

CHIEF EXECUTIVE OFFICER'S REVIEW

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



The Year Under Review

Introduction

I am pleased to present the Vodacom Group Annual Report for 2005 in what has, once again, been an outstanding year in the history of Vodacom. Our strong financial performance is 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 in 1993 and the commencement of its commercial operations on June 1, 1994, Vodacom has become a formidable cellular communications company and a real African success story. From its South African origins, the Group has grown organically and through selective acquisitions and, today, has operations in five countries in sub-Saharan Africa, with 4,993 employees serving 15.5 million customers. Vodacom has operations in the Democratic Republic of the Congo (DRC), Tanzania, Lesotho and, more recently, Mozambique. Whilst entry into each of these markets was tough, these operations are starting to make a meaningful contribution to Vodacom's growth.

Vodacom's expansion outside South Africa contributed 8.3% (2004: 6.6%) to revenue and with 2.6 million customers (2004: 1.5 million), these operations constitute 17.1% of the total customer base (2004: 13.3%). All of Vodacom's other African operations, with the exception of Vodacom Mozambique, are now profitable at the profit from operations level. Mozambique remains a tough challenge, but we are confident



Data and e-mail on demand with BlackBerry®

that in the medium to long-term, it will also contribute to the overall growth of Vodacom.

Vodacom, with its strong balance sheet, successful brand and strong distribution channels, remains in an excellent position to take advantage of growth opportunities in the cellular industry. The recently formed 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 GSM technology (3G), where the focus remains on growing data revenues.

Performance

The Group delivered a strong financial performance for the year ended March 31, 2005. Growth has been driven by excellent performances from all the Group's operations, with the exception of Mozambique which remains in its start-up phase.

Revenue continued its strong growth year on year, reaching R27.3 billion (2004: R22.9 billion), a 19.5% increase over 2004.

This increase was driven by customer growth and an improved market share. Vodacom has experienced declining average revenue per user (ARPU), with a decrease in monthly ARPU in South Africa to R163 (2004: R177) 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 currently has 15.5 million customers (2004: 11.2 million), an increase of 38.0% for the year. We remain the market leader in all the countries in which we operate, with the exception of Mozambique.

As a result of sound cost management, Vodacom has ensured that its revenue growth has been translated into increased profits from operations, which increased 23.9% to R6.5 billion (2004: R5.2 billion), exceeding the revenue growth of 19.5%. Vodacom's EBITDA increased substantially by 23.6% to R9.6 billion (2004: R7.8 billion) and the EBITDA margin increased to 35.1% (2004: 34.0%). Despite a R268 million asset impairment charge in respect of Vodacom Mozambique, net profit after taxation increased by a strong 27.2% to R3.9 billion (2004: R3.1 billion).

Operations

South Africa

Vodacom South Africa has had an exceptional year in terms of growth in customers, revenue, profit from operations and EBITDA, all underpinned by a strategy of improving market share through aggressive growth and retention initiatives. Trading conditions were favourable, with a growing customer market and low inflation and interest rates in South Africa leading to customers having higher disposable income. This, in part, also contributed to the higher than expected customer growth. Vodacom also saw good performances from data services with data in South Africa contributing R1.2 billion (2004: R0.9 billion) or 5.0% (2004: 4.4%) of total revenue.

The robust growth in the South African market was again demonstrated by the high demand for cellular telephony. Vodacom South Africa, the flagship of the Vodacom Group,

saw the operations exceeding expectation in respect of customer growth. As a result, Vodacom South Africa had a record 6.2 million gross connections (2004: 5.0 million), fuelling customer growth of 32.0% to a base of 12.8 million (2004: 9.7 million). Vodacom consequently saw an increase in its market share to 56% (2004: 54%) at the end of the year. The estimated penetration of the South African population is 48.5% and further growth can be expected given the robustness of the market and the strong economy.

Vodacom was issued a 3G licence during the year and a 3G network was launched in December 2004. This is an important step in the technical evolution of Vodacom. 3G is a new technology which requires a new overlay radio network to be built. Freed from the debilitating high 3G licence prices of Europe, we have been able to commence the aggressive roll-out of a 3G network at competitive prices, which will require a significant investment over the next three years. Product support from Vodafone, good timing and a lead over our competitors is expected to give Vodacom a marked competitive edge in the years ahead which will help in sustaining growth.

Tanzania

Despite a fiercely competitive environment, Vodacom Tanzania's performance continues to improve, with outstanding growth in customers, revenue, profits from operations and EBITDA and an increase in EBITDA margin to 36.0% from 31.0% last year.

The customer base increased substantially to 1.2 million (2004: 0.7 million) at March 31, 2005, a growth of 75.6%. This exceptional growth translated into an increase in estimated market share to 59% (2004: 57%), further extending Vodacom's market leadership. Vodacom Tanzania is well positioned to contribute to Vodacom's future growth and profitability.

Democratic Republic of the Congo

Vodacom Congo's performance continues to improve, with substantial growth in customers, revenue, profit from operations and EBITDA over last year. The DRC is the country in Vodacom's portfolio with the highest degree of political instability and, therefore, the highest degree of risk. Nevertheless, despite its very competitive market, Vodacom Congo has excelled in the past year

and has posted an improved performance over the previous year. Changes to the shareholder agreement have impacted negatively on the current year's performance, although the overall impact on the Group has been positive.

Vodacom Congo reported a strong 54.0% growth in its customer base to 1.0 million (2004: 0.7 million) at March 31, 2005, which contributed to a stable estimated market share of 47% (2004: 47%). Profit from operations was R50 million compared to R20 million in the previous year.

Lesotho

Vodacom Lesotho has substantially improved upon the previous year's performance. Operating in a competitive environment, the company retained its market share of 80% and reported a customer base of 147,000 (2004: 80,000), representing a 83.8% growth. Profit from operations increased year on year by R24 million to R25 million.

Mozambique

Vodacom Mozambique has just experienced its first full year of operations. Performance has been hampered by ARPUs below those forecasted. Vodacom Mozambique is challenged in raising usage and, consequently, ARPUs on its network.

Given a strong established competitor in Mozambique, Vodacom Mozambique has rolled out a competitive network from a coverage and quality point of view. We believe that extensive coverage and the quality of coverage are essential for laying the groundwork of a successful cellular network to drive good long-term growth prospects. However, substantial amounts of capital expenditures relating to this roll-out had to be impaired in terms of IAS 36 Impairment of Assets, due to the loss being increased as a result of the low ARPUs.

Vodacom Mozambique, despite strong competition on tariffs, reported a customer base of 265,000 (2004: 58,000), a growth of 356.9%, substantially increasing the estimated market share to 33% (2004: 11%).

It is expected that it will take a number of years before Vodacom Mozambique contributes positively to the Vodacom Group's operating profit, with effective distribution being the key challenge.

Regulatory

In South Africa, Vodacom is preparing for a range of new regulatory legislation such as the BEE ICT Charter, number portability, the Convergence Bill, and the Monitoring and Interception Act, amongst others. These regulatory developments will lead to changes in the operating environment and have an uncertain impact on business. It is therefore critical that Vodacom remains innovative, pragmatic, vigilant, pro-active, and quick in its decision-making process so as to protect both the investment of its shareholders and its market share. In Vodacom's other African operations, the regulatory and fiscal environment has been subjected to changes and challenges and it faces the test of continued management of these.

We support the industry initiative to formalise a BEE Charter for the ICT sector. The Group is well positioned to comply with the ICT Charter and it is committed to the transformation objectives of the charter.

Vodacom will continue to work with the regulators to ensure that future legislation and regulations are in the best interests of the industry and that telephony penetration is maximised, whilst investor confidence remains high in an environment attractive to continued investment.

Dividends

Importantly for Vodacom's shareholders, the dividend for the year was R3.4 billion (2004: R2.1 billion), a 61.9% improvement on 2004. 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. However, Vodacom continued acquisitions in South Africa of businesses that are of strategic importance, including the process of gaining control of its service provider channel.

On April 16, 2004 Smartphone SP (Proprietary) Limited, a subsidiary of Vodacom Group, acquired 85.75% of Smartcom (Proprietary) Limited for a purchase consideration

of R77.2 million, giving Vodacom an effective interest of 43.7% in Smartcom. Vodacom believes that effective control of the customer base will facilitate enhanced communication with customers and improve margins. On February 1, 2005 Vodacom acquired its customer base from Tiscali South Africa for a purchase consideration of R40.1 million. Vodacom South Africa now directly controls 78.3% of its contract customers and 98.4% of its prepaid customers.

Vodafone Alliance and 3G

As another South African first, Vodacom introduced 3G in December last year. Vodacom simultaneously entered into an alliance with Vodafone Group Plc, the world's largest cellular operator. In terms of this alliance, Vodacom is now able to market Vodafone branded products and services, such as Vodafone Mobile Connect Cards, Vodafone live! and BlackBerry®. The alliance also sees other benefits for Vodacom, including access to research and development in respect of 3G and access to Vodafone's marketing and buying powers in respect of 3G technologies. Vodacom is currently taking advantage of this alliance to deliver exceptional 3G-based services and to drive increases in its market share.

The introduction of 3G has enabled Vodacom customers to browse the internet, connect to company networks, send and receive e-mails, and conduct video calls on a high-speed platform and it has also made it possible for customers to make video calls at the same rate as voice calls, giving the message: *"If you can afford a voice call, you can afford 3G"*.

Vodafone live! brings infotainment to life with exclusive global and local content, picture and video messaging, music and video downloads, games and ringtones, accessed through integrated 3G camera phones.

We will strive to grow data revenues through mobilising useful office tools and software applications such as 3G, Vodafone Mobile Connect Cards and BlackBerry®, at prices acceptable to our customers.

The key to satisfying Vodacom's customers is to provide superior voice and data services according to differing needs, irrespective

of the technology utilised. The Vodacom Group is in a good position to continue taking advantage of the convergence of voice and data services.

African Expansion

Current operations

Vodacom is well established in Africa, and has the scale and efficiencies needed to continue growing organically and through selective acquisitions. One of Vodacom's focuses is raising the performance of its existing businesses.

Vodacom looks to its strong and established operation in South Africa, and aims to further ingrain itself into its other African operations. These markets are expected to have many years of organic growth still ahead of them.

Nigeria

Vodacom remains interested in this market and, should an opportunity present itself which is mutually beneficial, we will aggressively enter the Nigerian market.

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. However, the Group will continue to cautiously explore opportunities as they arise.

Governance

Vodacom has increased its focus and awareness in respect of good corporate practices and governance, and strives to conduct all its affairs in accordance with generally accepted corporate governance practices. As a result of this increased focus, Vodacom has invested in a new dedicated Corporate Governance Division headed by a Chief Governance Officer.

Human Resources

The Group today employs a total of 4,993 employees, of which 3,954 are based in South Africa and 1,039 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 South Africa Restructuring

A decision was made during the year to restructure the operations of Vodacom (Proprietary) Limited and Vodacom Service Provider Company (Proprietary) Limited (VSPC). In terms of the restructuring, VSPC became a subsidiary of Vodacom (Proprietary) Limited as from April 1, 2005.

The aim of the restructuring is to unlock operational efficiencies, remove the duplication of non-core functions, allow improved decision-making through better communication and enhance synergies. The resultant structure aims to achieve improved financial efficiency, enhanced customer focus and streamlined delivery improvement for competing in a challenging environment.

The restructuring does not impact Vodacom's licence or licence commitments and does not involve plans to reduce the workforce, or any such process, with all current employees being accommodated in the new structure.

Vodacom's Vision

Vodacom's vision is to be one of Africa's most admired companies. Vodacom's commitment to this industry is driven by our passion for, and dedication to, our stakeholders, customers, employees, and financial performance. In particular, we believe that we have a critical role to play in bridging the digital divide and indeed believe that we have already contributed in a significant manner to bridging this divide. Mobile penetration in South Africa today stands at 48.5%, a significant improvement over less than 1% 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, whilst the continuous improvement in our ability to "delight" customers will be a cornerstone of our strategy to maintain our strong market position.

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 of our employees and business partners. Their desire to succeed in everything they do, and to be seen as winners, represents an unstoppable energy and force. It is to them that I must firstly record our appreciation and recognise the contribution that they have made to our success.

Ultimately, our customers will determine whether we remain successful or not. And to our customers, I commit to ensure that Vodacom goes out of its way to meet their expectations, that we are approachable and flexible and that we apply all our energies to provide quality products that meet their needs.

We have had another remarkable year and we believe we can continue to deliver on the expectation of good performance.

We also believe that 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

Vodacom has been ranked as the “Most admired telecommunications provider in South Africa” and was ranked third in the “Top 10 Brand relationship scores”, which underpins our extraordinary year of customer growth reaching a total of 15.5 million in 2005!

