

CHIEF EXECUTIVE OFFICER'S REVIEW

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



Alan Knott-Craig
Chief Executive Officer
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The year under review

Introduction

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

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

these markets was tough, these operations are starting to make a meaningful contribution to Vodacom's growth.

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

Performance

The Group delivered a strong financial performance for the year ended March 31, 2006 underpinned by explosive customer growth in all markets in which we operate. Growth has been

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driven by excellent performances from all the Group's operations, with the exception of Mozambique which is not yet profitable.

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

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

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

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

New technologies and services

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

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

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

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

Vodacom will continue to grow data revenues through mobilising useful office tools and software applications such as 3G, HSDPA, live TV streaming, Vodafone Mobile Connect Cards and BlackBerry®, at prices acceptable to our customers. BlackBerry®Connect as well as BlackBerry®Built-in will also

become available on certain Motorola, Siemens and Sony Ericsson handsets, previously not possible.

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

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

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

Regulatory

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

Vodacom made written and oral presentations to Parliament on both bills. Although not all of Vodacom's concerns with regard to the ECB were addressed, the ECB was amended to address Vodacom's two key concerns, i.e. the grandfathering of all

current licensees' rights and obligations, and the provisions which dealt with price regulation and other market regulatory interventions to include due process and proper market studies.

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

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

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

Dividends

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

Strategic acquisitions

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

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

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

African expansion

Current operations

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

Future prospects

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

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

Human resources

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

Our future success will be driven by strong and diverse management teams across all our operations.

Vodacom's vision

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

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

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

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

Conclusion

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

Ultimately, our success is dependent on the loyalty of our customers. To them, I commit to ensure that Vodacom goes out of its way to meet their expectations and that we will ensure

that they will always have the most advanced communication products and solutions available to them.

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

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

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

Alan Knott-Craig

Chief Executive Officer

Vodacom Group (Proprietary) Limited



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



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