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Annual Report
2006



Our Vision

To be a Premier World Class Infocom Services Provider

Our Core Values

Innovation & Creativity

Quality

Professionalism

Customer Service

Competitiveness

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Corporate Profile

Mauritius Telecom is the leading telecommunications operator and services provider in Mauritius and was incorporated in 1992 with the merger of the national and international telecommunications entities. Mauritius Telecom has since known a phenomenal development which has led to the Company being among the topmost enterprises in the country, with a revenue of Rs 6.3 billion for 2006.

Mauritius Telecom is a group of companies comprising Mauritius Telecom Ltd and four subsidiaries, namely Cellplus Mobile Communications Ltd, Telecom Plus Ltd, Call Services Ltd and Teleservices Ltd. Mauritius Telecom is also present in the regional telecommunications market through its foreign investments in Africell in Burundi and Orange in Madagascar.

The Government of Mauritius, the State Bank of Mauritius and the National Pensions Fund hold 60% shares in the Company. The remaining 40% belong to France Telecom, through its investment vehicle RIMCOM. The Government of Mauritius has recently approved an Employee Share Participation Scheme whereby 1,900,000 ordinary shares belonging to the Government of Mauritius, representing 1% of the total shares of Mauritius Telecom, are being sold to employees at a discounted price.

Mauritius Telecom is committed to bring the best of ICT services to its customers. It provides the full spectrum of services and solutions in fixed telephony, mobile, Internet and broadband sectors. Mauritius Telecom also offers convergent services through My.T, its Multiplay-IPTV services, thereby reinforcing its commitment to bring in the latest innovations in terms of service offerings to the customer. My.T enables Mauritians to make phone calls, surf on the Internet, watch digital TV, or have access to Video on Demand (VoD) services, simultaneously, on the basic telephone copper line equipped with ADSL.

Mauritius Telecom, by virtue of its position as the incumbent operator, is the sole telecommunications company of the country which is vested with universal service obligations in its licence. This responsibility leads the Company to develop its networks and provide its services to all citizens within the Republic of Mauritius.

Mauritius Telecom had, at the end of December 2006, more than 340,000 fixed line customers, 494,000 mobile customers, 53,000 dial-up Internet and 16,000 broadband (ADSL and My.T) customers. This represents around 280,000 Internet users in the country.

This important customer base has enabled Mauritius Telecom to quickly position itself as the preferred end-to-end solutions provider in Mauritius.

Corporate Profile (CONTINUED)

Mauritius Telecom is setting the pace in the region in the transition from narrowband to broadband and IP (Internet Protocol) services. The Company is gradually migrating its existing legacy network into a fully IP based one, which will enable it to offer integrated services on a single platform. This network is being rolled out for high performance data, voice and multimedia services leading the way towards Broadband Mauritius and the transformation of the country into a Cyber Island as envisioned by the Government of Mauritius.

The Company offers global connectivity through the SAT3/WASC/SAFE undersea fibre optic cable and satellite systems. As provider of international bandwidth services, Mauritius Telecom is continuously upgrading the available bandwidth on the SAT3/WASC/SAFE cable in order to meet the increasing demands of Call Centre and BPO operators.

Mauritius Telecom continues to live fully its role as a responsible Corporate Citizen by judiciously supporting many laudable causes in the fields of education, sports, environment and community projects.

At the same time, Mauritius Telecom invests substantially towards the development of its human resources through high level training, attachment programmes and career development opportunities.

Corporate Governance

Mauritius Telecom aims at installing and sustaining the best practice at all levels of its operations through the maintenance of the highest standards of corporate governance and ethics throughout the Company. Such an approach is considered fundamental to the proper functioning of the Company and to the enhancement of shareholder value.

BOARD OF DIRECTORS

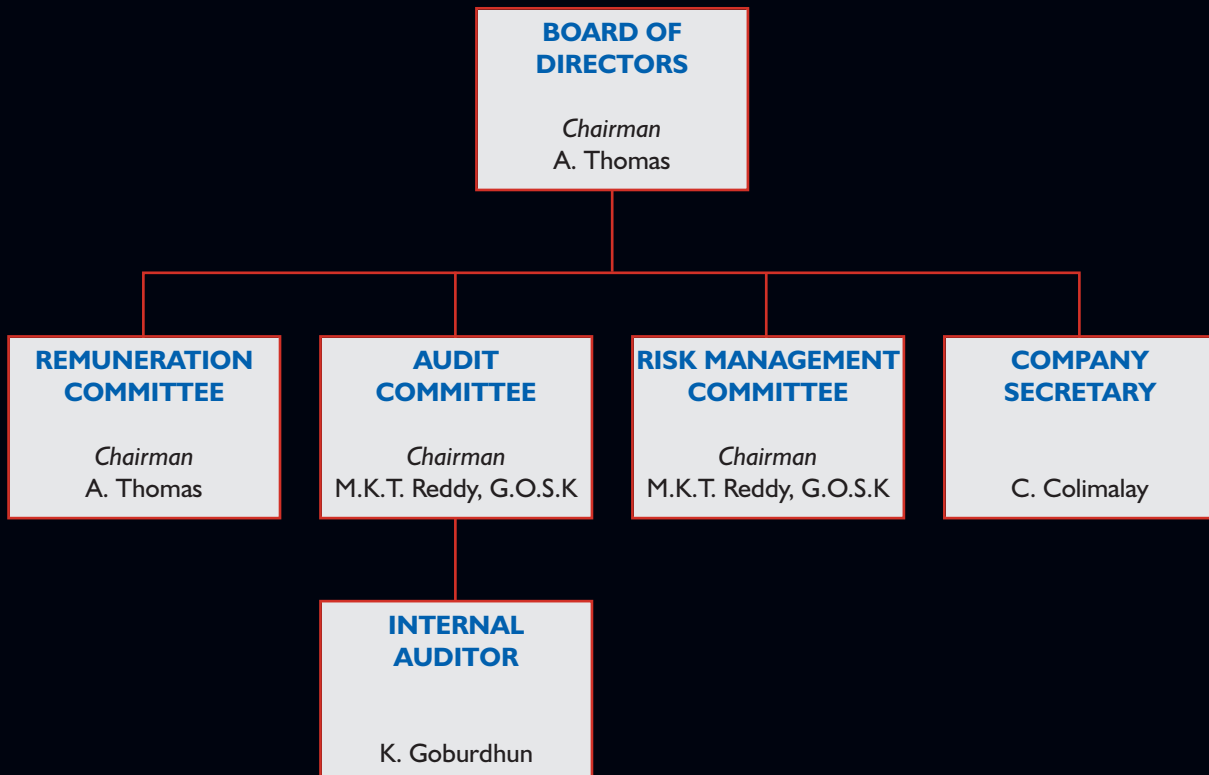
The Chairman leads the Board of Directors. In addition to the Chairman, the Board comprises four other members nominated by the Government of Mauritius, and four members nominated by RIMCOM. Board meetings are normally held every two months or earlier

whenever required. In addition to the meetings held in Mauritius, video conferences are held when necessary to consider and discuss critical matters.

The Board determines the orientation of the Company's activities, in terms of goals and strategies, and approves its strategic and operating plans. It also examines and approves major policy decisions as well as the Company's annual operating and investments budgets and any other capital expenses.

The Board is responsible to monitor the Company's internal control mechanism and its management information systems. To ensure a proper and effective implementation of those practices, a Risk Management Committee has been set-up in 2006, in addition to the existing Audit and Remuneration Committees.

STRUCTURE TO PROMOTE GOOD CORPORATE GOVERNANCE



Remuneration Committee

The Remuneration Committee (REMCO) reviews all aspects of the terms and conditions of service of Management and non-Management staff. It is involved in the selection and appointment processes for Executive Heads and Senior Executives, including approval of contractual terms and performance objectives. It ensures, inter alia, that the remuneration packages provided to Management and staff are competitive and that the remuneration system offers the opportunity of excellent reward for excellent performance. It ensures that the system of job evaluation used is effective.

Audit Committee

The Audit Committee is a standing committee of the Board established to assist it in fulfilling its fiduciary responsibilities. It is made up of four Directors of the Board. The Audit Committee meets prior to each Board meeting and as and when required.

The Audit Committee:

- (i) reviews the Company's financial statement;
- (ii) is responsible for the systems of internal control and risk management and monitors their effectiveness;
- (iii) reviews the Company's internal audit function and its relationship with external auditors and ensures that control procedures are in place and are being followed;
- (iv) ensures that the system of internal control of the Company's activities is adequate;
- (v) ensures that the Company complies with laws and regulations in force, conducts its affairs ethically and maintains effective control against employee conflict of interest and fraud.

Risk Management Committee

The Risk Management Committee is a standing committee of the Board established to assist it in fulfilling its statutory and fiduciary responsibilities and in complying with principles of good governance. The Risk Management Committee is appointed by the Board and it is composed of not less than four Directors of the Board.

The Risk Management Committee:

- (i) reviews and approves risk policy on an annual basis;
- (ii) establishes the systematic and continuous identification, evaluation, measurement and mitigation practices of the risks as they pertain to the group;
- (iii) defines and approves clear risk management practices and prudential limits and its strategy covering risk management philosophy and responsibilities throughout the group;
- (iv) reduces and mitigates identified risks to an acceptable level or considers transfer of same;
- (v) ensures that adequate controls and measures are in place as also their effectiveness to manage the most significant risk factors and to respond in a manner that is appropriate and proportional to the risks identified.

Internal Auditor

The Internal Auditor ensures that Mauritius Telecom and its subsidiaries are efficiently run and that all resources are properly used and taken care of. His duties include the development and implementation of a comprehensive audit programme for the evaluation of the management controls of the major activities of the Mauritius Telecom group. He investigates and examines

the effectiveness in the usage of company resources and their compliance with established and new policies, procedures and processes. He reports brief audit findings on a quarterly basis to the Audit Committee.

Company Secretary

The Company Secretary ensures the proper coordination and conduct of the Board of Directors and shareholders meetings and recording of proceedings. He also advises the Chairman and the Chief Executive Officer on the Company's corporate governance policies and practices, and application of the Companies Act and other legal matters.

STRATEGIC EXECUTIVE COMMITTEE

The Strategic Executive Committee is a normative team dealing with corporate and high-level strategies and ensuring their implementation. The Committee is chaired by the Chief Executive Officer and comprises the Deputy Chief Executive/Chief Operating Officer, the Executive Heads and the Chief Financial Officer. The Strategic Executive Committee meets on a weekly basis.

Senior Management Committee

The Senior Management Committee, responsible for contributing to strategic thinking and implementation of Company strategies, policies and programmes, is constituted of members of the Strategic Executive Committee and Senior Executives. The Senior Management Committee meets on a fortnightly basis.

MANAGEMENT STRUCTURE



Chairman's Message

At the heart of the future of Mauritius Telecom lies the overriding imperative of continuous innovation in the services we provide to our customers.

Dear Shareholders

On behalf of the Board of Directors, I am pleased to report that Mauritius Telecom has been able to sustain its good performance for the 2006 financial year. Our strategy, focused on judicious investments and on areas with the potential to strengthen Mauritius Telecom's growth i.e. broadband, mobile and converging technologies, has been successful.

Indeed, the year 2006 has witnessed a substantial growth in broadband penetration: the combined subscription base of Telecom Plus and Mauritius Telecom stood at more than 16,000 at the end of the year, compared to 8,300 in 2005.

The mobile broadband network of Cellplus, our subsidiary company involved in mobile telephony, now covers the whole country. We introduced an array of innovative value-added services such as Mobile Banking service, Pushmail service on mobile, SMS2TV and MatinalSa infotainment services, amongst others, during the year. Moreover, we had nearly reached the half million customers mark at the end of the year against 438,000 at December 2005.

My.T, Mauritius Telecom's Multiplay-IPTV services launched in July, has penetrated successfully into Mauritian homes. Nearly 6,000 households had already subscribed to this convergent service at the end of the year.



During the year, the tariff of such services as Interconnection with Mauritius Telecom, IPLC, ADSL (wholesale and retail), International Calls and SEZAM prepaid calling cards have undergone reductions ranging from 15% to 50%.

These reductions have been beneficial to both the customers and the Company: the decrease in ADSL wholesale tariff, for example, has impacted positively on the performance of Telecom Plus and has increased the dissemination of broadband services.

We invested more than Rs 900 million in bringing innovative products and services to our customers through technological improvements, equipment and network upgrading.

The attainment of our strategic objectives depends as much on the quality, dedication and commitment of our employees as on innovative products, services and world-class technology. Having the right people in the right positions was and will continue to be critical for our Company. Thus, in accordance with the 2006-2008 strategic plan, a major organisational restructuring has been initiated in July 2006. The exercise aims at putting a leaner structure in place within Mauritius Telecom, whilst at the same time thriving to become more productive in the very different environment that is emerging through changes in technology, customers' expectations and business exigencies. It is expected that the new organisation structure will be fully implemented by mid 2007.

In a bid to maintain the highest standards of corporate governance and ethics throughout the Company, a Risk Management Committee was set up in 2006. This Committee, like the two existing committees, the Audit Committee and the Remuneration Committee, comprises only Directors of the Board.

As a good corporate citizen, Mauritius Telecom sponsored the 5th CJSOI Games, the National Cycling Championship, the African Cycling Championship, the popular musical show Hum Tum, the National Divali Show at Anjalay Stadium, the Festival Créole, and the landscaping of the side of the northern motorway between Riche Terre and Terre Rouge roundabouts, amongst others.

Given the above strategies and initiatives, it was pleasing to record that the financial performance was better than last year. Thus, our total revenue for the group grew by 3% to reach Rs 6.3 billion. With a profit after tax of Rs 1.9 billion, reflecting an increase of 19% compared to previous year, the Board recommended a dividend of Rs 6.997 per share, representing a substantial two-fold increase to shareholders. Earnings per share grew by 21% to reach Rs 10.17. Furthermore, a return on net asset of 21% was achieved, whilst equity attained Rs 9.2 billion, showing a growth of 7% for the year.

This performance was achieved against a backdrop of growing competition in all the sectors of our business, including fixed lines.

THE FUTURE

At the heart of the future of Mauritius Telecom lies the overriding imperative of continuous innovation in the services we provide to our customers. However, we also need to grow our share of the market both locally and regionally through organic growth, acquisitions or joint-ventures, which will enable us to enter new markets in the region. Moreover, we shall maintain our investment focus on broadband, mobile and convergent services. This will be done without jeopardising our traditional revenue streams like fixed line voice telephony locally.

Chairman's Message (CONTINUED)

We will adopt an approach to productivity that concentrates on smart costs management, marketing efficiency and capital effectiveness. We will need to ensure that we have a strong brand name, our marketing resources and capabilities are used in the most efficient way, unnecessary complexity is reduced and our cash and other assets are used effectively.

Our marketing performance and marketing intelligence, staff training and development, organisational development as well as the development of a results oriented company culture will continue to stand high on our business agenda. One of the focused areas for the Company will be the implementation of a culture change awareness programme starting mid 2007.

Of equal importance, we shall also ensure strict adherence to the principles of good governance and risk management.

We shall extend the scope of our Corporate Social Responsibility activities and strengthen our efforts towards the protection and conservation of the environment. We shall therefore focus on operations efficiency, technologies, services, products and systems that minimise environmental impacts and foster efficiency in energy consumption.

CONCLUSION

I am very grateful to our faithful customers and thank them for their continued loyalty and their trust in Mauritius Telecom. I thank our strategic partner, France Telecom, whose collaboration and forward looking attitude have been instrumental in our accomplishments over the year. I also wish to convey my gratitude to my fellow Board Directors for their high level contribution to the deliberations of the Board and for their relentless support and guidance in developing successful strategies for the Company.

I thank the Management Team and employees of the Company for their marked contribution in all our achievements. The allocation of 1% of the shares held by the State in the Company to eligible employees and retirees, coupled with the payment of dividends to them, is a just reward for their efforts and dedication.

The year 2006 has been a good one and I believe we can look ahead with confidence in our ability to achieve further growth and value for our shareholders while firmly embracing a culture of non-stop service excellence to our customers.



APPALSAMY THOMAS
Chairman of the Board of Directors
June 2007

Chief Executive Officer's Message

Mauritius Telecom, as the market leader, is transforming itself to sustain its leadership position whilst continuing to deliver value to all its customers, shareholders, employees and the public at large.



Mauritius Telecom sustained its growth during 2006 despite intensifying competition in the sector. Compared to previous year, revenue grew by 3% to Rs 6.3 billion, while profit before taxation rose by 22% to reach Rs 2.4 billion.

Our ongoing efforts to reduce the tariffs of our services proved worthwhile: the year was marked by several decreases in telecommunication tariffs set by ICTA, the regulator, following requests from Mauritius Telecom. In January, international calls tariffs were reduced by 30%. In February, there was a decrease of up to 22% in the tariffs of International Private Leased Circuit (IPLC). This was followed by a further decrease of 25% in July. Moreover, we were able to offer up to 41% reduction in Sezam international prepaid calling cards tariffs. We also had a reduction of up to 20% in our ADSL tariffs following a decrease in Mauritius Telecom interconnection tariffs in April.

The further reductions of wholesale and Mauritius Telecom interconnection tariffs granted later in the year enabled the group to introduce a new ADSL offer with reduction of up to 50% for SMEs. A new My.T offer at Rs 490 was also launched.

Mauritius Telecom rolled out numerous innovative services during the year. The most salient one was My.T, our Multiplay-IPTV services, launched officially in July by the Honourable Prime Minister.

Chief Executive Officer's Message (CONTINUED)

With My.T, Mauritius Telecom ushered in a new world where what was once a phone connection for residential customers is becoming the hub of their information, entertainment and communications needs.

Both Cellplus, the leader in mobile communications in Mauritius, and Telecom Plus, our Internet value added services provider, celebrated their 10th anniversary of commercial operations in 2006.

During its tenth year of operations, Cellplus generated revenue of Rs 2.4 billion, and achieved a landmark in subscription with almost half a million customers at the end of the year. This company has brought a new dimension to mobile communications in Mauritius through the richness of data capabilities embedded in its networks. This has enabled the company to further respond to emerging customers' needs with the launching of new valued added services such as Mobile Banking service, in partnership with the State Bank of Mauritius, Pushmail service on mobile as well as SMS2TV. Cellplus also introduced MatinalSa, an infotainment service, in partnership with the daily newspaper Le Matinal, and staged a demonstration of the BlackBerry® Solution at Infotech 2006.

For its part, Telecom Plus achieved a turnover of Rs 467 million for the year under review, representing 8.5% increase compared to previous year. Our drive to enhance the availability and attractiveness of broadband was fruitful since Telecom Plus ADSL customer base reached 10,500, a 27% increase, at year end. The number of dial-up customers stood at around 53,000. Furthermore, Telecom Plus introduced ADSL in Rodrigues in November 2006, in line with Mauritius Telecom's policy of spreading the utilisation of broadband.

Call Services also recorded a good performance for 2006. This subsidiary company specialising in the

provision of directory information and call centre operations achieved a 46% increase in turnover with an EBITDA increase of 31%. Revenue generated by 152, the business directory and tourist information service, and 150, the vocal directory service, showed a substantial increase of 60%.

Teleservices, our subsidiary company specialising in the production of printed, CDROM and online directories, showed a revenue increase of nearly 20% compared to year 2005, with an EBITDA increase of 17%. The Mauritius Telecom Phonebook and Mauritius Telecom Yellow Pages remain the main sources of income for the company, accounting for over 70% of its revenue. The online directory is growing very fast with an increase of over 300% in revenue compared to 2005.

The telecommunication environment in Mauritius is fast evolving and Mauritius Telecom, as the market leader, is transforming itself to sustain its leadership position whilst continuing to deliver value to all its customers, shareholders, employees and the public at large.

In the past, telecommunication was essentially about a customer using a fixed line to make a one-to-one contact with another person. Nowadays, it spans an ever-growing multitude of services such as mobile calls, websites, blogs, text and multimedia messages, videoconferencing and music downloads, among others.

To meet the needs of the emerging environment, we have embarked on a significant process of organisational restructuring since July 2006.

Mauritius Telecom is privileged to count some 900,000 subscriptions to its fixed line, mobile, Internet, ADSL and convergent (My.T) services. As the needs of these customers are constantly changing,

the ability to continually introduce innovative products and services, and enhance our way of working and interacting with customers is essential to sustain our growth.

Mauritius Telecom is committed to making life simpler and easier for its customers, in both the way they use our products and services, and in the way they interact with us.

We shall in the future maintain our focus on the implementation of our strategy to preserve our revenues from fixed line services, increase mobile penetration and spread further broadband utilisation and subscription to My.T.

Since the quality of service we offer to customers is key to their satisfaction levels, much of our investment in staff training and development has been directed towards developing a truly customer-centric culture in Mauritius Telecom. It is not by chance, therefore, that customer satisfaction index grew by 3% for the year.

We are thankful to our customers for their sustained trust and loyalty.

We recognise that our biggest asset is our employees throughout the whole Company. I wish to congratulate them and express my gratitude to them for their passion for what they do, and for their dedication and commitment to serve our customers.

I am confident that, under the guidance of the Board of Directors, with the support of our strategic partner France Telecom, the trust of our customers and the dedication of our management team and employees, Mauritius Telecom is heading towards new heights.



SARAT DUTT LALLAH
Chief Executive Officer
June 2007

Deputy Chief Executive's Message

The Mauritius Telecom-France Telecom partnership is set to achieve new heights with the Information Technology and Network Excellence Project.



With the official launch of My.T, Mauritius Telecom's Multiplay-IPTV services, in July 2006, the Company entered into a market that would undoubtedly play a key role in its future development. I am happy that the roll-out of My.T has been made possible by the professionalism, enthusiasm and dedication of a Mauritius Telecom project team, coming from all business units of the group, coupled with the continual support of France Telecom.

Mauritius Telecom has, with the launch of My.T, aligned itself with the trend set by leading operators worldwide, who see in the convergence of telecommunication services, information technologies and multimedia, an excellent opportunity to secure their future growth while satisfying the crave of their customers for innovative services.

We are witnessing a lot of changes in the mobile and broadband sectors too. These changes concern technological innovations as well as offers to customers. To sustain its growth in the face of these changes, Cellplus is continuously rolling out innovative services as was highlighted, amongst others, by the launch of the Mobile Banking service in partnership with SBM, the SMS2TV service during FIFA World Cup, the launch of the WAP infotainment service, MatinalSa, in partnership with Le Matinal and the demonstration of the BlackBerry® Solution at Infotech 2006.

As for Telecom Plus, the decreases in ADSL wholesale tariffs positively impacted on its performance by facilitating the further dissemination of the utilisation of broadband services in the country.

As a Company which has placed innovation at the core of its future development, Mauritius Telecom has to continually face and overcome numerous daunting challenges in the technological, commercial, operational, regulatory, organisational and other fields. To stand up successfully to these challenges, Mauritius Telecom can fortunately rely on its strict attachment to quality in the service provided to its customers and on the transfer of know-how from a world class operator, its strategic partner France Telecom.

Quality in a complex environment represents a great challenge but will at the same time provide a strong competitive advantage. This is the reason underpinning our relentless efforts to continuously improve and sustain our quality of service. The quality challenge is of utmost strategic importance for Mauritius Telecom, as ultimately we want to have customers who are loyal to us and who choose our services because, first and foremost, they trust our quality. To reach this goal, it is essential to review our systems and work methods as regards particularly quality and human resources management. Our aim will be to proactively anticipate problems and address them successfully, as when dealing with customers, there is no room for improvisation and we need to master every single detail. We will endeavour to address these complexities and adapt our organisational structure accordingly.

We know, for example, that a large amount of work is necessary prior to the launch of a product, to ensure that at launch time every aspect has been fully mastered. It is a fact that with convergence, the provision of service to customers entails more and more complexity. But these complexities should not be visible to the customers as their main concerns are services that are easier and simpler to use.

My.T services, for example, have evolved considerably since their introduction, as far as quality of operations, customer relationship management, look and feel of the

TV portal and network deployment are concerned. Being new in this market, we have to stand up to several different challenges, one of them being to sustain a high quality standard. Another challenge is the quality of contents where the objective is to cater for the market segments with higher market potential.

As Mauritius Telecom ambitions to become an “Integrated Operator”, our challenge in this new world of convergence is to ensure a customer experience which is independent of the mode of access. Irrespective of whether the customer is using a fixed line, a mobile or the Internet, the customer experience has to be the same: that of a service of high quality with an enhanced level of satisfaction. This will indeed be our main focus in the coming years. Our efforts to increase individual and corporate dedication and investment to effectively anticipate problems and transform each service into a quality customer experience will be reinforced. I am confident that the new Mauritius Telecom organisational structure being put in place will prepare the group to face these new market challenges.

In fact, in the coming year, the Mauritius Telecom-France Telecom partnership is set to achieve new heights with the ITN (Information Technology and Network) Excellence Project, which aims at the sharing of best practices in the Information Technology and Network fields.

Mauritius Telecom will also undoubtedly benefit from France Telecom’s expertise through other initiatives in Marketing Excellence, Distribution and Branding.

DOMINIQUE SAINT-JEAN

Deputy Chief Executive/Chief Operating Officer

June 2007

Board of Directors



CHAIRMAN

Mr Appalsamy THOMAS

MEMBERS



Mr R. DUBOIS



Mr A. MANSOOR



Mr M. MONZANI



Mr R. P. RAMLUGUN



Mr M. K. T. REDDY, G.O.S.K.



Mr M. RENNARD



Mr S. C. SEEBALLUCK



Mr G. VAILLANT



COMPANY SECRETARY

Mr C. COLIMALAY

Strategic Executive Committee



CHAIRMAN

Mr Sarat Dutt LALLAH
Chief Executive Officer

MEMBERS



Mr D. SAINT-JEAN
*Deputy Chief Executive and
Chief Operating Officer*



Mr D. UTCHANAH
*Executive Head Networks and
Information Systems*



Mr F. COUTURIER
Chief Financial Officer

Executive Head Commercial
VACANT

Executive Head Value-Added Support Services
VACANT

Milestones

- 1876** Invention of the telephone by Alexander Graham Bell
- 1883** Installation of first telephone in Mauritius and inauguration of first manual exchange
- 1893** Telegraph submarine cable connects Mauritius to Zanzibar and Seychelles
- 1901** Second submarine cable from Durban to Mauritius, Rodrigues and Seychelles
- 1938** Establishment of a Department of Electricity and Telephone to control the use of telephones in Mauritius
- 1939** Opening of first automatic telephone exchange
- 1948** Inauguration of radio telegraphy and radio telephony with Reunion and Madagascar
- 1956** Department of Electricity and Telephone is renamed Telecommunications Department
- 1962** STROWGER automatic exchanges replaces the manual exchanges in Port Louis and Rose-Hill
- 1969** Introduction of Telex service
- 1975** Mauritius joins space age with installation of a 10-metre diameter satellite antenna
- 1977** First data transmission to London
- 1978** Installation of E10A digital telephone exchange
- 1985** Overseas Telecommunications Services Co. Ltd (OTS) takes over from Cable and Wireless Ltd
- 1987** Installation of a second standard B earth station and a domestic satellite network with Rodrigues and Outer Islands, and of a packet-switched data exchange
 Introduction of International Direct Dialing (IDD) in Mauritius
- 1988** Corporatisation of Department of Telecommunications into Mauritius Telecommunication Services Ltd (MTS)
 Installation of a digital E10B telephone exchange
 Introduction of 7-digit numbering
 Introduction of IDD in Rodrigues
 ISDN demonstration on E10B exchange
- 1992** OCB Exchanges installed in Rose-Hill, Grand Bay and Flacq
 Inauguration of a revised Standard A Earth Station and opening of a direct route to North America

- Transfer of OTS assets and liabilities to MTS and change of name from MTS to Mauritius Telecom Ltd
- Opening of 1st Customer Service Centre in Rose-Hill
- 1996** Commercial launch of Internet services by Telecom Plus Ltd
- Commercial launch of mobile GSM services by Cellplus Mobile Communications Ltd
- 1999** Creation of Call Services Ltd, the first Call Centre in Mauritius
- 2000** OTS shares in Mauritius Telecom are transferred to Government of Mauritius
- Strategic equity partnership with France Telecom signed in November
- 2002** Inauguration of SAFE Fibre Optic Cable System
- Teleservices takes over the business of Directory Unit
- 2003** Liberalisation of telecommunications sector on 1st January
- Installation of 1st Mauritius Telecom PoP (Point of Presence) in Telehouse I, Paris
- Launch of 1st Teleshop in Curepipe
- Launch of CELL-OH!, 1st mobile system in Rodrigues
- 2004** Introduction of new Mauritius Telecom access code, 020, for international calls
- Launch of Sezam, VoIP pre-paid card for international calls
- Launch of WiFi commercial offer by Telecom Plus
- Introduction of Calling Party Pays (CPP) Regime
- Launch of MTc@re, on-line access to Mauritius Telecom services
- Launch of GPRS by Cellplus
- 2005** Launch of 3-Way Conference Service
- Installation of 3G Network of Cellplus
- Mauritius Telecom is certified ISO 9001:2000
- 2006** Launch of My.T, the Multiplay-IPTV services of Mauritius Telecom
- Launch of Cellplus Mobile Banking in partnership with SBM
- Launch of Cellplus Pushmail service
- Launch of SMS2TV by Cellplus during FIFA World Cup
- Launch of ADSL in Rodrigues
- EDGE island-wide coverage

Highlights of Year 2006

JANUARY

- Reduction in international calls tariffs by up to 30%
- Reduction in IPLC tariffs ranging from 15% to 22%

FEBRUARY

- Reduction of up to 41% in tariffs of SEZAM, the international prepaid calling card service and introduction of 11 new destinations

MARCH

- Launch of Mauritius Telecom Phone Book 2006
- Launch of Cellplus Mobile Banking in partnership with SBM
- Reduction in Mauritius Telecom interconnection tariffs ranging from 15% to 20%

APRIL

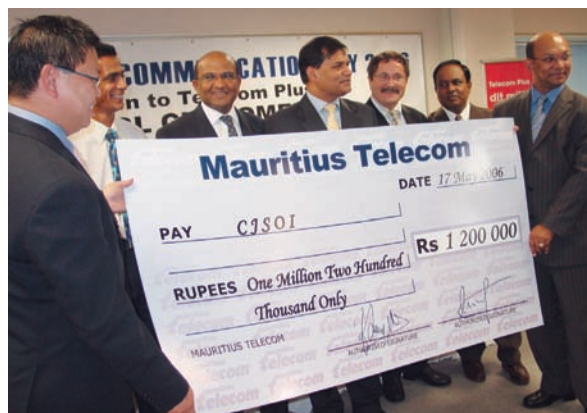
- Reduction in ADSL tariffs ranging from 15% to 20% following reduction in Mauritius Telecom interconnection tariffs

MAY

- Reintroduction of off-peak tariffs for national fixed line calls
- Telecom Plus celebrates its 10,000th ADSL customer



- Signature of Sponsorship Agreement for the CJSOI Games

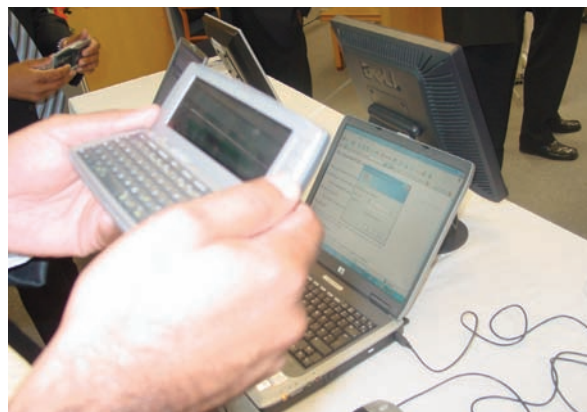


- Blood Donation by Mauritius Telecom employees



JUNE

- Launch of Cellplus Pushmail service



- Launch of SMS2TV by Cellplus during FIFA World Cup
- Launch of Mauritius Telecom International Friends and Family (IFF) offer
- Mauritius Telecom grants a salary compensation of Rs 275 instead of Rs 135 to its employees, following the appeal from Government to the institutions which can pay more than the recommended compensation

JULY

- Sponsorship of National Cycling Championship 2006



- Official Launch of My.T, the Multiplay-IPTV services, by the Honourable Prime Minister



- Sponsorship of Barbé Cup, 2nd main event of the horse racing season

- Start of organisational restructuring of Mauritius Telecom

- Reduction in IPLC tariffs by 25%

AUGUST

- Sponsorship of Cellplus Hum Tum TV programme
- Sponsorship of the 15th African Athletics Championship by Telecom Plus
- Launch of Mauritius Telecom Dialog Club package

SEPTEMBER

- Participation in SME & Technology Fair 2006
- Organisation of staff focus group discussions on Marketing and Sales with the participation of staff from all over the Mauritius Telecom group

OCTOBER

- Launch of MatinalSa Infotainment Services, a Cellplus and Le Matinal partnership, using Cellplus WAP service and SMS
- Announcement of launch of BlackBerry® solution by Cellplus
- Top management seminar held to review Mauritius Telecom strategic plan under the aegis of the Chairman of the Board of Directors

NOVEMBER

- Sponsorship of African Cycling Championship
- Participation in Infotech 2006
- Participation in ICT Regional Conference in the context of Infotech 2006
- Demonstration of BlackBerry® solution at Infotech 2006 by Cellplus
- Launch of ADSL and Videoconferencing in Rodrigues

Highlights of Year 2006 (CONTINUED)

- Introduction of new broadband rates for SMEs with more than 50% reduction in tariffs
- New My.T offer at Rs 490
- Further reduction of Mauritius Telecom interconnection tariffs ranging from 15% to 34%
- Introduction of a new offer, Wanadoo ADSL 128 Kbps Home, at Rs 650 (volume capping)
- Announcement of the implementation of Mauritius Telecom employee share participation scheme, whereby Government will sell 1% of its shares in Mauritius Telecom to eligible current and past employees of the group at a discounted price

DECEMBER

- Reduction of ADSL tariffs by 21%. Wanadoo ADSL 128 Kbps Home (no volume capping) reduced from Rs 950 to Rs 750

Business Review

Mauritius Telecom has built a strong relationship with its customers through a well targeted approach. The Company addresses the needs of the residential, SOHOs, SMEs, corporate and wholesale markets.

With a view to exceed customer expectations, Mauritius Telecom carries out surveys and organises focus groups on a regular basis. We can thus provide our customers with the right product mix in anticipation of their needs.

Mauritius Telecom has to date 10 Teleshops, where the customer can find a whole range of products and services to satisfy all his telecommunication needs and make his life easier. The Teleshop concept encompasses the three worlds of telecommunication: fixed telephony, mobile and Internet. Our Customer Service Centres are also contact points for our customers. For our business customers, we have dedicated Account Managers to advise them on ICT solutions according to their requirements. Our wholesale desks cater for investors and other local operators.

FIXED LINE AND VALUE ADDED SERVICES

Mauritius Telecom offers telecommunication and value-added services to both the business and consumer markets. A full spectrum of services and solutions in the fixed telephony, mobile, Internet and broadband sectors is available. Mauritius Telecom also offers convergent services through My.T, its Multiplay-IPTV services.

In line with its aim to be the preferred end-to-end solutions provider, Mauritius Telecom has been continuously innovating during year 2006. This has had a positive impact, since the customer satisfaction index increased by 3%.

During the year, Mauritius Telecom's fixed line customer base decreased to around 340,000, as a result of a shift of customers to mobile services and the entry of MTML (Mahanagar Telephone Mauritius Limited) in the fixed-line market. Domestic fixed traffic followed nearly the same trend. However, the decrease in revenue from domestic calls has been offset by an increase in the International Long Distance (ILD) revenue during the year.

Mauritius Telecom launched a number of new services and initiatives designed to better satisfy its customers. In the domestic calls sector, off-peak tariffs were re-introduced. The off-peak tariff of 60 cents for the first minute allows customers to save around 30% on the first minute. Dialog, a usage plan for residential customers, was also launched. Dialog is a club service whose members benefit from a special monthly voice package and a 15% discount on selected Mauritius Telecom terminals.

In the ILD sector, the International Friends and Family (IFF) usage plan allows savings on international calls costs to frequently called numbers. Furthermore, in order to increase affordability of international bandwidth services and give a boost to data services, there was a reduction in the tariffs of International Private Leased Line Circuit (IPLC) ranging from 15% to 22%.

The general tendency has been a shift from traditional telephony to Voice over IP (VoIP) services which are ubiquitous and cheaper. Revenue from VoIP services has been on the rise. Enhancements brought to the Sezam international VoIP calling service include the introduction of the Rs 75 destination card targeted towards low-end users. They also include a reduction of up to 41% in tariffs for 6 existing destinations, the opening of 11 new destinations for the SEZAM prepaid service and also the launch of a SEZAM postpaid service for businesses.

Following the trend to offer Managed IP data services, Mauritius Telecom rolled out several new services in this area. These comprise IP phones based on Cisco networking systems; Videoguard, a telesurveillance service which allows users to view, via the Internet, live pictures of the place being watched, and the Business Communications Manager 50 (BCM 50) service, which is a combination of traditional telephony and IP technology and allows customers to access, from anywhere on a PC or laptop, voice messages, fax and e-mails. During year 2006, Mauritius Telecom also innovated by setting up the infrastructure for the first Call Centre in Mauritius based totally on IP technology.

Several solutions were introduced to improve the level of customer service. These include a personalised service for high-end residential customers; a feel and touch experience service through open days at Telshops, where non-technology savvy customers were able to test and experience the various services available; preventive maintenance and rehabilitation of over 35,000 fixed lines; improvement in the mean-time-to-repair of line faults and an increase in the number of indirect sales outlets for prepaid cards.

MOBILE

Cellplus Mobile Communications Ltd, a fully owned subsidiary of Mauritius Telecom and the leader in mobile telephony in Mauritius and in Rodrigues, achieved a revenue of nearly Rs 2.4 billion for year 2006. This represents an increase of 14% over year 2005, and 38% of the group revenue. The customer base of Cellplus increased by 11% to reach around 494,000 at the end of the year. The Company celebrated its 10th anniversary of operations in October 2006.

In addition to voice telephony, Cellplus offers a wide range of value added services for both the mass market and the business segment. These services are either

vocal, SMS based or data based, for example Cellplus Directory Service 165, Missed Call Alert, MMS and Internet browsing, amongst others. Prepaid customers can also replenish their Complis accounts via Automatic Teller Machines (ATMs), SMS or the Internet.

So as to increase mobility and offer more facilities to its customers, Cellplus has been continuously upgrading and increasing the coverage of its network. The mobile broadband network using EDGE technology was set-up across the whole country. Cellplus customers enjoy good quality indoor and outdoor coverage. Customer surveys have shown that Cellplus is the preferred mobile service provider in terms of network quality and quality of service to price ratio.

To meet customers' needs for innovative services, several new services based on applications and content were launched. Cellplus, in partnership with other organisations, has introduced several value-added services during the past year. These new services include Push Mail, where emails are delivered directly on mobile terminals; Mobile Banking, which allows customers to view their account balance and their last five transactions through their mobile; SMS2TV, which enables subscribers to send SMS that are shown seconds later scrolling on the TV screen and MatinalSa, a WAP and SMS based infotainment service.

Cellplus was also the first and only mobile operator to launch a fidelity programme, BONIS, for its customers. The fidelity plan offers calls and SMS advantages to both pre-paid and post-paid customers.

Cellplus customers are also being encouraged to consider migrating to on-line billing services. In addition to easy access and payment of bills, this service is environment friendly as it represents a step towards a paper-free office.

In October 2006, Cellplus announced its plans to launch the popular and proven Blackberry® wireless solution.

Furthermore, Cellplus is the only mobile operator to provide a full-fledged after sales service for phone repairs. The Company also offers a 24 hour call free service for its customers.

Cellplus, which provides data roaming in addition to voice roaming facilities, had roaming agreements with more than 260 operators in 126 countries as at December 2006.

INTERNET

Launched in 1996, Telecom Plus Ltd, which became a fully owned subsidiary of Mauritius Telecom during the year, is the leading provider of Internet and value added services in Mauritius. The revenue for Telecom Plus was Rs 467 million for the year under review, representing 8% increase over the previous year.

Telecom Plus offers both dial-up and broadband Internet services. The number of dial-up customers was around 53,000 at end December 2006. An increase of 27% was noted in ADSL broadband customers, which exceeded 10,500. A migration from dial-up Internet towards broadband Internet services was noted during the year. The number of Internet customers represents approximately 280,000 Internet users and a household penetration of 20%.

Telecom Plus is actively contributing to the creation of Broadband Mauritius by democratising broadband and increasing accessibility of ADSL services. Following a reduction in interconnection tariffs, Telecom Plus has reduced its ADSL tariffs by up to 21% for both home and business segments. Since 2003, Telecom Plus has decreased its ADSL home tariffs by 50% on average. Business tariffs have been reduced by 35% during that period. Since Telecom Plus caters for a wide customer base, different usage plans were also introduced for home and business users in 2006. Furthermore, Telecom Plus was the first Internet service provider to

introduce broadband services in Rodrigues. ADSL services were launched in Rodrigues in November 2006, after increasing threefold the bandwidth available on the links between Mauritius and Rodrigues.

The international bandwidth capacity for Internet services was increased to 200 Mbps. This has ensured that customer needs for bandwidth are satisfied and also that enough international bandwidth is available for good quality of service.

The ServiHoo Portal, at www.servihoo.com, had more than 6 million viewed pages per month and had about 28,000 daily visitors during the year.

Telecom Plus will be introducing an online micro-payment solution in year 2007. Two methods of payment will be proposed, Ticket Surf for prepaid service and Mauritius Telecom Bill as a postpaid option. This payment solution will be used for the first time with classified advertisements on the ServiHoo portal.

With the growing demand for content, Telecom Plus will be investing more in content provisioning, in addition to basic Internet services.

CONVERGENT SERVICES

Convergence is a driving force shaping the digital networked economy in which we live, work and play, and a powerful catalyst for business change. With a unified IP network, the potential of convergence is being exploited to reduce ongoing communications costs and introduce new voice and data services at more competitive prices. Convergence has also increased operational efficiency by boosting the number of services that may be provided on the extensive copper network of the Company. Thus, Mauritius Telecom launched My.T, its Multiplay-IPTV services, in July 2006 and had a promising customer base of nearly 6,000 at end of December 2006.

A step-by-step methodology is being used to deliver incremental benefits to My.T customers. The initial components of My.T services comprised mainly television channels, Video on Demand (VoD), access to high speed Internet and voice telephony.

The VoD service, a premier in Mauritius, quickly gained adhesion and was being used by nearly 5,000 customers in 2006. Since launch of My.T in July 2006, more than 400 programmes (more than 2 per day) have been introduced in the VoD catalogue comprising a variety of programmes. These mainly consist of films and series from Bollywood and Hollywood, documentaries, sports and entertainment programmes, kids and teens programmes and free educational content as well as local content.

The VoD service has been highly customised and cartoons were introduced to cater for the end-of-year school holidays. For the promotion of its VoD contents, My.T launched its own Barker channel comprising of trailers of films/programmes for free viewing in December 2006. Exclusive releases on My.T for 2006 include the 'Salon Mondial de l'Automobile à Paris' and the launch of 8 films from TFI which were released in France in 2006.

CALL CENTRE

Call Services Ltd, a wholly owned subsidiary of Mauritius Telecom, introduced the concept of an integrated inbound/outbound call centre in Mauritius in 1999. It is the premier provider of telebusiness and Customer Relationship Management (CRM) services to the local market. Call Services offers a comprehensive portfolio of services ranging from reception desk through complaints desk to appointment setting, telemarketing and telesurveys.

Call Services provides a one-stop shop solution with fast and comprehensive information and customer service

over the phone. Services are designed for customers from various sectors of the economy such as banking, insurance and other financial institutions, mass media, utility companies, betting, pharmaceuticals and property development, amongst others.

In 2006, Call Services achieved an increase in revenue of 46% with an EBITDA growth of 31%. The revenue generated from the business and tourist info service 152 and the enquiry service 150, has shown a considerable increase of 60%. The average number of calls received on a monthly basis in 2006 has increased by 1.5%

Call Services has ensured a continuous delivery of training and coaching programmes in order to meet customers' expectations.

Since mid 2004, Call Services has been focusing its activities on the local market only, catering for SOHOs, SMEs, large businesses as well as government and parastatal bodies.

DIRECTORY SERVICES

Teleservices Ltd is a fully owned subsidiary of Mauritius Telecom and is the leader in the directory business in Mauritius. The vision of the Company is 'to be a world-class reference in value adding information to connect people'.

Teleservices brought several innovations in 2006. Specialised directories on CDROM were also introduced.

Teleservices portfolio included the following directories in 2006: Mauritius Telecom Phonebook (residential and business listings), Mauritius Telecom Yellow Pages (classified business listings), Mauritius Telecom Business Directory (B2B directory), directory information on CDROM, directory information on Internet at www.teleservices.mu and directory information on mobile via 8150. The first issue of a Mauritius Telecom Rodrigues Directory was being prepared.

The revenue of the company for 2006 has increased by nearly 20% compared to year 2005, with an EBITDA increase of 17%. The Mauritius Telecom Phonebook and Mauritius Telecom Yellow Pages remain the main sources of income for the company, as it accounts for over 70% of the revenue. The online directory is growing very fast with revenue in 2006 increasing by over 300% compared to 2005.

MAURITIUS TELECOM NETWORK

Mauritius Telecom has set up an extensive and advanced network to meet the needs of all clients, from consumers to businesses and other local operators for voice, data, multimedia and bandwidth services. Mauritius Telecom is setting the pace in the region in the transition from narrowband to broadband and IP (Internet Protocol) services. As a result of its substantial network investment policy, Mauritius Telecom is leading the way towards Broadband Mauritius and the transformation of the country into a Cyber Island.

Access to Mauritius Telecom Network

The Company, being the sole operator in Mauritius with universal service obligations in its licence, is sensitive to its role and mission of providing telecommunication services to all citizens of the Republic of Mauritius. Again this year, Mauritius Telecom access network has been extended to new industrial areas, housing estates, residential areas and new hotels throughout the island. This made possible the release of more than 19,000 fixed line connections representing an increase of 7% over 2005.

Broadband Access

So as to meet the needs of customers for higher bandwidth services, Mauritius Telecom has been increasingly considering optical fibre cables instead of

the traditional copper wire in its access network. Thus, the first fibre-to-the-cabinet cable was installed to serve some customers situated more than 6 Kms from the existing exchange nodes. During 2006, work continued on the project to connect a second major business customer to Mauritius Telecom network through an IP-leased line using optical fibre. The line connection, which will be finalised in 2007, will provide the business with more telecommunication capacity and greater speed, which are critical factors for most businesses during expansion.

Convergent Services and Data Services

In order to roll out convergent services, Mauritius Telecom continued the migration from its traditional network to an IP based one. Commercialisation of My.T was rendered possible after installation of the Internet Protocol TV (IPTV) platform. My.T service was made accessible across the island following the installation of IP digital subscriber line access multiplexers (IP DSLAM) in exchanges. Only 2 exchanges remained to be equipped with DSLAMs at end 2006.

Intelligent Network

The migration of value added services on the basic copper wire to the Intelligent Network (IN) platform was pursued. The IN platform allows for enhanced features to the services offered. In 2006, the freephone service was transferred to the IN platform.

The tests for the Calling Name Identification Presentation (CNIP) service, also based on the IN platform and started in year 2005, were successfully completed. The commercial offer is being finalised.

National Transport Network

The national core transport network is composed essentially of microwave antennas and fibre optic cables, which offer both self-healing facilities and redundancy.

This year, 4 new sites were connected to the fibre optic network, bringing the total number of exchange sites with fibre connectivity to 61. Existing optical fibre links, 3 in all, were upgraded so as to increase capacity and support the data network expansion. Route diversity was increased by installing 2 new fibre links. The total length of cable installed in the network increased by 11%.

So as to offer ADSL and videoconference services in Rodrigues, bandwidth between Mauritius and Rodrigues was increased threefold to 3 Mbps. Transmission capacity in Rodrigues core network was also enhanced.

International Network

Mauritius Telecom offers global connectivity through the SAT3/WASC/SAFE undersea fibre optic cable and satellite systems. As provider of international bandwidth services, Mauritius Telecom continuously increases available bandwidth on the SAT3/WASC/SAFE cable. To meet the market demand for more bandwidth, Mauritius Telecom participated in the second upgrade of the SAFE (South African Far East) cable.

To cater for additional IP Virtual Private Network (IP VPN) traffic, Mauritius Telecom also increased capacity on its direct international links towards Europe and Asia. This brought the total international bandwidth in use on submarine cable and satellite to 440 Mbps.

REGULATORY DEVELOPMENTS

Current Market Situation

The ICT sector in 2006 showed a tendency towards stagnation in the fixed market and a dynamically increasing mobile, data and broadband penetration. The ILD market has continued its expansion with the

ICT Authority prescribing a minimum charge for all incoming international calls terminating onto any fixed or mobile telephone in Mauritius.

Mauritius Telecom fixed line subscriber base for the year 2006 witnessed a slight decrease and domestic fixed traffic showed the same trend. However, Mauritius Telecom remains the market leader in this sector. The decreasing trend is due to a number of factors such as fixed-to-mobile substitution, uptake of Internet telephony and VoIP and choice of alternative technologies. In order to retain market share, Mauritius Telecom has introduced bundled offers including voice, data and Internet.

The substantial reductions in the price of bandwidth connectivity have resulted in a significant boost in the Internet and Broadband markets. The ADSL subscriber base has undergone an increase of 27%.

Market Trends

Voice over IP and Internet Telephony are increasingly becoming popular and the combined effect of VoIP and new 3G offers from mobiles are perfect ingredients for fixed-to-mobile substitution.

Regulator Developments in 2006

The elimination of airtime charged by mobile operators to mobile users making international calls has had the effect of decreasing the retail rate charged by mobile operators to such users.

The prescription of a minimum charge for all incoming international calls terminating onto any fixed or mobile telephone in Mauritius has contributed towards an increase in the interconnect revenue.

The prescription of directives by the ICT Authority regarding the mandatory recording of customer information by any duly licensed public operator/service provider has had the effect of

reducing the number of malicious calls and messages delivered through the phone.

The ICT Authority has allocated spectrum in the 5 GHz band for Broadband Wireless Access Services in Mauritius in order to promote the penetration of Broadband in the country.

Year 2006 has also seen the emergence of bundled offers from integrated operators and convergence of voice, data, broadband Internet and TV services. This is in line with the worldwide evolution in the ICT sector.

HUMAN RESOURCES

Winning with Our People

The Company has streamlined its operations for greater efficiency and to serve its customers better. The optimisation of resources through reskilling and redeployment to revenue generating streams has been actively pursued.

The Company's competencies framework has been reviewed to enable a more rational planning of resources in the context of convergence of fixed, mobile, data and multimedia.

As at 31 December 2006, Mauritius Telecom group had around 1,850 employees.

Organisational Development

In June 2006, the Board of Directors approved a new organisational structure to meet the growing challenges of the competitive market.

The new structure provides for a Strategic Executive Committee having responsibility for corporate and high level strategies and ensuring their implementation. The Strategic Executive Committee is supported by a Senior Management Committee responsible for contributing

to strategic thinking and implementation of Company strategies, policies and programmes.

When fully rolled out, the structure will comprise 55 Management cadres.

Enhancing Capabilities

To serve the customer better, capabilities have to be continually enhanced. Hence, the Company has pursued its investment in people at two levels:

Firstly, in developing the skills and competencies of its Management cadres through focused training courses, attendance of interactive workshops and conferences in technical and managerial fields. The world renowned Indian Institute of Management (IIM) of Ahmedabad conducted two high level workshops in 2006.

Secondly, in providing training opportunities to staff in emerging competencies. In all, about 7,100 man days of training have been dispensed to staff, averaging 4.8 man-days per employee. Investment in people training and development represented 4% of total staff costs in 2006.

Moreover, our staff have had the opportunity to participate in the talent sharing programme of France Telecom. This programme enables young talents to gain hands-on-experience in France Telecom operations and to network with their counterparts.

Ambassadorship Scheme

The introduction of My.T, our Multiplay-IPTV services, in July 2006 has required a blend of competencies in image, voice and Internet. Over 200 staff have been trained over the year to ensure the highest level of customer care. Moreover, with the aim to promoting the service, an Ambassadorship Scheme has been put in place whereby employees will, on a voluntary basis and in their own free time, promote the multiplay service to neighbours, friends and families.

Thus, some 130 employees have been trained as ambassadors; they will eventually be given appropriate training to promote other products and services.

Employee Share Participation

Government of Mauritius has agreed to sell 1,900,000 ordinary shares it holds in Mauritius Telecom to Mauritius Telecom employees at a discounted price and to set up an Employee Share Participation Scheme (ESPC). Details of the ESPC have been finalised.

Social Relations

Management has had regular meetings and consultations with the three trade unions for cordial relations throughout the organisation.

MT STRATEGIC PLAN REVIEW

The Chairman of the Board, Board Directors and Top Management participated in a residential seminar in October 2006 on the theme "Inspiring Change: One Team, One Vision, One Voice". During the seminar, participants reviewed the current strategic plan, reflected on various NExT (New Experience of Telecoms) initiatives and explored Marketing and Sales opportunities with a view to enhance growth and success of the group.

The following inputs, amongst others, were taken into consideration: the reports from the staff focus group

discussions on Marketing and Sales held in September 2006; the results of surveys and other information from Data Mining Section; customer expectations, complaints and representations and case studies of other countries.

FINANCE

The Finance Department of Mauritius Telecom is structured along five divisions (Accounting, Budget Controlling, Supplies, Revenue Assurance Risk Management & Credit Control, Support and Maintenance) working in close synergy but which have been differentiated to achieve optimal efficiency. In addition, this segregation of duties leads to more effective control and good governance.

In 2006, the Mauritius Telecom Finance Department joined forces with its strategic partner France Telecom, for the common sourcing of equipment, materials and services. Mauritius Telecom has thus reaped the benefits of preferential prices with world-renowned suppliers due to the greater bargaining power of France Telecom Group with its high annual purchase volume.

Moreover, our Finance Department has been instrumental in issuing timely reports on financial and operational results, which help management seize market opportunities and take corrective measures whenever the need arises.



Independent Auditor's Report

to the Shareholders of Mauritius Telecom Ltd

This report is made solely to the company's shareholders, as a body, in accordance with section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Mauritius Telecom Ltd on pages 34 to 63 which comprise the balance sheets as at 31 December 2006 and the income statements, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001 and the Financial Reporting Act 2004. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements on pages 34 to 63 give a true and fair view of the financial position of the group and of the company as at 31 December 2006, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Mauritius Companies Act 2001 and the Financial Reporting Act 2004.

REPORT ON OTHER LEGAL REQUIREMENTS

In accordance with the requirements of the Mauritius Companies Act 2001, we report that:

- we have no relationship with, or interests in, the company other than in our capacities as auditors, tax advisors and arm's length dealings in the ordinary course of business;
- we have obtained all information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the company as far as appears from our examination of those records.



Chartered Accountants

3 April 2007

Balance Sheets

at 31 December 2006

ASSETS	Note	THE GROUP		THE COMPANY	
		2006	2005	2006	2005
		Rs	Rs	Rs	Rs
Non-current assets					
Property, plant and equipment	5	7,171,188,973	7,396,970,607	5,736,582,670	6,040,054,071
Goodwill	6	80,980,030	-	-	-
Other intangible asset	7	229,099,582	320,308,548	161,874,501	245,086,056
Investments in subsidiaries	8	-	-	241,270,830	124,270,830
Investments in associates	9	163,333,422	129,094,384	40,934,880	40,934,880
Other investments	10	61,316,359	60,690,359	61,316,359	60,690,359
Other receivables	11	-	-	40,000,000	290,000,000
Total non-current assets		7,705,918,366	7,907,063,898	6,281,979,240	6,801,036,196
Current assets					
Stocks	12	54,219,946	63,746,505	42,321,404	41,093,764
Trade receivables	13	1,679,805,944	1,535,334,098	999,493,882	986,365,823
Other receivables and prepayments	14	385,492,123	210,020,105	385,766,571	224,754,853
Cash and cash equivalents		4,198,492,905	3,717,263,017	3,819,005,530	3,543,030,368
Total current assets		6,318,010,918	5,526,363,725	5,246,587,387	4,795,244,808
Total assets		14,023,929,284	13,433,427,623	11,528,566,627	11,596,281,004
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	15	190,000,001	190,000,001	190,000,001	190,000,001
Reserves		9,049,979,406	8,410,110,766	7,657,679,329	6,939,112,209
Equity attributable to equity holders of the parent		9,239,979,407	8,600,110,767	7,847,679,330	7,129,112,210
Minority interest		-	93,863,029	-	-
Total equity		9,239,979,407	8,693,973,796	7,847,679,330	7,129,112,210
Non-current liabilities					
Loans	16	258,371,537	456,915,778	258,371,537	456,915,778
Trade payables	17	376,624,521	369,702,300	376,624,521	369,702,300
Deferred tax liabilities	18	846,287,610	864,921,544	686,885,712	725,573,099
Retirement benefit obligations	19	490,919,000	411,088,000	481,994,000	403,468,000
Total non-current liabilities		1,972,202,668	2,102,627,622	1,803,875,770	1,955,659,177
Current liabilities					
Loans	16	51,616,474	59,825,828	51,616,474	59,825,828
Trade payables	17	409,905,181	331,987,957	225,286,662	310,268,947
Other payables and accrued expenses	20	1,554,330,409	1,519,116,074	1,151,792,298	1,709,879,591
Taxation		795,895,145	725,896,346	448,316,093	431,535,251
Total current liabilities		2,811,747,209	2,636,826,205	1,877,011,527	2,511,509,617
Total liabilities		4,783,949,877	4,739,453,827	3,680,887,297	4,467,168,794
Total equity and liabilities		14,023,929,284	13,433,427,623	11,528,566,627	11,596,281,004

Approved by the Board of Directors and authorised for issue on 3 April 2007.


DIRECTOR


DIRECTOR

Profit and Loss Statements

for the year ended 31 December 2006

	Note	THE GROUP		THE COMPANY	
		2006	2005	2006	2005
		Rs	Rs	Rs	Rs
Revenue	22	5,960,529,182	5,788,140,774	4,057,885,728	4,082,884,413
Cost of sales		(852,303,694)	(862,828,633)	(940,883,727)	(917,473,677)
Gross profit		5,108,225,488	4,925,312,141	3,117,002,001	3,165,410,736
Other operating income		108,162,653	109,052,173	69,740,113	91,615,946
Operating expenses		(3,357,732,391)	(3,494,286,192)	(2,688,711,211)	(2,812,758,757)
Profit from operations	23	1,858,655,750	1,540,078,122	498,030,903	444,267,925
Other income	24	213,016,778	203,840,176	286,733,615	268,738,061
		2,071,672,528	1,743,918,298	784,764,518	713,005,986
Investment income	25	300,093,645	187,299,797	1,532,942,221	576,819,661
Finance costs	26	(19,568,062)	(24,896,137)	(87,128,042)	(115,351,540)
		2,352,198,111	1,906,321,958	2,230,578,697	1,174,474,107
Share of profits of associates	9	53,954,831	59,999,841	-	-
Profit before taxation		2,406,152,942	1,966,321,799	2,230,578,697	1,174,474,107
Taxation	18(i)	(469,100,340)	(333,932,474)	(220,081,338)	(105,181,324)
Profit after taxation		1,937,052,602	1,632,389,325	2,010,497,359	1,069,292,783
Attributable to:					
Equity holders of the parent		1,931,867,870	1,595,035,351	-	-
Minority interest		5,184,732	37,353,974	-	-
		1,937,052,602	1,632,389,325	-	-
Earnings per share	27	10.17	8.39	10.58	5.63

Statement of Changes in Equity

for the year ended 31 December 2006

GROUP	Note	Share capital	Fair value reserve	Foreign currency translation reserve	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
		Rs	Rs	Rs	Rs	Rs	Rs	Rs
Balance at 1 January 2005		190,000,001	64,167,723	-	7,512,121,640	7,766,289,364	78,212,755	7,844,502,119
- As previously stated		-	-	-	(51,058,512)	(51,058,512)	-	(51,058,512)
Change in accounting policy		190,000,001	64,167,723	-	7,461,063,128	7,715,230,852	78,212,755	7,793,443,607
- As restated		-	-	-	(635,384)	(635,384)	-	(635,384)
Consolidation adjustment		-	720,000	-	-	720,000	-	720,000
Change in fair value of available-for-sale investments		-	-	(72,326)	-	(72,326)	-	(72,326)
Currency translation differences		-	(64,167,723)	-	-	(64,167,723)	-	(64,167,723)
Transfer to income statement		-	-	-	1,595,035,351	1,595,035,351	37,353,974	1,632,389,325
Profit for the year		-	-	-	-	-	(2,653,700)	(2,653,700)
Disposal of subsidiary		-	-	-	(646,000,003)	(646,000,003)	(19,050,000)	(665,050,003)
Dividends	21	-	-	-	-	-	-	-
Balance at 31 December 2005		190,000,001	720,000	(72,326)	8,409,463,092	8,600,110,767	93,863,029	8,693,973,796
- As previously stated		-	-	-	36,885,761	36,885,761	-	36,885,761
Prior year adjustments	28	190,000,001	720,000	(72,326)	8,446,348,853	8,636,996,528	93,863,029	8,730,859,557
- As restated		-	626,000	-	-	626,000	-	626,000
Change in fair value of available-for-sale investments		-	-	(68,991)	-	(68,991)	-	(68,991)
Currency transaction differences		-	-	-	1,931,867,870	1,931,867,870	5,184,732	1,937,052,602
Profit for the year		-	-	-	(1,329,442,000)	(1,329,442,000)	(63,000,000)	(1,392,442,000)
Dividends	21	-	-	-	-	-	(36,047,761)	(36,047,761)
Increase in interest in a subsidiary		190,000,001	1,346,000	(141,317)	9,048,774,723	9,239,979,407	-	9,239,979,407
Balance at 31 December 2006		-	-	-	-	-	-	-

COMPANY	Note	Share capital	Fair value reserve	Retained earnings	Total
		Rs	Rs	Rs	Rs
Balance as at 1 January 2005		190,000,001	64,167,723	6,515,099,429	6,769,267,153
Change in fair value of available-for-sale investments		-	720,000	-	720,000
Transfer to income statement		-	(64,167,723)	-	(64,167,723)
Profit for the year		-	-	1,069,292,783	1,069,292,783
Dividends	21	-	-	(646,000,003)	(646,000,003)
Balance at 31 December 2005		190,000,001	720,000	6,938,392,209	7,129,112,210
Prior year adjustments	28	-	-	36,885,761	36,885,761
- As restated		190,000,001	720,000	6,975,277,970	7,165,997,971
Change in fair value of available-for-sale investments		-	626,000	-	626,000
Profit for the year		-	-	2,010,497,359	2,010,497,359
Dividends	21	-	-	(1,329,442,000)	(1,329,442,000)
Balance at 31 December 2006		190,000,001	1,346,000	7,656,333,329	7,847,679,330

Cash Flow Statements

for the year ended 31 December 2006

Note	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	2,406,152,942	1,966,321,799	2,230,578,697	1,174,474,107
Adjustments for:-				
Profit on disposal of property, plant and equipment	(6,455,378)	(14,510,971)	(6,455,378)	(14,339,449)
Profit on disposal of other investments	-	(65,910,398)	-	(65,910,398)
Interest expense	19,568,062	24,896,137	87,128,042	115,351,540
Interest income	(298,890,505)	(188,763,824)	(305,055,739)	(219,940,433)
Dividend income	(1,218,688)	(1,332,353)	(1,227,886,482)	(359,675,617)
Retirement benefit obligations	79,831,000	52,144,000	78,526,000	50,742,000
Share of profits of associates	(53,954,831)	(59,999,841)	-	-
Depreciation and amortisation	1,216,290,041	1,548,442,754	946,754,913	1,295,881,890
Provision for impairment loss	-	4,356,120	-	4,407,120
Realised gain on disposal of other investments	-	(64,167,724)	-	(64,167,724)
Operating profit before working capital changes	3,361,322,643	3,201,475,699	1,803,590,053	1,916,823,036
Increase in trade receivables	(170,181,416)	(246,648,777)	(102,412,487)	(187,893,942)
(Increase)/decrease in other receivables and prepayments	(112,876,687)	(87,560,580)	(14,846,289)	135,594,974
Decrease/(increase) in stocks	9,526,559	80,168,579	(1,227,640)	65,419,040
Increase/(decrease) in trade payables	77,917,224	44,177,638	(140,088,492)	61,834,091
Increase in other payables and accrued expenses	35,214,335	17,254,428	(502,981,086)	361,099,344
Cash generated from operations	3,200,922,658	3,008,866,987	1,042,034,059	2,352,876,543
Taxation paid	(417,735,474)	(281,857,665)	(241,987,884)	(195,305,885)
Net cash flows from operating activities	2,783,187,184	2,727,009,322	800,046,175	2,157,570,658
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposal of subsidiary net of cash	29	-	6,244,950	-
Acquisition of additional interest in a subsidiary	30	(117,000,000)	-	(117,000,000)
Purchase of property, plant and equipment		(882,072,220)	(695,379,739)	(570,682,173)
Purchase of other intangible		(19,469,639)	(103,633,641)	(11,627,440)
Proceeds from sale of property, plant and equipment		8,697,796	16,995,990	8,697,796
Proceeds from disposal of other investments		-	169,949,014	-
Proceeds from maturity of held-to-maturity investments		-	208,300,000	-
Purchase of other investments		-	(40,000,000)	-
Interest received		298,890,505	185,967,444	305,055,739
Dividend received		20,934,482	15,225,617	1,227,886,482
Net cash (used in)/generated from investing activities		(690,019,076)	(236,330,365)	842,330,404
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of loans		(277,217,373)	(142,277,404)	(277,217,373)
Loan advanced to a subsidiary		-	-	(142,277,404)
Loan repaid by a subsidiary		-	-	(40,000,000)
Increase in trade payables after one year		6,922,221	14,524,711	250,000,000
Dividend paid to minority interest		(63,000,000)	(19,050,000)	6,922,221
Decrease in minority interest		-	(2,653,700)	14,524,711
Interest paid		(19,568,062)	(24,896,137)	-
Dividend paid		(1,329,442,000)	(646,000,003)	-
Net cash used in financing activities		(1,682,305,214)	(820,352,533)	(1,436,865,194)
Net increase in cash and cash equivalents		410,862,894	1,670,326,424	205,511,385
Cash and cash equivalents at beginning of the year		3,717,263,017	2,028,274,810	3,543,030,368
Effect of foreign exchange rate changes		70,366,994	18,661,783	70,463,777
Cash and cash equivalents at end of the year		4,198,492,905	3,717,263,017	3,819,005,530

Notes to the Financial Statements

for the year ended 31 December 2006

1. LEGAL FORM AND ACTIVITIES

The company is a public company incorporated in Mauritius and its registered office is 18th Floor, Telecom Tower, Edith Cavell Street, Port Louis. It is engaged in the provision of telecommunication services.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 1	<i>Amendment to IAS 1: Presentation of financial statements - Capital Disclosures</i>
IFRS 7	<i>Financial Instruments: Disclosure</i>
IFRS 8	<i>Operating Segments</i>
IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
IFRIC 5	<i>Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IFRIC 8	<i>Scope of IFRS 2</i>
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
IFRIC 11	<i>Group and Share Treasury Transactions</i>
IFRIC 12	<i>Service Concession Arrangements</i>

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group and the separate financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the group and the company are as follows:-

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below.

(a) Basis of consolidation

The consolidated financial statements include the results of the company and of its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of their acquisition or up to the effective date of their disposal. Inter-group transactions and balances are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Investments in subsidiaries

In the company's financial statements, investments in subsidiaries are accounted for at cost less any impairment loss.

(c) Investments in associates

Associates are those companies which are not subsidiaries nor interest in a joint venture, over which the group exercises significant influence and in which it holds a long-term equity interest.

Investments in associates are accounted for at cost in the company's financial statements and under the equity method of accounting in the consolidated financial statements. The group's share of the associates' profit or loss for the year is recognised in the income statement and the group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associates.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment on an annual basis as part of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

(e) Revenue recognition

Revenue relates to telephone services, data communication services, sale of equipment, phonecards and other corollary services.

Revenues are measured at the fair value received or receivable and are recognised when earned. Revenues are stated net of discounts and value added tax. International telephone revenues are derived from outgoing calls made from Mauritius and from payments by foreign network operators for calls and other traffic that originate outside Mauritius but which use the company's network.

The company pays a proportion of the international traffic revenue it collects from its customers to transit and destination network operators. These revenues and costs are stated gross in the financial statements.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on an accruals basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost less depreciation.

Depreciation is calculated to write off the cost of property, plant and equipment to their estimated residual values on a straight line basis over their estimated useful lives, as follows:-

Plant and equipment	- 2 to 20 years
Buildings	- 5 to 20 years
Furniture, fittings and equipment	- 5 to 10 years
Motor vehicles	- 3 to 5 years

Leasehold property is amortised in ten annual instalments. No depreciation is provided on freehold land.

Plant and equipment in progress are capitalised based on the percentage of completion method and are stated at cost. No depreciation is provided until such time as the relevant assets are completed and put into operational use.

(g) Intangible assets

- Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

- 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 of 5 years.

(h) Impairment

At each balance sheet date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any, and the carrying amount of the asset is reduced to its recoverable amount.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the invoice value of materials on an average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(j) Foreign currencies transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Mauritian rupees, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated into the entity's functional currency at the rates of exchange prevailing on the balance sheet date.

Exchange differences arising on the settlement and the retranslation of monetary items are recognised in the income statement.

For the purpose of presenting consolidated financial statements, the assets and liabilities of foreign operations are expressed in Mauritian rupees using exchange rates prevailing on the balance sheet date. Their results for the period are translated into Mauritian rupees at average exchange rates for the period. The exchange differences arising from translation of the foreign operations are taken to the group's translation reserve.

(k) Deferred tax

Deferred tax is provided for on the comprehensive basis using the liability method.

Deferred tax liabilities are recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

(l) Cash and cash equivalents

Cash comprises cash at bank and in hand, demand deposits and bank overdrafts. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Retirement benefit obligations

The group operates a number of defined benefit plans, the assets of which are held with State Insurance Company of Mauritius Ltd and Anglo Mauritius Assurance Society Ltd.

The costs of providing benefits are actuarially determined using the projected unit credit method.

The present value of funded obligations is recognised in the balance sheet as a non-current liability after adjusting for the fair value of plan assets, any unrecognised actuarial gains and losses and any unrecognised past service cost. The assessment of these obligations is carried out annually by a firm of consulting actuaries.

The current service cost and any recognised past service cost are included as an expense together with the associated interest cost, net of expected return on plan assets.

A portion of the actuarial gains and losses will be recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous accounting period exceeded the greater of:

- (a) 10% of the present value of the defined benefit obligation at that date; and
- (b) 10% of the fair value of plan assets at that date.

(n) Financial instruments

Financial assets and liabilities are recognised on the balance sheet when the group has become party to the contractual provisions of the financial instruments.

Financial instruments are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, these instruments are measured as set out below:

(i) Investments

Investments in equity instruments, excluding those in subsidiaries and associates, are classified as available-for-sale and are stated at fair value. However, available-for-sale investments which do not have a quoted market price and whose fair value cannot be reliably measured are subsequently measured at cost less any impairment loss. Investments with fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortised cost using the effective yield method.

Unrealised gains and losses from changes in fair value are recognised directly in equity, until the investment 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 income statement.

(ii) Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(iii) Borrowings

Interest-bearing bank loans are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Financial instruments (cont'd)

(iv) Cash and cash equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

(v) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(o) Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(p) Leases

The company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(q) Comparative figures

Comparative figures have been regrouped or restated, where necessary, to conform to the current year's presentation.

4. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the directors and management are required to exercise judgement and also to use estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Actual results may differ as a result of changes in these estimates.

Estimations and assumptions that have a significant effect on the amounts recognised in the financial statements include:

(i) *Estimated useful lives and residual values of property, plant and equipment*

Determining the carrying amounts of property, plant and equipment requires the estimation of the useful lives and residual values of these assets. Estimates of useful lives and residual values carry a degree of uncertainty due to technological change and obsolescence. The directors have used current information relating to expected use of assets and have benchmarked itself with its counterparts within the same industry in order to determine the useful lives and residual values of property, plant and equipment.

(ii) *Revenue recognition - Use of estimates*

Revenue and expenses recognised in the Income Statements include estimates for the fair value of services rendered during the reporting period but not yet billed. Although these estimates are based on management's best knowledge of current events and actions, management believe that they are not expected to be significantly different from actual results.

(iii) *Impairment of financial assets*

The guidance provided by IAS 39 has been followed in determining whether an investment needs to be impaired. This determination requires significant judgement. In making this judgement, the directors evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(iv) *Defined benefit pension plan*

The Group operates a number of defined benefit pension plans for its employees. The value of the defined benefit pension fund is based on reports submitted by an independent actuarial firm. The amount shown in the balance sheet in respect of retirement benefit obligations is subject to estimates in respect of periodic costs which costs would be dependent on returns on assets, future discount rates, rates of salary increases and inflation rate in respect of the pension plans.

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

5. PROPERTY, PLANT AND EQUIPMENT

(a) THE GROUP

	Freehold land, plant and equipment	Plant and equipment in progress	Building on leasehold land	Furniture, fittings and equipment	Motor vehicles	Total
	Rs	Rs	Rs	Rs	Rs	Rs
COST						
At 1 January 2005	13,752,661,941	709,311,626	552,441,437	1,203,020,043	230,608,450	16,448,043,497
Transfer to other intangible	(491,752,739)	-	-	-	-	(491,752,739)
Additions	346,756,412	256,273,193	909,311	71,366,397	20,074,426	695,379,739
Disposals	(517,822)	-	(7,342,304)	(1,785,497)	(3,149,177)	(12,794,800)
Transfer	737,503,446	(737,503,446)	-	-	-	-
At 31 December 2005	14,344,651,238	228,081,373	546,008,444	1,272,600,943	247,533,699	16,638,875,697
Additions	682,749,521	136,552,478	5,054,363	41,151,136	16,564,722	882,072,220
Disposals	-	-	-	-	(37,497,281)	(37,497,281)
Transfer	141,824,758	(141,824,758)	-	-	-	-
At 31 December 2006	15,169,225,517	222,809,093	551,062,807	1,313,752,079	226,601,140	17,483,450,636
DEPRECIATION						
At 1 January 2005	7,181,720,576	-	214,131,477	431,743,499	151,254,397	7,978,849,949
Transfer to other intangible	(180,360,646)	-	-	-	-	(180,360,646)
Charge for the year	1,263,791,968	-	23,143,511	137,997,751	28,792,338	1,453,725,568
Disposals	(477,572)	-	(5,078,427)	(1,604,605)	(3,149,177)	(10,309,781)
At 31 December 2005	8,264,674,326	-	232,196,561	568,136,645	176,897,558	9,241,905,090
Charge for the year	928,522,419	-	23,895,543	122,102,491	31,090,983	1,105,611,436
Disposals	-	-	-	-	(35,254,863)	(35,254,863)
At 31 December 2006	9,193,196,745	-	256,092,104	690,239,136	172,733,678	10,312,261,663
NET BOOK VALUE						
At 31 December 2006	5,976,028,772	222,809,093	294,970,703	623,512,943	53,867,462	7,171,188,973
At 31 December 2005	6,079,976,912	228,081,373	313,811,883	704,464,298	70,636,141	7,396,970,607

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(b) THE COMPANY

	Freehold land, plant and equipment	Plant and equipment in progress	Building on leasehold land	Furniture, fittings and equipment	Motor vehicles	Total
	Rs	Rs	Rs	Rs	Rs	Rs
COST						
At 1 January 2005	12,022,831,619	709,311,626	549,989,999	1,158,645,253	216,429,573	14,657,208,070
Transfer to other intangible	(491,752,739)	-	-	-	-	(491,752,739)
Additions	93,121,590	256,273,193	192,118	53,393,122	19,287,280	422,267,303
Disposals	(390,452,745)	-	(7,342,304)	-	(2,016,177)	(399,811,226)
Transfer	737,503,446	(737,503,446)	-	-	-	-
At 31 December 2005	11,971,251,171	228,081,373	542,839,813	1,212,038,375	233,700,676	14,187,911,408
Additions	394,465,830	136,552,478	5,054,363	19,544,780	15,064,722	570,682,173
Disposals	(55,800,664)	-	-	-	(37,497,281)	(93,297,945)
Transfer	141,824,758	(141,824,758)	-	-	-	-
At 31 December 2006	12,451,741,095	222,809,093	547,894,176	1,231,583,155	211,268,117	14,665,295,636
DEPRECIATION						
At 1 January 2005	6,621,528,792	-	213,548,840	383,802,024	140,540,845	7,359,420,501
Transfer to intangible	(180,360,646)	-	-	-	-	(180,360,646)
Charge for the year	1,132,363,361	-	23,019,768	22,658,494	27,098,639	1,205,140,262
Disposals	(229,248,175)	-	(5,078,428)	-	(2,016,177)	(236,342,780)
At 31 December 2005	7,344,283,332	-	231,490,180	406,460,518	165,623,307	8,147,857,337
Charge for the year	777,370,945	-	23,817,694	21,324,441	29,402,838	851,915,918
Disposals	(35,805,426)	-	-	-	(35,254,863)	(71,060,289)
At 31 December 2006	8,085,848,851	-	255,307,874	427,784,959	159,771,282	8,928,712,966
NET BOOK VALUE						
At 31 December 2006	4,365,892,244	222,809,093	292,586,302	803,798,196	51,496,835	5,736,582,670
At 31 December 2005	4,651,403,430	228,081,373	311,349,633	781,142,266	68,077,369	6,040,054,071

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

6. GOODWILL

The goodwill arises on the acquisition of an additional 30% in Telecom Plus during the year such that the company is a wholly owned subsidiary. The goodwill is allocated to the subsidiary's internet service business which is the cash generating unit.

7. OTHER INTANGIBLE ASSET

COST

Transfer from property, plant and equipment
Additions

At 31 December 2005

Additions

At 31 December 2006

AMORTISATION

Transfer from property, plant and equipment
Charge for the year

At 31 December 2005

Charge for the year

At 31 December 2006

NET BOOK VALUE

At 31 December 2006

At 31 December 2005

	THE GROUP	THE COMPANY
	Computer software	
	Rs	Rs
Transfer from property, plant and equipment	491,752,739	491,752,739
Additions	103,633,641	24,435,591
At 31 December 2005	595,386,380	516,188,330
Additions	19,469,639	11,627,440
At 31 December 2006	614,856,019	527,815,770
Transfer from property, plant and equipment	180,360,646	180,360,646
Charge for the year	94,717,186	90,741,628
At 31 December 2005	275,077,832	271,102,274
Charge for the year	110,678,605	94,838,995
At 31 December 2006	385,756,437	365,941,269
At 31 December 2006	229,099,582	161,874,501
At 31 December 2005	320,308,548	245,086,056

8. INVESTMENTS IN SUBSIDIARIES

At cost, unquoted

At beginning of year

Addition

At end of year

Provision for impairment loss

	THE COMPANY	
	2006	2005
	Rs	Rs
At beginning of year	125,821,830	125,821,830
Addition	117,000,000	-
At end of year	242,821,830	125,821,830
Provision for impairment loss	(1,551,000)	(1,551,000)
	241,270,830	124,270,830

The subsidiaries of Mauritius Telecom Ltd are as follows:

Name of company	Country of incorporation	Class of shares	Proportion held 2006	Proportion held 2005	Principal activity
Teleservices (Mauritius) Ltd	Mauritius	Ordinary	100%	100%	Directory
Cellplus Mobile Communications Ltd	Mauritius	Ordinary	100%	100%	Mobile phone operator
Call Services Ltd	Mauritius	Ordinary	100%	100%	Call centre
Telecom Plus Ltd	Mauritius	Ordinary	100%	70%	Internet service provider
Telesoft.com Ltd	Mauritius	Ordinary	51%	51%	In liquidation
MB Mobile Ltd	Mauritius	Ordinary	100%	100%	Investment holding company

9. INVESTMENTS IN ASSOCIATES

THE GROUP

	2006	2005
	Rs	Rs
Costs of investment in associates	72,591,252	72,591,252
Provision for impairment loss	(31,656,372)	(31,656,372)
Share of post-acquisition profits, net of dividend received	122,398,542	88,159,504
	163,333,422	129,094,384

THE COMPANY

	2006	2005
	Rs	Rs
Costs of investment in associates	72,591,252	72,591,252
Provision for impairment loss	(31,656,372)	(31,656,372)
	40,934,880	40,934,880

The associates of Mauritius Telecom Ltd are as follows:

Name of company	Country of incorporation	Class of shares	Proportion held		Principal activity
			2006	2005	
Africa Cellulaire S.A ("Africell")	Burundi	Ordinary	38.00%	38.00%	Mobile phone operator
HDM Interactive Ltd	Mauritius	Ordinary	30.00%	30.00%	Internet Kiosks
Telsea Investment Ltd	Mauritius	Ordinary	24.50%	24.50%	Investment holding

Summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	Rs	Rs
Total assets	2,268,053,833	1,395,028,411
Total liabilities	1,461,161,107	825,484,613
Net assets	806,892,726	569,543,798
Group's share of associates' net assets	163,333,422	129,094,384
Revenue	2,623,304,447	1,538,343,460
Profit for the year	338,744,334	222,066,866
Group's share of associates' profit for the year	53,954,831	59,999,841

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

10. OTHER INVESTMENTS

		THE GROUP AND THE COMPANY	
		2006	2005
		Rs	Rs
(a)	Available-for-sale investments		
	At cost		
	At beginning of year	57,970,359	17,970,359
	Additions	-	40,000,000
	At end of year	57,970,359	57,970,359
The unquoted shares are stated at cost since market values cannot be obtained.			
		THE GROUP AND THE COMPANY	
		2006	2005
		Rs	Rs
	At fair value		
	At beginning of year	2,720,000	106,038,616
	Disposal	-	(104,038,616)
	Increase in fair value	626,000	720,000
	At end of year	3,346,000	2,720,000
	At amortised cost		
	At beginning of year	-	205,503,620
	Interest income	-	2,796,380
	Disposals	-	(208,300,000)
	At end of year	-	-
	Total	61,316,359	60,690,359

11. OTHER RECEIVABLES

These pertain to loans advanced to subsidiaries. The loans are repayable after five years and bear interest at rates which varied between 10.5% and 12.5% per annum (2005: between 12% and 12.5% per annum).

12. STOCKS

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Trading stocks, at net realisable value	54,219,946	63,746,505	42,321,404	41,093,764

13. TRADE RECEIVABLES

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Outside parties	1,679,805,944	1,535,334,098	999,493,882	986,365,823

14. OTHER RECEIVABLES AND PREPAYMENTS

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Outside parties	385,244,499	209,018,370	364,986,523	205,420,048
Subsidiaries	-	-	20,532,424	18,333,070
Associates	247,624	1,001,735	247,624	1,001,735
	385,492,123	210,020,105	385,766,571	224,754,853

The amounts due from subsidiaries and associates have no fixed terms of repayment. Amounts due from subsidiaries bear interest at rates which varied between 10.5% and 12.5% per annum (2005: between 10.70% and 12.50% per annum).

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

15. SHARE CAPITAL

	THE GROUP AND THE COMPANY	
	2006 Rs	2005 Rs
AUTHORISED		
500,000,001 Ordinary shares of Rs1 each	500,000,001	500,000,001
ISSUED AND FULLY PAID UP		
190,000,001 Ordinary shares of Rs1 each	190,000,001	190,000,001

The constitution of the company was amended at an Extraordinary meeting held on 22 November 2000 whereby it was resolved to increase the authorised and issued share capital of the company by the creation and issue of one special share of one rupee. The special share was issued to the Government of the Republic of Mauritius and has special rights as stated in the amended constitution.

16. LOANS

Loans are repayable by instalments with rates of interest ranging between 1.92% and 12% per annum as follows:-

	THE GROUP AND THE COMPANY	
	2006 Rs	2005 Rs
Within one year	51,616,474	59,825,828
Between two and five years	206,465,900	239,303,313
After five years	51,905,637	217,612,465
	258,371,537	456,915,778
	309,988,011	516,741,606

17. TRADE PAYABLES

	THE GROUP		THE COMPANY	
	2006 Rs	2005 Rs	2006 Rs	2005 Rs
Amounts falling due within one year				
Outside parties	354,798,974	288,648,107	40,506,343	33,977,698
Subsidiary	-	-	129,674,112	242,382,801
Related parties	55,106,207	43,339,850	55,106,207	33,908,448
	409,905,181	331,987,957	225,286,662	310,268,947
Amounts falling due after one year				
Outside parties	376,624,521	369,702,300	376,624,521	369,702,300

The amount due to subsidiaries has no fixed terms of repayment. The amount due to subsidiaries bears interest at rates which varied between 10.5% and 12.5% per annum (2005: between 10.70% and 12.50% per annum).

18. TAXATION

(i) Income tax

The company is subject to income tax at the statutory rate of 22.5%(2005:25%) on the net profit for the year as adjusted for tax purposes.

	THE GROUP		THE COMPANY	
	2006 Rs	2005 Rs	2006 Rs	2005 Rs
Current tax liabilities	485,377,862	411,220,773	258,768,725	206,476,999
Under/(Over) provision in previous year	2,356,412	(9,722,978)	-	-
	487,734,274	401,497,795	258,768,725	206,476,999
Deferred tax income	(18,633,934)	(67,565,321)	(38,687,387)	(101,295,675)
	469,100,340	333,932,474	220,081,338	105,181,324

(ii) Tax reconciliation

	THE GROUP		THE COMPANY	
	2006 Rs	2005 Rs	2006 Rs	2005 Rs
Profit before taxation	2,406,152,942	1,966,321,799	2,230,578,697	1,174,474,107
Tax at the rate of 22.5% (2005: 25%)	541,384,412	491,580,450	501,880,207	293,618,525
Tax effect of:				
- Non allowable expenses	17,347,597	4,149,778	17,058,632	4,213,547
- Depreciation of assets not eligible for capital allowances	5,358,128	5,979,227	5,358,128	5,797,227
- Expenses eligible for 200% deduction	(3,050,676)	(3,231,896)	(3,050,676)	(3,231,896)
- Exempt income	(10,482,105)	(38,060,837)	(277,726,920)	(126,716,395)
- Investment allowance net of claw back	(30,897,230)	(77,473,538)	(12,721,700)	(55,812,547)
- Over provision of deferred tax in prior years	(35,726,162)	(12,654,922)	(10,716,333)	(12,687,137)
- Under(Over)provision of current tax in prior year	2,356,412	(9,722,978)	-	-
- Tax rate differential	(17,190,036)	(26,632,810)	-	-
	(72,284,072)	(157,647,976)	(281,798,869)	(188,437,201)
	469,100,340	333,932,474	220,081,338	105,181,324

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

18. TAXATION (CONT'D)

(iii) Deferred tax liabilities

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
At beginning of year	864,921,544	932,486,865	725,573,099	826,868,774
Deferred tax income	(18,633,934)	(67,565,321)	(38,687,387)	(101,295,675)
At end of year	846,287,610	864,921,544	686,885,712	725,573,099

Deferred tax is analysed as follows:-

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Accelerated capital allowances	1,270,005,303	1,217,774,718	1,015,608,737	1,078,426,273
Other temporary differences	(423,717,693)	(352,853,174)	(328,723,025)	(352,853,174)
	846,287,610	864,921,544	686,885,712	725,573,099

19. RETIREMENT BENEFIT OBLIGATIONS

Amounts recognised in balance sheets at end of year:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Present value of funded obligations	1,780,604,000	1,677,584,000	1,759,744,000	1,659,193,000
Fair value of plan assets	(1,220,781,000)	(1,036,801,000)	(1,206,420,000)	(1,027,039,000)
	559,823,000	640,783,000	553,324,000	632,154,000
Unrecognised actuarial loss	(68,904,000)	(229,695,000)	(71,330,000)	(228,686,000)
Liabilities recognised in balance sheets at end of year	490,919,000	411,088,000	481,994,000	403,468,000

Amounts recognised in income statements:

Current net service cost	83,904,000	85,791,000	80,595,000	84,140,000
Interest cost	155,936,000	139,538,000	154,192,000	139,002,000
Expected return on plan assets	(99,382,000)	(53,482,000)	(98,393,000)	(53,412,000)
Actuarial loss recognised	3,170,000	(35,372,000)	3,170,000	(35,372,000)
Total included in staff costs	143,628,000	136,475,000	139,564,000	134,358,000
Actual return on plan assets	199,602,000	118,136,000	197,650,000	117,247,000

Movements in liabilities recognised in balance sheets:

At start of year	411,088,000	358,944,000	403,468,000	352,726,000
Total expenses as above	143,628,000	136,475,000	139,564,000	134,358,000
Contributions and direct benefits paid	(63,797,000)	(84,331,000)	(61,038,000)	(83,616,000)
At end of year	490,919,000	411,088,000	481,994,000	403,468,000

19. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
Key assumptions				
Used to determine benefit obligation at end of year and pension cost for new financial year				
Discount rate for obligations	10.50%	9.50%	10.50%	9.50%
Rate of future compensation increases	8.00%	7.50%	8.00%	7.50%
Rate of pension increases	6.00%	5.50%	6.00%	5.50%
Long-term rate of return on plan assets	10.50%	9.50%	10.50%	9.50%
Used to determine net periodic pension cost for financial year				
Discount rate for expense	9.50%	9.50%	9.50%	9.50%
Rate of future compensation increases	7.50%	7.50%	7.50%	7.50%
Rate of pension increases	5.50%	5.50%	5.50%	5.50%
Long-term rate of return on plan assets	9.50%	9.50%	9.50%	9.50%
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Change in defined benefit obligation during year				
Defined benefit obligation at beginning of year	1,677,584,000	1,510,166,000	1,659,193,000	1,498,610,000
Net service cost	83,904,000	85,004,000	80,595,000	82,137,000
Interest cost	155,936,000	140,270,000	154,192,000	139,176,000
Employee contributions	6,430,000	4,568,000	6,430,000	4,568,000
Benefits paid	(85,849,000)	(67,707,000)	(85,737,000)	(67,707,000)
Experience (gain)/loss	(57,401,000)	5,283,000	(54,929,000)	2,409,000
Defined benefit obligation at end of year	1,780,604,000	1,677,584,000	1,759,744,000	1,659,193,000
Change in plan assets during year				
Fair value of plan assets at beginning of year	1,036,801,000	896,132,000	1,027,039,000	889,315,000
Employer contributions	63,797,000	85,751,000	61,038,000	83,616,000
Employee contributions	6,430,000	4,568,000	6,430,000	4,568,000
Benefits paid	(85,849,000)	(67,707,000)	(85,737,000)	(67,707,000)
Expected return on plan assets	99,406,000	81,938,000	98,393,000	81,293,000
Actuarial gains on plan assets	100,196,000	36,119,000	99,257,000	35,954,000
Fair value of plan assets at end of year	1,220,781,000	1,036,801,000	1,206,420,000	1,027,039,000

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

19. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)

Mauritius Telecom Ltd's Pension Plan weighted average asset allocation by asset category is as follows:

Asset Category	Percentage of Plan Assets Invested in Asset Category at End of Financial Year			
	GROUP		COMPANY	
	2006	2005	2006	2005
Equity Securities	30%	28%	30%	28%
Debt Securities	10%	46%	10%	46%
Hedge Funds	3%	3%	3%	3%
Derivatives	0%	0%	0%	0%
Real Estate	1%	1%	1%	1%
Insurance contracts	0%	0%	0%	0%
Other	56%	22%	56%	22%
Total	100%	100%	100%	100%

History of obligations, assets and experience adjustments

	GROUP		COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Fair value of plan assets	1,220,781,000	1,036,801,000	1,206,420,000	1,027,039,000
Present value of defined benefit obligation	(1,780,604,000)	(1,677,584,000)	(1,759,744,000)	(1,659,193,000)
Deficit	559,823,000	640,783,000	553,324,000	632,154,000
Asset experience gain during the year	100,196,000	36,119,000	99,257,000	35,954,000
Liability experience (gain)/loss during the year	(57,401,000)	5,283,000	(54,929,000)	2,409,000

Actual Return on Plan Assets	GROUP		COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Expected Return on Plan Assets	99,406,000	81,938,000	98,393,000	81,293,000
Actuarial Gains on Plan Assets	100,196,000	36,119,000	99,257,000	35,954,000
Actual Return on Plan Assets	199,602,000	118,057,000	197,650,000	117,247,000

Employer Contributions

The group and the company expect to contribute Rs68,888,000 and Rs65,922,000 to its pension plan respectively in 2007.

Retirement benefit obligations have been based on the report from Hewitt Associates dated December 2006.

20. OTHER PAYABLES AND ACCRUED EXPENSES

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Subsidiaries	-	-	245,172,364	701,647,940
Other payables and accrued expenses	1,438,735,121	1,244,302,513	791,024,646	733,418,090
Work in progress	115,595,288	274,813,561	115,595,288	274,813,561
	1,554,330,409	1,519,116,074	1,151,792,298	1,709,879,591

21. DIVIDENDS

	THE GROUP AND THE COMPANY	
	2006	2005
	Rs	Rs
Dividend of Rs6.997 (2005: Rs3.40) per share	1,329,442,000	646,000,003

The dividend of Rs6.997 per share amounting to Rs1,329,422,000 in respect of the current year was declared by the directors on 26 October 2006.

22. REVENUE

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Sale of goods	1,485,368,939	1,391,396,401	198,846,253	232,351,518
Rendering of services	4,475,160,243	4,396,744,373	3,859,039,475	3,850,532,895
	5,960,529,182	5,788,140,774	4,057,885,728	4,082,884,413

23. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting) the following items:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Staff costs	1,079,205,735	963,206,230	964,415,517	795,527,170
Costs of stocks recognised as expense (a)	207,758,166	193,612,222	105,834,118	68,875,101
Depreciation of property, plant and equipment (b)	1,105,611,436	1,453,725,568	851,915,918	1,205,140,262
Amortisation of intangible assets	110,678,605	94,717,186	94,838,995	90,741,628
Charge/(reversal) of provision for slow moving stocks	552,000	(9,939,793)	552,000	(9,939,793)
Directors' emoluments (part time)	2,582,000	2,561,500	2,318,000	2,201,500
Auditors' remuneration				
- Audit fees	1,470,174	1,239,426	925,000	908,250
- Fees for other services	442,000	508,050	276,000	350,000
Net exchange gains	(59,741,907)	(40,367,120)	(21,319,367)	(22,930,902)
Donations	4,918,314	1,573,674	4,878,790	1,512,605

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

23. PROFIT FROM OPERATIONS (CONT'D)

- (a) In 2005, the company reviewed and changed the terms of the agreement with Cellplus Mobile Communications Ltd relating to the resale of Complis cards. With effect from 1 January 2005, only commission earned on resale of Complis cards is recognised as revenue whereas in previous years, the revenue from sales and costs of purchase of Complis cards were recognised on a gross basis. The costs of stocks recognised as expense for 2005 represented the costs of physical inventories.
- (b) Following the review of useful lives in accordance with IAS 16 carried out in 2005, depreciation for 2005 included an additional charge of Rs384,629,258 for the group and Rs339,202,923 for the company of which Rs207,254,959 related to the wireless local loop network.

24. OTHER INCOME

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Rental income	-	-	16,538,468	12,585,468
Management fees	22,782,491	3,328,255	82,128,846	57,136,040
Profit on disposal of other investments	-	130,078,122	-	130,078,122
Profit on disposal of property, plant and equipment	6,455,378	14,339,449	6,455,378	14,339,449
Other income	56,343,715	38,344,888	54,175,729	36,849,511
Exchange gain	17,435,194	17,749,462	17,435,194	17,749,471
Reversal of provision for customs duties	110,000,000	-	110,000,000	-
	213,016,778	203,840,176	286,733,615	268,738,061

25. INVESTMENT INCOME

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Dividend income	1,218,688	1,332,353	1,227,886,482	359,675,617
Interest income	298,874,957	185,967,444	305,055,739	217,144,044
	300,093,645	187,299,797	1,532,942,221	576,819,661

26. FINANCE COSTS

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Interest expense	19,568,062	24,896,137	87,128,042	115,351,540

27. EARNINGS PER SHARE

THE GROUP

The calculation of earnings per share is based on net profit for the year after taxation of Rs1,931,867,870 (2005: Rs1,595,035,351) and on 190,000,001 shares in issue for the year ended 31 December 2006.

THE COMPANY

The calculation of earnings per share is based on net profit for the year after taxation of Rs2,010,497,359 (2005: Rs1,069,292,783) and on 190,000,001 shares in issue for the year ended 31 December 2006.

28. PRIOR YEAR ADJUSTMENTS

Following a reconciliation exercise of actual revenues billed by the computerised billing system, Gaia, against revenues recorded in the financial statements, a net understatement of the revenues and receivables of Rs36,885,761 was identified relating to the period from 2003 to December 2005. This has been adjusted against retained earnings and receivables at 1 January 2006.

29. DISPOSAL OF SUBSIDIARY NET OF CASH

The net assets of the subsidiary were as follows:-

	2005
	Rs
Fixed assets	9,467,646
Trade and other receivables	6,535,314
Cash at bank	7,145,627
Trade and other payables	(4,075,709)
Loans	(1,350,000)
Net assets	17,722,878
Minority interests	(8,684,210)
	9,038,668
Loss on disposal	(2,793,718)
Net cash inflow	6,244,950

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

30. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

During the year the group acquired 30% of the issued share capital of Telecom Plus Ltd for cash consideration of Rs117M. This transaction has been accounted for by the purchase method of accounting.

The share of net assets acquired in the transaction, and the goodwill arising, are as follows:-

	2006
	Rs
Share of net assets acquired	
Plant and equipment	12,367,522
Stocks	437,082
Trade and other receivables	34,651,661
Cash at bank	853,603
Trade and other payables	(12,289,898)
Net assets	36,019,970
Goodwill	80,980,030
Total consideration, satisfied by cash	117,000,000

31. FINANCIAL INSTRUMENTS

In its ordinary operations, the group is exposed to various financial risks such as foreign currency risks, interest rate risks and credit risks. The group has devised on a central basis a set of specific policies for managing these exposures.

Fair values

Except where stated elsewhere, the carrying amounts of the group's financial assets and financial liabilities approximate their fair values due to the short term nature of the balances involved.

Currency profile

The currency profile of the group's financial assets and liabilities including investments in associates are summarised as follows:-

	2006		2005	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
	Rs	Rs	Rs	Rs
Currency				
Mauritian Rupees	5,387,484,485	2,205,257,724	4,323,524,200	1,812,297,274
United States dollars	478,547,553	64,903,002	667,619,282	248,249,869
Euro	489,371,879	116,531,000	214,267,587	147,536,547
British pounds sterling	207,855,877	312,091,549	214,544,941	296,825,895
Japanese Yen	-	-	61,225,500	222,102,725
Others	80,931,205	-	141,532,646	3,352,843
	6,644,190,999	2,698,783,275	5,622,714,156	2,730,365,153

31. FINANCIAL INSTRUMENTS (CONT'D)

Credit risk

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience.

The group does not have other significant concentration of credit risk.

Interest rate risk

The interest rate profile of the financial assets and financial liabilities of the group as at 31 December 2006 were:-

	Financial assets	
	2006	2005
	Rs	Rs
Currency:		
Mauritian rupees	3,546,785,288	2,834,857,725
United States dollars	312,841,423	248,599,313
Euro	156,976,486	205,949,139
British pounds sterling	207,855,877	214,544,941
	4,224,459,074	3,503,951,118

The above comprise mainly of interest bearing bank deposits which carries fixed interest rate which is principally determined by the prime lending rate and other factors.

	Financial liabilities	
	2006	2005
	Rs	Rs
Currency:		
British pounds sterling	309,988,011	294,638,881
Japanese Yen	-	222,102,725
	309,988,011	516,741,606

The above comprise mainly of long term loans with overseas financial institutions.

Notes to the Financial Statements

for the year ended 31 December 2006 (continued)

32. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2006, the company and group traded with related parties.

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
(i) Sales of services				
- Subsidiaries	-	-	1,131,898,560	1,101,547,526
- Associates	7,251,750	3,365,004	7,251,750	3,365,004
- Corporate groups having significant influence in the company	130,818,444	75,300,978	130,818,444	75,300,978
(ii) Purchases of services				
- Subsidiaries	-	-	1,131,898,560	1,101,547,526
- Corporate groups having significant influence in the company	130,210,178	146,873,589	129,989,125	145,584,539
(iii) Dividend income				
- Subsidiaries	-	-	1,206,952,000	358,343,264
- Associates	-	-	19,715,795	13,893,264
(iv) Disposal of plant and equipment to a subsidiary	-	-	46,684,334	161,204,570
(v) Emoluments				
- Key management personnel	44,571,856	45,146,837	44,566,856	42,415,170
(vi) Outstanding balances receivable from related parties				
- Subsidiaries	-	-	20,737,208	18,333,070
- Associates	247,624	1,001,735	247,624	1,001,735
(vii) Outstanding balances payable to related parties				
- Subsidiaries	-	-	129,674,112	242,382,801
- Corporate groups having significant influence in the company	55,106,207	43,339,850	55,106,207	33,908,448

33. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Approved but not yet contracted for	53,100,000	120,671,496	53,100,000	119,046,060
Approved and contracted for	45,397,743	359,441,112	41,658,503	359,441,112
	98,497,743	480,112,608	94,758,503	478,487,172

34. OPERATING LEASE COMMITMENTS

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	Rs	Rs	Rs	Rs
Within one year	89,467,188	56,835,178	50,031,988	55,485,178
Between two and five years	228,396,330	189,786,853	212,723,330	188,849,353
After five years	71,495,529	114,635,785	71,495,529	114,635,785
	389,359,047	361,257,816	334,250,847	358,970,316

Glossary of Terms

3G (Third Generation Wireless)

A mobile system, which includes capabilities and features such as enhanced multimedia, broad bandwidth, high speed, e-mail, web browsing and video conferencing

ADSL (Asymmetric Digital Subscriber Line)

A technology that transforms a normal copper line into a high-speed digital line thus enabling access to telephony services and the Internet at the same time. An ADSL line has a higher downstream speed (onto the end user) than upstream speed (away from the end user)

ATM (Asynchronous Transfer Mode)

The internationally agreed basis for broadband ISDN. A technology that enables all types of information (data, voice and video in any combination) to be transported by a single network infrastructure

Bandwidth

The physical characteristic of a telecommunication system that indicates the speed at which information can be transferred

BPO

Business Process Outsourcing

Broadband

In general, broadband refers to telecommunication in which a wide band of frequencies is available to transmit information. Generally referred to speeds greater than 64 Kbps

CCITT (Comité Consultatif International Téléphonique et Télégraphique)

An organization that sets international communications standards. CCITT, now known as ITU

CLI

Caller Line Identification

CNIP (Calling Name Identification Presentation)

A terminating service that provides either the name associated with the calling party number or an indication of privacy or unavailability to the called party

CRM

Customer Relationship Management

DSL (Digital Subscriber Line)

A technology for bringing high-bandwidth information to homes and small businesses over ordinary copper telephone

DSLAM (Digital Subscriber Line Access Multiplexer)

A network device, usually at an exchange, that receives signals from multiple customer Digital Subscriber Line connections and puts the signals on a high-speed backbone line using multiplexing techniques

E-Commerce

The action of buying online or establishing an online store-front

EDGE (Enhanced Data GSM Environment)

A faster version of the Global System for Mobile (GSM) wireless service designed to deliver data at rates up to 384 Kbps and enable the delivery of multimedia and other broadband applications to mobile phone and computer users

Ethernet

a widely-installed local area network technology

Frame Relay service

A packet switched data service providing for the interconnection of Local Area Networks (LANs) and access to host computers at higher speeds (up to 2 Mbit/s) than those provided by an X.25 service

GPRS (General Packet Radio Service)

A packet based wireless service that allows connection to the Internet and access to multimedia services

GSM (Global Standard for Mobile Telephony)

A digital mobile telephone system, which uses a variation of time division multiple access. It operates in either the 900 MHz or 1800 MHz frequency band

ICT

Information and Communications Technology

ICTA

Information and Communication Technologies Authority

ILD

International Long Distance

IN (Intelligent Network)

A network which allows services to be added or changed without having to redesign switching equipment.

Intranet

Closed data network linking a number of sites using standard Internet protocols

IP (Internet Protocol)

The method by which data is sent between computers on the Internet

ISP (Internet Service Provider)

A service provider who provides access to Internet services

IPTV (Internet Protocol Television)

A method of distributing television content over IP that enables a more customized and interactive user experience. The viewer must have a broadband connection and a set-top box to send and receive requests

IPLC (International Private Leased Circuit)

Circuits leased from international facilities operators, which cross one or more international boundaries

IPVPN

Internet Protocol Virtual Private Network

ISDN (Integrated Services Digital Network)

A set of CCITT/ITU standards for digital transmission over ordinary telephone copper wire as well as over other media. There are two levels of service: the Basic Rate Interface (BRI), intended for the home and small enterprise (up to 128 Kbps), and the Primary Rate Interface (PRI), for larger users (up to 2.048 Mbps)

IT

Information Technology

ITU (International Telecommunication Union)

An intergovernmental organization through which public and private organizations develop telecommunications. The ITU was founded in 1865 and became a United Nations agency in 1947. It is responsible for adopting international treaties, regulations and standards governing telecommunications

LAN (Local Area Network)

A computer network limited to the immediate area, usually the same building or floor of a building

Leased lines

A fixed unswitched communication link between two points

MMS (Multimedia Messaging Service)

An enhanced transmission service that enables graphics, video clips and sound files to be transmitted via cellphones

MPEG

MPEG standards are an evolving set of standards for video and audio compression and for multimedia delivery developed by the Moving Picture Experts Group

MPEG-4

A much more ambitious MPEG standard than MPEG-1, MPEG-2 and MPEG-3 and addresses speech and video synthesis, computer visualization, and an artificial intelligence (AI) approach to reconstructing images

Multimedia

The combination of various forms of media (texts, graphics, animation, audio, etc.) to communicate information

Multiplay- IPTV

A high speed service which brings to the home image, voice and internet on the fixed copper line

NExT

New Experience of Telecoms

PABX

Private Automatic Branch Exchange

SOHO

Small Office Home Office

SME

Small and Medium Enterprise

SMS (Short Message Service)

A service available on digital networks, typically enabling messages with up to 160 characters (224 characters if using a 5-bit mode) to be sent or received via the message centre of a network operator to a subscriber's mobile phone

UMTS (Universal Mobile Telecommunications Service)

A third-generation (3G) broadband, packet-based transmission of text, digitized voice, video, and multimedia at data rates up to 2 megabits per second (Mbps) that offers a consistent set of services to mobile computer and phone users no matter where they are located in the world

VoD (Video on Demand)

The ability to deliver a movie or other video program to an individual Web browser or TV set whenever the user requests it

VoIP (Voice over Internet Protocol)

The generic name for the transport of voice traffic using Internet Protocol (IP) technology

VPN (Virtual Private Network)

A way to use a public telecommunication infrastructure, such as the Internet, to provide remote offices or individual users with secure access to their organization's network

WiFi (Wireless Fidelity)

The popular term for a high-frequency wireless local area network (WLAN). WiFi is specified in the 802.11b specification from the Institute of Electrical and Electronics Engineers (IEEE) and is part of a series of wireless specifications together with 802.11, 802.11a, and 802.11g



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