards achieving its target at all management positions in an environment where there is very low labour turnover, a young executive profile, lucrative opportunities created by the telecoms convergence and where headcount restraints prevail.

## Employee rewards

Vodacom reward strategy is integral and in harmony with the overall business strategy to create a high performance workforce thereby ultimately increasing long-term shareholder value. The Group has a Remuneration Committee ("REMCO") that is charged with the responsibility of overseeing, on behalf of the Board, the Group's compensation policy, reward strategy as well as the compensation and benefit programmes of senior management. The REMCO seeks to provide rewards and incentives that are highly leveraged to performance and clearly linked to the Group's results and individual performance. The thrust is to ensure that our compensation and benefits are at levels that enable the Group to attract and retain talent. The Group has introduced remuneration philosophy and practices which aim to codify our approach to employee rewards to solidify our position as an employer of choice.

The Group upholds internal remuneration equity, as well as external equity to remain market competitive. This is achieved through participation in a range of niche salary surveys.

To ensure the retention of skills and the alignment of Group goals with those of individual employees, the Group offer short-term and long-term incentive schemes. The Group, as part of its annual remuneration strategy review, introduced various initiatives such as a lease company car benefit to lower management levels as well as the introduction of variable retirement funding contributions to address the need for flexibility. These initiatives are aimed at meeting different employee needs as far as benefits are concerned, in line with the Group's remuneration philosophy. The Group also approved the payment of a special bonus to employees for achieving exceptional financial results. This bonus payment is in addition to the annual performance incentive that is based on the short-term incentive scheme policy.

## Human Resources development

*General*

The continuous development of the Vodacom brand is supported by the Group's dedication and investment in the training and development of staff. The total talent management effort is complemented by providing staff with the opportunity to develop and grow. At the same time, we are realising a strong return on investment for the business with increased productivity and cost savings as a result of the training and development initiatives. An example of this would be the cost saving of nearly R3 million as a result of the implementation of a call centre learnership.

The Group's HR development strategy is driven by the passion to be the best in whatever we do. We believe that the focus on building capacity through the development of managerial, leadership and functional competencies achieves this and creates a sustainable competitive advantage for Vodacom. The Group's commitment to employee development is demonstrated by the increased investment it has made in this regard. The past financial year, the Group invested R23 million or 2% (2005: 2%) of payroll in HR development.

*Skills Development Act and learnerships*

The Group is committed to the implementation of the spirit of the Skills Development Act and has gone beyond compliance in its implementation of skills development initiatives. The Group has continued to actively participate in the ISETT SETA and implemented a number of learnerships resulting in more than 90% of the learners finding formal employment. Currently, 193 learners are trained in various learnerships that range from contact centre, new venture creation, telecommunication technician, project management, wholesale and retail management and female first line managers. During the 2006 financial year the Group has received close to R4 million from the ISETT SETA for the implementation of these programmes. The rest of the considerable cost of these programmes is funded by the Group, as well as by ploughing straight back the mandatory grants received from the SETA.

*Vodacom Advanced Executive Development Programme ("VAEP")*

This programme was introduced in 2003 and provides strategic expertise in financial management, management accounting, project management, marketing, statistical analysis, human resources, entrepreneurship and business analysis that will empower the senior level participants to contribute more to the achievement of our company's business objectives as well as enrich their own capabilities. The programme includes the application of action earning principles through the Janus project. Candidates on the second intake achieved a 62% pass rate and graduated in November 2005. The next VAEP will commence in the second quarter of 2006.

*Conversations in Leadership Programme ("CLP")*

Constant change and a competitive environment make the challenge of doing business more demanding. Within this context there is a need for masterful leadership – leadership that engages people to bring about both an understanding of the strategy and an understanding of the implementation process. At the heart of this type of leadership is dialogue. To facilitate this type of learning Vodacom introduced the CLP. It was launched in August 2005 in partnership with the Gordon Institute of Business Science. Since then more than 90% of the executives attended various workshops and reflection sessions that form part of the programme. They attended workshops on strategy, transformation, leadership and business ethics. During 2006 workshops will be attended on personal mastery, customer centricity and people management.

*Virtual Learning Centre ("VLC")*

The Group continued the use of e-learning to roll out 3G technical training. This initiative ensured an overall return on investment of R2 million. The VLC has also been implemented in Vodacom Mozambique, Tanzania and the DRC. Initial usage figures in those countries show that more than 20% of employees use the service on a monthly basis.

*Succession Development Programme ("SDP")*

For the past five years Vodacom has been implementing what is called a feedback-intensive SDP. Feedback-intensive programmes are viewed as best practice and in general incorporate research on effective leader behaviour and learning processes, enabling individuals to develop a deeper understanding of their leadership strengths and development needs, as well as develop action plans to leverage that knowledge for greater effectiveness in the Group. Our feedback-intensive programme includes comprehensive assessments of an individual's leadership, generally in one or more sessions, using multiple lenses to view numerous aspects of personality and effectiveness. It is a blend of methodologies, combining assessment of development tools (such as 360 degree feedback), experiential interactions, direct teaching of practical content and coaching. This is complemented by a variety of other development methodologies such as reading, e-learning, projects, etc.

Both the executive succession and the management succession pools are exposed to this type of development.

The SDP has achieved relatively good results in building the leadership pipeline and organisational bench strength. Candidates who participated have experienced growth in matching their development needs and some had opportunities for movement into more senior positions within the company. From the total pool, 67% of the candidates are EE and 33% are female. Based on results, the programme is successfully assisting with a leadership pipeline for the Group.

*Technology Strategy Initiative ("TSI")*

The ICT landscape has evolved rapidly in the past few years and this has called for the requisite skills to deliver on growth. Vodacom in response has launched the TSI programme (an accredited, honours – SAQA Level 7 course in Strategic Technology and Innovation) which forms part of the Digital Frontiers Initiative at Potchefstroom Business School's Institute of Technology and Innovation. Participants are exposed to the latest technological breakthroughs, technology predictions and business model possibilities. The programme is conducted over a ten month period that started at the end of August 2005, with 1 – 2 hour sessions per week during working hours. Amongst others, the programme consists of the following elements: technology roadmap for the telecommunications sector, scenario planning and possible strategy actions disruptive innovation and identification of disruptive threats, innovation mapping and contextualisation and business reframing and system thinking workshops.

*Employee education assistance*

To promote life-long learning principles, the Group extends educational assistance to its full-time employees through its Yebo bursary scheme. For the year ended March 31, 2006 the Group spent R2.3 million (2005: R2.5 million) on the scheme. The scheme has been in operation for the past eight years and, to date, 4,292 employees have benefited from the scheme, demonstrating the premium the Group places on learning and acquisition of skills.

## Employee well-being

*General*

The Group continues to place emphasis on employee wellness as a strategy to entrench a compelling employee value proposition that will aid our efforts in the attraction and retention of talent. In addition, employee wellness initiatives are aimed at driving employee productivity, promoting optimal health and facilitating organisational and individual resilience.

*Executive Lifestyle Programme ("ELP")*

The ELP is aimed at the pro-active raising of awareness with each executive about his or her health risks, actions required to mitigate or eliminate them and assisting the organisation with information on health trends which may necessitate other interventions. The overall objective is to promote optimal executive health so that they can become effective corporate athletes and drive shareholder value. The first round of the programme yielded a 65% participation rate for all Level 1 to 3 executives.

*Occupational health services*

We have retained the services of an occupational health doctor on a contract basis to create better access to medical support, ensure closer monitoring of health risks and facilitate pro-active management of secondee, pre- and post-assignment health assessments. A health risk profile has been compiled for the technical areas and base-line medical assessments have commenced in these areas. Travel health services have been established for employees undertaking official trips out of South Africa.

*Access to counselling*

Independent counselling and advisory services ("ICAS") continue to provide our employees with exceptional counselling and emotional support. Utilisation shows a very healthy trend and stands at 20% (2005: 22%) of the staff over the last year. Analysis of employee utilisation and trends has identified employee risk groups with the aim of providing input to shape the HR policies. Problem areas are pro-actively dealt with by implementation of activities targeting the trends identified.

*HIV/Aids*

The HIV/Aids pandemic is still a major challenge for many companies in the SADC region, including Vodacom. However, companies that have taken a pro-active approach through introduction of programmes like Direct Aids Intervention ("DAI") stand to benefit in the long term.

Vodacom's campaigns continue to target raising awareness levels and knowing one's HIV status through voluntary counselling and testing campaigns on-site and off-site. This is followed by a comprehensive treatment and monitoring service. The awareness campaign has been driven over the last year and 85% of the eligible staff population have undergone voluntary counselling and testing, exceeding our 2006 financial year target of 80%. The HIV prevalence based on cumulative tests stands at 2.2%, which is still below the actuarial projection of 5% prevalence which is well below the national prevalence levels. An analysis of the efficacy of treatment received shows positive results and these employees are able to carry on leading productive lives.

## Employee and industrial relations

Vodacom has reviewed its employee relations framework to ensure strategic support for the business in respect of key business issues.

Two trade unions continue to be active within the Group, namely Communications Workers Union ("CWU") and Media Workers of South Africa ("MWASA"), neither having a recognition agreement with the Group as their membership base is low.

Trade union representivity for the Group has decreased to 10.2% (2005: 13.3%) of all employees in South Africa.

## Operations outside South Africa

Group HR plays a pivotal role in providing strategic HR support to our African operations, both in terms of assignee management and regarding the local HR practices.

Key to this support is to develop the succession planning strategy to achieve the following:

- Identify and track all management positions in non-South African operations that will continue to require an assignee in the near future. For these positions, Group HR has also embarked on a process to timeously identify potential succession candidates. Group HR will pro-actively provide training and sensitisation to these individuals in preparation for deployment.
- Pro-actively identify all management positions that can be filled by local employees as soon as possible. Local candidates will be identified and prepared through a formal development programme that will ensure transfer of skills. It is Vodacom's aim to facilitate significant localisation of the management of these operations.

At this stage, the main challenge continues to be in resourcing these operations with executives and senior management. Emphasis continues to be placed on both management and technical training to enhance skills. Future thrust will be on accelerated development programmes, to build a pool of local employees for senior management positions.

Group HR has also embarked on a programme to provide structured and sustainable support to the local HR teams.

The standardisation of key employee benefits and conditions is on a phased approach to ensure a level of consistency and implementation of a Vodacom culture, while ensuring that the practices are locally relevant. It is also the intent of the business to maintain a balance between being an employer of choice and containing employee costs.

## Conclusion

The Group continues to be highly successful in all its endeavours. This success is directly attributable to the vision and foresight of our leaders, the successful entrenchment of the Vodacom brand within the South African and African consciousness and the commitment and hard work of our committed employees.

Leveraging human capital competitiveness as a core driver and differentiator for business performance is a strategic focus area for Vodacom. HR has a key role in creating an environment that is conducive to attracting and retaining the best talent. The branding of Vodacom as an employer of choice and offering a great working experience are critical factors in achieving this objective.

**Lungi Ndlovu**
*Chief Human Resources Officer*
*Vodacom Group (Proprietary) Limited*

# CORPORATE COMMUNICATION AND SOCIAL RESPONSIBILITY

Dot Field
Chief Communications Officer
Vodacom Group (Proprietary) Limited

## General

Every year, the shareholders of the Vodacom Group allocate a budget to the Vodacom Foundation, for the purposes of complementing government efforts in providing a better life for the citizens of the countries in which the company operates. In this way, the various communities are able to share in the Group's success.

The Foundation prioritises its projects so that the bulk of their funding is directed in specific areas for maximum impact. The areas of education, health and safety and security have been identified as focus areas for such funding. A smaller budget has also been set aside for ad hoc donations.

The activities of the Foundation are communicated by the Group's Corporate Communications Division, to the various stakeholders in business, civil society and government.

Vodacom's corporate social responsibility covers the following three focus areas: corporate social investment, occupational safety and health and the environment.

## Corporate social investment

During the 2006 financial year, the Foundation implemented projects in the areas of education, health and welfare, safety and security and various others, both in South Africa and the other African countries in which Vodacom operates.

## Education

*South Africa initiatives*

Open Bursary Scheme

Vodacom continues to allocate bursaries, at tertiary level, to students pursuing careers in accounting, electrical engineering and information technology. Approximately fifty university and technikon bursaries are allocated on an annual basis, to needy students who demonstrate academic excellence. Altogether, 580 bursaries have been allocated through this scheme, since 1995. Over 250 recipients are now employees within the Group.

Vodacom CEO Scholarship Award

A prestigious award aimed at the country's top three matriculants across all disciplines, was launched during the 2006 financial year. The first three recipients are following careers in medicine, accounting and actuarial science. Only academic merit is used to decide on who benefits from this new scheme. The bursaries awarded through this scheme are larger in value than those offered under the Open Bursary Scheme.

Postgraduate scholarships

In collaboration with the Nelson Mandela Metropolitan University, Vodacom continues to provide masters and doctoral scholarships to disadvantaged postgraduates, as its contribution to creating a pool of future lecturers and professionals.

School initiatives

The Cangci Comprehensive Technical High School, which was built by Vodacom in 2000, continues to impress with its matric results as a result of the investment made in teacher-enrichment programmes and better study methods. The school has been able to improve pass rates from the levels of 19% in 2003 and 54% in 2004 to 84% in 2005.

Vodacom joined hands with the National Education Ministry in their Masifunde Sonke School Library project, which provided computers to some 450 schools country-wide.

Vodacom also embarked on a Matriculation Support Programme for Grade 12 learners in the Eastern Cape and Limpopo provinces. The main aim of this programme was to improve pass rates in mathematics and science in these provinces. With support from the Education Support Services Trust, about 6,000 students participated in this programme.

Yebo Millionaires Game Show

Through the Yebo Millionaires Game Show, Vodacom has helped eight disadvantaged schools to establish computer laboratories. The package included educator training on the use of computers as well as technical training for trouble shooting.

*Democratic Republic of Congo ("DRC") initiatives*

School initiatives

Primary schools like Batende (3,000 pupils), Masala (2,000 pupils) and St. Mathias (3,800 pupils) in Kinshasa as well as Liyeke/Mbandaka – Equator (1,000 pupils) in the western region, were in desperate need of rehabilitation. Vodacom Congo came to their rescue with contributions ranging from US$14,400 to US$30,600 per school.

Additional scholarships were awarded to 12 students in the top 10 high schools in Kinshasa. The total value of the scholarships to these students was US$190,800.

*Lesotho initiatives*

Makaonyane Primary School

During the year, Vodacom Lesotho provided much needed and urgent assistance to Makaonyane Primary School in Maseru. Two of their buildings, housing five classrooms, were destroyed by a tornado that struck the area in September 2005. Vodacom Lesotho provided a grant of R300,000 to the school for renovations, repairs and roofing to the damaged structures.

*Mozambique initiatives*

Albasine Primary/Secondary School refurbishment

Vodacom Mozambique undertook a project to refurbish Albasine Primary/Secondary School which has 23 classrooms in five blocks. The work done included the painting of all the

Mthobi Tyamzashe
Chairman
Vodacom Foundation

Executive Director
Government Relations and Regulatory
Vodacom (Proprietary) Limited

buildings at a cost of more than MZM5.0 billion (equivalent to US$200,000). Approximately 5,000 learners benefited from this donation.

Encyclopaedias

Full sets of Portuguese encyclopaedias were donated by Vodacom Mozambique to the four main secondary schools in Maputo at a cost of MZM351 million (equivalent to US$14,000). There are about 30,500 learners who benefited directly from this donation.

Ressano Garcia Primary

This school, the only one in the village, was presented with a full library package. More than 1,000 learners benefit directly from this donation. The local village soccer team also received a full soccer kit. The total cost was MZM108 million (equivalent to US$4,200).

Xai Xai Library

Full library packages were donated to three primary schools and three secondary schools in Xai Xai. The handover was witnessed by the Governor of Gaza. About 24,000 learners benefit from this donation. These libraries do not only guarantee a higher level of learning, but empower the educators as well. The total cost was more than MZM1.1 billion (equivalent to US$42,500).

## Health and welfare

*South Africa initiatives*

Cell Life

This project, which involves an SMS-based reminder system for the monitoring of medication for HIV/Aids sufferers, has now been extended to cover most of the government sites in the various provincial hospitals, across the country.

Feeding schemes

Vodacom continues to fund three feeding schemes, via its relationship with Feed SA, an organisation that secures food products at reduced rates, through its website-based fundraising model. This model has made it possible for 1,600 children and 400 adults to enjoy at least one meal per day for a whole year. As part of our contribution to this programme, a number of communities were helped to start vegetable gardens and various other sustainable projects such as beadwork, glass and card making.

Cleft Lip and Palate Project

Vodacom broke new ground when it extended its earlier relationship with the healthcare group, Netcare, to include cleft lip and palate operations for children born with split upper lips. Thus far, 60 successful cleft and lip palate operations have been made possible through Foundation funding.

Eye care

In yet another unique extension of this relationship, the Foundation, together with Netcare, managed to assist another 712 sightless community members to regain most of their sight through cataract operations.

Cardiac care

In another partnership with Netcare, benefiting children, Vodacom contributed to the funding of 10 heart operations for infants, at the Walter Sisulu Paediatric Cardiac Centre for Africa.

HIV/Aids

Vodacom also supported King Goodwill Zwelithini through its contribution of six vehicles that will be used in taking the gospel of HIV/Aids education to the rural areas of KwaZulu-Natal.

As part of the 46664 HIV/Aids fundraiser, Vodacom offered 46664-branded starter packs that are sold to the public. On every recharge, a portion of funds is donated to the Nelson Mandela Foundation, which channels it towards the fight against the HIV/Aids pandemic.

*DRC initiatives*

HIV/Aids

Vodacom Congo contributed some US$50,000 towards the building of an HIV/Aids Information Centre.

Public health

A further US$10,000 was spent on music equipment that was used as part of a national awareness programme on public health, at hospitals and educational institutions. The Police Camp Lufungula General Hospital, in Kinshasa also received furniture and other renovations to the value of US$15,800.

Shares and Cares Campaign

As part of Vodacom Congo's Shares and Cares Campaign, US$55,000 was used for distributing food, clothes and stationery to the elderly, orphans and the disabled during December 2005.

Self-funded projects

Smaller donations were also made to self-funding projects like the Chalk Factory for the disabled and the Soap Factory for HIV positive orphans.

*Tanzania initiatives*

Drought relief

Vodacom Tanzania handed over a contribution of TSH1 billion (US$820,000) to the government's National Drought Emergency Fund, which was used towards the drought that crippled the country. This contribution, in response to government's call for private sector support, went a long way towards encouraging other Tanzanian corporations to provide cash and in-kind support. The total private contribution is presently valued at TSH3 billion.

Rural and peri-urban healthcare

As a means of taking healthcare to the rural and peri-urban centres, Vodacom in partnership with Marie Stopes, provided a bus that is equipped with all the necessary telecommunications capabilities required to keep it in contact with the major health centres. Marie Stopes is an international non-governmental organisation and medical service provider.

Mobile Health Clinic

The Vodacom Mobile Health Clinic completed two pilot exercises on the road to Bagamoyo and Kigamboni regions. The pilots indicate overwhelming support from women and children in accessing clinic services, specifically for vaccinations and contraceptive counselling. The investment value of the initiative is estimated at US$98,400 annually.

*Lesotho initiatives*

Ensured Salvation Orphanage

Vodacom Lesotho is a sponsor of the Ensured Salvation Orphanage and assisted the orphanage with R20,000 in December 2005, which enabled them to purchase desperately needed food and clothing. A portion of the donation was utilised to organise a Christmas party and gifts of school shoes and toys over the festive period.

Vodacom SuperTalk FunWalk

This annual event, held in March 2006, is Vodacom's way of identifying with the community by hosting an outdoor social event in Maseru. Attended by over 1,200 people, Vodacom donated the full ticket sales proceeds amounting to R69,000 to the district administrator of Maseru to assist the victims of the 2005 tornado.

*Mozambique initiatives*

Dhow Boat

Fifty Costa do Sol fishermen were given Dhow Boat sails by Vodacom Mozambique to enable them to improve on their daily "catches" by venturing deeper into the sea. 200 people directly benefit from this venture. The cost of this project was MZM9 million (equivalent to US$34,000).

Mozambique Dhow Boat Initiative

## Safety and security

*South Africa initiatives*

Women and Men Against Child Abuse

Following Vodacom's collaboration with the Department of Justice in the funding of the construction of several Sexual Offences Courts and Thuthuzela Care Centres, which made it possible for sexual offences to be handled in specialist courts and the provision of privacy for victims of sexual abuse, respectively, Vodacom proceeded to establish a relationship with the Women and Men Against Child Abuse organisation.

Through this relationship, initial support for the work done at the Boksburg premises developed into the establishment of a similar facility at Alexandra Township. Vodacom is proud to have played a role in ensuring that as many as 5,533 victims have been assisted at both facilities over the past twelve months.

Crime prevention

The Northern Cape Committee for Crime Prevention was the latest non-governmental organisation to join the Vodacom safety and security stable. This committee has been successful in persuading many street children, in the Kimberley area, to join the police in the fight against crime.

## Other

*Lesotho initiatives*

Morija Arts and Cultural Festival

Vodacom Lesotho is a company that cares deeply about the communities in which it operates. For this reason, Vodacom Lesotho is behind various corporate social responsibility projects that are aimed at helping the disadvantaged, assisting the youth and promoting the arts and culture in Lesotho.

Vodacom Lesotho proudly associates itself with the annual Morija Arts and Cultural Festival by continuing its sponsorship of this major cultural event in 2005, with a donation and sponsorship of R220,000 to the organising committee. The festival, in its seventh year, promotes and supports the development and preservation of Lesotho's culture and heritage.

## Occupational safety and health

*Safety and health policy and management*

Vodacom continues to adhere to the highest international standards applicable to the integrated management of occupational health and safety systems and Occupational Health and Safety Assessment Series ("OHSAS") 18001. We continuously improve and re-evaluate all policies and procedures applicable to ensure alliance with Vodafone's existing policies and procedures.

*South Africa initiatives*

During 2005 Vodacom South Africa again unconditionally retained OHSAS 18001 re-certification as audited by accredited auditors DEKRA. A very high standard was once again maintained during the audit.

No major incidents were recorded for the year ending March 31, 2006.

*Other African operations*

As part of the Vodacom Group's drive to ensure good corporate governance, the safety, health, environment and quality division is assisting all other African operations with the implementation of health, safety and environmental systems.

Activities currently in progress in the African operations include a holistic implementation strategy. African operations are at least visited bi-annually to evaluate their existing environmental health services ("EHS") systems and the compliance thereof, and to determine shortfalls and implementations required.

All EHS structures, appointments, training and systems policies and procedures are in place. The focus addresses occupational risks and legal compliance, in terms of local legislation. The strategy for the future is to improve and expand the existing system to ensure legal compliance.

## Environment

During the year under review, Vodacom South Africa again unconditionally retained International Standards Organisation ("ISO") 14001 re-certification as audited by accredited auditors DEKRA.

*Environment policy and management systems*

Vodacom continues to emphasise growing environmental indicators and to ensure continued improvement. Outsourced risk assessments were conducted to monitor and evaluate aspects and impacts as generated by our activities.

*South Africa initiatives*

The monitoring of key environmental indicators

Environmental indicators are in line with shareholder requirements. The economic indicators analysed include the consumption of electricity, water, paper and fuel.

Environmental data

Consumption of resources can be analysed, in respect of the average year to date consumption, as follows:

- Consumption of electricity in respect of the radio network, including Alcatel and Motorola equipment, was 103.1 million kWh, which is impacted by seasonal changes, versus 98.4 million kWh last year;
- Consumption of electricity in respect of facilities was 68.3 million kWh, versus 68.4 million kWh last year;

- Consumption of water in respect of facilities was 171,450 kl, versus 178,620 kl last year;
- Consumption of paper was 122,112 kg, versus 124,020 kg last year;
- Consumption of diesel in respect of facilities was 676,640 litres, versus 882,792 litres last year; and
- Consumption of petrol in respect of facilities was 805,604 litres, versus 695,004 litres last year.

Electromagnetic radiation

To ensure alignment with shareholder aspirations and international best practice, the management of electro-magnetic field ("EMF") risk across the Group's operating companies is now achieved through an auditable entity known as the Vodacom Group EMF Council.

Corporate exposure to EMF risk is multi-faceted in nature and the membership of the EMF Council reflects the decision to manage each component via an identified risk owner. Hence, membership of the Vodacom Group EMF Council extends over the entire range of Group's operating functions.

The paradigm used to manage EMF risk within Vodacom is now being replicated throughout Vodacom's African operating companies to ensure that good corporate governance prevails and all matters relating to health, safety and the environment are managed using criteria on par with our South African operations. This is a process that has now begun in earnest under the heading of the EMF into Africa Project.

The creation of an EMF Council structure for the Group mirrors the model already employed by our shareholder, Vodafone Group, for managing its EMF risk and allows for the dynamic sharing of international best practice via the Vodafone EMF Council group structures and the linkages provided by the EMF Leadership Programme.

The mission of the Vodacom Group EMF Council is to identify, manage and minimise any risk that may result from exposure to EMF on the part of Vodacom and its subsidiaries, shareholders or the general public at large.

The vodacom.com website provides the public with access to actual EMF measurements, recorded by instrumentation when in the vicinity of selected base station sites within Vodacom South Africa's network. The website also provides the reader with supporting information on Vodacom's Health and Safety Programme as it applies to emissions from base station antennas and, *inter alia*, gives the public hyperlinks to the World Health Organisation's ("WHO") International EMF Research Project and other important scientific sources of information. EMF brochures that explain in layman's terms exactly how networks are deployed and cellphones designed, to meet the stringent guidelines laid down by the International Commission on Non-Ionising Radiation ("ICNIRP") are being widely distributed. A variety of direct engagement programmes are currently being considered, the design of which will encourage public participation in the acquisition cum acceptance processes governing base deployments. This will also provide a wider understanding of how the operation of mobile cellular technology is made compliant with the WHO endorsed ICNIRP safety guidelines.

**Dot Field**
*Chief Communications Officer*
*Vodacom Group (Proprietary) Limited*

**Mthobi Tyamzashe**
*Chairman*
*Vodacom Foundation*

*Executive Director*
*Government Relations and Regulatory*
*Vodacom (Proprietary) Limited*

# CORPORATE GOVERNANCE STATEMENT

## Corporate practices and conduct

Vodacom Group is guided in its commitment to the principles of good governance by the King Committee Report on Corporate Governance 2002 ("King II").

The characteristics of this code include 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

### *Board composition*

The composition and appointment of the Vodacom Group Board of Directors is governed by the shareholders' agreement between the Group's two shareholders. The Board consists of 12 members, four executive and eight non-executives, with three alternate non-executive directors. The names of the members of the Board appear under the Board of Directors section of this report.

All companies within the Group have unitary board structures with a mix of non-executive and executive directors.

### *Board meetings*

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

### *Board decisions*

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 changes 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 Chief Executive Officer ("CEO").

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.

The Group follows a decentralised approach with regard to the day-to-day running of its businesses.

### *Appointment of directors*

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.

Executive directors are considered for re-appointment annually.

Non-executive directors bring with them diversity of experience, insight, business acumen, skills and independent judgment 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 10% in the Group.

### *Chairman and Chief Executive Officer*

The role of Chairman and CEO is not vested in the same person. For the year under review, Oyama Mabandla took over the role of Chairman on January 1, 2006 from Wendy Luhabe who resigned on December 31, 2005. Alan Knott-Craig continued to act as the CEO of Vodacom Group. Telkom SA Limited, one of the Group's major shareholders, 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 advisers.

### *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. Except for the Executive Committee, these committees are comprised of non-executive directors. Board committees that have operated during the year (unless otherwise indicated) are detailed below.

### *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.

### *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.

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 entirely of non-executive directors and is advised by independent outside experts. The committee is chaired by the Chairman of the Board. 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. Three meetings of the committee are scheduled annually, with ad hoc meetings convened as and when required.

The broad objectives of the committee are to:

- Ensure that the Group's directors and staff are fairly rewarded for their individual contributions to the Group's overall performance;
- Approve the annual remuneration review of the Group and to ensure that salaries are market related;
- Approve annual bonuses; and
- Approve the allocation of bonus incentive scheme participation.

Basic remuneration and short-term 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 is comprised entirely of non-executive directors. The committee is chaired by a non-executive director who is not the Chairman of the Board. All the members are financially literate and no relationships exist which could possibly interfere with the committee members' 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 regard to:

- 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;
- Ensuring compliance with the applicable legislation and the requirements of the regulatory authorities;
- Obtaining an appreciation of the state of the internal control systems;
- Reviewing and recommending internal audits, specifically the internal audit plan which is risk-based, the internal audit policy, as well as reviewing their activity and significant findings;
- 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 perform other work;
- 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;
- Reviewing compliance with the Group's Code of Ethics;
- Receiving the reports of the officers and executives responsible for governance, risk management and legal affairs, and monitoring compliance with King II as updated from time to time; and
- 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 and the Directing Committee review 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 committees have 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, assessing and monitoring risks.

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

Risk management is addressed in the areas of physical and operational risks, human resource risks, technology risks, business continuity and disaster recovery risks, credit and market risks and compliance risks.

Key policies and procedures are in place to manage the organisation's governance, operations and information systems with regard to the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations and contracts.

A separate division reporting directly to the Group Executive: Risk Management, has been tasked with facilitating the process of embedding risk management within the Group. It is also responsible for assisting with the process of identifying, assessing and recording strategic risks currently facing the Group as well as where appropriate, monitoring procedures to mitigate pertinent risks.

Risks are periodically reviewed and updated by the organisation. A filtering and reporting process ensures that the necessary strategic risks are reported to the Group Risk Management Committee and ultimately to the Group Audit Committee.

## 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:

- Detailed budgets prepared by management and reviewed by the executive directors before formal adoption by the Board;
- Forecasts, revised on a quarterly basis, compared against budget;
- Monthly management accounts with a comparison against the latest forecast and budget; and
- 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 are 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, where possible, are appointed as external auditors of joint venture undertakings. 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 confirms that it has reviewed the effectiveness of the system of internal control through the monitoring process set out above and where any significant weaknesses or deficiencies in the Group's system of internal control were identified, it was immediately addressed by management.

## Internal Audit

*Status of 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.

*Scope of Internal Audit*

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.

*Role and function of Internal Audit*

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:

- Formal annual confirmation by subsidiary managing directors concerning the operation of internal control systems for which they are responsible;
- Group Internal Audit, while reporting directly to the Audit Committee via the Group Executive: Risk Management, has access to the Audit Committee and, on a continuous risk assessment basis, undertakes periodic examination of business processes and reports on internal controls throughout the Group;
- Reports from the external auditors on internal controls and relevant financial reporting matters; and
- 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.

## Integrated sustainability reporting

*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 do include, by invitation, two formal presentations to the investor community per year, at which the interim and annual results are discussed.

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.

*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, is 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, 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 stipulates policies and guidelines regarding the personal conduct of directors and employees.

All new staff receive a copy of the Code and a presentation on the Code as part of the induction process. 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. The directors regularly review this Code to ensure it reflects best practice in corporate governance.

*Employees and employee participation*

For employee-related matters, the Group is dependent on consultative committees of all major subsidiaries within the Group, which contribute 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 equality in the workplace.

Employee participation structures embrace goals relating to values, productivity, training and retraining and serve as a means of encouraging empowerment through participation, 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. In-house 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.

# RELATIONSHIP WITH SHAREHOLDERS

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. The following are short corporate profiles 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 listed on the JSE Limited, South Africa and the New York Stock Exchange. Telkom is an integrated communication group with investments in Vodacom Group (Proprietary) Limited, Telkom Directory Services (Proprietary) Limited, a provider of directory services, and Swiftnet (Proprietary) Limited, a provider of wireless data services. Telkom is currently the only national provider of public switched telecommunications services in South Africa. A process has commenced to liberalise the South African communications market introducing competition in a number of its business areas. As part of this liberalisation process, a second national operator ("SNO") Telecommunications (Proprietary) Limited has been licensed and it is expected that their business activities will commence during the second half of 2006.

As of March 31, 2006, Telkom had approximately 4.7 million telephone access lines in service and 99.9% of its telephone access lines were connected to digital exchanges. On March 31, 2006, Telkom had a market capitalisation of R87.5 billion. The government of the Republic of South Africa owns 38% of Telkom's issued share capital. Telkom owns 50% of Vodacom Group (Proprietary) Limited.

## Vodafone Group Plc

Vodafone is the largest mobile telecommunications network company in the world, with a significant presence in Continental Europe, the United Kingdom, the United States and the Far East through the company's subsidiary undertakings, associated undertakings and investments, with equity interests in 30 countries and partner networks in a further 33 countries. Vodafone provides an extensive range of mobile telecommunications services, including voice and data communications.

At March 31, 2006, based on the registered customers of mobile telecommunications ventures in which it had ownership interests at that date, the Vodafone Group had approximately 170.6 million customers, excluding paging customers, calculated on a proportionate basis in accordance with the company's percentage interest in these ventures.

The Vodafone Group's mobile subsidiaries operate under the brand name "Vodafone". In the United States, the Vodafone Group's associated undertaking operates as Verizon Wireless. During the last two financial years, the Vodafone Group has also entered into arrangements with network operators in countries where the Group does not hold an equity stake. Under the terms of these partner network agreements, the Vodafone Group and its partner networks co-operate in the development and marketing of global services under dual brand logos.

The company's ordinary shares are listed on the London Stock Exchange and the company's American Depository Shares are listed on the New York Stock Exchange. The company had a total market capitalisation of approximately £73 billion at March 31, 2006, making it the fifth largest company in the Financial Times Stock Exchange 100 index, or FTSE 100, and the twenty sixth largest company in the world, based on market capitalisation at that date. Vodafone owns 50% of Vodacom Group (Proprietary) Limited through its wholly owned subsidiary, Vodafone Holdings (SA) (Proprietary) Limited.

# CONSOLIDATED VALUE-ADDED STATEMENT

for the three years ended March 31, 2006

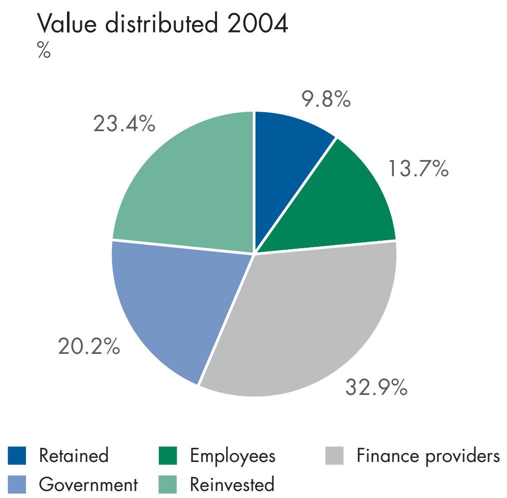
| | 2004 Rm | 2004 % | 2005 Rm | 2005 % | **2006 Rm** | **2006 %** |
|---|---|---|---|---|---|---|
| **VALUE ADDED** | | | | | | |
| Value added by operating activities | 9,088.5 | 93.3 | 11,242.7 | 94.4 | **13,850.8** | **95.5** |
| Revenue | 22,855.2 | | 27,315.3 | | **34,042.5** | |
| Net operating expenses | (13,766.7) | | (16,072.6) | | **(20,191.7)** | |
| Value added by investing activities | 656.6 | 6.7 | 662.8 | 5.6 | **659.3** | **4.5** |
| Income from investments | 16.6 | | 8.0 | | **7.8** | |
| Interest income | 640.0 | | 654.8 | | **651.5** | |
| | **9,745.1** | **100.0** | **11,905.5** | **100.0** | **14,510.1** | **100.0** |
| **VALUE DISTRIBUTED** | | | | | | |
| Distributed to employees | 1,331.6 | 13.7 | 1,652.9 | 13.9 | **2,042.1** | **14.1** |
| Salaries, wages, medical and other benefits | 1,259.8 | | 1,578.0 | | **1,952.8** | |
| Pension and retirement fund contributions | 71.8 | | 74.9 | | **89.3** | |
| Distributed to providers of finance | 3,207.5 | 32.9 | 4,041.7 | 33.9 | **5,818.2** | **40.1** |
| Finance costs | 1,107.5 | | 641.7 | | **1,318.2** | |
| Dividends | 2,100.0 | | 3,400.0 | | **4,500.0** | |
| Distributed to government | 1,970.5 | 20.2 | 2,525.0 | 21.2 | **2,962.7** | **20.4** |
| SA normal taxation | 1,702.6 | | 2,082.6 | | **2,375.6** | |
| Secondary taxation on companies | 262.5 | | 429.4 | | **562.5** | |
| Foreign taxation | 5.4 | | 13.0 | | **24.6** | |
| Value reinvested | 2,283.2 | 23.4 | 3,199.6 | 26.9 | **3,058.1** | **21.1** |
| Depreciation of property, plant and equipment | 2,316.9 | | 2,413.6 | | **2,651.6** | |
| Amortisation of intangible assets | 214.8 | | 429.6 | | **344.2** | |
| Integration costs, disposals of operations and impairments | – | | 268.4 | | **(52.8)** | |
| Deferred taxation | (146.9) | | (35.9) | | **135.5** | |
| Foreign deferred taxation | (101.6) | | 123.9 | | **(20.4)** | |
| Value retained | 952.3 | 9.8 | 486.3 | 4.1 | **629.0** | **4.3** |
| Retained profit (adjusted for dividends) | 926.1 | | 455.5 | | **512.3** | |
| Outside shareholders' interest | 26.2 | | 30.8 | | **116.7** | |
| | **9,745.1** | **100.0** | **11,905.5** | **100.0** | **14,510.1** | **100.0** |

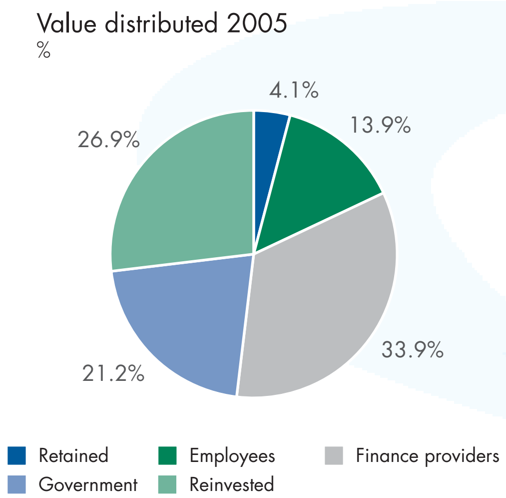
# NOTES TO THE CONSOLIDATED VALUE-ADDED STATEMENT

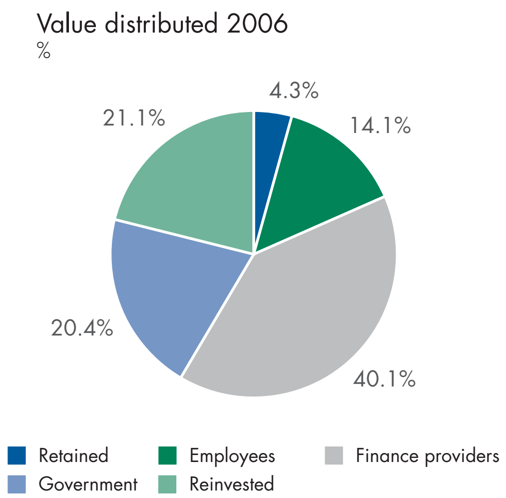
for the three years ended March 31, 2006

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **1. NET OPERATING EXPENSES** | | | |
| Direct network operating costs | 12,435.1 | 14,617.8 | **18,297.2** |
| Other operating income | (57.6) | (63.8) | **(125.1)** |
| Marketing expenses | 702.0 | 767.3 | **976.9** |
| Administration expenses | 687.2 | 751.3 | **1,042.7** |
| | **13,766.7** | **16,072.6** | **20,191.7** |

**2. ANALYSIS OF VALUE DISTRIBUTED**



# DEFINITIONS

| | |
|---|---|
| 2G | Second generation |
| 3G | Third generation |
| Aids | Acquired immune deficiency syndrome |
| ARPU | Average revenue per user per month |
| BA | Bankers acceptance |
| BBBEE | Broad-based Black Economic Empowerment |
| BEE | Black economic empowerment |
| BSC | Base station controller |
| BTS | Base transceiver station |
| Capex | Capital expenditure |
| Cell C | Cell C (Proprietary) Limited, a company incorporated in the Republic of South Africa |
| Celtel | Celtel Tanzania Limited, a company incorporated in the United Republic of Tanzania |
| CEO | Chief Executive Officer |
| CLP | Conversions in leadership programme |
| CMT | Corruption, money laundering and terrorism |
| Cointel | Cointel VAS (Proprietary) Limited, a company incorporated in South Africa |
| CSR | Corporate social responsibility |
| CWU | Communications Workers Union |
| DAI | Direct Aids Intervention |
| DRC | Democratic Republic of Congo |
| DTI | Department of Trade and Industry |
| EBITDA | Earnings before interest, tax, depreciation, amortisation and impairment |
| ECB | Electronic Communication Bill (formerly Convergence Bill) |
| ECSA | Professional Institute of Engineers of South Africa |
| EDGE | Enhanced data for GSM evolution |
| EE | Employment equity |
| EHS | Environmental health services |
| ELP | Executive Lifestyle Programme |
| EMF | Electro-magnetic field |
| EMOTEL | Empresa Moçambicana de Telecommunicações |
| ERM | Enterprise risk management |
| Euribor | Euro interbank offer rate |
| FEC | Forward exchange contract |
| FPB | Films and Publications Board |
| GAAP | Generally accepted accounting practices |
| GPRS | General packet radio service |
| GSM | Global system for mobile communications |
| HDI | Historically disadvantaged individual or company |
| HIV | Human immuno deficiency virus |
| HLR | Home location register |
| HR | Human resources |
| HSDPA | High speed downlink packet access |
| ICAS | Independent counselling and advisory services |
| IAS | International accounting standards |
| ICASA | Independent Communications Authority of South Africa |
| ICNIRP | International Commission on Non-Ionising Radiation |
| ICT | Information and communications technology |
| IDC | Industrial Development Corporation |
| IFRS | International financial reporting standards |
| INCM | Instituto Naçional das Communicaçoes de Moçambique |
| IOD | Institute of Directors in South Africa |
| ISO | International Standards Organisation |
| IVR | Interactive voice response |
| King II | King Committee Report on Corporate Governance 2002 |
| Libor | London interbank offer rate |
| Mauritius | Vodacom International Limited, a company incorporated in the Republic of Mauritius |

| | |
|---|---|
| mCel | Moçambique Cellular |
| MMS | Multimedia messaging service |
| MNP | Mobile Number Portability |
| Mobitel | MIC Tanzania Limited, a company incorporated in the United Republic of Tanzania |
| MSC | Mobile services switching centre |
| MTC | Mobile Telecommunications Company |
| MTN | MTN Group Limited, a company incorporated in the Republic of South Africa |
| MVNO | Mobile Virtual Network Operator |
| MWSA | Media Workers of South Africa |
| NRA | National Regulatory Authority |
| OBS | Online billing services |
| OHSAS | Occupational Health and Safety Assessment Series |
| PABX | Private automatic branch exchange |
| REMCO | Remuneration Committee |
| RICA | Regulation of Interception of Communication and Provision of Communication-related Information Act |
| SADC | Southern African developing countries |
| SDP | Succession Development Programme |
| SMS | Short message service |
| SNO | Second National Operator |
| STC | Secondary tax on companies |
| TDM | Telecommunicações de Moçambique |
| 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 |
| TSI | Technology Strategy Initiative |
| TTCL | Tanzania Telecommunications Company Limited, a company incorporated in the United Republic of Tanzania |
| USAID | United States Agency for International Development |
| USAL | Under-serviced area licence |
| USSD | Unstructured supplementary service data |
| VAEP | Vodacom Advanced Executive Development Programme |
| VANS | Value added network providers |
| VAS | Value-added services |
| VenFin | VenFin Limited, a public company incorporated in the Republic of South Africa |
| VLC | Virtual Learning Centre |
| VLR | Visitor location register |
| Vodacom Congo | Vodacom Congo (RDC) s.p.r.l., a company incorporated in the Democratic Republic of Congo |
| Vodacom Lesotho | Vodacom Lesotho (Proprietary) Limited, a company incorporated in the Kingdom of Lesotho |
| Vodacom Mozambique | Vodacom Mozambique (VM, S.A.R.L.), a company incorporated in the Republic of Mozambique |
| VSPC | Vodacom Service Provider Company (Proprietary) Limited |
| Vodacom Tanzania | Vodacom Tanzania Limited, a company incorporated in the United Republic of Tanzania |
| Vodafone | Vodafone Group Plc, a public company incorporated in England and Wales |
| VSA | Vodacom South Africa |
| WASP | Wireless application service provider |
| WHO | World Health Organisation |
| Zantel | Zanzibar Telecom Limited, a company incorporated in the United Republic of Tanzania |

**Vodacom** understands the need to be in touch and informed at all times

# CONSOLIDATED ANNUAL FINANCIAL STATEMENTS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# STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

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 firm Deloitte & Touche, which was 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 auditors is presented on the next page.

The consolidated annual financial statements for the three years ended March 31, 2006 presented on pages 92 to 189 have been prepared in accordance with International Financial Reporting Standards. 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 May 26, 2006 and are signed on its behalf:

**Adv OA Mabandla**
*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, 2006, 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*

# REPORT OF THE INDEPENDENT AUDITORS AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM*

## TO THE MEMBERS OF VODACOM GROUP (PROPRIETARY) LIMITED

We have audited the accompanying consolidated balance sheets of Vodacom Group (Proprietary) Limited and subsidiaries ("the Group") as of March 31, 2006 and the related consolidated income statements, statements of changes in equity and cash flows for the three years in the period then ended, set out on pages 92 to 189. These consolidated annual financial statements are the responsibility of the Group's directors. Our responsibility is to express an opinion on these consolidated annual financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the standards of the Public Company Accounting Oversight Board ("PCAOB") (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

In our opinion, the consolidated annual financial statements present fairly, in all material respects, the financial position of the Group as of March 31, 2006, 2005 and 2004, and the results of its operations and its cash flows for the three years then ended, in conformity with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act in South Africa, 1973.

Note 23 to the consolidated annual financial statements discloses certain restatements. These restatements relate to the recognition of operating lease payments on a straight-line basis, an investment property which has been reclassified to property, plant and equipment, the non-current portion of the interest rate swap asset which has been reclassified to current assets, and computer software which was previously classified as part of property, plant and equipment. These restatements do not impact the Group's results, with the exception of the operating lease restatement, or cash flow information for these years.

IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences is presented in Note 45 to the consolidated annual financial statements.

**Deloitte & Touche**
*Registered Accountants and Auditors*

Per S Strydom
*Partner*

Pretoria,
South Africa
June 2, 2006

** As defined in Rule 1001 of the PCAOB rules included in PCAOB Release No. 2003-007*

# DIRECTORS' REPORT

for the year ended March 31, 2006

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, 2006.

## 1. NATURE OF BUSINESS

The principal nature of the business of Vodacom Group (Proprietary) Limited, is the investment in the telecommunications industry through its subsidiaries. The principal nature of business of the Group as a whole is the provision of voice and data communication services to its customer base.

## 2. REVIEW OF ACTIVITIES AND RESULTS

Revenue for the year was R34.0 billion (2005: R27.3 billion; 2004: R22.9 billion), representing a 24.6% (2005: 19.5%; 2004: 17.7%) increase over the prior year. This is largely attributable to the 51.9% (2005: 38.0%; 2004: 29.7%) increase in the total customer base.

| | 2004<br>'000 | 2005<br>'000 | **2006**<br>**'000** |
|---|---|---|---|
| Customer base | | | |
| Total | 11,217 | 15,483 | **23,520** |
| Contract | 1,437 | 1,895 | **2,392** |
| Prepaid | 9,743 | 13,546 | **21,072** |
| Community Services | 37 | 42 | **56** |
| Location of customer base | | | |
| South Africa | 86.7% | 82.9% | **81.5%** |
| International | 13.3% | 17.1% | **18.5%** |
| Total ARPU | | | |
| South Africa (R) | 177 | 163 | **139** |
| Tanzania (R) | 128 | 81 | **67** |
| Lesotho (R) | 125 | 92 | **78** |
| Congo (R) | 150 | 98 | **86** |
| Mozambique (R) | 110 | 52 | **36** |

Profit from operations for the year was R8.9 billion (2005: R6.5 billion; 2004: R5.2 billion), representing a 36.9% (2005: 24.0%; 2004: 20.7%) increase over the prior year. The net profit for the year under review is R5.1 billion (2005: R3.9 billion; 2004: R3.1 billion). The 32.0% (2005: 27.3%; 2004: 35.1%) increase in net profit is mainly due to the 36.9% increase in operating profit offset by an increase in net finance cost of R680.0 million from net finance income of R21.1 million in 2005 to net finance cost of R658.9 million in 2006. Taxation expense also increased with R464.8 million from R2.6 billion in 2005 to R3.1 billion in 2006 due to the increased profit from operations.

The earnings before interest, taxation, depreciation and amortisation (EBITDA) for the year was R11.8 billion (2005: R9.6 billion; 2004: R7.8 billion), representing a 23.1% (2005: 23.6%; 2004: 15.7%) increase over the year. EBITDA as a percentage of revenue is currently 34.7% (2005: 35.1%; 2004: 33.9%). EBITDA as a percentage of revenue excluding mobile phone and accessory sales is 39.9% (2005: 40.1%; 2004: 38.0%).

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

## 3. DIVIDENDS DISTRIBUTION

An ordinary dividend of R4,500.0 million (2005: R3,400.0 million; 2004: R2,100.0 million) was declared for the year:

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Declared March 9, 2006 and paid April 5, 2006 | – | – | **2,800.0** |
| Declared September 9, 2005 and paid October 3, 2005 | – | – | **1,700.0** |
| Declared March 10, 2005 and paid April 1, 2005 | – | 1,800.0 | **–** |
| Declared September 10, 2004 and paid October 1, 2004 | – | 1,600.0 | **–** |
| Declared March 11, 2004 and paid May 31, 2004 | 1,500.0 | – | **–** |
| Declared September 11, 2003 and paid September 30, 2003 | 600.0 | – | **–** |

The payment of the current year final ordinary dividend was made on April 5, 2006 to all shareholders registered on April 3, 2006. Payment of the interim dividend was made on October 3, 2005 to all shareholders registered on October 1, 2005.

## 4. CHANGE IN ACCOUNTING POLICIES

During the 2006 financial year, the Group changed its accounting policies for the recognition and measurement of property, plant and equipment in accordance with the revised IAS 16: Property, Plant and Equipment. Each significant component included in an item of property, plant and equipment is now separately recorded and depreciated. Useful lives and residual values are also reviewed on an annual basis.

Details of the effect of the change in accounting policies, newly adopted standards implemented in 2006 as well as restatements and reclassifications are disclosed in Note 23 to the consolidated annual financial statements.

## 5. CAPITAL EXPENDITURE

During the year, the Group invested R5.1 billion (2005: R3.5 billion; 2004: R2.9 billion) in property, plant and equipment and intangible assets: software. Of this capital expenditure R4.2 billion (2005: R2.8 billion; 2004: R2.3 billion) was for cellular network infrastructure. Capital expenditure in South Africa amounted to R4.4 billion (2005: R2.8 billion; 2004: R1.7 billion), making up approximately 85.3% of the total amount invested. The capital expenditure was funded by internal cash generation, supplier credits and bank credit.

During the financial year, the impairment on certain property, plant and equipment of VM, S.A.R.L. trading as Vodacom Mozambique that was previously impaired, was reversed. This net impairment reversal amounted to R52.8 million. The Group assessed the assets of VM, S.A.R.L. in accordance with the requirements of IAS 36: Impairment of Assets. The recoverable amount of these assets has been determined based on the fair value of the assets less cost of disposal at March 31, 2006 and 2005. Refer to Note 3 to the consolidated annual financial statements.

Further information on the investment in property, plant and equipment and intangible assets: software of the Group is presented in Note 8 and Note 10 to the consolidated annual financial statements.

Commitments at March 31, 2006 in respect of contracts for orders placed for the new financial year amount to R1.3 billion (2005: R1.5 billion; 2004: R0.7 billion). Commitments at March 31, 2006 which have been approved by the Board of Directors but not yet contracted for amount to R6.2 billion (2005: R4.4 billion; 2004: R4.5 billion).

Further information on the commitments of the Group is presented in Note 33 and Note 34 to the consolidated annual financial statements.

## 6. INVESTMENT ACTIVITIES

### 6.1 South Africa

Vodacom (Proprietary) Limited, Vodacom Service Provider Company (Proprietary) Limited, Smartphone SP (Proprietary) Limited, Smartcom (Proprietary) Limited and Cointel VAS (Proprietary) Limited (refer Note 6.3 below), included in Vodacom's South African operations continued to grow, showing an increase in revenue of 24.1% (2005: 17.3%; 2004: 17.5%). EBITDA for the year was R11.1 billion (2005: R9.0 billion; 2004: R7.5 billion), an increase of 22.9%. Customers increased to 19.2 million, representing a 49.3% increase year on year.

### 6.2 Companies operating beyond South Africa's borders

**Vodacom Tanzania Limited**

The Tanzanian operations continued to grow showing a healthy increase in customers, with 2.1 million closing customers, a 74.1% increase year on year. EBITDA for the year was R464.7 million (2005: R344.7 million; 2004: R277.7 million), an increase of 34.8%.

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

Vodacom International Limited, holds 51% of the ordinary share capital of the company. During the previous financial year the shareholders' agreement was amended to remove some of the participative rights of the minority shareholders, resulting in the company being consolidated from April 1, 2004.

The operations continued to grow with an increase in revenue of 24.1% year on year (2005: 15.2%; 2004: 83.7%). EBITDA for the year was R372.5 million (2005: R252.3 million; 2004: R190.0 million), an increase of 48.0%. Customers increased to 1.6 million, a 52.2% increase year on year.

**Vodacom Lesotho (Proprietary) Limited**

The Lesotho operations continued to grow with revenue amounting to R170.1 million (2005: R137.0 million; 2004: R118.3 million), an increase of 24.1% year on year. Customers grew to 206,000, a 40.1% increase year on year. A total dividend of R7.5 million (2005: R2.0 million) was declared to shareholders.

**VM, S.A.R.L., trading as Vodacom Mozambique**

The company was incorporated on August 14, 2002 and was awarded the second cellular licence on August 23, 2003. Commercial services were launched during December 2003. Vodacom International Limited holds 98% of the ordinary share capital of the company, but local shareholders have an option to acquire another 25% of the ordinary share capital.

Customers grew to 490,000, an 84.9% increase year on year. EBITDA is still in a loss position at R128.5 million (2005: R110.9 million loss; 2004: R71.2 million loss).

### 6.3 Acquisition of subsidiaries

**Cointel VAS (Proprietary) Limited**

The Group acquired a 51% equity stake in Cointel VAS (Proprietary) Limited, a value added service provider in the cellular telephony industry in the South African market, for R83.6 million. All suspensive conditions contained in the sale of shares agreement were met on August 1, 2005, when the Group received Competition Commission approval.

## 7. LONG-TERM FUNDING

The Group's share of Vodacom Congo (RDC) s.p.r.l.'s credit facilities amounted to R622.3 million at March 31, 2004 which was collateralised by guarantees and a cash deposit. The facility was replaced by a medium-term loan of US$180.0 million from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004, repayable on July 19, 2006.

## 8. SHARE CAPITAL AND SHAREHOLDER LOANS

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

The issued share capital of R100 (2005: R100; 2004: R100) is ultimately held in the percentages as outlined below.

| | Shareholding 2004 % | Shareholding 2005 % | **Shareholding 2006 %** |
|---|---|---|---|
| Telkom SA Limited | 50.0 | 50.0 | **50.0** |
| Vodafone Holdings (SA) (Proprietary) Limited | 35.0 | 35.0 | **35.0** |
| VenFin Telecommunication Investments Limited* | 15.0 | 15.0 | **15.0** |
| | 100.0 | 100.0 | **100.0** |

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.

** During the current financial year, the effective shareholding changed. Vodafone Holdings (SA) (Proprietary) Limited increased its effective shareholding in the Group from 35% to 50%. This was achieved by acquiring a 100% shareholding in VenFin Limited, who ultimately owns 15% in the Group, through Venfin Telecommunication Investments Limited.*

## 9. DIRECTORS AND SECRETARY

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

| | **In office 31/03/2005** | **Resignations** | **Appointments** | **In office 31/03/2006** |
|---|---|---|---|---|
| **Directors** | WYN Luhabe | SE Nxasana | LRR Molotsane | Adv OA Mabandla |
| | (Chairman) | (09/09/2005) | (09/09/2005) | (Chairman) |
| | ADC Knott-Craig | TD Mahloele | RJ September | ADC Knott-Craig |
| | (Chief Executive Officer) | (09/09/2005) | (09/09/2005) | (Chief Executive Officer) |
| | L Crouse (Chief Financial Officer) | PR Williams* | J Visser# | L Crouse (Chief Financial Officer) |
| | PJ Uys (Chief Operating Officer) | (15/09/2005) | (15/09/2005) | PJ Uys (Chief Operating Officer) |
| | MS Aziz Joosub | WYN Luhabe | Adv OA Mabandla | MS Aziz Joosub |
| | J Malherbe | (31/12/2005) | (01/01/2006) | GJ Darby* |
| | SE Nxasana | J Malherbe | AAG Sokol^† | Dr M Mostert |
| | PR Williams* | (22/02/2006) | (22/02/2006) | RN Barr* |
| | GJ Darby* | | | LRR Molotsane |
| | TD Mahloele | | | RJ September |
| | Dr M Mostert | | | J Visser# |
| | RN Barr* | | | AAG Sokol^† |
| **Secretary** | L Crouse | | | L Crouse |
| **Alternate Directors** | JJ Durand | CWJ Volschenk | PR Williams* | PR Williams* |
| | Sir JM Horn-Smith* | (08/03/2006) | (15/09/2005) | T Nowak~ |
| | CWJ Volschenk | J Visser# | | Sir JM Horn-Smith* |
| | T Nowak~ | (15/09/2005) | | |
| | J Visser# | JJ Durand | | |
| | | (22/02/2006) | | |

** British*
*~ German*
*# Dutch*
*^ American*
*† French*

# DIRECTORS' REPORT continued

for the year ended March 31, 2006

## 10. OTHER MATTERS

All negotiations to acquire a controlling interest in Vee Networks Limited, trading as V-Mobile in Nigeria, has been terminated due to the parties being unable to reach agreement on the valuation of Vee Networks Limited.

## 11. COUNTRY OF INCORPORATION

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

## 12. REGISTERED OFFICE AND POSTAL ADDRESSES

| | | | |
|---|---|---|---|
| **Registered office:** | Vodacom Corporate Park<br>082 Vodacom Boulevard<br>Vodavalley<br>Midrand<br>1685 | **Postal address:** | Private Bag X9904<br>Sandton<br>2146 |

## 13. AUDITORS

Deloitte & Touche has been appointed as the sole auditors on April 1, 2003 and will continue in office in accordance with section 270(2) of the Companies Act, 1973.

# CONSOLIDATED INCOME STATEMENTS

for the three years ended March 31, 2006

| | Notes | 2004 Restated Rm | 2005 Restated Rm | **2006 Rm** |
|---|---|---|---|---|
| **Revenue** | 1 | 22,855.2 | 27,315.3 | **34,042.5** |
| Other operating income | | 57.6 | 63.8 | **125.1** |
| Direct network operating cost | | (12,435.1) | (14,617.8) | **(18,297.2)** |
| Depreciation | 4 | (2,316.9) | (2,413.6) | **(2,651.6)** |
| Staff expenses | | (1,331.6) | (1,652.9) | **(2,042.1)** |
| Marketing and advertising expenses | | (702.0) | (767.3) | **(976.9)** |
| General administration expenses | | (687.2) | (751.3) | **(1,042.7)** |
| Amortisation of intangible assets | 2 | (214.8) | (429.6) | **(344.2)** |
| Impairment of assets | 3 | – | (268.4) | **52.8** |
| **Profit from operations** | 4 | 5,225.2 | 6,478.2 | **8,865.7** |
| Interest, dividends and other financial income | 5 | 656.6 | 662.8 | **659.3** |
| Finance costs | 6 | (1,107.5) | (641.7) | **(1,318.2)** |
| **Profit before taxation** | | 4,774.3 | 6,499.3 | **8,206.8** |
| Taxation | 7 | (1,722.0) | (2,613.0) | **(3,077.8)** |
| **Net profit** | | 3,052.3 | 3,886.3 | **5,129.0** |
| | | | | |
| **Attributable to:** | | | | |
| Equity shareholders | | 3,026.1 | 3,855.5 | **5,012.3** |
| Minority interests | | 26.2 | 30.8 | **116.7** |

| | | 2004 R | 2005 R | **2006 R** |
|---|---|---|---|---|
| **Basic and diluted earnings per share** | 32 | 302,610 | 385,550 | **501,230** |
| **Dividend per share** | 32 | 210,000 | 340,000 | **450,000** |

# CONSOLIDATED BALANCE SHEETS

as at March 31, 2006

| | Notes | 2004 Restated Rm | 2005 Restated Rm | **2006 Rm** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | 12,851.3 | 13,888.4 | **16,079.2** |
| Property, plant and equipment | 8 | 10,912.5 | 11,576.9 | **13,386.6** |
| Investment properties | 9 | 9.9 | – | **–** |
| Intangible assets | 10 | 1,002.7 | 1,644.3 | **1,954.9** |
| Financial assets | 11 | 222.4 | 93.3 | **92.1** |
| Deferred taxation | 12 | 277.8 | 308.1 | **297.6** |
| Deferred cost | | 403.8 | 236.9 | **311.2** |
| Lease assets | | 22.2 | 28.9 | **36.8** |
| **Current assets** | | 7,322.7 | 8,706.4 | **8,688.6** |
| Deferred cost | | 859.8 | 428.3 | **451.8** |
| Short-term financial assets | 11 | 354.3 | 187.1 | **149.3** |
| Inventory | 13 | 288.5 | 479.5 | **454.3** |
| Trade and other receivables | 14 | 3,450.0 | 3,621.4 | **4,487.1** |
| Cash and cash equivalents | 31 | 2,370.1 | 3,990.1 | **3,146.1** |
| **Total assets** | | 20,174.0 | 22,594.8 | **24,767.8** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | 7,604.2 | 7,887.9 | **8,672.3** |
| Ordinary share capital | 15 | * | * | ***** |
| Retained earnings | | 7,836.1 | 8,057.2 | **8,567.3** |
| Non-distributable reserves | 16 | (324.9) | (298.0) | **(178.3)** |
| Minority interests | 17 | 93.0 | 128.7 | **283.3** |
| **Non-current liabilities** | | 2,317.5 | 3,233.1 | **2,236.6** |
| Interest-bearing debt | 19 | 1,216.6 | 2,213.5 | **819.2** |
| Deferred taxation | 12 | 410.1 | 472.1 | **602.3** |
| Deferred revenue | | 403.8 | 240.7 | **320.3** |
| Provisions | 22 | 178.4 | 184.4 | **372.3** |
| Operating lease liabilities | | 108.6 | 122.4 | **122.5** |
| **Current liabilities** | | 10,252.3 | 11,473.8 | **13,858.9** |
| Trade and other payables | 20 | 3,862.1 | 4,830.8 | **5,104.7** |
| Deferred revenue | | 1,883.4 | 1,411.4 | **1,604.5** |
| Taxation payable | | 852.0 | 632.6 | **630.2** |
| Non interest-bearing debt | 21 | 4.3 | 4.3 | **4.3** |
| Short-term interest-bearing debt | 19 | 839.9 | 381.6 | **1,645.5** |
| Short-term provisions | 22 | 473.7 | 595.0 | **623.0** |
| Dividends payable | | 1,500.0 | 1,800.0 | **2,800.0** |
| Derivative financial liabilities | 39 | 64.5 | 1.0 | **60.9** |
| Bank borrowings | 31 | 772.4 | 1,817.1 | **1,385.8** |
| **Total equity and liabilities** | | 20,174.0 | 22,594.8 | **24,767.8** |

** Amounts less than R50 000*

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the three years ended March 31, 2006

| | | Attributable to equity shareholders | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital | Retained earnings | Non-distributable reserves | Total | Minority interests | Total equity |
| | Notes | Rm | Rm | Rm | Rm | Rm | Rm |
| **Balance at March 31, 2003** | | | | | | | |
| **– previously reported** | | * | 6,962.8 | (141.0) | 6,821.8 | 88.0 | 6,909.8 |
| Changes in accounting policies, | | | | | | | |
| reclassifications and restatements | 23 | – | (53.6) | – | (53.6) | – | (53.6) |
| **Balance at March 31, 2003** | | | | | | | |
| **– restated** | | * | 6,909.2 | (141.0) | 6,768.2 | 88.0 | 6,856.2 |
| Net profit for the year | | – | 3,026.1 | – | 3,026.1 | 26.2 | 3,052.3 |
| Dividends declared | 32 | – | (2,100.0) | – | (2,100.0) | – | (2,100.0) |
| Contingency reserve | 16 | – | 0.8 | (0.8) | – | – | – |
| Net gains and losses not recognised | | | | | | | |
| in the consolidated income statement | 16,17 | | | | | | |
| Foreign currency translation reserve | | – | – | (194.0) | (194.0) | (21.2) | (215.2) |
| Foreign currency translation reserve | | | | | | | |
| – deferred taxation | | – | – | 10.9 | 10.9 | – | 10.9 |
| **Balance at March 31, 2004** | | | | | | | |
| **– restated** | | * | 7,836.1 | (324.9) | 7, 511.2 | 93.0 | 7,604.2 |
| Net profit for the year | | – | 3,855.5 | – | 3,855.5 | 30.8 | 3,886.3 |
| Dividends declared | 32 | – | (3,400.0) | – | (3,400.0) | (3.8) | (3,403.8) |
| Contingency reserve | 16 | – | (1.0) | 1.0 | – | – | – |
| Acquired reserves from the minorities | | | | | | | |
| of Vodacom Congo (RDC) s.p.r.l. | 30 | – | (233.4) | 82.1 | (151.3) | – | (151.3) |
| Acquisition of subsidiary | 29 | – | – | – | – | 10.1 | 10.1 |
| Revaluation of available-for-sale investments | 16 | – | – | 0.2 | 0.2 | 0.1 | 0.3 |
| Net gains and losses not recognised in the | | | | | | | |
| consolidated income statement | 16,17 | | | | | | |
| Foreign currency translation reserve | | – | – | (56.4) | (56.4) | (1.5) | (57.9) |
| **Balance at March 31, 2005** | | | | | | | |
| **– restated** | | * | 8,057.2 | (298.0) | 7,759.2 | 128.7 | 7,887.9 |
| Net profit for the year | | – | 5,012.3 | – | 5,012.3 | 116.7 | 5,129.0 |
| Dividends declared | 32 | – | (4,500.0) | – | (4,500.0) | (0.9) | (4,500.9) |
| Contingency reserve | 16 | – | (2.2) | 2.2 | – | – | – |
| Acquisition of subsidiary | 29 | – | – | – | – | 46.5 | 46.5 |
| Minority shares of VM, S.A.R.L | | – | – | – | – | 8.0 | 8.0 |
| Revaluation of available-for-sale investments | 16 | – | – | (0.2) | (0.2) | (0.1) | (0.3) |
| Net gains and losses not recognised in the | | | | | | | |
| consolidated income statement | 16,17 | | | | | | |
| Foreign currency translation reserve | | – | – | 117.7 | 117.7 | (15.6) | 102.1 |
| **Balance at March 31, 2006** | | * | **8,567.3** | **(178.3)** | **8,389.0** | **283.3** | **8,672.3** |

** Amounts less than R50 000*

# CONSOLIDATED CASH FLOW STATEMENTS

for the three years ended March 31, 2006

| | Notes | 2004 Restated Rm | 2005 Restated Rm | **2006 Rm** |
|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Cash receipts from customers | | 22,175.5 | 27,078.8 | **33,132.7** |
| Cash paid to suppliers and employees | | (14,578.8) | (17,066.8) | **(22,042.4)** |
| **Cash generated from operations** | 24 | 7,596.7 | 10,012.0 | **11,090.3** |
| Finance costs paid | 25 | (512.3) | (259.2) | **(446.4)** |
| Interest, dividends and other financial income received | 26 | 368.7 | 246.8 | **338.6** |
| Taxation paid | 27 | (1,463.3) | (2,744.4) | **(2,980.3)** |
| Dividends paid – equity shareholders | | (1,200.0) | (3,100.0) | **(3,500.0)** |
| Dividends paid – minority shareholders | | – | (5.2) | **(0.9)** |
| **Net cash flows from operating activities** | | 4,789.8 | 4,150.0 | **4,501.3** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment | 28 | (2,813.8) | (3,048.0) | **(4,346.3)** |
| Proceeds on disposal of property, plant and equipment | | 5.0 | 20.1 | **29.6** |
| Acquisition of intangible assets | 10 | (121.1) | (205.4) | **(442.1)** |
| Proceeds on disposal of intangible assets | | – | – | **1.6** |
| Acquisition of subsidiaries | 29 | 149.6 | (289.8) | **(0.4)** |
| Change in business combinations | 29 | – | – | **0.3** |
| Acquired cash from Vodacom Congo (RDC) s.p.r.l. | 30 | – | 12.9 | **–** |
| Other investing activities | | (219.5) | 136.0 | **(33.5)** |
| **Net cash flows utilised in investing activities** | | (2,999.8) | (3,374.2) | **(4,790.8)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Shareholder loans repaid | | (920.0) | – | **–** |
| Interest-bearing debt incurred | | 186.9 | 1,165.3 | **32.3** |
| Interest-bearing debt repaid | | (55.6) | (1,332.3) | **(89.7)** |
| Finance lease capital repaid | | (9.6) | (28.1) | **(50.2)** |
| **Net cash flows utilised in financing activities** | | (798.3) | (195.1) | **(107.6)** |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | 991.7 | 580.7 | **(397.1)** |
| Cash and cash equivalents at the beginning of the year | | 647.5 | 1,597.7 | **2,173.0** |
| Effect of foreign exchange rate changes | | (41.5) | (5.4) | **(15.6)** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 31 | 1,597.7 | 2,173.0 | **1,760.3** |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
March 31, 2006

**BASIS OF PREPARATION**

These consolidated annual financial statements of Vodacom Group (Proprietary) Limited ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been prepared on the historical cost basis, except for financial assets and financial liabilities (including derivative instruments) recorded at fair value. 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 (Note 23).

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, 2006.

Joint ventures are included using the proportionate consolidation method, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5: Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"). 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.

Minority interests are separately presented in the consolidated balance sheets and consolidated income statements.

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**

- Acquisition 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. Business combinations include the acquisition of subsidiaries and joint ventures.

  On acquisition, the identifiable assets, liabilities and contingent 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, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5, which are recognised and measured at fair value less costs to sell. The interest of minority shareholders is recorded at the minority's share of the fair value of the identifiable assets, liabilities and contingent liabilities. Subsequently, any losses attributable to minority shareholders in excess of their interest, is allocated against the interest of the Group.

- 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 carrying amount of goodwill 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)**

Intercompany 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 intercompany 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 accumulated impairment losses, if any. Land is not depreciated and is recorded at cost less accumulated impairment losses, if any.

The 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 the location and condition necessary for it to be capable of operating in the manner intended by management. 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 the estimated useful lives to the estimated residual value. Useful lives and residual values are reviewed on an annual basis. Residual values are measured as the estimated amount currently receivable for an asset if the asset were already of the age and condition expected at the end of its useful life. Each significant component included in an item of property, plant and equipment is separately recorded and depreciated.

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). Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale in accordance with IFRS 5 or the date the asset is derecognised. Depreciation is not ceased when assets are idle.

General purpose buildings and special purpose buildings are generally 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 during the period incurred.

**B. Property, plant and equipment (continued)**

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.

Where a network infrastructure site lease contains a restoration clause, or where historical experience indicates that restoration costs will be incurred, a liability for the site restoration costs is recorded. The liability recorded is measured at the present value of the estimated future restoration costs to be incurred. The present value of the liability is capitalised to the underlying infrastructure asset to which the restoration costs relate at the inception of the restoration obligation. These amounts are amortised over the estimated useful life of the related infrastructure asset. The restoration liability is accredited to its future value over the lease period.

Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate, are accounted for as follows:

- changes in the liability are added, or deducted from, the cost of the reflected asset. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit and loss.

**C. Investment properties**

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated so as to write off the cost of the investment property on a straight-line basis, over its estimated useful live to its estimated residual value. Depreciation commences when the property is ready for its intended use. The estimated useful lives of depreciable properties are disclosed under property, plant and equipment and can be general purpose buildings or special purpose buildings.

**D. Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

The following are the main categories of intangible assets:

**D.1 Intangible assets with an indefinite useful life**

Intangible assets with an indefinite useful life are not amortised but instead are tested for impairment on an annual basis.

- Goodwill
  Goodwill represents the excess of the cost of an acquisition of a subsidiary or joint venture, over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition. Goodwill on the acquisition of subsidiaries and joint ventures is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses previously recognised cannot be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**D.2 Intangible assets with a finite useful life**

Intangible assets with a finite useful life 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 commences when the intangible asset is available for use. The residual values of intangible assets are assumed to be zero.

- Licences
  Licences, 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 licence agreement.

- Customer bases
  Cost of contract customer bases and prepaid customer bases represents the fair value at the acquisition date of mobile customer bases. Customer bases are amortised on a straight-line basis over their estimated useful lives.

**D. Intangible assets (continued)**

**D.2 Intangible assets with a finite useful life (continued)**

- 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.

- Computer software
  Computer software that is not considered to form an integral part of any hardware equipment is recorded as intangible assets. The software is capitalised at cost and amortised over its estimated useful life.

**D.3 Intangible assets not available for use**

Intangible assets not available for use are not amortised but tested for impairment on an annual basis.

**E. 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 are recognised as an expense in the period that the write-down or loss occurs.

**F. Foreign currencies**

**F.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 and finance income in the period in which they arise.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit and loss for the period except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

**F.2 Foreign operations**

The annual financial statements of foreign operations 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.

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.

Gains and losses on the translation of equity loans to foreign entities that are intended to be permanent are recognised in equity if the loans are denominated in one of the entities' functional currencies. If the loans are denominated in a third currency, gains or losses are recognised in the consolidated income statement.

Goodwill and intangibles arising on the acquisition of a foreign operation are treated as assets of the foreign operation and translated at the foreign exchange rates ruling at balance sheet date.

## G. Taxation

### G.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.

### G.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 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 company 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.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group has the intention to settle its current tax assets and liabilities on a net basis.

Exchange differences arising from the translation of foreign taxation assets and liabilities of foreign entities where the functional currency is different to the local currency are classified as a deferred taxation expense or income.

### G.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.

STC credits on dividends received are recorded as assets in the period that they arise, limited to the reserves available for distribution.

## H. Employee benefits

### H.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 funds 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.

### H.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.

The Group provides long-term incentives to eligible employees payable on termination or retirement. The Group's liability is based on an actuarial valuation. Actuarial gains and losses on the long-term incentives are accounted for in the year in which they arise through profit and loss.

## H. Employee benefits (continued)

### H.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. If the amount can be reasonably estimated, the measurement of termination benefits is based on the number of employees expected to accept the offer.

### H.4 Compensation benefits

Employees of wholly owned subsidiaries, including executive directors, are eligible for compensation benefits in the form of a deferred bonus incentive scheme. The benefit is recorded at the present value of the expected future cash outflows.

## I. Revenue recognition

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

The Group invoices its independent service providers 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.

The recognition of revenue involves estimates and assumptions with regard to the useful life of the customer base. The estimates and assumptions are based on past experience.

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

### I.1 Contract products

Contract products that may include deliverables such as a handset and 24-month service are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a standalone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the handset is recognised when the product is delivered.
- Monthly service 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, where applicable, allow the carry over of unused airtime. 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 revenue.

## I. Revenue recognition (continued)

### I.2 Prepaid products

Prepaid products that may include deliverables such as a SIM-card and airtime are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a standalone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the SIM-card, representing activation fees, is recognised over the average useful life of a prepaid customer.
- Airtime revenue is recognised on the usage basis. Unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer relationship, all deferred revenue for unused airtime is recognised in revenue.

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

Deferred revenue and costs related to unactivated starter packs which do not contain any expiry date, is recognised in the period when the probability of these starter packs being activated by a customer becomes remote. In this regard the Group applies a period of 36 months before these revenue and costs are released to the consolidated income statement.

### I.3 Data revenue

Revenue net of discounts, from data services is recognised when the Group has performed the related service and depending on the nature of the service, is recognised either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

### I.4 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 sale to third party service providers.

### I.5 Other revenue and income

- Interconnect and international revenue
  Interconnect and international revenue is recognised on the usage basis.

- Dividends
  Dividends from investments or subsidiaries 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.

## J. Leases

### J.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.

A lease of land and buildings is classified by considering the land and buildings elements separately. Minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the land and leasehold buildings elements of the lease.

## J. Leases (continued)

### J.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 accordance with 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.

- 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.3 Group as lessor

- Finance leases

  Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

- Operating leases

  Lessor operating lease rental income is recognised in the consolidated income statement on a straight-line basis over the lease term. Such leased assets are included under property, plant and equipment and depreciated in accordance with the accounting policy stated above.

## K. Derivative instruments

The Group recognises all derivative instruments on the consolidated balance sheet at fair value, including certain derivative instruments embedded in other contracts. Changes in the fair value of derivative instruments are recorded in earnings as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives unless the risks and characteristics are closely related to those host contracts or the host contracts are carried at fair value.

Where the fair value of derivatives cannot be reliably estimated, the derivatives are recorded at cost.

The Group does not use derivatives for trading or speculative purposes. However, derivatives that are not accounted for as hedges are classified as trading instruments in current assets.

## L. Financial instruments – other than derivatives

### L.1 Initial recognition and measurement

All financial instruments, other than derivatives which are dealt with above, are recognised in 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 the contractual terms.

Purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

## L. Financial instruments – other than derivatives (continued)

### L.2 Financial assets

The Group's principal financial assets other than derivatives are investments, trade and other receivables and bank and cash balances:

- Investments

  All financial assets not carried at fair value through profit or loss are initially recognised at fair value including directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

  Investments in equity instruments, excluding those in subsidiaries and joint ventures, are classified as available-for-sale investments and are stated at fair value. Gains and losses from changes in fair value of available-for-sale investments 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. These investments are classified as current.

  Investments acquired principally for the purpose of generating a profit from the short-term fluctuations in price, are classified as financial assets at fair value through profit and loss and are recorded and measured at fair value. Financial assets at fair value through profit or loss consists of financial assets held-for-trading or those designated at fair value through profit or loss at inception. Gains and losses on these investments are recorded in the consolidated income statement. These investments are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date.

  Held-to-maturity investments carried at amortised costs are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

- Receivables

  Receivables that include interest-bearing investments, investments in finance leases, trade and other receivables, and other loans are stated at original investment less principal payments, amortisations, and less accumulated impairment losses. 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 has incurred a loss and 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 the Group incurred a loss at the balance sheet date. These incurred loss events 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 uncollectible, it is written off to the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

- Bank and cash balances

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

### L.3 Financial liabilities

The Group's principal financial liabilities other than derivatives are interest-bearing debt, trade and other payables, non-interest-bearing debt, dividends payable, provisions, bank borrowings and other short-term debt:

- Interest-bearing debt

  Interest-bearing debt, including finance lease obligations, is originally recognised at fair value, net of transaction costs incurred. Interest-bearing debt is subsequently stated at amortised cost, namely original debt less principal payments and amortisations. Any differences between proceeds and the redemption value are recognised in the consolidated income statement over the period of the debt using the effective interest rate method. The accounting policy for finance lease obligations is dealt with under leases set out above.

**L. Financial instruments – other than derivatives (continued)**

**L.3 Financial liabilities (continued)**

Interest-bearing debt is classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Preference shares, which are mandatory redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the consolidated income statement as interest expense.

- Trade and other payables
  Trade and other payables are stated at their amortised 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 all of 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. Long-term provisions are discounted to net present value.

- 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.

**L.4 Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's principal equity instrument is ordinary share capital, which is recorded at the proceeds received, net of any direct issue costs.

**L.5 Derecognition**

Financial assets (or a portion thereof) are derecognised when the Group's rights to the cash flow expire or when the Group transfers substantially all the risks and rewards related to the financial asset or when the entity loses control of the financial asset. On derecognition, 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 derecognised when the obligation specified in the contract is discharged, cancelled or expired. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and settlement amounts paid are included in the consolidated income statement.

**L.6 Fair value methods and assumptions**

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

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 risks 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 six months are assumed to approximate their fair value.

## L. Financial instruments – other than derivatives (continued)

### L.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.

## M. Impairment of assets

Goodwill and other assets that have an indefinite useful life and intangible assets not available for use are tested annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 recoverable amount of an asset is the higher of the asset's fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

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 pretax 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. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. 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. The carrying amount of individual assets is not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets 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. No goodwill impairment losses are reversed.

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.

## N. Insurance contracts

### N.1 Premiums

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude value added tax. Premiums written include adjustments to premiums written in prior accounting periods.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed.

The net earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

## N. Insurance contracts (continued)

### N.2 Unearned premium provision

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using a time proportionate basis or another suitable basis for uneven risk contracts.

### N.3 Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and an appropriate risk margin.

### N.4 Contingency reserve

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa. Transfers to and from this reserve are treated as appropriations of retained income.

## O. 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 initially recognised at fair value and subsequently measured at its face value.

Deposits held on call are classified as loans receivable by the Group 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.

## P. Borrowing costs

Borrowing costs are expensed as they are incurred.

## Q. Expenses

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

## R. Incentives

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed in the period that the related revenue is recognised.

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

## S. Non-current assets held for sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell.

## T. Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the relevant sections of the financial statements. 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.

## U. Comparatives

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued
March 31, 2006

| | | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|---|
| **1.** | **REVENUE** | | | |
| | Airtime and access | 12,738.0 | 16,190.8 | **20,085.8** |
| | Data revenue | 1,039.2 | 1,340.5 | **2,037.6** |
| | Interconnect revenue | 5,784.8 | 5,923.6 | **6,696.8** |
| | Equipment sales | 2,274.6 | 2,687.3 | **3,985.6** |
| | International airtime | 659.2 | 886.8 | **971.2** |
| | Other | 359.4 | 286.3 | **265.5** |
| | | 22,855.2 | 27,315.3 | **34,042.5** |
| **2.** | **AMORTISATION OF INTANGIBLE ASSETS** | | | |
| | Goodwill | (93.6) | – | **–** |
| | Licences | (14.8) | (17.1) | **(8.5)** |
| | Trademarks | (7.3) | (42.6) | **(52.3)** |
| | Customer bases | (99.1) | (172.4) | **(106.9)** |
| | Computer software | * | (197.5) | **(176.5)** |
| | | (214.8) | (429.6) | **(344.2)** |

** Refer Note 10 regarding information on the software reclassification.*

| | | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|---|
| **3.** | **IMPAIRMENT OF ASSETS** | | | |
| | Intangible assets | – | (97.5) | **(0.1)** |
| | Licences | – | (97.5) | **–** |
| | Software | – | – | **(0.1)** |
| | Property, plant and equipment | – | (170.9) | **52.9** |
| | Infrastructure | – | (142.3) | **59.9** |
| | Information services | – | (23.3) | **(5.6)** |
| | Motor vehicles | – | (2.4) | **(0.3)** |
| | Furniture | – | (1.3) | **(0.4)** |
| | Office equipment | – | (0.3) | **(0.1)** |
| | Leasehold improvements | – | (0.6) | **(0.3)** |
| | Other assets | – | (0.7) | **(0.3)** |
| | Impairment reversal/(loss recognised) | – | (268.4) | **52.8** |

Due to the competitive and economic environment in which VM, S.A.R.L. operates in Mozambique, the Group assessed the assets for impairment in accordance with the requirements of IAS 36: Impairment of Assets. The recoverable amount of these assets was based on the fair value less cost of disposal at March 31, 2006 and 2005. The fair value of the assets was obtained from a knowledgeable, willing party on an arm's length basis, based on the assumption that the assets would be disposed of on an item by item basis. The amount with which the carrying amount exceeded the recoverable amount is recognised as an impairment loss. The reversal of the impairment loss related to an increase in the fair value of infrastructure assets.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **4. PROFIT FROM OPERATIONS** | | | |
| The profit from operations is arrived at after taking the following income/(expenditure) into account: | | | |
| Net (loss)/profit on disposal of property, plant and equipment | (6.8) | 1.8 | **(26.8)** |
| Loss on disposal of property, plant and equipment | (7.9) | (6.7) | **(27.5)** |
| Profit on disposal of property, plant and equipment | 1.1 | 8.5 | **0.7** |
| Depreciation of property, plant and equipment (Note 8) | (2,316.9) | (2,413.6) | **(2,651.6)** |
| Buildings | (17.6) | (18.7) | **(17.6)** |
| Infrastructure | (1,840.1) | (1,952.5) | **(2,530.0)** |
| Information services | (350.5) | (326.7) | **(41.9)** |
| Community services | (12.8) | (10.8) | **6.9** |
| Motor vehicles | (20.2) | (21.8) | **(13.6)** |
| Furniture | (17.7) | (15.6) | **(14.6)** |
| Office equipment | (11.3) | (11.2) | **(10.3)** |
| Leasehold improvements | (36.4) | (40.0) | **(22.0)** |
| Other assets | (10.3) | (16.3) | **(8.5)** |
| Auditors' remuneration – audit fees | (5.6) | (8.3) | **(14.9)** |
| Current year audit fees | (5.7) | (7.8) | **(14.0)** |
| Prior year (under)/over provision of audit fees | 0.3 | (0.1) | **(0.8)** |
| Telkom SA Limited foreign issuer costs | (6.8) | (4.6) | **(4.8)** |
| Recovered from Telkom SA Limited | 6.8 | 4.6 | **4.8** |
| Expenses | (0.2) | (0.4) | **(0.1)** |
| Auditors' remuneration – other services | (6.8) | (2.5) | **(2.1)** |
| For other services | (7.4) | (2.5) | **(2.1)** |
| Capitalised | 0.6 | – | **–** |
| Professional fees for consultancy services | (117.3) | (78.4) | **(112.2)** |
| Operating lease rentals | (532.8) | (613.1) | **(870.7)** |
| GSM transmission and data lines | (465.6) | (544.3) | **(787.9)** |
| Office accommodation | (35.6) | (43.4) | **(47.6)** |
| Other accommodation | (29.6) | (24.5) | **(33.0)** |
| Office equipment | (2.0) | (0.9) | **(1.1)** |
| Motor vehicles | – | – | **(1.1)** |
| Payment to other operators | (2,990.3) | (3,652.5) | **(4,634.3)** |
| Regulatory fees | (550.1) | (670.3) | **(812.2)** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **4. PROFIT FROM OPERATIONS (continued)** | | | |
| Staff expenses – pension and provident fund contributions | (71.8) | (74.9) | **(89.3)** |
| Pension fund contributions | (65.9) | (70.7) | **(76.4)** |
| Provident fund contributions | (5.9) | (4.2) | **(12.9)** |
| (Increase)/Decrease in provision for obsolete inventory (Note 13) | (30.9) | 17.5 | **(15.9)** |
| Decrease/(Increase) in provision for doubtful receivables (Note 14) | 0.8 | (11.3) | **6.0** |
| Bad debts written off | (48.8) | (52.2) | **(42.3)** |
| Impairment of assets (Note 3) | – | (268.4) | **52.8** |

**Insurance activities**

The Group offers a range of insurance contracts to its customers providing protection against specified risks associated with the ownership of a cellphone. These products are offered through a cell captive facility maintained with Nova Risk Partners Limited, a South African registered short-term insurance company. The cell facility is further used to issue insurance contracts to Group companies to provide cover against a variety of insurable risks including assets own risk and the extended warranty provided to customers. These intercompany transactions are eliminated on consolidation of the cell captive.

In terms of the shareholder agreement, the Group carries all the risks and rewards related to the business underwritten in the cell captive facility. The risks are closely monitored by the Group through the ongoing review of the performance of the underlying insurance products. Premium rate adjustments are used to mitigate the associated insurance risks.

Provided below is a summarised underwriting account giving details of the R52.5 million (2005: R19.5 million; 2004: R32.6 million) underwriting profit included in profit from operations:

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Gross earned premiums | 94.4 | 89.7 | **112.7** |
| Gross claims incurred | (32.9) | (45.6) | **(51.7)** |
| Net reinsurance income/(expense) | (16.2) | (11.6) | **10.7** |
| Net operating expenses | (12.7) | (13.0) | **(19.2)** |
| Underwriting profit | 32.6 | 19.5 | **52.5** |
| **5. INTEREST, DIVIDENDS AND OTHER FINANCIAL INCOME** | | | |
| Banks and loans | 68.4 | 93.6 | **89.4** |
| Dividends received – unlisted investments | 5.4 | – | **–** |
| Guarantee fees | 26.4 | – | **–** |
| Income from investments at fair value through profit and loss | 11.2 | 8.0 | **7.8** |
| Other interest income | 6.2 | 15.8 | **19.7** |
| Gain on foreign exchange contract revaluation | 269.6 | 155.1 | **211.2** |
| Gain on foreign liability and asset revaluation | 238.0 | 358.3 | **314.0** |
| Interest rate swap interest | 5.1 | 11.6 | **13.0** |
| Interest rate swap revaluation | 26.3 | 20.4 | **4.2** |
| | 656.6 | 662.8 | **659.3** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **6. FINANCE COSTS** | | | |
| Bank overdraft | (27.3) | (39.1) | **(15.2)** |
| Finance leases | (130.1) | (127.3) | **(121.6)** |
| Funding loans | (64.4) | (32.2) | **(73.8)** |
| Interest on minority shareholder loan* | (7.6) | (7.2) | **(8.1)** |
| Leasehold property | (5.2) | – | **–** |
| Other finance costs | (13.3) | (24.2) | **(30.6)** |
| Shareholder loans | (47.2) | – | **–** |
| Interest rate swap interest | (1.1) | (5.5) | **–** |
| Interest rate swap revaluation | (18.9) | (11.3) | **(10.8)** |
| Loss on foreign exchange contract revaluation | (479.1) | (143.4) | **(471.8)** |
| Loss on foreign liability and asset revaluation | (313.3) | (251.5) | **(586.3)** |
| | (1,107.5) | (641.7) | **(1,318.2)** |

** This amount of R8.1 million (2005: R7.2 million; 2004: R7.6 million) relates to notional interest on the loan from Caspian Construction Company Limited and Planetel Communications Limited, that was remeasured at amortised cost, at an effective interest rate of LIBOR plus 5%, for which no consideration has been recorded.*

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **7. TAXATION** | | | |
| South African normal taxation | (1,702.6) | (2,082.6) | **(2,375.6)** |
| Current year | (1,716.4) | (2,091.3) | **(2,337.9)** |
| Prior year (under)/over provision | 13.8 | 8.7 | **(37.7)** |
| Deferred taxation | 146.9 | 35.9 | **(135.5)** |
| Current year | 159.4 | 35.1 | **(176.3)** |
| Prior year over/(under) provision | (12.5) | (6.3) | **40.8** |
| Taxation rate change* | – | 7.1 | **–** |
| Secondary taxation on companies – current year | (262.5) | (429.4) | **(562.5)** |
| Foreign taxation | (5.4) | (13.0) | **(24.6)** |
| Current year | (4.3) | (12.9) | **(24.2)** |
| Prior year under provision | (1.1) | (0.1) | **(0.4)** |
| Foreign deferred taxation | 101.6 | (123.9) | **20.4** |
| Current year | 109.8 | (75.2) | **43.5** |
| Prior year under provision | (8.2) | (48.7) | **(22.0)** |
| Taxation rate change# | – | – | **(1.1)** |
| | (1,722.0) | (2,613.0) | **(3,077.8)** |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

March 31, 2006

| | 2004 Rm | 2004 % | 2005 Rm | 2005 % | **2006 Rm** | **2006 %** |
|---|---|---|---|---|---|---|
| **7. TAXATION (continued)** | | | | | | |
| **Reconciliation of rate of taxation** | | | | | | |
| Normal taxation on profit before taxation | 1,432.3 | 30.0 | 1,949.8 | 30.0 | **2,380.0** | **29.0** |
| Adjusted for: | | | | | | |
| Exempt income | (0.8) | – | (0.1) | – | **(1.1)** | **–** |
| Disallowed expenditure | 33.9 | 0.8 | 131.3 | 2.0 | **135.6** | **1.7** |
| Goodwill | 27.2 | 0.6 | – | – | **–** | **–** |
| Prior year under/(over) provision | (8.0) | (0.2) | 46.4 | 0.7 | **19.3** | **0.2** |
| Unrecognised taxation asset | 24.8 | 0.5 | 40.5 | 0.6 | **162.8** | **2.0** |
| Utilisation of taxation loss | (75.3) | (1.6) | (12.6) | (0.1) | **(6.9)** | **(0.1)** |
| Foreign taxation rate differences | 78.2 | 1.6 | (30.8) | (0.5) | **(15.6)** | **(0.2)** |
| Taxation rate change*# | – | – | (7.1) | (0.1) | **1.1** | **–** |
| Foreign taxation | – | – | 5.7 | 0.1 | **8.7** | **0.1** |
| Unrealised foreign exchange differences | – | – | (153.2) | (2.4) | **45.1** | **0.5** |
| Capital expenditure adjustment | – | – | 80.7 | 1.2 | **(181.6)** | **(2.2)** |
| Translation to US$ | – | – | 61.8 | 1.0 | **(16.8)** | **(0.2)** |
| Impairment of assets | – | – | 78.3 | 1.2 | **(12.9)** | **(0.2)** |
| Secondary taxation on companies | 262.5 | 5.5 | 429.4 | 6.6 | **562.5** | **6.9** |
| Secondary taxation on companies credits | – | – | (3.8) | – | **–** | **–** |
| Utilisation of investment deductions | (24.1) | (0.5) | (10.2) | (0.2) | **0.2** | **–** |
| Utilisation of cumulative taxation differences | (28.7) | (0.6) | – | – | **–** | **–** |
| Other adjustments | – | – | 6.9 | 0.1 | **(2.6)** | **–** |
| | 1,722.0 | 36.1 | 2,613.0 | 40.2 | **3,077.8** | **37.5** |

* *Deferred taxation was calculated at 29% for all South African entities at March 31, 2005 following a change in the corporate taxation rate. The revised taxation rate was applicable to normal taxation from the 2006 financial year.*

\# *Deferred taxation was calculated at 25% for Vodacom Lesotho (Proprietary) Limited at March 31, 2006 following a change in the corporate taxation rate. The revised taxation rate is applicable to normal taxation from the 2007 financial year.*

| | Cost Rm | Accumulated depreciation and impairment Rm | Net book value Rm |
|---|---|---|---|
| **8. PROPERTY, PLANT AND EQUIPMENT** | | | |
| **2004** | | | |
| Land and buildings | 899.8 | (68.4) | 831.4 |
| Infrastructure | 16,738.5 | (7,678.4) | 9,060.1 |
| Information services | 2,359.6 | (1,599.2) | 760.4 |
| Community services | 90.7 | (62.3) | 28.4 |
| Motor vehicles | 128.9 | (77.7) | 51.2 |
| Furniture | 122.6 | (84.4) | 38.2 |
| Office equipment | 89.0 | (66.6) | 22.4 |
| Leasehold improvements | 247.3 | (150.1) | 97.2 |
| Other assets | 55.0 | (31.8) | 23.2 |
| | 20,731.4 | (9,818.9) | 10,912.5 |
| **2005** | | | |
| Land and buildings | 936.2 | (87.4) | 848.8 |
| Infrastructure | 18,902.5 | (9,012.8) | 9,889.7 |
| Information services | 1,678.0 | (1,106.0) | 572.0 |
| Community services | 91.9 | (73.0) | 18.9 |
| Motor vehicles | 158.1 | (93.7) | 64.4 |
| Furniture | 138.2 | (102.2) | 36.0 |
| Office equipment | 96.3 | (78.1) | 18.2 |
| Leasehold improvements | 294.6 | (192.6) | 102.0 |
| Other assets | 64.2 | (37.3) | 26.9 |
| | 22,360.0 | (10,783.1) | 11,576.9 |
| **2006** | | | |
| Land and buildings | **1,033.9** | **(105.0)** | **928.9** |
| Infrastructure | **22,556.3** | **(10,925.7)** | **11,630.6** |
| Information services | **1,623.9** | **(1,100.4)** | **523.5** |
| Community services | **107.8** | **(65.9)** | **41.9** |
| Motor vehicles | **154.4** | **(90.8)** | **63.6** |
| Furniture | **142.5** | **(115.0)** | **27.5** |
| Office equipment | **108.8** | **(88.0)** | **20.8** |
| Leasehold improvements | **361.4** | **(214.9)** | **146.5** |
| Other assets | **33.2** | **(29.9)** | **3.3** |
| | **26,122.2** | **(12,735.6)** | **13,386.6** |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

March 31, 2006

| | Land and buildings Rm | Infra-structure Rm | Infor-mation services Rm | Com-munity services Rm | Motor vehicles Rm | Furniture Rm | Office equip-ment Rm | Leasehold improve-ments Rm | Other assets Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|---|---|
| **8. PROPERTY, PLANT AND EQUIPMENT (continued)** | | | | | | | | | | |
| **Reconciliation 2004** | | | | | | | | | | |
| Opening balance | 828.6 | 8,895.9 | 680.7 | 28.5 | 41.5 | 47.2 | 20.5 | 97.0 | 35.1 | 10,675.0 |
| Additions | 16.8 | 2,345.0 | 421.1 | 12.7 | 31.3 | 9.3 | 10.4 | 34.2 | 9.9 | 2,890.7 |
| Disposals | 0.1 | (7.4) | (2.5) | – | (1.2) | (0.2) | (0.1) | (0.2) | (0.3) | (11.8) |
| Foreign currency translation | (1.6) | (295.6) | (27.5) | – | (2.0) | (1.3) | (0.5) | (1.9) | (0.3) | (330.7) |
| Depreciation | (17.6) | (1,840.1) | (350.5) | (12.8) | (20.2) | (17.7) | (11.3) | (36.4) | (10.3) | (2,316.9) |
| Business combinations | 5.1 | – | 0.7 | – | – | 0.3 | 0.1 | – | – | 6.2 |
| Asset category transfer | – | (37.7) | 38.4 | – | 1.8 | 0.6 | 3.3 | 4.5 | (10.9) | – |
| Closing balance | 831.4 | 9,060.1 | 760.4 | 28.4 | 51.2 | 38.2 | 22.4 | 97.2 | 23.2 | 10,912.5 |
| **Reconciliation 2005** | | | | | | | | | | |
| Opening balance | 831.4 | 9,060.1 | 760.4 | 28.4 | 51.2 | 38.2 | 22.4 | 97.2 | 23.2 | 10,912.5 |
| Transfer to intangible assets (Note 10) | – | (371.0) | (324.6) | – | – | – | – | – | – | (695.6) |
| Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l. | 4.5 | 457.9 | 115.4 | – | 4.0 | 2.9 | 1.9 | 7.7 | 2.0 | 596.3 |
| Transfer from investment properties (Note 9) | 9.9 | – | – | – | – | – | – | – | – | 9.9 |
| Additions | 21.7 | 2,781.7 | 371.5 | 1.3 | 35.2 | 11.8 | 5.6 | 37.9 | 21.7 | 3,288.4 |
| Disposals | – | (10.8) | (3.0) | – | (2.2) | (0.3) | (0.3) | (0.2) | (1.5) | (18.3) |
| Foreign currency translation | – | 60.5 | 3.5 | – | 0.4 | 0.3 | – | – | (1.5) | 63.2 |
| Depreciation | (18.7) | (1,952.5) | (326.7) | (10.8) | (21.8) | (15.6) | (11.2) | (40.0) | (16.3) | (2,413.6) |
| Business combinations | – | – | 4.9 | – | – | – | 0.1 | – | – | 5.0 |
| Impairments (Note 3) | – | (142.3) | (23.3) | – | (2.4) | (1.3) | (0.3) | (0.6) | (0.7) | (170.9) |
| Asset category transfer | – | 6.1 | (6.1) | – | – | – | – | – | – | – |
| Closing balance | 848.8 | 9,889.7 | 572.0 | 18.9 | 64.4 | 36.0 | 18.2 | 102.0 | 26.9 | 11,576.9 |
| **Reconciliation 2006** | | | | | | | | | | |
| Opening balance | **848.8** | **9,889.7** | **572.0** | **18.9** | **64.4** | **36.0** | **18.2** | **102.0** | **26.9** | **11,576.9** |
| Reclassified to finance lease receivables (Note 14) | **–** | **–** | **–** | **–** | **(12.0)** | **–** | **–** | **–** | **–** | **(12.0)** |
| Additions | **98.2** | **4,237.9** | **237.2** | **16.1** | **27.1** | **8.9** | **14.1** | **55.3** | **4.6** | **4,699.4** |
| Disposals | **–** | **(51.0)** | **(1.7)** | **–** | **(0.2)** | **–** | **(0.4)** | **(0.1)** | **(3.0)** | **(56.4)** |
| Foreign currency translation | **(0.5)** | **(246.0)** | **(3.8)** | **–** | **(1.8)** | **(0.9)** | **–** | **(0.9)** | **–** | **(253.9)** |
| Depreciation | **(17.6)** | **(2,530.0)** | **(41.9)** | **6.9** | **(13.6)** | **(14.6)** | **(10.3)** | **(22.0)** | **(8.5)** | **(2,651.6)** |
| Business combinations | **–** | **–** | **1.7** | **–** | **–** | **–** | **–** | **–** | **–** | **1.7** |
| Impairments (Note 3) | **–** | **59.9** | **(5.6)** | **–** | **(0.3)** | **(0.4)** | **(0.1)** | **(0.3)** | **(0.3)** | **52.9** |
| Transfer from intangible assets/asset category transfer (Note 10) | **–** | **270.1** | **(234.4)** | **–** | **–** | **(1.5)** | **(0.7)** | **12.5** | **(16.4)** | **29.6** |
| Closing balance | **928.9** | **11,630.6** | **523.5** | **41.9** | **63.6** | **27.5** | **20.8** | **146.5** | **3.3** | **13,386.6** |

| | 2004 Net book value Rm | 2005 Net book value Rm | **2006 Net book value Rm** |
|---|---|---|---|
| **8. PROPERTY, PLANT AND EQUIPMENT (continued)** | | | |
| **Freehold land and buildings** | | | |
| Portions 859, 847, 839 and 828 of the farm Randjesfontein No. 405, Gauteng Province, RSA | 35.0 | 37.5 | **37.5** |
| Holding 182, Erand Agricultural Holdings Ext 1, RSA | 1.6 | 1.6 | **1.6** |
| Erf 200, Chelmsfordville, Pietermaritzburg, RSA | 0.1 | 0.1 | **0.1** |
| Erf 1606, New Germany, Pietermaritzburg, RSA | 0.5 | 0.5 | **0.5** |
| 1046 Mama Yemo Avenue, Lubumbashi, Province De Katanga, Democratic Republic of Congo | 0.5 | 0.9 | **1.0** |
| Kinshasa Building (Justice), 292 Justice Avenue, Gombe, Kinshasa, Democratic Republic of Congo | 4.2 | 8.6 | **8.3** |
| MSC Building, Maseru West, Lesotho | 0.7 | 0.7 | **0.6** |
| Stands 13, 14 and 15, Eastwood Road, Dunkeld West, RSA | 5.0 | 14.4 | **14.1** |
| 6195 Boulevard du 30 Juin, Kinshasa, Democratic Republic of Congo | – | 7.6 | **7.4** |
| Portions 878 and 879 of the farm Randjesfontein No. 405, Gauteng Province, RSA | – | 10.7 | **52.5** |
| Erf 2102, Silverton, Ext 54, RSA | – | – | **33.9** |
| Portion 751 of the farm Randjesfontein No. 405, Gauteng Province, RSA | – | – | **14.6** |
| Holding 191, Erand Agricultural Holdings Ext 1, RSA | – | – | **7.6** |
| | 47.6 | 82.6 | **179.7** |
| **Leasehold land and buildings** | | | |
| Portions 839, 828, 847 and 859 of the farm Randjesfontein No. 405, Gauteng Province, RSA | 268.0 | 262.4 | **256.8** |
| Portion 769 of the farm Randjesfontein No. 405, RSA | 159.5 | 156.8 | **154.3** |
| Stand 34083, Bellville, City of Tygerberg, RSA | 106.3 | 104.7 | **103.3** |
| Erf 5259 and 5260, Montague Gardens, RSA | 94.9 | 93.3 | **91.8** |
| Portion 748 of the farm Randjesfontein No. 405, Gauteng Province, RSA | 87.2 | 85.5 | **83.9** |
| Portion 791 of the farm Randjesfontein No. 405, Gauteng Province, RSA | 53.9 | 49.7 | **45.9** |
| Erf 33153 Bellville, Cape Town, RSA | 10.3 | 10.1 | **9.9** |
| 43 Kwale Road, Dar es Salaam, Tanzania | 3.7 | 3.7 | **3.3** |
| | 783.8 | 766.2 | **749.2** |
| Total freehold and leasehold land and buildings | 831.4 | 848.8 | **928.9** |

Debt is collateralised over leasehold land and buildings and the fair value of the lease liability is R911.5 million (2005: R956.8 million; 2004: R955.4 million).

A register with details of the cost price and date of acquisition of all land and buildings is available for inspection at the registered office.

Land and buildings in which the Group occupies more than 25% of the floor space or when the primary purpose is the service and connection of Vodacom customers, are classified as property, plant and equipment.

The Group adopted the revised IAS 16: Property, Plant and Equipment on April 1, 2005. The total adjustment was processed in the current year with the reversal in depreciation resulting in certain asset categories having negative depreciation charges in the current year. Refer Note 23.

During the current financial year, the Group reclassified Portion 791 of the farm Randjesfontein, No. 405, Gauteng Province, RSA, from investment property to property, plant and equipment. The property's primary purpose was deemed to have always been for the service and connection of Vodacom customers and not for capital appreciation or rental income. The restatement was processed retrospectively. Refer to Note 9 for information on investment properties.

## 8. PROPERTY, PLANT AND EQUIPMENT (continued)

In the 2006 financial year asset category transfers include transfers from software included in intangible assets to property, plant and equipment in Note 10 of R29.6 million. Refer to Note 23 for more information about the restatements relating to investment property and software.

The estimated useful lives of depreciable property, plant and equipment are as follows:

| | |
|---|---|
| General purpose buildings | 50 years |
| Special purpose buildings | 15 years |
| Infrastructure | |
| – Radio | 1 – 10 years |
| – Intelligent Networks | 5 – 8 years |
| – Switching | 5 – 10 years |
| – Transmission | 8 years |
| – Billing | 5 – 6 years |
| – Value-added services equipment | 3 – 8 years |
| Community services | |
| – Containers | 2 – 10 years |
| – Cellular equipment | 2 years |
| Information services | 3 – 5 years |
| SIM centre | 3 – 8 years |
| Office automation | 3 – 5 years |
| Other assets | |
| – Motor vehicles | 4 years |
| – Furniture and fittings | 5 years |
| – Office equipment | 4 years |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **9. INVESTMENT PROPERTIES** | | | |
| **Reconciliation** | | | |
| Opening balance | – | 9.9 | **–** |
| Transfer to property, plant and equipment (Note 8) | – | (9.9) | **–** |
| Business combination | 9.9 | – | **–** |
| Closing balance | 9.9 | – | **–** |

| | Cost Rm | Accumulated depreciation Rm | Net book value Rm |
|---|---|---|---|
| **2004** | | | |
| Stands 13 and 14 Dunkeld West, RSA (Note 9.1) | 9.9 | – | 9.9 |

### 9.1 Stands 13 and 14 Dunkeld West, RSA

The Group acquired these properties recorded at R9.9 million on March 1, 2004 through its equity investment in Smartphone SP (Proprietary) Limited.

During the March 31, 2005 financial year the properties were transferred to property, plant and equipment as the majority of the premises were no longer being leased to third parties.

### 9.2 Other

Refer Note 8 for information regarding the investment property reclassification to property, plant and equipment during the current financial year.

| | Cost Rm | Accumulated amortisation and impairment Rm | Net book value Rm |
|---|---|---|---|
| **10. INTANGIBLE ASSETS** | | | |
| **2004** | | | |
| Goodwill | 855.7 | (511.4) | 344.3 |
| Licences | 262.0 | (80.4) | 181.6 |
| Trademarks | 209.7 | (36.2) | 173.5 |
| Customer bases | 724.3 | (421.0) | 303.3 |
| Computer software | * | * | * |
| | 2,051.7 | (1,049.0) | 1,002.7 |
| **2005** | | | |
| Goodwill | 932.1 | (518.6) | 413.5 |
| Licences | 338.0 | (211.4) | 126.6 |
| Trademarks | 209.7 | (78.8) | 130.9 |
| Customer bases | 863.2 | (593.4) | 269.8 |
| Computer software | 2,123.3 | (1,419.8) | 703.5 |
| | 4,466.3 | (2,822.0) | 1,644.3 |
| **2006** | | | |
| Goodwill | **1,002.0** | **(518.1)** | **483.9** |
| Licences | **306.3** | **(186.6)** | **119.7** |
| Trademarks | **390.4** | **(132.5)** | **257.9** |
| Customer bases | **863.2** | **(700.3)** | **162.9** |
| Computer software | **2,375.6** | **(1,445.1)** | **930.5** |
| | **4,937.5** | **(2,982.6)** | **1,954.9** |

** Refer Note 10 regarding information on the software reclassification.*

| | Goodwill Rm | Licences Rm | Trademarks Rm | Customer bases Rm | Computer software Rm | Total Rm |
|---|---|---|---|---|---|---|
| **10. INTANGIBLE ASSETS (continued)** | | | | | | |
| **Reconciliation 2004** | | | | | | |
| Opening balance | 230.9 | 117.0 | 22.6 | 165.0 | – | 535.5 |
| Additions | – | 114.1 | – | 7.0 | – | 121.1 |
| Foreign currency translation | (17.0) | (34.7) | – | – | – | (51.7) |
| Amortisation | (93.6) | (14.8) | (7.3) | (99.1) | – | (214.8) |
| Business combinations | 224.0 | – | 158.2 | 230.4 | – | 612.6 |
| Closing balance | 344.3 | 181.6 | 173.5 | 303.3 | – | 1,002.7 |
| **Reconciliation 2005** | | | | | | |
| Opening balance | 344.3 | 181.6 | 173.5 | 303.3 | – | 1,002.7 |
| Transfer from property, plant and equipment (Note 8) | – | – | – | – | 695.6 | 695.6 |
| Additions | – | – | – | – | 205.4 | 205.4 |
| Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l. (Note 30) | 51.3 | 50.6 | – | – | – | 101.9 |
| Foreign currency translation | (0.8) | 9.0 | – | – | – | 8.2 |
| Amortisation | – | (17.1) | (42.6) | (172.4) | (197.5) | (429.6) |
| Business combinations | 18.7 | – | – | 138.9 | – | 157.6 |
| Impairments (Note 3) | – | (97.5) | – | – | – | (97.5) |
| Closing balance | 413.5 | 126.6 | 130.9 | 269.8 | 703.5 | 1,644.3 |
| **Reconciliation 2006** | | | | | | |
| Opening balance | **413.5** | **126.6** | **130.9** | **269.8** | **703.5** | **1,644.3** |
| Additions | **–** | **3.3** | **–** | **–** | **438.8** | **442.1** |
| Contingent purchase consideration (Note 29.1) | **36.2** | **–** | **–** | **–** | **–** | **36.2** |
| Transfer to property, plant and equipment (Note 8) | **–** | **–** | **–** | **–** | **(29.6)** | **(29.6)** |
| Disposals | **–** | **–** | **–** | **–** | **(1.6)** | **(1.6)** |
| Foreign currency translation | **(1.4)** | **(1.7)** | **–** | **–** | **(4.0)** | **(7.1)** |
| Amortisation | **–** | **(8.5)** | **(52.3)** | **(106.9)** | **(176.5)** | **(344.2)** |
| Business combinations | **35.6** | **–** | **179.3** | **–** | **–** | **214.9** |
| Impairments (Note 3) | **–** | **–** | **–** | **–** | **(0.1)** | **(0.1)** |
| Closing balance | **483.9** | **119.7** | **257.9** | **162.9** | **930.5** | **1,954.9** |

## 10. INTANGIBLE ASSETS (continued)

Software that does not form an integral part of hardware was previously included in property, plant and equipment. The Group reclassified this software to intangible assets under the requirements of IAS 38: Intangible Assets during the 2006 financial year when the Group adopted the revised IAS 16: Property, Plant and Equipment. The reclassification was done retrospectively from April 1, 2004. The composition of the 2004 amounts has not been restated by the Group, after making every reasonable effort to determine these amounts. Also refer Note 23 regarding change in accounting policies, reclassifications and restatements.

The estimated useful lives of intangible assets are currently as follows:

| | |
|---|---|
| – Mobile licences | 5 – 30 years |
| – Contract mobile customers | 5 years |
| – Prepaid mobile customers | 36 – 43 months |
| – Trademarks | 5 – 15 years |
| – Computer software | 2 – 8 years |

| | 2004 Short-term portion Rm | 2004 Long-term portion Rm | 2004 Total Rm | 2005 Short-term portion Rm | 2005 Long-term portion Rm | 2005 Total Rm |
|---|---|---|---|---|---|---|
| **11. FINANCIAL ASSETS** | | | | | | |
| Loans and receivables (Note 11.1) | 229.2 | 94.0 | 323.2 | – | 93.3 | 93.3 |
| Investments at fair value through profit and loss (Note 11.2) | 70.8 | 9.3 | 80.1 | 101.1 | – | 101.1 |
| Available-for-sale investments (Note 11.3) | 16.5 | 119.1 | 135.6 | 16.8 | – | 16.8 |
| Derivative financial assets (Note 11.4) | 37.8 | – | 37.8 | 69.2 | – | 69.2 |
| | 354.3 | 222.4 | 576.7 | 187.1 | 93.3 | 280.4 |

| | **2006 Short-term portion Rm** | **2006 Long-term portion Rm** | **2006 Total Rm** |
|---|---|---|---|
| Loans and receivables (Note 11.1) | **–** | **92.1** | **92.1** |
| Investments at fair value through profit and loss (Note 11.2) | **111.7** | **–** | **111.7** |
| Derivative financial assets (Note 11.4) | **37.6** | **–** | **37.6** |
| | **149.3** | **92.1** | **241.4** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **11. FINANCIAL ASSETS (continued)** | | | |
| **11.1 Loans and receivables** | | | |
| Planetel Communications Limited | 43.0 | 42.7 | **42.1** |
| The loan with a nominal value of US$6.8 million issued during the 2003 year, bears interest at LIBOR plus 5%. Planetel Communications 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 shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding (Note 19). | | | |
| Caspian Construction Company Limited | 51.0 | 50.6 | **50.0** |
| The loan with a nominal value of US$8.1 million issued during the 2003 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 shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding (Note 19). | | | |
| ABSA Bank Limited | 78.3 | – | **–** |
| The Group's share of Vodacom Congo (RDC) s.p.r.l.'s deposit account amounted to €10.1 million at March 31, 2004, which was charged as security for the extended credit facility of Vodacom Congo (RDC) s.p.r.l. The deposit bore interest at EURIBOR less 0.2%. The deposit was refunded when the facility was replaced by a medium-term loan from Standard Bank London and RMB International (Dublin) Limited on July 30, 2004 (Note 19). | | | |
| Vodacom Congo (RDC) s.p.r.l. | 150.9 | – | **–** |
| The joint venture partner's share of the loan issued by Vodacom International Limited to Vodacom Congo (RDC) s.p.r.l. amounted to US$23.9 million at March 31, 2004. The loan bore interest at LIBOR plus 6.5%. With effect from April 1, 2004 the Group's effective control over the company changed resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a subsidiary from this date. | | | |
| | 323.2 | 93.3 | **92.1** |
| *Less:* Short-term portion of loans and receivables | | | |
| ABSA Bank Limited | (78.3) | – | **–** |
| Vodacom Congo (RDC) s.p.r.l. | (150.9) | – | **–** |
| Short-term portion of loans and receivables | (229.2) | – | **–** |
| Long-term portion of loans and receivables | 94.0 | 93.3 | **92.1** |

## 11. FINANCIAL ASSETS (continued)

### 11.2 Investments at fair value through profit and loss

#### 11.2.1 Investments held for trading

| | Maturity period | Interest rate (%) | Market value Rm |
|---|---|---|---|
| **2004** | | | |
| Details of the maturity periods and interest rates of the money market investments at year-end are as follows: | 0 – 6 months | 7.2 – 12.1 | 70.8 |
| | Over 12 months | 8.1 – 8.8 | 9.3 |
| | | | 80.1 |
| *Less:* Short-term portion of investments held for trading | | | (70.8) |
| Long-term portion of investments held for trading | | | 9.3 |
| **2005** | | | |
| Details of the maturity periods and interest rates of the money market investments at year-end are as follows: | 0 – 12 months | 7.3 – 8.5 | 101.1 |
| *Less:* Short-term portion of investments held for trading | | | (101.1) |
| Long-term portion of investments held for trading | | | – |
| **2006** | | | |
| Details of the maturity periods and interest rates of the money market investments at year-end are as follows: | 0 – 12 months | 5.6 – 7.3 | **111.7** |
| *Less:* Short-term portion of investments held for trading | | | **(111.7)** |
| Long-term portion of investments held for trading | | | **–** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **11. FINANCIAL ASSETS (continued)** | | | |
| **11.3 Available-for-sale investments** | | | |
| Listed investment – SAGE shares | 16.5 | 16.8 | **–** |
| 9 090 909 ordinary shares of R0.01 each. | | | |
| Unlisted preference shares in Vodacom Congo (RDC) s.p.r.l. | 119.1 | – | **–** |
| 18 860 100 preference shares of US$1.0 each totalling US$18.9 million at March 31, 2004. The preference shares bore interest at a rate of 4% per annum and are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding. With effect from April 1, 2004 the Group's control over the company changed resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a subsidiary from this date. | | | |
| | 135.6 | 16.8 | **–** |
| Short-term portion of available-for-sale | | | |
| Listed investment – SAGE shares | (16.5) | (16.8) | **–** |
| Short-term portion of available-for-sale | (16.5) | (16.8) | **–** |
| Long-term portion of available-for-sale | 119.1 | – | **–** |
| **11.4 Derivative financial assets** | | | |
| Interest rate swap asset (Note 39) | 35.9 | 44.2 | **37.6** |
| Foreign currency derivative asset (Note 39) | 1.9 | 25.0 | **–** |
| | 37.8 | 69.2 | **37.6** |

| | 2007 Rm | 2008 Rm | 2009 Rm | 2010 Rm | 2011 Rm | 2012 onwards Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **11.5 Maturity of financial assets** | | | | | | | |
| Loans and receivables | – | – | – | – | – | 92.1 | 92.1 |
| Investments at fair value through profit and loss | 111.7 | – | – | – | – | – | 111.7 |
| Derivative financial assets | 37.6 | – | – | – | – | – | 37.6 |
| | 149.3 | – | – | – | – | 92.1 | 241.4 |

The fair value of the Group's investments is R241.4 million (2005: R280.4 million; 2004: R576.7 million).

| | | 2004<br>Rm | 2005<br>Rm | **2006**<br>**Rm** |
|---|---|---|---|---|
| **12.** | **DEFERRED TAXATION** | | | |
| | Deferred taxation assets | 277.8 | 308.1 | **297.6** |
| | Deferred taxation liabilities | (410.1) | (472.1) | **(602.3)** |
| | | (132.3) | (164.0) | **(304.7)** |
| **12.1** | **Components** | | | |
| | Capital allowances | (959.6) | (1,086.6) | **(1,243.6)** |
| | Foreign equity revaluation reserve | 12.0 | 12.0 | **12.0** |
| | Remeasurement of shareholder loans liability | (33.0) | (21.7) | **(19.5)** |
| | Remeasurement of shareholder loans asset | 42.1 | 36.4 | **32.5** |
| | Taxation losses | 323.5 | 278.8 | **223.1** |
| | Provisions and deferred income | 861.5 | 634.1 | **797.2** |
| | Prepayments and other allowances | (255.8) | (24.2) | **10.8** |
| | Customer base | (88.9) | (77.0) | **(46.7)** |
| | Trademark and patent | (46.5) | (33.4) | **(56.4)** |
| | Fair value adjustment of property | (2.2) | (2.2) | **(2.0)** |
| | Foreign exchange | 22.2 | 88.9 | **(22.3)** |
| | Secondary taxation on companies credits | – | 3.8 | **3.8** |
| | Other | (7.6) | 27.1 | **6.4** |
| | | (132.3) | (164.0) | **(304.7)** |
| **12.2** | **Reconciliation** | | | |
| | Balance at the beginning of the year | (265.5) | (132.3) | **(164.0)** |
| | Deferred taxation – Income statement (expense)/income (Note 8) | 248.5 | (88.0) | **(115.1)** |
| | Foreign equity revaluation reserve | 10.9 | – | **–** |
| | Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l. | – | 96.3 | **–** |
| | Business combinations | | | |
| | Acquisition of customer base | (69.1) | (41.7) | **–** |
| | Acquisition of trademark and patents | (47.5) | – | **(35.8)** |
| | Acquisition of subsidiary | – | 1.7 | **–** |
| | Fair value adjustment of property | (2.2) | – | **–** |
| | Foreign exchange differences on consolidation of foreign subsidiaries | (7.4) | – | **10.2** |
| | Balance at the end of the year | (132.3) | (164.0) | **(304.7)** |

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. The Group did not provide for secondary taxation on companies ("STC") on its undistributable earnings which is payable when it declares dividends to its shareholders, as the taxation will only be payable once the dividends are declared.

| | | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|---|
| **12.** | **DEFERRED TAXATION (continued)** | | | |
| **12.3** | **Utilisation of taxation losses** | | | |
| | Opening taxation loss | 1,119.3 | 1,187.1 | **1,194.8** |
| | Foreign exchange movement on opening taxation loss | (231.6) | (8.1) | **(142.3)** |
| | Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l. | – | 158.0 | **–** |
| | Prior year over/(under) statement | (134.5) | 72.9 | **24.3** |
| | Current year taxation loss created/(utilised) | 433.9 | (215.1) | **461.9** |
| | Closing taxation loss | 1,187.1 | 1,194.8 | **1,538.7** |
| | Utilised to reduce net deferred taxation liability | (1,022.1) | (839.6) | **(662.3)** |
| | Deferred taxation at 40% | (165.6) | (268.7) | **(244.1)** |
| | Deferred taxation at 35% | (6.6) | – | **–** |
| | Deferred taxation at 30% | (849.9) | (570.9) | **(418.2)** |
| | Taxation losses available to reduce deferred taxation | 165.0 | 355.2 | **876.4** |

There are unused taxation losses to the value of R876.4 million (2005: R355.2 million; 2004: R165.0 million) available to reduce the net deferred taxation liability. The effect of this would be a R279.4 million (2005: R109.3 million; 2004: R24.8 million) reduction in the net deferred taxation liability for the year to R25.3 million (2005: R54.7 million; 2004: R107.5 million). During 2003 uncertainty existed as to whether the accumulated losses incurred by Vodacom Congo (RDC) s.p.r.l. during their taxation holiday period will be available to reduce future taxable profits after expiry of the taxation holiday period, and therefore no deferred taxation asset was raised. During the 2004 financial year it was confirmed by the local taxation authority that the accumulated taxation losses will still be available after expiry of the taxation holiday, resulting in the accumulated taxation asset being recognised. Vodacom Congo (RDC) s.p.r.l. has recorded a deferred taxation asset as the company is generating taxable income. The Group has performed a detailed calculation of future taxable income to support the recognition of the deferred taxation asset.

The growth of the Group following its geographical expansion into other African countries over the past few years has made the estimation and judgement more challenging. The resolution of taxation issues is not always within the control of the Group and it is often dependant on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Group operates. Issues can, and therefore often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period results from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the consolidated income statement and taxation payments.

| | | 2004<br>Rm | 2005<br>Rm | **2006**<br>**Rm** |
|---|---|---|---|---|
| **13.** | **INVENTORY** | | | |
| | Merchandise | 260.4 | 438.4 | **397.5** |
| | Other inventory | 28.1 | 41.1 | **56.8** |
| | | 288.5 | 479.5 | **454.3** |
| | Inventory carried at net realisable value | 202.7 | 289.8 | **215.1** |
| **13.1** | **Inventory valuation allowance included above** | | | |
| | Balance at the beginning of the year | (48.3) | (78.9) | **(62.8)** |
| | Foreign exchange movement on opening balance | 0.3 | – | **0.7** |
| | (Charged to)/Reversed from costs and expenses | (30.9) | 17.5 | **(15.9)** |
| | Business combinations | – | (1.4) | **–** |
| | Balance at the end of the year | (78.9) | (62.8) | **(78.0)** |
| **14.** | **TRADE AND OTHER RECEIVABLES** | | | |
| | Trade receivables | 3,072.4 | 3,316.5 | **4,097.2** |
| | Prepayments | 240.6 | 185.3 | **205.2** |
| | Value added taxation | 58.5 | 69.0 | **88.1** |
| | Interest income receivable | 18.9 | 35.7 | **41.5** |
| | Guarantee fees receivable | 13.1 | – | **–** |
| | Finance leases | – | – | **13.1** |
| | Other | 46.5 | 14.9 | **42.0** |
| | | 3,450.0 | 3,621.4 | **4,487.1** |
| **14.1** | **Doubtful receivable allowance included above** | | | |
| | Balance at the beginning of the year | (82.6) | (75.6) | **(94.0)** |
| | Foreign exchange movement on opening balance | 6.2 | (0.2) | **2.9** |
| | Reversed from/(Charged to) costs and expenses | 0.8 | (11.3) | **6.0** |
| | Business combinations | – | (6.9) | **–** |
| | Balance at the end of the year | (75.6) | (94.0) | **(85.1)** |

| | | Within one year<br>Rm | Between two and five years<br>Rm | After five years<br>Rm | Total<br>Rm |
|---|---|---|---|---|---|
| **14.2** | **Finance leases** | | | | |
| | Staff benefits | 7.5 | 2.9 | – | 10.4 |
| | Computers | 5.6 | 3.3 | – | 8.9 |
| | | 13.1 | 6.2 | – | 19.3 |

## 14. TRADE AND OTHER RECEIVABLES (continued)

### 14.2 Finance leases (continued)

The Group provides motor vehicles to certain of its executives for their use. These executives may retain these assets at the end of the lease period, normally between three and four years. In terms of IAS 19: Employee benefits, these arrangements are regarded as finance leases and the cost of the assets are capitalised as finance lease receivables and amortised on a straight-line basis over the period of the use agreement to employee cost. The implicit interest rate is zero. The Group reclassified these assets from property, plant and equipment in terms of IFRIC 4: Determining whether an arrangement contains a lease. Prior years have not been restated due to amounts being insignificant.

The Group provides laptop or desktop computers to certain subscribers who enter into contract agreements. The customer retain these computers at the end of the contract period. In terms of IAS 17: Leases, these arrangements are regarded as finance leases and accounted for, using the effective interest rate method.

The long-term portion of R6.2 million is reflected as part of lease assets on the face of the consolidated balance sheet.

| | 2004<br>R | 2005<br>R | **2006**<br>**R** |
|---|---|---|---|
| **15. ORDINARY SHARE CAPITAL** | | | |
| 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.

| | 2004<br>Rm | 2005<br>Rm | **2006**<br>**Rm** |
|---|---|---|---|
| **16. NON-DISTRIBUTABLE RESERVES** | | | |
| Foreign currency translation reserve (Note 16.1) | (347.2) | (321.5) | **(203.8)** |
| Deferred taxation on foreign currency translation reserve (Note 16.1) | 12.0 | 12.0 | **12.0** |
| Contingency reserve (Note 16.2) | 10.3 | 11.3 | **13.5** |
| Revaluation of available-for-sale investments (Note 16.3) | – | 0.2 | **–** |
| | (324.9) | (298.0) | **(178.3)** |
| **Reconciliation** | | | |
| Balance at the beginning of the year | (141.0) | (324.9) | **(298.0)** |
| Foreign currency translation reserve | (183.1) | 25.7 | **117.7** |
| Acquisition of Vodacom Congo (RDC) s.p.r.l. (Note 30) | – | 82.1 | **–** |
| Foreign currency translation for the year | (194.0) | (56.4) | **117.7** |
| Deferred taxation for the year | 10.9 | – | **–** |
| Other non-distributable reserves | | | |
| Transferred from distributable reserves – contingency reserve | (0.8) | 1.0 | **2.2** |
| Revaluation of available-for-sale investments | – | 0.2 | **(0.2)** |
| Balance at the end of the year | (324.9) | (298.0) | **(178.3)** |

## 16. NON-DISTRIBUTABLE RESERVES (continued)

### 16.1 Foreign currency translation reserve and deferred taxation

The financial results of foreign operations are translated into South African Rands for incorporation into the consolidated results. 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. All resulting unrealised foreign exchange differences are classified as equity.

This reserve also includes gains and losses on the translation of equity loans to foreign entities that are intended to be permanent and only if the loans are denominated in one of the entities' functional currencies.

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

### 16.2 Contingency reserve

In terms of the Short-term Insurance Act, 1998 the Group's cell captive partner, Nova Risk Partners Limited is required to raise a contingency reserve equal to 10% of premiums written less approved reinsurance (as defined in the act). This reserve can be utilised only with the prior permission of the Registrar of Short-term Insurance.

### 16.3 Revaluation of available-for-sale investments

Gains and losses from changes in the fair value of available-for-sale investments are recognised directly in equity until the financial asset is disposed of (Note 11.3).

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **17. MINORITY INTERESTS** | | | |
| Distributable reserves | 150.7 | 187.8 | **358.1** |
| Non-distributable reserves | (57.7) | (59.1) | **(74.8)** |
| | 93.0 | 128.7 | **283.3** |
| **Reconciliation** | | | |
| Balance at the beginning of the year | 88.0 | 93.0 | **128.7** |
| Profit transferred from distributable reserves | 26.2 | 30.8 | **116.7** |
| Foreign currency translation reserve | (21.2) | (1.5) | **(15.6)** |
| Revaluation of available-for-sale investments | – | 0.1 | **(0.1)** |
| Acquisition of subsidiary | – | 10.1 | **46.5** |
| Minority shares of VM, S.A.R.L. | – | – | **8.0** |
| Dividend | – | (3.8) | **(0.9)** |
| Balance at the end of the year | 93.0 | 128.7 | **283.3** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **18. STATEMENT OF RECOGNISED INCOME AND EXPENSES** | | | |
| (Loss)/Gain on revaluation of available-for-sale investment | – | 0.3 | **(0.3)** |
| Foreign currency translation reserve | (215.2) | (57.9) | **102.1** |
| Tax on items taken directly to equity | 10.9 | – | **–** |
| **Net profit/(loss) recognised directly in equity** | (204.3) | (57.6) | **101.8** |
| Net profit for the year | 3,052.3 | 3,886.3 | **5,129.0** |
| **Total recognised income and expense for the year** | 2,848.0 | 3,828.7 | **5,230.8** |
| **Attributable to:** | | | |
| Equity shareholders | 2,843.0 | 3,799.3 | **5,129.8** |
| Minority interests | 5.0 | 29.4 | **101.0** |

| | 2004 Short-term portion Rm | 2004 Long-term portion Rm | 2004 Total Rm | 2005 Short-term portion Rm | 2005 Long-term portion Rm | 2005 Total Rm |
|---|---|---|---|---|---|---|
| **19. INTEREST-BEARING DEBT** | | | | | | |
| Finance leases (Note 19.1) | 29.0 | 856.7 | 885.7 | 50.5 | 807.2 | 857.7 |
| Funding loans (Note 19.2) | 807.7 | 359.9 | 1,167.6 | 323.7 | 1,406.3 | 1,730.0 |
| Other short-term loans (Note 19.3) | 3.2 | – | 3.2 | 7.4 | – | 7.4 |
| | 839.9 | 1,216.6 | 2,056.5 | 381.6 | 2,213.5 | 2,595.1 |

| | **2006 Short-term portion Rm** | **2006 Long-term portion Rm** | **2006 Total Rm** |
|---|---|---|---|
| Finance leases (Note 19.1) | **79.2** | **728.3** | **807.5** |
| Funding loans (Note 19.2) | **1,527.3** | **90.9** | **1,618.2** |
| Other short-term loans (Note 19.3) | **39.0** | **–** | **39.0** |
| | **1,645.5** | **819.2** | **2,464.7** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **19. INTEREST-BEARING DEBT (continued)** | | | |
| **19.1 Finance leases** | | | |
| Vodacom (Proprietary) Limited | 596.4 | 574.9 | **537.7** |
| The finance leases are collateralised by various land and buildings with a book value of R489.1 million (2005: R500.1 million; 2004: R512.1 million), bearing interest at fixed effective interest rates of between 12.1% and 16.9% per annum and are repayable between 2 and 7 years. | | | |
| Vodacom Service Provider Company (Proprietary) Limited | 289.3 | 282.8 | **269.8** |
| The finance lease is collateralised by land and buildings with a book value of R256.8 million (2005: R262.4 million; 2004: R268.0 million), and bearing interest at a fixed effective interest rate of 14.8% per annum. Payments are made every six months in arrears and commenced on March 1, 2002. The finance lease expires on September 1, 2011. | | | |
| | 885.7 | 857.7 | **807.5** |
| *Less:* Short-term portion of finance leases | | | |
| Vodacom (Proprietary) Limited | (22.5) | (37.6) | **(58.3)** |
| Vodacom Service Provider Company (Proprietary) Limited | (6.5) | (12.9) | **(20.9)** |
| Short-term portion of finance leases | (29.0) | (50.5) | **(79.2)** |
| Long-term portion of finance leases | 856.7 | 807.2 | **728.3** |

The fair value of the Group's finance lease liability is R911.5 million (2005: R956.8 million; 2004: R955.4 million).

**Repayment of finance leases:**

| | 2007 Rm | 2008 Rm | 2009 Rm | 2010 Rm | 2011 Rm | 2012 onwards Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| Future minimum lease payments | 190.7 | 211.7 | 269.2 | 153.6 | 200.6 | 180.4 | 1,206.2 |
| Finance costs | (111.5) | (98.2) | (77.0) | (55.0) | (38.9) | (18.1) | (398.7) |
| Net present value | 79.2 | 113.5 | 192.2 | 98.6 | 161.7 | 162.3 | 807.5 |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **19. INTEREST-BEARING DEBT (continued)** | | | |
| **19.2 Funding loans** | | | |
| Planetel Communications Limited | 35.4 | 38.5 | **41.6** |
| The shareholder loan of US$8.4 million (2005: US$8.4 million; 2004: US$8.4 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 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) during the 2003 financial year. The gain on re-measurement was included in equity. | | | |
| Caspian Construction Company Limited | 42.1 | 45.7 | **49.3** |
| The shareholder loan of US$10.0 million (2005: US$10.0 million; 2004: US$10.0 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. This loan became non interest-bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5% (Note 11) during the 2003 financial year. The gain on remeasurement was included in equity. | | | |
| Project finance funding to Vodacom Tanzania Limited | 348.7 | 285.1 | **184.0** |
| The drawn down portions of the project finance funding from external parties include the following:<br>(a) Netherlands Development Finance Company of US$7.6 million (2005: US$10.1 million; 2004: US$11.3 million);<br>(b) Deutsche Investitions- und Entwicklungsgesellschaft mbH of €7.8 million (2005: €10.4 million; 2004: €11.5 million);<br>(c) Standard Corporate and Merchant Bank of US$8.0 million (2005: US$12.0 million; 2004: US$16.0 million);<br>(d) Barclays Bank (Local Syndicate Tanzania) of TSH5,703.8 million (2005: TSH10,968.8 million; 2004: TSH15,356.3 million). | | | |
| The funding is collateralised by a charge over 51% of the shares, the licence and Vodacom Tanzania Limited's tangible and intangible assets. The loans bear interest based upon the foreign currency denomination of the project financing between 6.0% and 14.5% per annum and will be fully repaid by March 2008. The full amount of R184.0 million has been classified as current liabilities due to the Group not having an unconditional right to defer its settlement for at least 12 months after the balance sheet date. | | | |
| Balance carried forward | 426.2 | 369.3 | **274.9** |

| | 2004<br>Rm | 2005<br>Rm | **2006<br>Rm** |
|---|---|---|---|
| **19. INTEREST-BEARING DEBT (continued)** | | | |
| **19.2 Funding loans (continued)** | | | |
| Balance brought forward | 426.2 | 369.3 | **274.9** |
| Extended credit facility to Vodacom Congo (RDC) s.p.r.l. | 310.1 | – | **–** |
| The Group's share of Vodacom Congo (RDC) s.p.r.l.'s extended credit facility amounted to €38.8 million at March 31, 2004 which was partially collateralised by guarantees (Note 41) and a cash deposit (Note 11), and bore interest at a rate of between EURIBOR plus 1.5% and EURIBOR plus 1.75%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004. | | | |
| Revolving credit facilities to Vodacom Congo (RDC) s.p.r.l. | 312.2 | – | **–** |
| The Group's share of the short-term revolving credit facility provided by ABSA amounted to US$16.3 million at March 31, 2004. The credit facility was collateralised by guarantees (Note 41) provided by the Group, which bore interest at an effective interest rate of LIBOR plus 1.5%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004. | | | |
| The Group's share of the short-term Euro revolving credit facility provided by Standard Finance (Isle of Man) Limited amounted to €11.5 million at March 31, 2004. The credit facility was collateralised by guarantees (Note 41) provided by the Group and bore interest at an effective interest rate of EURIBOR plus 1.5%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004. | | | |
| The Group's share of the short-term Dollar revolving credit facility provided by Standard Finance (Isle of Man) Limited amounted to US$19.1 million at March 31, 2004. The credit facility was collateralised by guarantees (Note 41) provided by the Group and bore interest at an effective interest rate of LIBOR plus 1.5%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004. | | | |
| Medium-term loan to Vodacom International Limited | – | 1,128.8 | **1,114.4** |
| The medium-term loan provided by Standard Bank London Limited and RMB International (Dublin) Limited that amounts to US$180.0 million (2005: US$180.0 million) is collateralised by guarantees provided by the Group. The loan is repayable on July 19, 2006 and bears interest at an effective interest rate of LIBOR plus 0.6%. | | | |
| Balance carried forward | 1,048.5 | 1,498.1 | **1,389.3** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **19. INTEREST-BEARING DEBT (continued)** | | | |
| **19.2 Funding loans (continued)** | | | |
| Balance brought forward | 1,048.5 | 1,498.1 | **1,389.3** |
| Preference shares issued by Vodacom Congo (RDC) s.p.r.l. | 119.1 | 231.9 | **228.9** |
| The preference shares of US$37.0 million (2005: US$37.0 million; 2004: US$18.9 million) bear interest at a rate of 4% per annum. The preference shares are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding. | | | |
| | 1,167.6 | 1,730.0 | **1,618.2** |
| *Less:* Short-term portion of funding loans | | | |
| Project finance funding to Vodacom Tanzania Limited | (66.3) | (91.8) | **(184.0)** |
| Extended credit facility to Vodacom Congo (RDC) s.p.r.l. | (310.1) | – | **–** |
| Revolving credit facilities to Vodacom Congo (RDC) s.p.r.l. | (312.2) | – | **–** |
| Medium-term loan to Vodacom International Limited | – | – | **(1,114.4)** |
| Preference shares issued by Vodacom Congo (RDC) s.p.r.l. | (119.1) | (231.9) | **(228.9)** |
| Short-term portion of funding loans | (807.7) | (323.7) | **(1,527.3)** |
| Long-term portion of funding loans | 359.9 | 1,406.3 | **90.9** |

The fair value of the Group's funding loan liability is R1,618.2 million (2005: R1,730.0 million; 2004: R1,167.6 million).

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **19.3 Other short-term loans** | | | |
| Vodacom Congo (RDC) s.p.r.l. | 3.2 | 6.3 | **37.1** |
| The short-term facilities amounts to US$6.0 million (2005: US$1.0 million; 2004: US$0.5 million). US$1.0 million of these facilities bears interest at 18% per annum with no fixed repayment terms. US$5.0 million of these facilities is repayable on May 20, 2006 and bears interest at LIBOR plus 6% per annum. | | | |
| Other | – | 1.1 | **1.9** |
| | 3.2 | 7.4 | **39.0** |

The fair value of the Group's short-term loans is R39.0 million (2005: R7.4 million; 2004: R3.2 million).

## 19. INTEREST-BEARING DEBT (continued)
## 19.4 Repayment of interest-bearing debt

| | 2007<br>Rm | 2008<br>Rm | 2009<br>Rm | 2010<br>Rm | 2011<br>Rm | 2012 onwards<br>Rm | Total<br>Rm |
|---|---|---|---|---|---|---|---|
| **Finance leases** | | | | | | | |
| Vodacom (Proprietary) Limited | 58.3 | 82.9 | 149.6 | 41.5 | 86.9 | 118.5 | 537.7 |
| Vodacom Service Provider Company (Proprietary) Limited | 20.9 | 30.6 | 42.6 | 57.1 | 74.8 | 43.8 | 269.8 |
| **Funding loans** | | | | | | | |
| Planetel Communications Limited | – | – | – | – | – | 41.6 | 41.6 |
| Caspian Construction Company Limited | – | – | – | – | – | 49.3 | 49.3 |
| Project finance funding to Vodacom Tanzania Limited | 184.0 | – | – | – | – | – | 184.0 |
| Medium-term loan to Vodacom International Limited | 1,114.4 | – | – | – | – | – | 1,114.4 |
| Preference shares issued by Vodacom Congo (RDC) s.p.r.l. | 228.9 | – | – | – | – | – | 228.9 |
| **Other short-term loans** | 39.0 | – | – | – | – | – | 39.0 |
| | 1,645.5 | 113.5 | 192.2 | 98.6 | 161.7 | 253.2 | 2,464.7 |

| | 2004<br>Rm | 2005<br>Rm | **2006**<br>**Rm** |
|---|---|---|---|
| **20. TRADE AND OTHER PAYABLES** | | | |
| Trade payables | 2,900.9 | 3,466.8 | **3,315.4** |
| Capital expenditure creditors | 774.4 | 1,089.9 | **1,478.7** |
| Value added taxation | 101.6 | 91.6 | **100.3** |
| Sundry accruals | 43.0 | 75.4 | **89.4** |
| Revenue charged in advance | 28.0 | 67.2 | **64.2** |
| Interest accrual | 14.2 | 39.9 | **56.7** |
| | 3,862.1 | 4,830.8 | **5,104.7** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **21. NON INTEREST-BEARING DEBT** | | | |
| Sekhametsi Investment Consortium | 4.3 | 4.3 | **4.3** |
| The minority shareholders' loan is uncollateralised and no repayment terms have been determined. | | | |
| | 4.3 | 4.3 | **4.3** |

The fair value of the Group's non interest-bearing debt liabilities could not be readily determined.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **22. PROVISIONS** | | | |
| Deferred bonus incentive provision (Note 22.1) | 359.5 | 423.9 | **452.4** |
| Bonus provision (Note 22.2) | 149.1 | 203.1 | **279.8** |
| Leave pay provision (Note 22.3) | 53.9 | 58.3 | **70.8** |
| Warranty provision (Note 22.4) | 34.3 | 28.2 | **32.8** |
| Long-term incentive provision (Note 22.5) | – | – | **122.1** |
| Other (Note 22.6) | 55.3 | 65.9 | **37.4** |
| | 652.1 | 779.4 | **995.3** |

| | Deferred bonus incentive provision Rm | Bonus provision Rm | Leave pay provision Rm | Warranty provision Rm | Long-term incentive provision Rm | Other Rm |
|---|---|---|---|---|---|---|
| **Reconciliation 2004** | | | | | | |
| Balance at the beginning of the year | 231.7 | 128.8 | 52.4 | 9.5 | – | 58.3 |
| Provision created | 169.5 | 165.7 | 10.1 | 28.9 | – | 67.5 |
| Provision utilised | (41.7) | (145.4) | (8.6) | (4.1) | – | (70.5) |
| Balance at the end of the year | 359.5 | 149.1 | 53.9 | 34.3 | – | 55.3 |
| **Reconciliation 2005** | | | | | | |
| Balance at the beginning of the year | 359.5 | 149.1 | 53.9 | 34.3 | – | 55.3 |
| Provision created | 207.1 | 240.0 | 15.7 | 11.3 | – | 65.5 |
| Provision utilised | (142.7) | (186.0) | (11.3) | (17.4) | – | (54.9) |
| Balance at the end of the year | 423.9 | 203.1 | 58.3 | 28.2 | – | 65.9 |
| **Reconciliation 2006** | | | | | | |
| Balance at the beginning of the year | **423.9** | **203.1** | **58.3** | **28.2** | **–** | **65.9** |
| Provision created | **188.0** | **321.1** | **25.1** | **38.5** | **139.0** | **25.3** |
| Provision utilised | **(159.5)** | **(244.4)** | **(12.6)** | **(33.9)** | **(16.9)** | **(53.8)** |
| Balance at the end of the year | **452.4** | **279.8** | **70.8** | **32.8** | **122.1** | **37.4** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **22. PROVISIONS (continued)** | | | |
| **Timing of provisions** | | | |
| Within one year | 473.7 | 595.0 | **623.0** |
| After one year | 178.4 | 184.4 | **372.3** |
| | 652.1 | 779.4 | **995.3** |

Provisions are required to be recorded when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

Best estimates, being the amount that the Group would rationally pay to settle the obligation, are recognised as provisions at balance sheet date. Risks, uncertainties and future events are taken into account by management in determining the best estimates. Provisions are discounted where the effect of discounting is material. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management judgement. All provisions are reviewed at each balance sheet date.

Various uncertainties can result in obligations not being considered probable or estimable for significant periods of time. As a consequence, potentially material obligations may have no provisions and a change in facts or circumstances that result in an obligation becoming probable or estimable can lead to a need for the establishment of material provisions. In addition, where estimated amounts vary from initial estimates the provisions may be revised materially, up or down.

The Group is required to record provisions for legal contingencies when the contingency is probable of occurring and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

### 22.1 Deferred bonus incentive provision

The deferred bonus incentive provision 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 value of the bonus entitlements are determined based upon the audited consolidated annual financial statements of the Group. Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. The participating rights of employees vest at different stages and employees are entitled to cash in their entitlements within one year after the participating rights have vested. 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 the achievement of the predetermined financial targets, payable to all levels of staff.

### 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

The warranty provision covers manufacturing defects in the second year of warranty on handsets sold to customers. The estimate is based on claims notified and past experience.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

March 31, 2006

## 22. PROVISIONS (continued)

### 22.5 Long-term incentive provision

The long-term incentive provision represents the present value of the expected future cash outflows to eligible employees who qualify. The amount of the liability is based on an actuarial valuation. The provision is utilised when eligible employees receive the value of vested benefits.

| | 2004<br>Rm | 2005<br>Rm | **2006**<br>**Rm** |
|---|---|---|---|
| Net liability at the beginning of the year | – | – | **–** |
| Interest cost | – | – | **6.5** |
| Current service cost | – | – | **9.1** |
| Recognised actuarial losses | – | – | **123.4** |
| Net cost | – | – | **139.0** |
| Total benefit payments | – | – | **(16.9)** |
| Net liability at the end of the year | – | – | **122.1** |
| **Key assumptions:** | | | |
| General inflation rate (%) | – | – | **4.7** |
| Discount rate (%) | – | – | **7.4** |
| Salary inflation (%) | – | – | **5.7** |
| Valuation date | – | – | **March 31, 2006** |

### 22.6 Other

Other provisions for the Group include provisions for advertising received from suppliers of handsets and various other smaller provisions. The advertising provision represents the advertising expenditure not yet spent or claimed by the Group or external service providers.

## 23. CHANGE IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND RESTATEMENTS

| | Balance as previously reported Rm | Operating leases Rm | Investment property Rm | Interest rate swap Rm | Software reclassification Rm | Balance as restated Rm |
|---|---|---|---|---|---|---|
| **Reconciliation 2004** | | | | | | |
| **Income statement** | | | | | | |
| Direct network operating cost | 12,430.1 | 5.0 | – | – | – | 12,435.1 |
| General administration expenses | 682.3 | 4.9 | – | – | – | 687.2 |
| Taxation | 1,725.0 | (3.0) | – | – | – | 1,722.0 |
| Net profit (Profit after taxation) | (3,059.2) | 6.9 | – | – | – | (3,052.3) |
| Retained earnings (Opening balance) | (6,962.8) | 53.6 | – | – | – | (6,909.2) |
| **Balance sheet** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 10,858.6 | – | 53.9 | – | – | 10,912.5 |
| Investment properties | 63.8 | – | (53.9) | – | – | 9.9 |
| Financial assets | 258.3 | – | – | (35.9) | – | 222.4 |
| Lease assets | – | 22.2 | – | – | – | 22.2 |
| **Current assets** | | | | | | |
| Short-term financial assets | 318.4 | – | – | 35.9 | – | 354.3 |
| **Equity** | | | | | | |
| Retained earnings | (7,896.6) | 60.5 | – | – | – | (7,836.1) |
| **Non-current liabilities** | | | | | | |
| Deferred taxation | (436.0) | 25.9 | – | – | – | (410.1) |
| Operating lease liabilities | – | (108.6) | – | – | – | (108.6) |
| **Reconciliation 2005** | | | | | | |
| **Income statement** | | | | | | |
| Direct network operating cost | 14,614.1 | 3.7 | – | – | – | 14,617.8 |
| Depreciation | 2,611.1 | – | – | – | (197.5) | 2,413.6 |
| General administration expenses | 747.9 | 3.4 | – | – | – | 751.3 |
| Amortisation of intangible assets | 232.1 | – | – | – | 197.5 | 429.6 |
| Taxation | 2,614.2 | (1.2) | – | – | – | 2,613.0 |
| Net profit (Profit after taxation) | (3,892.2) | 5.9 | – | – | – | (3,886.3) |
| Retained earnings (Opening balance) | (7,896.6) | 60.5 | – | – | – | (7,836.1) |
| **Balance sheet** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 12,230.7 | – | 49.7 | – | (703.5) | 11,576.9 |
| Investment properties | 49.7 | – | (49.7) | – | – | – |
| Intangible assets | 940.8 | – | – | – | 703.5 | 1,644.3 |
| Financial assets | 137.5 | – | – | (44.2) | – | 93.3 |
| Lease assets | – | 28.9 | – | – | – | 28.9 |
| **Current assets** | | | | | | |
| Short-term financial assets | 142.9 | – | – | 44.2 | – | 187.1 |
| **Equity** | | | | | | |
| Retained earnings | (8,123.6) | 66.4 | – | – | – | (8,057.2) |
| **Non-current liabilities** | | | | | | |
| Deferred taxation | (499.2) | 27.1 | – | – | – | (472.1) |
| Operating lease liabilities | – | (122.4) | – | – | – | (122.4) |

## 23. CHANGE IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND RESTATEMENTS (continued)

The Group changed some of its accounting policies as a result of the adoption of the following revised standards:

- IAS 16 (revised): Property, Plant and Equipment ("IAS 16")
- IAS 17 (revised): Leases ("IAS 17")

The tables above reflect the changes that were made to the 2005 and 2004 years as a result of certain restatements and balance sheet reclassifications.

### Change in accounting policies

**23.1 Property, plant and equipment**

The Group adopted IAS 16 on April 1, 2005. Each significant component included in an item of property, plant and equipment is now separately recorded and depreciated. Useful lives and residual values are now reviewed on an annual basis. The impact of the adoption is not material and therefore has no impact on prior year numbers.

**23.2 Leases**

The Group adopted IAS 17 on April 1, 2005. A lease of land and buildings is classified by considering the land and buildings elements separately. Minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interest in the land and buildings elements of the lease. With regards to finance leases, initial direct costs are added to the amount recognised as an asset. The adoption does not impact the Group's results or cash flow information for the years ended March 31, 2005 and 2004.

### Restatements impacting net profit

**23.3 Operating leases**

The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. This ensures that the income statement charge/income is more representative of the time pattern of the operating lease benefit to the Group. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The restatement impacts the Group's results for the years ended March 31, 2005 and 2004.

### Restatements resulting in balance sheet reclassifications

**23.4 Investment properties**

The Group previously classified its Vodaworld property as an investment property. However, the property's primary purpose is to service and connect Vodacom customers. The property, therefore, does not meet the criteria of IAS 40: Investment Property, i.e. to earn rentals or for capital appreciation. Accordingly, a restatement was processed retrospectively to classify the Vodaworld property as property, plant and equipment.

**23.5 Interest rate swap**

Derivatives not accounted for as hedges are classified as trading instruments under IAS 39: Financial Instruments: Recognition and Measurement. Furthermore, IAS 1: Presentation of Financial Statements requires that all trading instruments be classified as short term and therefore current assets. The Group previously classified its derivatives based on maturity date, and therefore, restated its interest rate swaps retrospectively. The change in classification does not impact the Group's results or cash flow information for the years ended March 31, 2005 and 2004.

**23.6 Software reclassification**

The Group previously classified computer software as property, plant and equipment. Under IAS 38: Intangible Assets ("IAS 38"), computer software that is not considered integral to the related hardware should be classified as an intangible asset. Accordingly, the Group reclassified computer software cost and accumulated depreciation that are not considered integral to the related hardware to intangible assets. The Group also reclassified software depreciation to amortisation of intangible assets. The restatement was performed retrospective from April 1, 2004, the date at which the Group adopted IAS 38. The change in classification does not impact the Group's results or cash flow information for the year ended March 31, 2005.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **24. CASH GENERATED FROM OPERATIONS** | | | |
| Profit from operations | 5,225.2 | 6,478.2 | **8,865.7** |
| Adjusted for: | | | |
| Depreciation of property, plant and equipment | 2,316.9 | 2,413.6 | **2,651.6** |
| Net loss/(profit) on disposal of property, plant and equipment | 6.8 | (1.8) | **26.8** |
| Bad debts written off | 48.8 | 52.2 | **42.3** |
| Impairment of assets | – | 268.4 | **(52.8)** |
| Amortisation of intangible assets | 214.8 | 429.6 | **344.2** |
| Cash flow from operations before working capital changes | 7,812.5 | 9,640.2 | **11,877.8** |
| Increase in trade and other receivables | (937.8) | (330.1) | **(1,035.0)** |
| Decrease/(Increase) in inventory | (32.2) | (161.1) | **16.8** |
| Increase in trade and other payables and provisions | 754.2 | 863.0 | **230.7** |
| Cash generated from operations | 7,596.7 | 10,012.0 | **11,090.3** |
| **25. FINANCE COSTS PAID** | | | |
| Bank overdraft | (27.3) | (39.1) | **(15.2)** |
| Finance leases | (130.1) | (127.3) | **(121.6)** |
| Funding loans | (64.4) | (32.2) | **(73.8)** |
| Interest on minority shareholder loan | (7.6) | (7.2) | **(8.1)** |
| Leasehold property | (5.2) | – | **–** |
| Other finance costs | (13.3) | (24.2) | **(30.6)** |
| Interest on shareholder loans | (47.2) | – | **–** |
| Interest accrual at the beginning of the year | – | (14.2) | **(39.9)** |
| Interest accrual at the end of the year | 14.2 | 39.9 | **56.7** |
| | (280.9) | (204.3) | **(232.5)** |
| Interest rate swap interest | (1.1) | (5.5) | **–** |
| Interest rate swap revaluation | (18.9) | (11.3) | **(10.8)** |
| Loss on foreign exchange contract revaluation | (479.1) | (143.4) | **(471.8)** |
| Loss on foreign liability and asset revaluation | (313.3) | (251.5) | **(586.3)** |
| Unrealised losses on foreign exchange contract revaluation | 393.2 | 126.8 | **411.7** |
| Unrealised losses on foreign liability and asset revaluation | 155.9 | 211.5 | **417.6** |
| Unrealised losses on interest rate swap | 18.9 | 11.3 | **10.8** |
| Other non-cash flow items | 13.0 | 7.2 | **14.9** |
| | (512.3) | (259.2) | **(446.4)** |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

March 31, 2006

| | | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|---|
| **26.** | **INTEREST, DIVIDENDS AND OTHER FINANCIAL INCOME RECEIVED** | | | |
| | Banks and loans | 68.4 | 93.6 | **89.4** |
| | Dividends received | 5.4 | – | **–** |
| | Guarantee fees | 26.4 | – | **–** |
| | Income from investments at fair value through profit and loss | 11.2 | 8.0 | **7.8** |
| | Other interest income | 6.2 | 15.8 | **19.7** |
| | Interest income receivable at the beginning of the year | 10.3 | 18.9 | **35.7** |
| | Interest income receivable at the end of the year | (18.9) | (35.7) | **(41.5)** |
| | Guarantee fees accrual at the beginning of the year | 14.7 | 13.1 | **–** |
| | Guarantee fees accrual at the end of the year | (13.1) | – | **–** |
| | Elimination on consolidation of Vodacom Congo (RDC) s.p.r.l. | – | (13.1) | **–** |
| | | 110.6 | 100.6 | **111.1** |
| | Gain on foreign exchange contract revaluation | 269.6 | 155.1 | **211.2** |
| | Gain on foreign liability and asset revaluation | 238.0 | 358.3 | **314.0** |
| | Interest rate swap interest | 5.1 | 11.6 | **13.0** |
| | Interest rate swap revaluation | 26.3 | 20.4 | **4.2** |
| | Unrealised gain on foreign exchange contract revaluation | (210.3) | (120.5) | **(117.1)** |
| | Unrealised gain on foreign liability and asset revaluation | (38.9) | (258.2) | **(193.6)** |
| | Unrealised gain on interest rate swap revaluation | (26.3) | (20.5) | **(4.2)** |
| | Other non-cash flow items | (5.4) | – | **–** |
| | | 368.7 | 246.8 | **338.6** |
| **27.** | **TAXATION PAID** | | | |
| | Taxation per the consolidated income statement | (1,722.0) | (2,613.0) | **(3,077.8)** |
| | Taxation payable at the beginning of the year | (315.2) | (852.0) | **(632.6)** |
| | Taxation payable at the end of the year | 852.0 | 632.6 | **630.2** |
| | Deferred taxation at the beginning of the year | (265.5) | (132.3) | **(164.0)** |
| | Deferred taxation at the end of the year | 132.3 | 164.0 | **304.7** |
| | Business combination – deferred taxation | (118.8) | (40.0) | **(35.8)** |
| | Business combination – taxation payable | (29.6) | – | **(15.2)** |
| | Movement due to foreign equity revaluation reserve | 10.9 | – | **10.2** |
| | Exchange difference on consolidation of foreign subsidiary | (7.4) | – | **–** |
| | Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l. | – | 96.3 | **–** |
| | | (1,463.3) | (2,744.4) | **(2,980.3)** |
| **28.** | **ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT** | | | |
| | Additions to property, plant and equipment (Note 8) | (2,890.7) | (3,288.4) | **(4,699.4)** |
| | *Less:* Vodacom (Proprietary) Limited finance leases | 10.4 | – | **–** |
| | Increase in capital expenditure related creditors | 66.5 | 240.4 | **353.1** |
| | | (2,813.8) | (3,048.0) | **(4,346.3)** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **29. ACQUISITION OF SUBSIDIARIES** | | | |
| **Acquisition of subsidiaries** | | | |
| Smartphone SP (Proprietary) Limited and subsidiaries (Note 29.1) | 149.6 | (233.8) | **–** |
| Smartcom (Proprietary) Limited (Note 29.2) | – | (15.9) | **–** |
| Customer base of Tiscali (Proprietary) Limited (Note 29.3) | – | (40.1) | **0.3** |
| Vodacom Properties No. 1 (Proprietary) Limited (Note 29.4) | – | – | **–** |
| Cointel VAS (Proprietary) Limited (Note 29.5) | – | – | **(0.4)** |
| Cash (outflow)/inflow from acquisitions | 149.6 | (289.8) | **(0.1)** |

## 29.1 Smartphone SP (Proprietary) Limited and subsidiaries

On March 1, 2004, the Group acquired a 51% interest in the equity of Smartphone SP (Proprietary) Limited, which has a 100% shareholding in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited and 52% in Ithuba Smartcall (Proprietary) Limited.
The fair value of the assets and liabilities acquired were determined by the Group and are as follows:

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Fair value of net assets acquired | (9.8) | – | **–** |
| Property, plant and equipment | 6.2 | – | **–** |
| Investment properties | 9.9 | – | **–** |
| Prepaid customer base | 230.4 | – | **–** |
| Trademark | 158.2 | – | **–** |
| Investments | 16.4 | – | **–** |
| Deferred taxation asset | 0.2 | – | **–** |
| Inventory | 31.0 | – | **–** |
| Accounts receivable | 115.8 | – | **–** |
| Cash and cash equivalents | 149.6 | – | **–** |
| Deferred taxation liability (including taxation effect on intangibles) | (119.0) | – | **–** |
| Accounts payable | (558.8) | – | **–** |
| Taxation payable | (29.6) | – | **–** |
| Long-term loan | (0.3) | – | **–** |
| Provision | (0.2) | – | **–** |
| Goodwill | (224.0) | – | **–** |
| Purchase price (including capitalised costs) | (233.8) | – | **–** |
| Cash and cash equivalents | 149.6 | – | **–** |
| Cash consideration | (84.2) | – | **–** |
| *Less:* Amount payable | 233.8 | – | **–** |
| | 149.6 | – | **–** |

The purchase price of R231.2 million together with capitalised costs of R2.6 million totalling R233.8 million, was paid on April 7, 2004. The outstanding amount accrued interest at prime less 2% per annum from March 1, 2004 up to the date of payment.

The company had a contingent asset of R70.9 million at the date of acquisition. The Group valued the asset at Rnil. The contingent asset realised during the current financial year. The Group had an obligation under the shareholders agreement to pay the company an additional amount should the asset realise. The additional amount paid by the Group qualified as a contingent purchase consideration and resulted in an adjustment of R36.2 million to goodwill. The recognition of the contingent asset therefore resulted in a profit of R70.9 million in the consolidated income statement for the year ended March 31, 2006 with R34.7 million being allocated to minority interest.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|

## 29. ACQUISITION OF SUBSIDIARIES (continued)
### 29.2 Smartcom (Proprietary) Limited

On April 16, 2004, the Group acquired an 85.75% interest in the equity of Smartcom (Proprietary) Limited through its 51% owned subsidiary, Smartphone SP (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined by the Group and are as follows:

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Fair value of net assets acquired | – | (70.5) | **–** |
| Property, plant and equipment | – | 5.0 | **–** |
| Contract customer base | – | 95.6 | **–** |
| Deferred taxation asset | – | 1.7 | **–** |
| Inventory | – | 3.9 | **–** |
| Accounts receivable | – | 55.4 | **–** |
| Cash and cash equivalents | – | 61.5 | **–** |
| Deferred taxation liability (including taxation effect on intangibles) | – | (28.7) | **–** |
| Accounts payable | – | (113.6) | **–** |
| Dividends payable | – | (10.0) | **–** |
| Provision | – | (0.3) | **–** |
| Minority interest | – | 10.1 | **–** |
| Goodwill | – | (8.9) | **–** |
| Purchase price (including capitalised costs) | – | (69.3) | **–** |
| Cash and cash equivalents | – | 61.5 | **–** |
| Cash consideration | – | (7.8) | **–** |
| *Less:* Capitalised costs paid in previous financial year | – | 0.5 | **–** |
| *Plus:* Smartphone SP (Proprietary) Limited's share of the dividend paid by Smartcom (Proprietary) Limited | – | (8.6) | **–** |
| | – | (15.9) | **–** |
| The carrying value of the assets and liabilities at acquisition was as follows: | – | 3.2 | **–** |
| Non-current assets | – | 6.7 | **–** |
| Current assets | – | 120.4 | **–** |
| Current liabilities | – | (123.9) | **–** |

The purchase price of R77.9 million (including capitalised costs, excluding dividend from Smartcom (Proprietary) Limited) was paid during April 2004. The company declared a dividend to its shareholders from pre-acquisition reserves on August 18, 2004. The dividend was paid on August 31, 2004.

The goodwill related to the acquisition represents future synergies and the ability to directly control the Group's customers.

Revenue amounting to R173.3 million and net profit before allocation to minorities of R26.6 million is included in the March 31, 2005 results.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|

## 29. ACQUISITION OF SUBSIDIARIES (continued)

### 29.3 Customer base of Tiscali (Proprietary) Limited

Effective February 1, 2005 the Group acquired the cellular business of Tiscali (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined as follows:

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Fair value of net assets acquired | – | (30.3) | **–** |
| Contract customer base | – | 43.3 | **–** |
| Deferred taxation liability | – | (13.0) | **–** |
| Goodwill | – | (9.8) | **0.3** |
| Purchase price | – | (40.1) | **0.3** |

The customer base was not previously recorded in the accounting records of Tiscali (Proprietary) Limited as it was an internally generated intangible asset. The goodwill related to the acquisition represents future synergies and the ability to directly control the Group's customers. It is impracticable to disclose the revenue and profit of the business that is included in the prior years results as the customer base was integrated into Vodacom Service Provider Company (Proprietary) Limited. The profit and revenue related to these customers were not separately recorded. For the same reason stated above it would not be practicable to determine the impact on revenue and profits of the Group for a full year.

### 29.4 Vodacom Properties No. 1 (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. The name of the company was subsequently changed to Vodacom Properties No. 1 (Proprietary) Limited.

| | 2004 Rm | 2005 Rm | **2006 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 | – | – | **–** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **29. ACQUISITION OF SUBSIDIARIES (continued)** | | | |
| **29.5 Cointel VAS (Proprietary) Limited** | | | |
| On August 1, 2005, the Group acquired a 51% interest in the equity of Cointel VAS (Proprietary) Limited. The fair values of the assets and liabilities acquired were preliminary determined by the Group and are as follows: | | | |
| Fair value of net assets acquired | – | – | **(94.9)** |
| Property, plant and equipment | – | – | **1.7** |
| Intangible assets | – | – | **179.3** |
| Trade and other receivables | – | – | **7.4** |
| Cash and cash equivalents | – | – | **83.9** |
| Deferred taxation liability (including taxation effect on intangibles) | – | – | **(35.8)** |
| Trade and other payables | – | – | **(114.2)** |
| Taxation payable | – | – | **(15.2)** |
| Provisions | – | – | **(1.2)** |
| Dividends payable | – | – | **(11.0)** |
| Minority interest | – | – | **46.5** |
| Goodwill | – | – | **(35.9)** |
| Purchase price (including capitalised costs) | – | – | **(84.3)** |
| Cash and cash equivalents | – | – | **83.9** |
| Cash consideration | – | – | **(0.4)** |
| The carrying value of the assets and liabilities at acquisition was as follows: | – | – | **6.3** |
| Non-current assets | – | – | **56.7** |
| Current assets | – | – | **91.3** |
| Current liabilities | – | – | **(140.5)** |
| Non-current liabilities | – | – | **(1.2)** |

The purchase price of R83.6 million (excluding capitalised costs) was paid on August 23, 2005.

Revenue amounting to R89.9 million and net profit of R17.8 million are included in the current year results. Consolidated revenue would have amounted to R34,062.5 million and consolidated net profit to R5,139.4 million if the entity had been consolidated for the full year ended March 31, 2006.

The goodwill related to the acquisition represents future synergies and are allocated to the South African cash-generating unit.

## 30. ACQUIRED RESERVES FROM THE MINORITIES OF VODACOM CONGO (RDC) S.P.R.L.

Vodacom Congo (RDC) s.p.r.l. ("Vodacom Congo") was prior to April 1, 2004 accounted for as a joint venture (Note 35). During the previous financial year the shareholders' agreement was amended to remove some of the participative rights of the minorities, resulting in Vodacom Congo now being controlled and considered to be a 51% owned subsidiary of the Group from April 1, 2004. The Group's interest in the company was consolidated from this date in accordance with IAS 27: Consolidated and Separate Financial Statements.

The 49% portion of the assets, liabilities and losses attributable to the joint venture partner as at March 31, 2004 that had not been consolidated at that date, were as follows:

| | As at March 31, 2004 Rm |
|---|---|
| Net loss for the year after taxation | (13.7) |
| Total liabilities (including preference shares) | (1,133.2) |
| Total assets | 981.9 |
| The following assets and liabilities were consolidated on April 1, 2004 to account for Vodacom Congo (RDC) s.p.r.l. as a subsidiary: | |
| Total assets | 981.9 |
| Property, plant and equipment | 596.3 |
| Intangible assets | 101.9 |
| Deferred taxation asset | 96.3 |
| Inventory | 26.1 |
| Accounts receivable | 64.9 |
| Short-term investments and loans | 75.2 |
| Cash and cash equivalents | 21.2 |
| Total liabilities | (1,133.2) |
| Accounts payable | (138.7) |
| Short-term interest-bearing debt | (985.8) |
| Provision | (0.4) |
| Bank overdraft | (8.3) |
| Non-distributable reserve | (82.1) |
| Distributable reserves | (233.4) |

No portion was allocated to the minorities as a result of the negative net equity position of the company. The negative net equity was recorded directly in reserves on April 1, 2004.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

March 31, 2006

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **31. CASH AND CASH EQUIVALENTS AT END OF YEAR** | | | |
| Bank and cash balances | 2,370.1 | 2,990.1 | **3,146.1** |
| Short-term bank deposits | – | 1,000.0 | **–** |
| Bank borrowings | (772.4) | (1,817.1) | **(1,385.8)** |
| | 1,597.7 | 2,173.0 | **1,760.3** |

The short-term bank deposits at the end of March 31, 2005 bore interest at an effective interest rate of 7.4% and matured on April 1, 2005.

| | 2004 R | 2005 R | **2006 R** |
|---|---|---|---|
| **32. EARNINGS AND DIVIDEND PER SHARE** | | | |
| **32.1 Basic and diluted earnings per share** | | | |
| The calculation of basic earnings per ordinary share before adjustments for changes in accounting policies, reclassifications and restatements (Note 23) was based on earnings of R3,861.4 million (2004: R3,033.0 million) at March 31, 2005 and 10,000 issued ordinary shares (2004: 10,000) at March 31, 2005. The following adjustments were made: | 303,300 | 386,140 | |
| Operating leases | (690) | (590) | |
| Earnings per share – restated | 302,610 | 385,550 | |
| The calculation of basic earnings per ordinary share is based on earnings of R5,012.3 million (2005: R3,855.5 million; 2004: R3,026.1 million) and 10,000 issued ordinary shares (2005: 10,000; 2004: 10,000). | 302,610 | 385,550 | **501,230** |
| 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 R4,500.0 million (2005: R3,400.0 million; 2004: R2,100.0 million) and 10,000 issued ordinary shares (2005: 10,000; 2004: 10,000). The dividends were declared as follows: | | | |
| Declared March 9, 2006 to shareholders registered on April 3, 2006 and paid on April 5, 2006 (Final) | – | – | **280,000** |
| Declared September 9, 2005 to all shareholders registered on October 1, 2005 and paid on October 3, 2005 (Interim) | – | – | **170,000** |
| Declared March 10, 2005 to shareholders registered on March 31, 2005 and paid on April 1, 2005 (Final) | – | 180,000 | **–** |
| Declared September 10, 2004 to all shareholders registered on October 1, 2004 and paid on October 1, 2004 (Interim) | – | 160,000 | **–** |
| Declared March 11, 2004 to shareholders registered on May 28, 2004 and paid on May 31, 2004 (Final) | 150,000 | – | **–** |
| Declared September 11, 2003 to shareholders registered on September 11, 2003 and paid on September 30, 2003 (Interim) | 60,000 | – | **–** |
| | 210,000 | 340,000 | 450,000 |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **33. CAPITAL COMMITMENTS** | | | |
| Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows: | | | |
| Vodacom (Proprietary) Limited | 448.4 | 1,272.2 | **709.1** |
| Vodacom Congo (RDC) s.p.r.l. | 42.5 | 62.2 | **99.5** |
| Vodacom Tanzania Limited | 169.8 | 37.1 | **201.2** |
| Vodacom Service Provider Company (Proprietary) Limited | 39.7 | 18.0 | **16.9** |
| Vodacom Group (Proprietary) Limited | 0.2 | 0.3 | **222.9** |
| VM, S.A.R.L. | – | 78.0 | **34.2** |
| | 700.6 | 1,467.8 | **1,283.8** |
| Capital expenditure commitments approved by the Board of Directors but not yet contracted for at the balance sheet date are as follows: | | | |
| Vodacom (Proprietary) Limited | 3,875.7 | 3,268.0 | **4,872.3** |
| Vodacom Tanzania Limited | 118.8 | 332.1 | **650.6** |
| Vodacom Congo (RDC) s.p.r.l. | 102.7 | 283.8 | **293.4** |
| Vodacom Service Provider Company (Proprietary) Limited | 71.1 | 138.8 | **164.7** |
| Vodacom Lesotho (Proprietary) Limited | 12.2 | 16.2 | **24.9** |
| Vodacom Group (Proprietary) Limited | 9.2 | 88.8 | **111.7** |
| VM, S.A.R.L. | 277.8 | 281.4 | **71.7** |
| Smartphone SP (Proprietary) Limited | 0.1 | 3.7 | **15.2** |
| Cointel VAS (Proprietary) Limited | – | – | **2.2** |
| | 4,467.6 | 4,412.8 | **6,206.7** |
| The capital expenditure of the Group will be financed through internal cash generation, extended supplier credit and bank credit. | | | |
| **34. OTHER COMMITMENTS** | | | |
| Operating leases (Note 34.1) | 3,180.0 | 5,841.7 | **6,277.8** |
| Sport and marketing contracts (Note 34.2) | 727.4 | 624.9 | **1,133.7** |
| Site rentals (Note 34.3) | 713.5 | 811.6 | **567.8** |
| | 4,620.9 | 7,278.2 | **7,979.3** |

| | 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 | 1,145.1 | 4,554.3 | 3.4 | 5,702.8 |
| Accommodation | 132.9 | 435.9 | 2.9 | 571.7 |
| Other operating leases | 0.8 | 2.2 | 0.3 | 3.3 |
| | 1,278.8 | 4,992.4 | 6.6 | 6,277.8 |
| **34.2 Sport and marketing contracts** | 298.1 | 835.6 | – | 1,133.7 |
| **34.3 Site rentals** | 132.8 | 433.6 | 1.4 | 567.8 |

**34. OTHER COMMITMENTS (continued)**

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

The Act was proclaimed in the *Government Gazette* and has been made effective September 30, 2005 with the exception of the provisions dealing with customer registration which comes into effect on June 30, 2006. The cellular operators have succeeded in obtaining in principle support by the Department of Justice for an electronic registration process. The legislative amendments necessary to allow for such an electronic registration process have not yet been effected, but are anticipated prior to the effective date of June 30, 2006. The Group has until May 28, 2006 to acquire and implement the monitoring and interception facilities as per the technical specifications of the facilities agreed upon between the Group and the Department of Justice and promulgated on November 28, 2005. 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 determined at this stage.

**34.5 Service providers**

Service provider agreements with the Group's independent service providers were extended for a further period of five years during the current financial year.

**34.6 Cellular licence fees**

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

**34.7 Global alliance fees**

The Group pays annual fees from February 18, 2005 for services provided to the Group by Vodafone Group Plc. The fee is calculated as a percentage of revenue and amounted to R175.2 million (2005: R17.0 million).

**34.8 Retention incentives**

The Group has committed a maximum of R456.0 million (2005: R373.1 million) in respect of customers already beyond their normal 24-month contract period, but who have not yet upgraded into new contracts, and therefore have not utilised the incentives available for such upgrades. The Group has not provided for the liability, as no legal obligation exists, since the customers have not yet entered into new contracts.

**34.9 Activation bonuses**

The Group has a potential liability in respect of activation bonuses payable related to starterpacks sold which have not yet been validated. The exposure is estimated at approximately R8.9 million (2005: R6.0 million).

**34.10 Other**

An offer to acquire the cellular business of Africell Cellular Services (Proprietary) Limited ("Africell") was made and accepted. The suspensive conditions as well as Competition Commission approval, is currently being attended to.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **35. CONTINGENT LIABILITIES** | | | |
| Various other legal matters | 9.2 | 4.9 | **5.0** |

## 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 previously provided the minority shareholder with certain protective and participative rights and therefore, in terms of IAS 31: Interest in Joint Ventures, Vodacom Congo was considered to be a joint venture resulting in it being proportionally consolidated in the annual financial statements for the year ended March 31, 2004.

The Group, in terms of the previous shareholders' agreement was, however, ultimately responsible for the funding of the operations of Vodacom Congo. The shareholders' agreement also gave the Group the right to appoint management and the majority of the Board of the company. The Group also had a management agreement to manage the company on a day-to-day basis.

During the previous financial year the shareholders' agreement was amended to remove some of the participative rights, resulting in Vodacom Congo now being controlled and considered to be a 51%-owned subsidiary of the Group from April 1, 2004. The Group's interest in the company is consolidated from this date in accordance with IAS 27: Consolidated and Separate Financial Statements (Note 30).

The 49% portion attributable to the joint venture partner of the liabilities and losses as at March 31, 2004 was as follows:

| | |
|---|---|
| Net loss for the year after taxation | (13.7) |
| Total liabilities (including preference shares) | (1,133.2) |
| Total assets | 981.9 |

All guarantees issued are disclosed in Note 41.

## 35.2 Negative working capital ratio

For financial years ended 2006, 2005 and 2004 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.

## 35.3 Other

The Group is regularly subject to an evaluation, by the taxation authorities, of its direct and indirect taxation filings and in connection with such reviews, disputes can arise with the taxation authorities over the interpretation or application of certain taxation rules applicable to the Group's business. These disputes may not necessarily be resolved in a manner that is favourable for the Group. Additionally the resolution of the disputes could result in an obligation for the Group.

During each of the years presented, provisions have been made or adjusted for anticipated obligations related to these taxation matters under review. The provisions made include estimates of anticipated interest and penalties where appropriate. Where no reliable assessment could be made, no provisions have been raised.

The Group is in discussions with relevant taxation authorities on specific matters regarding the application and interpretation of taxation legislation affecting the Group and the industry in which it operates. No reliable assessment can be made at this time of any exposure, if any, that the Group may incur.

## 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 R76.4 million (2005: R70.7 million; 2004: R65.9 million). Current contributions to the provident fund amounted to R12.9 million (2004: R4.2 million; 2004: R5.9 million). South African funds are governed by the Pension Funds Act of 1956.

## 37. EVENTS SUBSEQUENT TO YEAR-END

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

| | 2004<br>Rm | 2005<br>Rm | **2006<br>Rm** |
|---|---|---|---|
| **38. RELATED PARTY TRANSACTIONS** | | | |
| **38.1 Balances with related parties** | | | |
| Included in accounts receivable | | | |
| Telkom SA Limited – Interconnect | 491.1 | 487.9 | **509.7** |
| Telkom SA Limited – Other | 8.4 | 11.7 | **6.3** |
| Vodafone Group Plc and subsidiaries | 8.0 | 22.7 | **12.7** |
| Included in accounts payable | | | |
| Telkom SA Limited – Interconnect | (78.9) | (74.0) | **(85.3)** |
| Telkom SA Limited – Other | (4.1) | (9.6) | **(16.5)** |
| Vodafone Group Plc and subsidiaries | (2.6) | (20.3) | **(3.7)** |
| VenFin Telecommunication Investments Limited | – | – | **(0.1)** |
| Dividends payable | | | |
| Telkom SA Limited | (750.0) | (900.0) | **(1,400.0)** |
| Vodafone Holdings (SA) (Proprietary) Limited | (525.0) | (630.0) | **(980.0)** |
| VenFin Telecommunication Investments Limited | (225.0) | (270.0) | **(420.0)** |

These outstanding balances are unsecured and will be settled in cash in the ordinary course of business. No guarantees have been provided.

During the current financial year, shareholding changed. Vodafone Holdings (SA) (Proprietary) Limited increased its effective shareholding in the Group from 35% to 50%. This was achieved by acquiring a 100% shareholding in VenFin Limited, who ultimately owns 15% in the Group.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **38. RELATED PARTY TRANSACTIONS (continued)** | | | |
| **38.2 Transactions with related parties** | | | |
| Telkom SA Limited (entity with joint control over the Group) | 304.0 | (82.0) | **(798.5)** |
| Audit fees recovered | 6.8 | 4.6 | **4.8** |
| Cellular usage | 31.1 | 33.1 | **37.0** |
| Installation of transmission lines | (28.1) | (49.9) | **(93.4)** |
| Interconnect expense | (417.2) | (465.3) | **(464.3)** |
| Interconnect income | 2,732.8 | 2,728.2 | **2,817.8** |
| Interest paid – commercial | (0.1) | – | **(0.1)** |
| Lease of transmission lines | (438.0) | (511.9) | **(752.1)** |
| Other | (3.2) | – | **4.8** |
| Site costs | (18.3) | (19.9) | **(26.3)** |
| Telephone landline usage | (30.2) | (33.6) | **(26.7)** |
| Site costs | – | 7.6 | **10.8** |
| Telkom prepaid vouchers | – | (74.9) | **(60.8)** |
| Interest payments on shareholder loan | (21.6) | – | **–** |
| Shareholder loan repayment | (460.0) | – | **–** |
| Dividend payable | (750.0) | (900.0) | **(1,400.0)** |
| Dividend paid | (300.0) | (800.0) | **(850.0)** |
| Vodafone Group Plc and subsidiaries | (127.7) | (14.9) | **(192.0)** |
| Roaming income | 54.9 | 65.5 | **73.6** |
| Roaming expense | (50.9) | (63.4) | **(90.6)** |
| Global alliance agreement | – | (17.0) | **(175.2)** |
| Secondee cost recovery | – | – | **0.2** |
| Interest payments on shareholder loan | (7.4) | – | **–** |
| Shareholder loan repayment | (124.3) | – | **–** |
| Vodafone Holdings (SA) (Proprietary) Limited (entity with joint control over the Group) | (944.5) | (1,190.0) | **(1,575.0)** |
| Interest payments on shareholder loan | (11.8) | – | **–** |
| Shareholder loan repayment | (197.7) | – | **–** |
| Dividend payable | (525.0) | (630.0) | **(980.0)** |
| Dividend paid | (210.0) | (560.0) | **(595.0)** |
| VenFin Finance Corporation (Proprietary) Limited | (156.2) | (5.1) | **(4.8)** |
| Interest payments | (11.0) | (4.3) | **(1.9)** |
| Facility fees | (0.7) | (0.8) | **(0.9)** |
| Aircraft charter fees | – | – | **(2.0)** |
| Interest payments on shareholder loan | (6.5) | – | **–** |
| Shareholder loan repayment | (138.0) | – | **–** |
| VenFin Telecommunication Investments Limited (entity with joint control over the Group) | (315.0) | (510.0) | **(675.0)** |
| Dividend payable | (225.0) | (270.0) | **(420.0)** |
| Dividend paid | (90.0) | (240.0) | **(255.0)** |
| Transactions with entities in which related parties have an interest | – | – | **(20.3)** |

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **38. RELATED PARTY TRANSACTIONS (continued)** | | | |
| **38.3 Key management personnel compensation (excluding directors' emoluments)** | | | |
| Key management personnel remuneration | (13.5) | (29.7) | **(56.0)** |
| Salaries | (4.4) | (9.9) | **(17.1)** |
| Fringe benefits | (0.3) | (0.8) | **(0.6)** |
| Bonuses and incentives | (8.8) | (16.7) | **(38.2)** |
| Other | – | (2.3) | **(0.1)** |
| Included in key management personnel's remuneration | (0.9) | (1.4) | **(2.2)** |
| Pension fund employer contributions | (0.3) | (0.7) | **(1.2)** |
| Provident fund employer contributions | (0.4) | (0.3) | **(0.6)** |
| Medical aid employer contributions | (0.2) | (0.4) | **(0.4)** |
| **38.4 Directors' emoluments** | | | |
| Directors' remuneration | (27.3) | (52.8) | **(96.7)** |
| Executive directors – fees as directors: salaries and restraint of trade payments | (8.7) | (21.4) | **(35.6)** |
| Executive directors – fees as directors: fringe benefits | (0.7) | (0.8) | **(0.7)** |
| Executive directors – fees as directors: bonuses and incentives | (17.2) | (30.0) | **(59.8)** |
| Non-executive directors – fees as directors | (0.7) | (0.6) | **(0.6)** |
| Included in directors' remuneration | (2.1) | (2.2) | **(4.2)** |
| Pension fund employer contributions | (0.7) | (0.8) | **(0.5)** |
| Provident fund employer contributions | (1.2) | (1.2) | **(3.5)** |
| Medical aid employer contributions | (0.2) | (0.2) | **(0.2)** |
| Directors' remuneration and emoluments paid and accrued by: | (27.3) | (52.8) | **(96.7)** |
| Vodacom Group (Proprietary) Limited | (21.4) | (37.0) | **(77.1)** |
| Subsidiaries | (5.9) | (15.8) | **(19.6)** |

## 39. 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 assets and liabilities for example trade and other receivables, trade and other payables 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 risk, interest rate risk, credit risk, price risk and liquidity risk. These risks are managed within an approved treasury policy, subject to the limitations of the local markets in which the various Group companies operate and the South African Reserve Bank.

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 to the Group, including coordinating access to domestic and international financial markets, and the managing of various financial risks relating to the Group's operations. The treasury division is subject to arm's length fees in terms of transfer pricing for services to offshore subsidiaries.

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.

### 39.1 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 from South Africa.

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

| | 2004<br>Rm | 2005<br>Rm | **2006<br>Rm** |
|---|---|---|---|
| **Foreign currency asset** | | | |
| To buy | – | 25.0 | **–** |
| To sell | 1.9 | – | **–** |
| **Foreign currency liability** | | | |
| To buy | (64.5) | – | **(60.9)** |
| To sell | – | (1.0) | **–** |
| | (62.6) | 24.0 | **(60.9)** |

## 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)
### 39.1 Foreign currency management (continued)

| | Foreign contract value Million | Forward value Rm | Fair value Rm |
|---|---|---|---|
| **Forward contracts to buy foreign currency** | | | |
| **2004** | | | |
| United States Dollar | 10.6 | 74.7 | (7.0) |
| Euro | 91.7 | 756.2 | (41.4) |
| Pound Sterling | 18.4 | 230.7 | (16.1) |
| Swiss Franc | 0.1 | 0.5 | * |
| | | 1,062.1 | (64.5) |
| **2005** | | | |
| United States Dollar | 11.8 | 70.1 | 3.9 |
| Euro | 156.5 | 1,281.3 | 14.9 |
| Pound Sterling | 45.2 | 529.1 | 6.2 |
| Swiss Franc | * | 0.1 | * |
| | | 1,880.6 | 25.0 |
| **2006** | | | |
| United States Dollar | **7.1** | **45.0** | **(0.7)** |
| Euro | **154.8** | **1,208.6** | **(34.5)** |
| Pound Sterling | **41.7** | **477.8** | **(25.7)** |
| Swiss Franc | * | **0.1** | * |
| | | **1,731.5** | **(60.9)** |
| **Forward contracts to sell foreign currency** | | | |
| **2004** | | | |
| United States Dollar | 2.2 | 14.5 | 0.7 |
| Euro | 9.0 | 70.5 | 1.2 |
| Pound Sterling | 0.2 | 2.0 | * |
| | | 87.0 | 1.9 |
| **2005** | | | |
| United States Dollar | 5.5 | 33.7 | (0.7) |
| Euro | 7.1 | 57.7 | (0.3) |
| Pound Sterling | 0.2 | 2.6 | * |
| | | 94.0 | (1.0) |
| **2006** | | | |
| United States Dollar | **0.1** | **0.8** | * |
| Euro | **4.0** | **30.3** | * |
| Pound Sterling | **0.3** | **3.2** | * |
| Swiss Franc | * | **0.1** | * |
| | | **34.4** | * |

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

** Amounts less than R50 000*

**39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**39.1 Foreign currency management (continued)**

The Group has various monetary assets and liabilities in currencies other than the Group's functional currency. The following table represents the net currency exposure of the Group according to the different functional currencies of each entity within the Group.

| | South African Rand Rm | Euro Rm | Pound Sterling Rm | United States Dollar Rm | Congolese Franc Rm | Swiss Franc Rm | Australian Dollar Rm | Tanzanian Shilling Rm |
|---|---|---|---|---|---|---|---|---|
| **2004** | | | | | | | | |
| **Net foreign currency monetary assets/ (liabilities)** | | | | | | | | |
| **Functional currency of company operation** | | | | | | | | |
| South African Rand | – | (145.1) | (0.1) | (30.0) | – | (0.7) | (0.4) | – |
| United States Dollar | (7.0) | (682.3) | – | – | 14.5 | – | – | 9.8 |
| Mozambican Meticals | (12.5) | – | – | (11.2) | – | – | – | – |
| | (19.5) | (827.4) | (0.1) | (41.2) | 14.5 | (0.7) | (0.4) | 9.8 |

| | South African Rand Rm | Euro Rm | Pound Sterling Rm | United States Dollar Rm | Congolese Franc Rm | Swiss Franc Rm | Mauritian Rupee Rm | Tanzanian Shilling Rm |
|---|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | | |
| **Net foreign currency monetary assets/ (liabilities)** | | | | | | | | |
| **Functional currency of company operation** | | | | | | | | |
| South African Rand | – | (157.0) | (0.4) | (5.3) | – | (0.7) | – | – |
| United States Dollar | – | (5.0) | – | – | 23.8 | – | – | – |
| Tanzanian Shilling | (9.6) | (65.0) | – | 45.1 | – | (0.1) | – | – |
| Mozambican Meticals | (12.6) | (1.5) | – | (58.7) | – | – | – | – |
| | (22.2) | (228.5) | (0.4) | (18.9) | 23.8 | (0.8) | – | – |
| **2006** | | | | | | | | |
| **Net foreign currency monetary assets/ (liabilities)** | | | | | | | | |
| **Functional currency of company operation** | | | | | | | | |
| South African Rand | **–** | **(850.5)** | **(330.4)** | **45.0** | **–** | **(0.2)** | **(0.8)** | **–** |
| United States Dollar | **(55.9)** | **(26.2)** | **–** | **–** | **(11.4)** | **(0.1)** | **0.1** | **37.9** |
| Tanzanian Shilling | **4.7** | **(13.6)** | **–** | **106.9** | **–** | **–** | **–** | **–** |
| Mozambican Meticals | **(0.2)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **(51.4)** | **(890.3)** | **(330.4)** | **151.9** | **(11.4)** | **(0.3)** | **(0.7)** | **37.9** |

## 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 39.2 Interest rate risk management

The Group's interest rate profile consisting of fixed and floating rate borrowings which exposes the Group to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| **Interest rates** | | | |
| **Financial liabilities** | | | |
| Loans and bank borrowings at fixed rates of interest | 1,205.1 | 1,283.7 | **1,134.5** |
| Bank borrowings linked to money market rates | 0.4 | 0.2 | **–** |
| Bank borrowings linked to South African prime rates | 742.2 | 1,752.0 | **1,361.8** |
| Bank borrowings linked to Lesotho prime rates | 21.2 | 15.5 | **7.5** |
| Loans linked to LIBOR | 371.8 | 1,276.5 | **1,286.2** |
| Loans linked to EURIBOR | 488.2 | 84.3 | **58.6** |
| | 2,828.9 | 4,412.2 | **3,848.6** |
| **Financial assets** | | | |
| Investments and bank deposits at fixed rates of interest | 180.7 | 1,177.1 | **168.1** |
| Investments and bank deposits linked to money market rates | 1,473.8 | 2,017.5 | **471.0** |
| Investments and bank deposits linked to South African prime rates | 703.6 | 829.1 | **2,603.1** |
| Bank deposits linked to Lesotho prime rates | 6.3 | 6.4 | **13.5** |
| Interest rate swaps linked to BA rate | 35.9 | 44.2 | **37.6** |
| Loans and bank deposits linked to LIBOR | 449.8 | 154.4 | **94.2** |
| Deposits linked to EURIBOR | 78.3 | – | **–** |
| | 2,928.4 | 4,228.7 | **3,387.5** |

**Maturity of financial instruments exposed to interest rate risk**

| | 2007 Rm | 2008 Rm | 2009 Rm | 2010 Rm | 2011 Rm | 2012 onwards Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Linked to fixed rates | 406.2 | 113.5 | 192.2 | 98.6 | 161.7 | 162.3 | 1,134.5 |
| Linked to South African prime rates | 1,361.8 | – | – | – | – | – | 1,361.8 |
| Linked to Lesotho prime rates | 7.5 | – | – | – | – | – | 7.5 |
| Loans linked to LIBOR | 1,195.3 | – | – | – | – | 90.9 | 1,286.2 |
| Linked to EURIBOR | 58.6 | – | – | – | – | – | 58.6 |
| | 3,029.4 | 113.5 | 192.2 | 98.6 | 161.7 | 253.2 | 3,848.6 |

## 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 39.2 Interest rate risk management (continued)

#### Maturity of financial instruments exposed to interest rate risk (continued)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 onwards | Total |
|---|---|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm | Rm | Rm |
| **Financial assets** | | | | | | | |
| Linked to fixed rates | 168.1 | – | – | – | – | – | 168.1 |
| Linked to money market rates | 471.0 | – | – | – | – | – | 471.0 |
| Linked to South African prime rates | 2,603.1 | – | – | – | – | – | 2,603.1 |
| Linked to Lesotho prime rates | 13.5 | – | – | – | – | – | 13.5 |
| Interest rate swaps linked to BA rate | 37.6 | – | – | – | – | – | 37.6 |
| Loans linked to LIBOR | 2.1 | – | – | – | – | 92.1 | 94.2 |
| | 3,295.4 | – | – | – | – | 92.1 | 3,387.5 |

The Group has entered into interest rate swap contracts that entitle, or oblige it to receive interest at a 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 rate 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, 2006 the Group had three interest rate swaps:

Vodacom Group (Proprietary) Limited – the company 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 2.0%. The termination date of the agreement is January 30, 2009.

Vodacom (Proprietary) Limited – the company swapped its fixed interest rate of 20.1% NACQ for a floating rate linked to the BA rate plus margin of 2.25%. The termination date of the agreement is August 24, 2012.

Vodacom (Proprietary) Limited – the company swapped its fixed interest rate of 13.3% NACM (Nominal Annual Compounded Monthly) for a floating rate linked to the BA rate plus margin of 2.0%. The termination date of the agreement is December 1, 2012.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Fair value of interest rate swap asset | 35.9 | 44.2 | **37.6** |

The fair value of the interest rate swap asset is represented by a notional principal amount of R217.7 million (2005: R229.7 million; 2004: R235.0 million) at a weighted average floating interest rate of 9.3% NACM (2005: 10.0%; 2004: 12.9%).

## 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 39.3 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, for its South African operations, spreads its credit risk exposure amongst the high credit quality financial institutions.

The Group does not have any significant exposure to any individual customer or counter-party, except commercially to Telkom SA Limited, Mobile Telecommunications Network (Proprietary) Limited and Cell C (Proprietary) Limited.

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 local and 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, excluding foreign currency derivatives and interest rate swaps, 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.

### 39.4 Price risk management

The Group is exposed to price risk as a result of changes in market prices of financial assets at fair value through profit and loss and market tradable shares available for sale.

### 39.5 Liquidity risk management

The Group is exposed to liquidity risk as a result of uncertain accounts receivable 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 41). 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.

### 39.6 Fair value of financial instruments

At the balance sheet date, the carrying amounts of cash and short-term deposits, trade and other receivables, trade and other payables, short-term provisions, dividends payable, bank borrowings 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.

The fair value of long-term loans and finance leases are determined by discounting contractual cash flows at market related interest rates.

## 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 39.7 VM, S.A.R.L. call option

In terms of the shareholders' agreement, the Group's minority shareholder in VM, S.A.R.L., Empresa Moçambicana De Telecommunicaçòes S.A.R.L. ("Emotel") has a call option for a period of four years following the commencement date, August 23, 2003. In terms of the option, Emotel shall be entitled to call on Vodacom International Limited such numbers of shares in and claims on loan account against VM, S.A.R.L. as constitute 25% of the entire issued share capital of that company. Emotel can exercise this option in full increments of 1%. The option can only be exercised on April 1 or October 1 of each calendar year for the duration of the option. The option price is specified in the shareholders agreement. The call option has a nil value at March 31, 2006 (2005: Rnil; 2004: Rnil).

### 39.8 Smartphone SP (Proprietary) Limited put option

In terms of the shareholders' agreement, the minority shareholders of Smartphone SP (Proprietary) Limited have a put option against Vodacom Group (Proprietary) Limited, should the Group or the company terminate or fail to renew the Service Provider Agreement for any reason other than the expiry or cancellation of the Group's South African licence. The put option has a nil value at March 31, 2006, 2005 and 2004 as the conditions set out in the agreement have not been met.

### 39.9 Smartcom (Proprietary) Limited put option

In terms of the agreement between Vodacom Group (Proprietary) Limited ("the Group"), Smartphone SP (Proprietary) Limited ("Smartphone") and the minority shareholders of Smartcom (Proprietary) Limited ("Smartcom"), the minority shareholders of Smartcom have a put option against the Group, should the Group reduce the standard service provider discount below certain percentages as stipulated in the put option agreement. The put option has a nil value at March 31, 2006 (2005: Rnil) as the conditions set out in the agreement have not been met.

### 39.10 Skyprops 134 (Proprietary) Limited call option

In terms of the call option agreement between Vodacom Group (Proprietary) Limited ("Vodacom Group"), FirstRand Bank Limited ("FirstRand"), Vodacom (Proprietary) Limited ("Vodacom") and Skyprops 134 (Proprietary) Limited ("company"), FirstRand grants to Vodacom Group an irrevocable call option to require FirstRand at any time to sell the shares in and claims against the company to Vodacom Group. Vodacom Group gave notice to exercise the option during the financial year ended March 31, 2006.

### 39.11 Congolese Wireless Network s.p.r.l. ("CWN") put option

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 three years after the commencement date, December 1, 2001, and for a maximum of five years thereafter. In terms of the option, CWN shall be entitled to put to Vodacom International Limited such number 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 option is exercised. The option has a nil value at March 31, 2006, 2005 and 2004.

### 39.12 Cointel VAS (Proprietary) Limited

In terms of the sale of shares agreement between Vodacom Group (Proprietary) Limited ("Vodacom Group") and the sellers of shares in Cointel VAS (Proprietary) Limited ("Cointel"), the sellers have been granted a put option that requires Vodacom Group to purchase all (and not part only) of the sellers' shares in Cointel. The sellers will only be capable to exercise the put option if the recharge agreement with Vodacom (Proprietary) Limited is not continued after August 31, 2008 on terms and conditions reasonably acceptable to the sellers. The put option has a nil value at March 31, 2006 as the conditions set out in the agreement have not been met.

## 40. GOODWILL IMPAIRMENT TEST

The Group periodically evaluates its non-current assets for impairment, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Group's judgements regarding the existence of impairment indicators are based on market conditions and operational performance of the business. Future events could cause management to conclude that impairment indicators exist.

Goodwill impairment tests are performed annually in terms of IFRS 3: Business Combinations ("IFRS 3") to compare the fair value of each of the cash generating units to its carrying amount. Goodwill impairment testing is conducted at cash generating unit levels of the business and is based on a cash flow-based valuation model to determine the fair value of the cash generating unit. The assumptions used in estimating future cash flows were based upon the business forecasts and incorporated external information from industry sources, where applicable. Changes in certain of these estimates could have an effect on the estimated fair value of the cash generating unit. Judgements in estimating discounted cash flows also include the selection of the pre-tax discount rate (weighted average cost of capital) to be used in the valuation model. The discount rate used in the valuation model considered a targeted debt and equity mix, a market risk premium, and other factors considered with valuation methodologies.

Based on the results of the impairment evaluation described above, the recorded goodwill was not impaired as the fair value of each reporting unit exceeded the carrying value. Minor changes to the valuation model would not significantly impact the results of the valuation; however, if future cash flows were materially different to the forecasts, then the assessment of the potential impairment of the carrying value may be impacted.

Goodwill has been allocated for impairment testing purposes to six cash generating units of which four are in South Africa, one in the Democratic Republic of the Congo and one in Tanzania.

### South Africa

The recoverable amounts of goodwill relating to Vodacom Service Provider Company (Proprietary) Limited, Smartphone SP (Proprietary) Limited, Smartcom (Proprietary) Limited and Cointel VAS (Proprietary) Limited have been determined on the basis of value in use calculations. These companies operate in the same economic environment for which the same key assumptions were used. These value in use calculations use cash flow projections based on financial budgets approved by management covering a four to five year period and discount rates of between 10.6% and 14.9% in Rand terms. None of the cash flows were extrapolated beyond a five year period and therefore no nominal growth rates are applicable. Cash flow projections during the budget period for these companies are also based on the same expected growth in operating profit and earnings before interest, taxation, depreciation and amortisation ("EBITDA"). Management believes that any reasonable change in any of these key assumptions would not cause the aggregate carrying amount of these companies to exceed the aggregate recoverable amount of these units.

### Democratic Republic of Congo

The recoverable amount of this cash generating unit was based on a value in use calculation for Vodacom Congo (RDC) s.p.r.l. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 19.3% in US Dollar terms. Cash flows beyond this period have been extrapolated using annual nominal growth rates of between 2.5% and 4.4%. Management believes that these growth rates do not exceed the long-term average growth rate for the market in which this company operates. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

### Tanzania

The recoverable amount of this cash generating unit was based on a value in use calculation for Vodacom Tanzania Limited. The calculation uses cash flow projections based on financial budgets approved by management covering a five year period and a discount rate of 14.6% in US Dollar terms. Cash flows were not extrapolated beyond this initial five year period and therefore no nominal growth rate is applicable. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

## 40. GOODWILL IMPAIRMENT TEST (continued)

| March 31, 2006 | South Africa<br>Rm | Democratic Republic of Congo<br>Rm | Tanzania<br>Rm |
|---|---|---|---|
| Carrying amount of goodwill | 374.3 | 102.6 | 7.0 |
| **Key assumption**<br>Basis for determining value(s) assigned to key assumptions | **Expected customer base**<br>Closing customer base in the period immediately preceding the budget period increased for expected growth.<br><br>Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation. | **Expected customer base**<br>Closing customer base in the period immediately preceding the budget period increased for expected growth.<br><br>Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation. | **Expected customer base**<br>Closing customer base in the period immediately preceding the budget period increased for expected growth.<br><br>Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation. |
| **Key assumption**<br>Basis for determining value(s) assigned to key assumptions | **ARPU**<br>Closing customer base in the period immediately preceding the budget period increased for expected growth.<br><br>Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information. | **ARPU**<br>Closing customer base in the period immediately preceding the budget period increased for expected growth.<br><br>Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information. | **ARPU**<br>Closing customer base in the period immediately preceding the budget period increased for expected growth.<br><br>Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information. |
| **Key assumption**<br>Basis for determining value(s) assigned to key assumptions | **Gross margin**<br>Average gross margin achieved in period immediately before the budget period, increased for expected efficiency improvements.<br><br>Value assigned to key assumption reflects past experience, except for efficiency improvements. | **Gross margin**<br>Average gross margin achieved in period immediately before the budget period, increased expected efficiency improvements.<br><br>Value assigned to key assumption reflects past experience, except for efficiency improvements. | **Gross margin**<br>Average gross margin achieved in period immediately before the budget period, increased expected efficiency improvements.<br><br>Value assigned to key assumption reflects past experience, except for efficiency improvements. |

## 40. GOODWILL IMPAIRMENT TEST (continued)

| March 31, 2006 | South Africa | Democratic Republic of Congo | Tanzania |
|---|---|---|---|
| **Key assumption**<br>Basis for determining value(s) assigned to key assumptions | **Capital expenditure**<br>Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out.<br><br>Value assigned based on managements expected network coverage roll out. | **Capital expenditure**<br>Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out.<br><br>Value assigned based on managements expected network coverage roll out. | **Capital expenditure**<br>Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out.<br><br>Value assigned based on managements expected network coverage roll out. |
| **Key assumption**<br>Basis for determining value(s) assigned to key assumptions | | **ZAR/USD exchange rate during the five-year budget period**<br><br>Average market forward exchange rate over the budget period.<br><br>Value assigned to key assumption is consistent with external sources of information. | **ZAR/TZS and USD/TZS exchange rates during the five-year budget period**<br><br>Average market forward exchange rate over the budget period.<br><br>Value assigned to key assumption is consistent with external sources of information. |

## 41. UNDRAWN BORROWING FACILITIES AND GUARANTEES

### 41.1 Rand denominated facilities and guarantees

The Group has Rand denominated credit facilities totalling R7,083.0 million with R1,114.0 million utilised at March 31, 2006. The facilities are uncommitted and can also be utilised for loans to foreign entities and are subject to review at various dates (usually on an annual basis). Certain of the facilities are still subject to the Group's final acceptance.

| Guarantor | Details | Beneficiary | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|---|---|
| Vodacom (Proprietary) Limited | All guarantees less than R2.0 million. | Various | 3.0 | 2.8 | **2.6** |
| Vodacom Service Provider Company (Proprietary) Limited | All guarantees less than R2.0 million. | Various | 3.1 | 3.0 | **2.8** |
| Vodacom Service Provider Company (Proprietary) Limited | Guarantee in respect of receipt by independent intermediaries of premiums on behalf of short-term insurers and Lloyd's underwriters, and relating to short-term insurance business carried on in South Africa. Terminates on May 31, 2006. | SA Insurance Association for benefit of insurers | 14.2 | 17.8 | **21.1** |
| Smartcom (Proprietary) Limited | Guarantees for salary bank account and debit orders. | Various | – | 3.0 | **2.9** |
| | | | 20.3 | 26.6 | **29.4** |

### 41.2 Foreign denominated facilities and guarantees

The following foreign denominated facilities are in place:

| Company | Details | **As at March 31 2006 Million Total facility** | **As at March 31 2006 Million Utilised** |
|---|---|---|---|
| Vodacom Tanzania Limited | Project finance | **US$29.7** | **US$29.7** |
| Vodacom International Limited | Revolving term loan | **US$180.0** | **US$180.0** |
| Vodacom Congo (RDC) s.p.r.l. | Various | **US$5.0** | **US$5.0** |
| Vodacom Lesotho (Proprietary) Limited | Overdraft facilities with various banks | **M47.0** | **M0.0** |
| VM, S.A.R.L. | Overdraft facility | **US$0.5** | **US$0.0** |

## 41. UNDRAWN BORROWING FACILITIES AND GUARANTEES (continued)
### 41.2 Foreign denominated facilities and guarantees (continued)

| Guarantor/Issuer | Details | Beneficiary | Currency | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|---|---|---|
| Nedbank Limited on behalf of Vodacom (Proprietary) Limited | Unsecured standby letters of credit | Alcatel CIT | €11.4 million (2005: €40.7 million; 2004: €25.2 million) | 194.6 | 330.0 | **85.7** |
| Vodacom Group (Proprietary) Limited | Guarantees issued for the obligations of of Vodacom Congo (RDC) s.p.r.l.* | ABSA | €nil (2005: €nil; 2004: €53.8 million) | 415.6 | – | **–** |
| Vodacom Group (Proprietary) Limited | Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.'s revolving credit facility* | ABSA | US$nil (2005: US$nil; 2004: US$32.0 million) | 202.1 | – | **–** |
| Vodacom Group (Proprietary) Limited | Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.* | Standard Finance (Isle of Man) Limited | €nil (2005: €nil; 2004: €22.5 million) | 173.8 | – | **–** |
| Vodacom Group (Proprietary) Limited | Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.* | Standard Finance (Isle of Man) Limited | US$nil (2005: US$nil; 2004: US$37.5 million) | 236.8 | – | – |
| Vodacom Group (Proprietary) Limited | Guarantees issued for the obligations of Vodacom International Limited's term loan facility*# | Standard Bank London Limited and RMB International (Dublin) Limited | US$180.0 million (2005: US$180.0 million; 2004: US$nil) | – | 1,128.8 | **1,114.4** |
| Vodacom International Limited | Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.* | Alcatel CIT | €5.0 million (2004 €15.0 million; 2004: €25.0 million) | 193.1 | 121.6 | **37.6** |
| | | | | 1,416.0 | 1,580.4 | **1,237.7** |

The following foreign denominated guarantees have been issued:

* *Foreign denominated guarantees amounting to R1,152.0 million (2005: R1,189.6 million; 2004: R622.3 million) issued in support of Vodacom Congo (RDC) s.p.r.l. are included as liabilities in the consolidated balance sheet.*

\# *The Group is in compliance with the covenants attached to the term loan facility.*

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

## 42. SEGMENTAL INFORMATION

The Group is primarily an integrated mobile telecommunication and data communication business located in South Africa and other African countries. The primary reporting format therefore comprises the geographic segments of the Group. The Group's two reportable segments are South Africa and other African countries, which represents the aggregate of the various African operating segments.

| 2004 | South Africa Rm | Other African countries Rm | Eliminations Rm | Total Rm |
|---|---|---|---|---|
| **Geographical segments** | | | | |
| **Segment revenue** | 21,369.8 | 1,496.8 | (11.4) | 22,855.2 |
| External | 21,358.4 | 1,496.8 | – | 22,855.2 |
| Inter-segment | 11.4 | – | (11.4) | – |
| **Segment profit/(loss) from operations** | 5,296.8 | (65.2) | (6.4) | 5,225.2 |
| Interest, dividends and other financial income | | | | 656.6 |
| Finance costs | | | | (1,107.5) |
| **Profit before taxation** | | | | 4,774.3 |
| **Included in segment profit/(loss) from operations** | | | | |
| **Depreciation and amortisation** | (2,259.2) | (266.1) | (6.4) | (2,531.7) |
| Property, plant and equipment | (2,062.6) | (254.3) | – | (2,316.9) |
| Intangible assets | (196.6) | (11.8) | (6.4) | (214.8) |
| **Bad debts written off** | (23.5) | (25.3) | – | (48.8) |
| **Capital expenditure** | (1,666.3) | (1,345.5) | – | (3,011.8) |
| Property, plant and equipment | (1,659.3) | (1,231.4) | – | (2,890.7) |
| Intangible assets | (7.0) | (114.1) | – | (121.1) |
| **Assets** | | | | |
| Segment assets | 18,958.5 | 3,350.9 | (2,413.2) | 19,896.2 |
| Deferred taxation assets | | | | 277.8 |
| | | | | 20,174.0 |
| **Liabilities** | | | | |
| Segment liabilities | (8,054.9) | (2,427.4) | 674.6 | (9,807.7) |
| Deferred taxation liabilities | | | | (410.1) |
| Taxation liabilities | | | | (852.0) |
| Dividends payable | | | | (1,500.0) |
| | | | | (12,569.8) |

## 42. SEGMENTAL INFORMATION (continued)

| 2005 | South Africa Rm | Other African countries Rm | Eliminations Rm | Total Rm |
|---|---|---|---|---|
| **Geographical segments** | | | | |
| **Segment revenue** | 25,049.4 | 2,270.5 | (4.6) | 27,315.3 |
| External | 25,044.8 | 2,270.5 | – | 27,315.3 |
| Inter-segment | 4.6 | – | (4.6) | – |
| **Segment profit/(loss) from operations** | 5,492.1 | (175.1) | 1,161.2 | 6,478.2 |
| Interest, dividends and other financial income | | | | 662.8 |
| Finance costs | | | | (641.7) |
| **Profit before taxation** | | | | 6,499.3 |
| **Included in segment profit/(loss) from operations** | | | | |
| **Depreciation and amortisation** | (2,380.5) | (462.7) | – | (2,843.2) |
| Property, plant and equipment | (1,974.3) | (439.3) | – | (2,413.6) |
| Intangible assets | (406.2) | (23.4) | – | (429.6) |
| **Bad debts written off** | (19.1) | (33.1) | – | (52.2) |
| **Impairment of assets** | (1,161.2) | (268.4) | 1,161.2 | (268.4) |
| **Capital expenditure** | (2,799.8) | (694.0) | – | (3,493.8) |
| Property, plant and equipment | (2,617.1) | (671.3) | – | (3,288.4) |
| Intangible assets | (182.7) | (22.7) | – | (205.4) |
| **Assets** | | | | |
| Segment assets | 20,180.7 | 3,851.9 | (1,745.9) | 22,286.7 |
| Deferred taxation assets | | | | 308.1 |
| | | | | 22,594.8 |
| **Liabilities** | | | | |
| Segment liabilities | (9,430.5) | (3,376.7) | 1,005.0 | (11,802.2) |
| Deferred taxation liabilities | | | | (472.1) |
| Taxation liabilities | | | | (632.6) |
| Dividends payable | | | | (1,800.0) |
| | | | | (14,706.9) |

## 42. SEGMENTAL INFORMATION (continued)

| 2006 | South Africa Rm | Other African countries Rm | Eliminations Rm | **Total Rm** |
|---|---|---|---|---|
| **Geographical segments** | | | | |
| **Segment revenue** | 31,101.3 | 2,974.0 | (32.8) | **34,042.5** |
| External | 31,081.7 | 2,960.8 | – | **34,042.5** |
| Inter-segment | 19.6 | 13.2 | (32.8) | **–** |
| **Segment profit/(loss) from operations** | 8,841.6 | 261.2 | (237.1) | **8,865.7** |
| Interest, dividends and other financial income | | | | **659.3** |
| Finance costs | | | | **(1,318.2)** |
| **Profit before taxation** | | | | **8,206.8** |
| **Included in segment profit/(loss) from operations** | | | | |
| **Depreciation and amortisation** | (2,454.2) | (541.6) | – | **(2,995.8)** |
| Property, plant and equipment | (2,128.6) | (523.0) | – | **(2,651.6)** |
| Intangible assets | (325.6) | (18.6) | – | **(344.2)** |
| **Bad debts written off** | (32.4) | (9.9) | – | **(42.3)** |
| **Impairment of assets** | (270.0) | 52.8 | 270.0 | **52.8** |
| **Capital expenditure** | (4,435.6) | (742.1) | – | **(5,177.7)** |
| Property, plant and equipment | (3,976.9) | (722.5) | – | **(4,699.4)** |
| Intangible assets | (458.7) | (19.6) | – | **(478.3)** |
| **Assets** | | | | |
| Segment assets | 22,340.6 | 4,030.3 | (1,900.7) | **24,470.2** |
| Deferred taxation assets | | | | **297.6** |
| | | | | **24,767.8** |
| **Liabilities** | | | | |
| Segment liabilities | (9,654.7) | (3,558.1) | 1,149.8 | **(12,063.0)** |
| Deferred taxation liabilities | | | | **(602.3)** |
| Taxation liabilities | | | | **(630.2)** |
| Dividends payable | | | | **(2,800.0)** |
| | | | | **(16,095.5)** |

## 42. SEGMENTAL INFORMATION (continued)

| 2004 | Unallocated Rm | Networks Rm | Service providers Rm | Other Rm | Eliminations Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Business segments** | | | | | | |
| **Segment revenue** | – | 20,787.9 | 5,526.1 | 174.2 | (3,633.0) | 22,855.2 |
| External | – | 20,787.9 | 1,939.8 | 127.5 | – | 22,855.2 |
| Inter-segment | – | – | 3,586.3 | 46.7 | (3,633.0) | – |
| **Segment profit/(loss) from operations** | 26.7 | 4,876.1 | 614.1 | (114.8) | (176.9) | 5,225.2 |
| Interest, dividends and other financial income | | | | | | 656.6 |
| Finance costs | | | | | | (1,107.5) |
| **Profit before taxation** | | | | | | 4,774.3 |
| **Included in segment profit/(loss) from operations** | | | | | | |
| **Depreciation and amortisation** | (3.3) | (2,222.9) | (114.0) | (1.4) | (190.1) | (2,531.7) |
| Property, plant and equipment | (3.3) | (2,204.4) | (108.0) | (1.2) | – | (2,316.9) |
| Intangible assets | – | (18.5) | (6.0) | (0.2) | (190.1) | (214.8) |
| **Bad debts written off** | – | (30.9) | (17.9) | – | – | (48.8) |
| **Capital expenditure** | (4.1) | (2,934.1) | (72.3) | (1.3) | – | (3,011.8) |
| Property, plant and equipment | (4.1) | (2,820.0) | (65.3) | (1.3) | – | (2,890.7) |
| Intangible assets | – | (114.1) | (7.0) | – | – | (121.1) |
| **Assets** | | | | | | |
| Segment assets | 9,991.1 | 16,775.5 | 3,606.5 | 1,651.1 | (12,128.0) | 19,896.2 |
| Deferred taxation assets | | | | | | 277.8 |
| | | | | | | 20,174.0 |
| **Liabilities** | | | | | | |
| Segment liabilities | (2,531.2) | (13,332.9) | (3,734.6) | (327.4) | 10,118.4 | (9,807.7) |
| Deferred taxation liabilities | | | | | | (410.1) |
| Taxation liabilities | | | | | | (852.0) |
| Dividends payable | | | | | | (1,500.0) |
| | | | | | | (12,569.8) |

## 42. SEGMENTAL INFORMATION (continued)

| 2005 | Unallocated Rm | Networks Rm | Service providers Rm | Other Rm | Eliminations Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Business segments** | | | | | | |
| **Segment revenue** | – | 24,926.3 | 6,734.4 | 135.2 | (4,480.6) | 27,315.3 |
| External | – | 24,950.3 | 2,274.4 | 90.6 | – | 27,315.3 |
| Inter-segment | – | (24.0) | 4,460.0 | 44.6 | (4,480.6) | – |
| **Segment profit/(loss) from operations** | (1,123.7) | 5,749.8 | 841.4 | (318.8) | 1,329.5 | 6,478.2 |
| Interest, dividends and other financial income | | | | | | 662.8 |
| Finance costs | | | | | | (641.7) |
| Profit before taxation | | | | | | 6,499.3 |
| **Included in segment profit/(loss) from operations** | | | | | | |
| **Depreciation and amortisation** | (3.6) | (2,508.7) | (140.9) | (1.2) | (188.8) | (2,843.2) |
| Property, plant and equipment | (3.6) | (2,335.5) | (73.3) | (1.2) | – | (2,413.6) |
| Intangible assets | – | (173.2) | (67.6) | – | (188.8) | (429.6) |
| **Bad debts written off** | – | (33.1) | (19.1) | – | – | (52.2) |
| **Impairment of assets** | (1,161.2) | (268.4) | – | (355.1) | 1,516.3 | (268.4) |
| **Capital expenditure** | (22.9) | (3,385.0) | (85.5) | (0.4) | – | (3,493.8) |
| Property, plant and equipment | (22.9) | (3,217.4) | (47.7) | (0.4) | – | (3,288.4) |
| Intangible assets | – | (167.6) | (37.8) | – | – | (205.4) |
| **Assets** | | | | | | |
| Segment assets | 8,624.2 | 17,530.3 | 6,854.8 | 2,399.1 | (13,121.7) | 22,286.7 |
| Deferred taxation assets | | | | | | 308.1 |
| | | | | | | 22,594.8 |
| **Liabilities** | | | | | | |
| Segment liabilities | (2,160.9) | (13,564.9) | (6,784.7) | (1,481.7) | 12,190.0 | (11,802.2) |
| Deferred taxation liabilities | | | | | | (472.1) |
| Taxation liabilities | | | | | | (632.6) |
| Dividends payable | | | | | | (1,800.0) |
| | | | | | | (14,706.9) |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

March 31, 2006

## 42. SEGMENTAL INFORMATION (continued)

| 2006 | Unallocated Rm | Networks Rm | Service providers Rm | Other Rm | Eliminations Rm | **Total Rm** |
|---|---|---|---|---|---|---|
| **Business segments** | | | | | | |
| **Segment revenue** | 274.2 | 30,403.9 | 9,384.5 | 139.6 | (6,159.7) | **34,042.5** |
| External | – | 30,398.9 | 3,549.2 | 94.4 | – | **34,042.5** |
| Inter-segment | 274.2 | 5.0 | 5,835.3 | 45.2 | (6,159.7) | **–** |
| **Segment profit/(loss) from operations** | (483.5) | 5,731.2 | 1,428.2 | (126.3) | 2,316.1 | **8,865.7** |
| Interest, dividends and other financial income | | | | | | **659.3** |
| Finance costs | | | | | | **(1,318.2)** |
| **Profit before taxation** | | | | | | **8,206.8** |
| **Included in segment profit/(loss) from operations** | | | | | | |
| **Depreciation and amortisation** | (2.7) | (2,789.6) | (203.2) | (0.3) | – | **(2,995.8)** |
| Property, plant and equipment | (2.8) | (2,564.3) | (84.2) | (0.3) | – | **(2,651.6)** |
| Intangible assets | 0.1 | (225.3) | (119.0) | – | – | **(344.2)** |
| **Bad debts written off** | – | (10.0) | (32.1) | (0.2) | – | **(42.3)** |
| **Impairments of assets** | 270.0 | 52.8 | – | 93.8 | (363.8) | **52.8** |
| **Capital expenditure** | (52.7) | (4,945.2) | (130.4) | (49.4) | – | **(5,177.7)** |
| Property, plant and equipment | (16.5) | (4,521.0) | (112.5) | (49.4) | – | **(4,699.4)** |
| Intangible assets | (36.2) | (424.2) | (17.9) | – | – | **(478.3)** |
| **Assets** | | | | | | |
| Segment assets | 5,784.1 | 20,049.4 | 5,368.3 | 2,550.1 | (9,281.7) | **24,470.2** |
| Deferred taxation assets | | | | | | **297.6** |
| | | | | | | **24,767.8** |
| **Liabilities** | | | | | | |
| Segment liabilities | (8,156.6) | (12,089.2) | (4,793.0) | (1,395.9) | 14,371.7 | **(12,063.0)** |
| Deferred taxation liabilities | | | | | | **(602.3)** |
| Taxation liabilities | | | | | | **(630.2)** |
| Dividends payable | | | | | | **(2,800.0)** |
| | | | | | | **(16,095.5)** |

"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 only of cellular networks and are located in Tanzania, Lesotho, Democratic Republic of Congo and Mozambique, and it also includes the international holding company situated in Mauritius.

## 42. SEGMENTAL INFORMATION (continued)

"Unallocated" comprises the reporting relevant to Vodacom Group (Proprietary) Limited, the parent company in the Group. This company is primarily a management services company, that offers combined administrative, advisory and management services to companies within the rest of 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"), wireless application protocol ("WAP"), general packet radio system ("GPRS") and multimedia messaging services ("MMS").

"Service providers" comprise services provided by cellular telecommunication service providers within South Africa. Cellular telecommunication service providers act as agents for the respective networks and on sells airtime to customers.

"Other" comprises of other companies and business lines of the Group which do not fall within the Group's strategic focus and do not constitute a separately reportable segment.

### Accounting policies and basis of preparation

Segment information is prepared in conformity with the 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 that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis. Unallocated assets and liabilities comprise of deferred taxation and other unallocatable balances.

Capital expenditure in property, plant and equipment, investment properties and intangible assets has been allocated to the segments to which they relate.

Segment results and segment assets have been adjusted for the changes in accounting policies reflected in Note 23.

## 43. 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.

RSA – Republic of South Africa; TZN – Tanzania; LES – Lesotho; MZ – Mozambique; MAU – Mauritius; C – Cellular; S – Satellite; MSC – Management services company; PROP – Property company; OTH – Other

## 43. INTEREST IN SUBSIDIARIES (continued)

| | Country of incorporation | Issued share capital 2004 | Issued share capital 2005 | Issued share capital 2006 | Interest in issued ordinary share capital 2004 % | 2005 % | 2006 % |
|---|---|---|---|---|---|---|---|
| **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 | TZS10,000 | **TZS10,000** | 65 | 65 | **65** |
| VM, S.A.R.L. (C)# | MZ | US$60,000,000 | US$60,000,000 | **US$60,000,000** | 98 | 98 | **98** |
| Vodacom Congo (RDC) s.p.r.l (C) | DRC | – | US$1,000,000 | **US$1,000,000** | – | 51 | **51** |
| **Service providers** | | | | | | | |
| Vodacom Service Provider Company (Proprietary) Limited (C) | RSA | R20 | R20 | **R20** | 100 | 100 | **100** |
| Smartphone SP (Proprietary) Limited (C) | RSA | R20,000 | R20,000 | **R20,000** | 51 | 51 | **51** |
| Smartcom (Proprietary) Limited (C) | RSA | – | R1,000 | **R1,000** | – | 43.7 | **43.7** |
| Cointel VAS (Proprietary) Limited (C) | RSA | – | – | **R10,204** | – | – | **51** |
| **Other** | | | | | | | |
| VSP Holdings (Proprietary) Limited (MSC) | RSA | R1,020 | R1,020 | **R1,020** | 100 | 100 | **100** |
| Vodacom Satellite Services (Proprietary) Limited (S)* | RSA | R100 | R100 | **R100** | 100 | 100 | **100** |
| GSM Cellular (Proprietary) Limited (C)* | RSA | R1,200 | R1,200 | **R1,200** | 100 | 100 | **100** |
| Vodacom Venture No. 1 (Proprietary) Limited (MSC)* | RSA | R158,999 | R810 | **R810** | 100 | 100 | **100** |
| 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 (MSC) | RSA | R100 | R100 | **R100** | 100 | 100 | **100** |
| Vodacom International Limited (MSC) | MAU | US$100 | US$100 | **US$100** | 100 | 100 | **100** |
| Vodacom Properties No. 1 (Proprietary) Limited (PROP) | RSA | R100 | R100 | **R100** | 100 | 100 | **100** |
| Vodacom Properties No. 2 (Proprietary) Limited (PROP) | RSA | – | R1,000 | **R1,000** | – | 100 | **100** |
| Stand 13 Eastwood Road Dunkeld West (Proprietary) Limited (PROP) | RSA | R100 | R100 | **R100** | 51 | 51 | **51** |
| Ithuba Smartcall (Proprietary) Limited (OTH) | RSA | R100 | R100 | **R100** | 26.5 | 26.5 | **26.5** |
| Vodacom Tanzania Limited (Zanzibar)* | TZN | TZS10,000 | TZS10,000 | **TZS10,000** | 100 | 100 | **100** |
| Joycell Shops (Proprietary) Limited* | RSA | R100 | R100 | **R100** | 100 | 100 | **100** |
| Vodacom Ventures (Proprietary) Limited (OTH) | RSA | – | – | **R100** | – | – | **100** |

** Dormant as at March 31, 2006.*
*# The issued share capital of the prior years have been restated as a result of the shareholders loan to VM, S.A.R.L. being converted retrospectively into share capital.*

## 44. INTEREST IN JOINT VENTURES

The Group's joint ventures during the 2004 financial year consisted of Vodacom Congo (RDC) s.p.r.l. The Group acquired its interest in Vodacom Congo (RDC) s.p.r.l. on December 11, 2001. During the previous financial year the shareholders' agreement was renegotiated resulting in Vodacom Congo (RDC) s.p.r.l. considered to be a 51% owned subsidiary (Note 30).

| | 2004 Vodacom Congo (RDC) s.p.r.l | 2005 Vodacom Congo (RDC) s.p.r.l | **2006 Vodacom Congo (RDC) s.p.r.l** |
|---|---|---|---|
| Interest held | 51% | – | **–** |
| | Rm | Rm | **Rm** |
| The Group's proportionate share of assets and liabilities: | | | |
| Property, plant and equipment | 620.6 | – | **–** |
| Intangible assets* | 106.0 | – | **–** |
| Deferred taxation asset | 100.2 | – | **–** |
| Current assets | 195.2 | – | **–** |
| | 1,022.0 | – | **–** |
| Long-term liabilities | – | – | **–** |
| Preference shares | (243.1) | – | **–** |
| Current liabilities | (936.3) | – | **–** |
| Net liabilities | (157.4) | – | **–** |
| The Group's proportionate share of revenue and expenditure: | | | |
| Revenue | 475.9 | – | **–** |
| Loss before taxation after reclassification of preference share dividends* | (128.1) | – | **–** |
| Taxation | 113.8 | – | **–** |
| Net loss* | (14.3) | – | **–** |
| The Group's proportionate share of cash flows: | | | |
| Net cash flows from operating activities | 13.0 | – | **–** |
| Net cash flows utilised in investing activities | (359.4) | – | **–** |
| Net cash flows from financing activities | 365.4 | – | **–** |
| Net cash flow | 19.0 | – | **–** |
| The Group's proportionate share of contingent liabilities and capital commitments: | | | |
| Contingent liabilities (Note 35) | – | – | **–** |
| Capital commitments | 145.2 | – | **–** |

* *Goodwill and goodwill amortisation was restated to closing rate and average rate in accordance with the Group's change in accounting policy as a result of the adoption of IAS 21: The Effects of Foreign Exchange Rates ("IAS 21"). Intangible assets have accordingly been restated.*

## 45. US GAAP INFORMATION

The consolidated annual 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 | 2004 Restated Rm | 2005 Restated Rm | **2006 Rm** |
|---|---|---|---|---|
| **Net profit as reported in accordance with IFRS – restated** | | 3,052.3 | 3,886.3 | **5,129.0** |
| Attributable to minority interests | (j) | (26.2) | (30.8) | **(116.7)** |
| **Net profit attributable to equity shareholders** | | 3,026.1 | 3,855.5 | **5,012.3** |
| Adjustments increasing/(decreasing) net profit: | | | | |
| Deferred bonus incentive scheme | (a) | 8.6 | 15.5 | **5.2** |
| Goodwill – non-amortisation | (b) | 93.5 | – | **–** |
| Business combinations | (m) | 4.8 | (4.8) | **–** |
| Derivative financial instruments – reclassification of transition adjustments | (e) | 7.8 | 7.8 | **7.8** |
| Income taxation – other differences | (f) | (144.4) | (99.0) | **(199.3)** |
| Normal income taxation effect of US GAAP adjustments | (g) | (6.3) | (5.9) | **(4.0)** |
| Foreign exchange translation on net investment in foreign operations | (k) | – | 1.0 | **2.5** |
| Impairment reversal | | – | – | **(59.9)** |
| Net profit in accordance with US GAAP – restated | | 2,990.1 | 3,770.1 | **4,764.6** |
| **Shareholders' equity as reported in accordance with IFRS – restated** | | 7,604.2 | 7,887.9 | **8,672.3** |
| Adjustments increasing/(decreasing) shareholders' equity: | | | | |
| Deferred bonus incentive scheme | (a) | 35.8 | 51.3 | **56.5** |
| Goodwill – amortisation of taxation rate difference | (f) | (17.7) | (17.7) | **(17.7)** |
| Goodwill – non-amortisation | (b) | 194.5 | 194.6 | **194.6** |
| Goodwill – accumulated translation differences | (c) | (7.0) | (10.3) | **(10.6)** |
| Minority interest | (j) | (93.0) | (128.7) | **(283.3)** |
| Business combinations | (m) | 4.8 | – | **–** |
| Income taxation – other differences | (f) | (981.5) | (1,079.9) | **(1,278.6)** |
| Normal income taxation effect of US GAAP adjustments | (g) | (12.2) | (15.5) | **(16.5)** |
| Impairment reversal | | – | – | **(59.9)** |
| Shareholders' equity in accordance with US GAAP – restated | | 6,727.9 | 6,881.7 | **7,256.8** |
| **Movements in shareholders' equity in accordance with US GAAP** | | | | |
| Balance at the beginning of the year | | 6,032.6 | 6,727.9 | **6,881.7** |
| Net profit for the year | | 2,990.1 | 3,770.1 | **4,764.6** |
| Dividends declared | | (2,100.0) | (3,400.0) | **(4,500.0)** |
| Foreign currency translation reserve adjustment | | (190.0) | (60.2) | **115.4** |
| Acquired reserves from the minorities of Vodacom Congo (RDC) s.p.r.l. | | – | (151.3) | **–** |
| Gain on derivatives – reclassified to earnings, net of taxation | | (4.8) | (4.8) | **(4.9)** |
| Balance at the end of the year | | 6,727.9 | 6,881.7 | **7,256.8** |

## 45. US GAAP INFORMATION (continued)

### Summary of differences between IFRS and US GAAP

**(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**

The Group adopted IFRS 3: Business Combinations ("IFRS 3") from April 1, 2004, under which acquired goodwill is no longer amortised, but tested for impairment at least annually (or more frequently if impairment indicators arise). Accordingly, goodwill arising from the Group's investments is not subject to amortisation as from April 1, 2004.

Under US GAAP, SFAS 142: Goodwill and Other Intangible Assets ("SFAS 142") is consistent with IAS 38: Intangible Assets ("IAS 38") and IFRS 3 which was adopted by the Group from April 1, 2004. From this date goodwill is no longer amortised.

**(c) Goodwill – translation of goodwill arising on the acquisition of a foreign entity**

Under IFRS and US GAAP, goodwill arising on the acquisition of a foreign entity is treated as an asset of the entity and translated at the foreign exchange rate ruling at the balance sheet date. The resulting foreign exchange transaction gain or loss is recorded in equity. The difference in the carrying values of goodwill under IFRS and US GAAP which are summarised below, results in a difference in the accumulated translation amount recorded in equity

| | 2004<br>Rm | 2005<br>Rm | **2006**<br>**Rm** |
|---|---|---|---|
| A reconciliation of goodwill reported under IFRS at the balance sheet date to the amounts determined under US GAAP is as follows: | | | |
| Included in total goodwill reported under IFRS – restated | 344.3 | 413.5 | **483.9** |
| Goodwill not amortised under US GAAP | 194.5 | 205.0 | **205.0** |
| Business combination (Note 45 m) | 136.0 | 136.0 | **136.0** |
| Additional goodwill – income taxation rate change (Note 45 f) | 35.8 | 71.5 | **50.5** |
| Translation difference on goodwill balance | (7.0) | (10.3) | **(10.6)** |
| Goodwill in joint venture (Note 45 i) | (61.2) | – | **–** |
| As adjusted under US GAAP | 642.4 | 815.7 | **864.8** |

**(d) Income taxes – additional temporary differences**

Under IFRS, no deferred taxation 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 taxation bases of the assets.

Under US GAAP, a deferred taxation liability (and corresponding increase in assets acquired) is recognised for all temporary differences between the assigned values and the taxation bases of intangible assets acquired. The recording of such deferred taxation liability has no net impact on net income or shareholder's equity as determined under US GAAP as the decrease in income taxation expense is offset by a corresponding increase in amortisation (Note 45 g).

**45. US GAAP INFORMATION (continued)**

**(e) Derivative financial instruments**

The Group adopted IAS 39: Financial Instruments – Recognition and Measurement ("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 consolidated 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, 2006 R7.8 million (2005: R7.8 million; 2004: R7.8 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 consolidated income statement.

The Group's interest rate swaps are classified as trading instruments under IFRS. Under US GAAP, such swaps are classified based on the maturity date of the swaps. Accordingly, some swaps are classified as long term under US GAAP.

**(f) Income taxation – other differences**

Under IFRS, current and deferred taxation assets and liabilities are measured using taxation rates enacted unless announcements of taxation rates by the government have the substantive effect of actual enactment. The Group's deferred taxation assets and liabilities at March 31, 2005 were recorded at the substantially enacted taxation rate of 29%.

The taxation rate in South Africa varies depending on whether income is distributed. Upon distribution an additional taxation (secondary taxation 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 taxation charge for the period in which dividends are declared. IFRS also requires that deferred taxation be provided for at the undistributed rate of 29%.

For the purpose of US GAAP, the Group believes that under SFAS 109: Accounting for Income Taxes ("SFAS 109"), measurement of current and deferred taxation liabilities and assets is based on provisions of the enacted taxation law; the effects of future changes in taxation laws or rates are not anticipated. Therefore, the enacted rate of 30% should be used for all taxation amounts (prior to the calculation of STC). Temporary differences should be tax effected using the taxation rate that will apply when income is distributed, i.e. an effective rate of 36.89% (2005: 37.78%; 2004: 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 taxation assets and liabilities, and hence the taxation 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.

In addition, SFAS 109 prohibits recognition of deferred taxation assets or liabilities that under SFAS 52 are remeasured from local currency into the functional currency using historical exchange rates and that result from either changes in exchange rates or indexing for taxation purposes. The functional currency of Vodacom Congo (RDC) s.p.r.l. is the US$ and it benefits from indexing for local Democratic Republic of the Congo taxation purposes which gives rise to a deferred taxation benefit for IFRS purposes of R100.9 million at March 31, 2006.

## 45. US GAAP INFORMATION (continued)

### (g) Deferred taxation

The taxation effects of the US GAAP adjustments have been calculated based on the enacted taxation rate of 36.89% (2005: 37.78%; 2004: 37.78%).

A reconciliation of the deferred taxation balances under IFRS to the approximate amounts determined under US GAAP, where materially different, is as follows:

| | 2004<br>Rm | 2005<br>Rm | **2006**<br>**Rm** |
|---|---|---|---|
| Net deferred taxation liabilities: | | | |
| As reported under IFRS | 132.3 | 164.0 | **304.7** |
| Additional temporary differences (Note 45 d) | 46.0 | 38.9 | **37.7** |
| Business combination (Note 45 m) | (58.3) | (62.4) | **(41.0)** |
| Income taxation – other difference (Note 45 f) | 1,035.0 | 1,169.1 | **1,346.8** |
| Taxation effect of US GAAP adjustments | 12.2 | 15.5 | **16.5** |
| Deferred taxation in joint venture (Note 45 i) | 100.2 | – | **–** |
| As adjusted under US GAAP | 1,267.4 | 1,325.1 | **1,664.7** |

Under IFRS, deferred taxation assets on deductible temporary differences are only recognised to the extent that it is probable that the future taxable profit will allow the deferred taxation asset to be recovered.

Under US GAAP, deferred taxation 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 taxation asset and a corresponding valuation adjustment allowance of R279.4 million (2005: R109.3 million; 2004: R24.8 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, 2006, 2005 and 2004 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 consolidated 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 consolidated 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.

**45. US GAAP INFORMATION (continued)**

**(i) Joint ventures (continued)**

In 2004 and 2003, the Group also proportionately consolidated Vodacom Congo (RDC) s.p.r.l. The summarised financial statement information for Vodacom Congo (RDC) s.p.r.l. relating to the Group's pro rata interest is set out in Note 44. 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.

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Investment in Vodacom Congo (RDC) s.p.r.l. under US GAAP is as follows: | | | |
| Initial investment in ordinary shares reported under IFRS | 5.1 | – | **–** |
| Initial investment in preference shares reported under IFRS | 243.1 | – | **–** |
| Group's share in accumulated losses of the joint venture net of dividends received | (216.6) | – | **–** |
| Foreign currency translation reserve under IFRS | 85.5 | – | **–** |
| Foreign currency translation reserve under US GAAP | (3.2) | – | **–** |
| Goodwill not amortised under US GAAP | 11.2 | – | **–** |
| Investment in associate under US GAAP | 125.1 | – | **–** |

During the previous financial year the shareholders' agreement was amended resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a 51% owned subsidiary (Note 30). Accordingly Vodacom Congo (RDC) s.p.r.l. is consolidated under both IFRS and US GAAP.

**(j) Minority interest**

Under IFRS, net profit attributable for minority interests is included in the Group's net profit. Under US GAAP, net income attributable for minority interest is presented as a single line item between the deduction for income taxes and income from continuing operations.

The Group adopted IAS 27: Consolidated and Separate Financial Statements ("IAS 27"), from April 1, 2004. In accordance with the guidance, the Group has reclassified its minority interest in the consolidated balance sheet from a liability into equity. The Group applied this reclassification retroactively.

Under US GAAP, minority interest is recorded outside of equity. Therefore, the minority interest under US GAAP is reclassified at the end of each fiscal year in the shareholders' equity reconciliation.

In 2003, all the shareholders of Vodacom Tanzania Limited changed the terms of their shareholders loans, which for the Group were effectively long-term investments, to a non interest-bearing loan due to Vodacom Tanzania Limited securing external debt. The change in the interest rate applicable to the loan changed the fair value of the loan on that date that the loan became interest-free. The loan was remeasured to amortised cost and the difference between the nominal amount of the loan and the fair value on remeasurement date was recorded as a gain in earnings. Under both IFRS and US GAAP, upon consolidation the Group's portion of the loan to Vodacom Tanzania Limited was eliminated. Under the revised IFRS accounting in terms of IAS 27, the remaining portion related to the remeasurement of the loan advanced by the minority shareholders of Vodacom Tanzania Limited was recorded as a capital contribution by the minority interest in equity. Under US GAAP, the Group recorded the gain on remeasurement of the minority interest of the loan in "minority interest" and recognised in earnings.

**(k) Foreign exchange translation on net investment in foreign operations**

Upon the adoption of IAS 21: The Effects of Changes in Foreign Exchange Rates, the Group has reclassified the foreign exchange gains or losses of the monetary item that forms part of the net investment in foreign operations which is denominated in a currency other than the functional currency of either the parent company or the foreign operation through earnings and not as a separate component of equity.

For US GAAP, in accordance with SFAS 52: Foreign Currency Translation, foreign exchange gains or losses related to a monetary item that forms part of the net investment in foreign operations are recognised upon consolidation as a component of equity in other comprehensive income.

## 45. US GAAP INFORMATION (continued)

### (l) Comprehensive income

| | 2004 Rm | 2005 Rm | **2006 Rm** |
|---|---|---|---|
| Comprehensive income under US GAAP and accumulated other comprehensive income balances under US GAAP are summarised as follows: | | | |
| Net income under US GAAP | 2,990.1 | 3,770.1 | **4,764.6** |
| Other comprehensive (loss)/income: | | | |
| Foreign currency translation adjustment | (190.0) | (59.5) | **117.2** |
| Gain on derivatives – reclassified to earnings net of tax | (4.8) | (4.8) | **(4.9)** |
| Other comprehensive (loss)/income | (194.8) | (64.3) | **112.3** |
| Comprehensive income | 2,795.3 | 3,705.8 | **4,876.9** |
| Accumulated other comprehensive income balances: | | | |
| Cumulative foreign currency translation adjustments | (346.8) | (406.3) | **(289.1)** |
| Cumulative effect adjustment of adoption of SFAS 133 | 22.8 | 18.0 | **13.1** |

### (m) Business combinations

Under IFRS, the Group elected to fair value 100% of the assets acquired and liabilities assumed, including minority interests. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill.

Under US GAAP, the Group fair values the percentage of the assets acquired and liabilities assumed, excluding minority interests. Similar to IFRS, the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill. As a result, the carrying amount of the goodwill for US GAAP purposes is adjusted to reflect the different values assigned to the intangibles.

Under IFRS and US GAAP, losses are generally only allocated to the minority interest up to the amount of the minority's equity in the subsidiary entity. In 2004, the minority interest allocation was a net profit under US GAAP, and a net loss under IFRS (due to the additional amortisation expense). Therefore, there was no minority interest allocation under IFRS, and thus there was a GAAP difference effecting net income. In 2005, the minority interest allocation under both IFRS and US GAAP was a net profit. Therefore, in accordance with IAS 27, the IFRS allocation to minority interest was net of the loss not allocated to the minority in 2004. No difference in shareholders' equity exists at the end of 2005.

### (n) Revenue recognition

Under US GAAP, the Group applies EITF 00-21 to its revenue arrangements with multiple deliverables. This application has not resulted in a difference between the revenue recognised under US GAAP and IFRS.

**45. US GAAP INFORMATION (continued)**

**(o) Recent accounting pronouncements**

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-based Payments" ("SFAS 123R"). This statement eliminates the option to apply the intrinsic value measurement provisions of APB 25, "Accounting for Stock Issued to Employees" to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognised over the period during which an employee is required to provide services in exchange for the award the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. For public entities that do not file as small business issuers, the standard is effective for the first annual reporting period that begins after June 15, 2005. The Group is currently evaluating the impact of SFAS 123R on its results of operations, financial position and cash flows.

On November 24, 2004, the FASB issued SFAS 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). The amendments made by SFAS 151 clarify that "abnormal" amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognised as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS 151 is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board ("IASB") toward development of a single set of high-quality accounting standards. The FASB and the IASB noted that ARB 43, Chapter 4 and IAS 2, Inventories, are both based on the principle that the primary basis of accounting for inventory is cost. Both of these accounting standards also require that "abnormal" amounts of idle freight, handling costs, and wasted materials be recognised as period costs; however, the Boards noted that differences in the wording of the two standards could have led to the inconsistent application of those similar requirements. The FASB concluded that clarifying the existing requirements in ARB 43 by adopting language similar to that used in IAS 2 is consistent with its goals of improving financial reporting in the United States and promoting convergence of accounting standards internationally. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Group does not expect the adoption of SFAS 151 to have a material impact on its operations, financial position or cash flows.

In December 2004, the FASB issued SFAS 153, "Exchanges of Non-monetary Assets" ("SFAS 153"), which amends APB 29: Accounting for Non-monetary Transactions" to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Group does not expect the adoption of SFAS 151 to have a material impact on its operations, financial position or cash flows.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections". SFAS 154 replaces APB 20, "Accounting Changes", and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements", and amends the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 establishes retrospective application, unless impracticable, as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. In many, but not all, aspects under SFAS 154 the accounting for changes and error corrections are converged with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Group is currently evaluating the impact of SFAS 154 on its results of operations, financial position and cash flows.

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments". SFAS 155 amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitised Financial Assets." SFAS 155 is effective for all financial instruments acquired or issued after the first fiscal year beginning after September 15, 2006. The Group is currently evaluating the impact of SFAS 155 on its results of operations, financial position and cash flows.

## 45. US GAAP INFORMATION (continued)

### (o) Recent accounting pronouncements (continued)

In March 2006, the FASB issued SFAS 156 "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140". SFAS 156 amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognised servicing assets and servicing liabilities. SFAS 156 requires a company to recognise a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract principally in a transfer of the servicer's financial assets that either meets the requirements for sale accounting, or is to a qualifying special-purpose entity in a guaranteed mortgage securitisation in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities". SFAS 156 requires all separately recognised servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits a company to choose to subsequently measure each class of separately recognised servicing assets and servicing liabilities using either a specified amortisation method or a specified fair value measurement method. SFAS 156 is applicable to all transactions entered into in fiscal years that begin after September 15, 2006. The Group is currently evaluating the impact of SFAS 155 on its results of operations, financial position and cash flows.

## 46. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS

### Accounting pronouncements adopted at March 31, 2006

The Group adopted the following revised and new International Financial Reporting Standards prior to their effective dates in the current financial year:

| | |
|---|---|
| IAS 19 | Employee Benefits |
| IFRS 6 | Exploration for and Evaluation of Mineral Resources |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| IFRIC 6 | Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |

The Group adopted the following revised and new International Financial Reporting Standards in accordance with their effective dates during the current financial year:

| | |
|---|---|
| IAS 16 | Property, Plant and Equipment |
| IAS 17 | Leases |
| IAS 40 | Investment Property |
| IFRS 4 | Insurance Contracts |
| IFRIC 1 | Changes in the Existing Decommissioning, Restoration and Similar Liabilities |
| IFRIC 2 | Member's Shares in Co-operative Entities and Similar Instruments |

The adoption of IFRS 6, IFRIC 1, IFRIC 2, IFRIC 5 and IFRIC 6 had no impact on the Group's results or cash flow information for the year ended March 31, 2006.

Please refer to Note 23: Change in Accounting Policies, Reclassifications and Restatements for the effect of the above adoptions on the financial statements, if any.

### Accounting pronouncements not adopted at March 31, 2006

In August 2005 the IASB amended IAS 1: Presentation of Financial Statements ("IAS 1") to add requirements for disclosure about capital. These disclosure requirements include the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

These disclosure requirements apply to all entities, effective for annual periods beginning on or after January 1, 2007, with earlier adoption encouraged.

The Group will adopt the revised IAS 1 during the 2007 financial year and is currently evaluating the effects of the standard.

## 46. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS (continued)

**Accounting pronouncements not adopted at March 31, 2006 (continued)**

In April 2005 the IASB issued an amendment to IAS 39: Financial Instruments: Recognition and Measurement ("IAS 39") to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge in consolidated financial statements – provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements. The amendment also specifies that if the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in equity in accordance with the hedge accounting rules in IAS 39 must be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

In June 2005 the IASB amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss (the "fair value option"). The new revisions limit the use of the option to those financial instruments that meet certain conditions. Those conditions are that:

- The fair value option designation eliminates or significantly reduces an accounting mismatch,
- A group of financial assets, financial liabilities, or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy,
- An instrument contains an embedded derivative that meets particular conditions.

The fair value option amendment also provides that if a contract contains an embedded derivative, an entity may generally elect to apply the fair value option to the entire hybrid (combined) contract, thereby eliminating the need to separate out the embedded derivative. The abovementioned conditions are not relevant to this election.

In August 2005 the IASB amended the scope of IAS 39 to include financial guarantee contracts issued. However, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IAS 39 or IFRS 4: Insurance Contracts ("IFRS 4") to such financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Under IAS 39 as amended, financial guarantee contracts are recognised:

- Initially at fair value.
- Subsequently at the higher of (i) the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

The amendments to IAS 39 and IFRS 4 are effective for annual periods beginning on or after January 1, 2006. The Group will adopt the amended IAS 39 during the 2007 financial year and is currently evaluating the effects of the amended standard.

In December 2005 the IASB amended IAS 21: The Effects of Changes in Foreign Exchange Rates ("IAS 21"). The amendments concluded that the accounting treatment in consolidated financial statements of a monetary item that forms part of an entity's net investment in a foreign operation, should not be dependent on the currency of the monetary item. The accounting should also not depend on which entity within the Group conducts a transaction with the foreign operation.

The amendment to IAS 21 is effective for annual periods beginning on or after January 1, 2006. The Group will adopt the amended IAS 21 during the 2007 financial year and is currently evaluating the effects of the amended standard.

## 46. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS (continued)

### Accounting pronouncements not adopted at March 31, 2006 (continued)

In August 2005 the IASB issued IFRS 7: Financial Instruments: Disclosures ("IFRS 7"). The standard is effective for annual periods commencing on or after January 1, 2007. The standard adds certain new disclosures about financial instruments to those currently required by IAS 32: Financial Instruments: Disclosure and Presentation ("IAS 32"). The standard replaces the disclosures currently required by IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions ("IAS 30"). The standard therefore puts all of those financial instruments disclosures together in a new standard.

The Group will adopt IFRS 7 during the 2007 or 2008 financial years and is currently evaluating the effects of the standard.

In November 2005 the IASB issued IFRIC 7: Applying the Restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economies ("IFRIC 7"). The interpretation is effective for annual periods beginning on or after March 1, 2006. IFRIC 7 contains guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency.

The Group will adopt IFRIC 7 during the 2007 financial year and does not believe that the adoption of the interpretation will have any effect.

In January 2006 the IASB issued IFRIC 8: Scope of IFRS 2 ("IFRIC 8"). The interpretation is effective for annual periods beginning on or after May 1, 2006. IFRIC 8 clarifies that IFRS 2: Share-based Payments ("IFRS 2") applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies.

The Group will adopt IFRIC 8 during the 2007 financial year and does not believe that the adoption of the interpretation will have any effect.

In March 2006 the IASB issued IFRIC 9: Reassessment of Embedded Derivatives ("IFRIC 9"). The interpretation is effective for annual periods beginning on or after June 1, 2006. IAS 39: Financial Instruments: Recognition and Measurement ("IAS 39") requires an entity, when it first becomes a party to a hybrid contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as if they were standalone derivatives.

IFRIC 9 addresses:

- Whether IAS 39 requires such an assessment to be made only when the entity first becomes a party to the hybrid contract, or whether the assessment be reconsidered throughout the life of the contract.
- Whether a first-time adopter of IFRSs should make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts IFRSs for the first time.

The Group will adopt IFRIC 9 during the 2007 or 2008 financial years and is currently evaluating the effects of the standard.

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