

CHAIRMAN'S REVIEW

"Vodacom's success is underpinned by strong business principles with respect to its partners and employees, as well as a desire to invest in improving the quality of life of local communities."

Wendy Luhabe
Chairman
Vodacom Group (Proprietary) Limited



Introduction

It gives me great pleasure to present Vodacom's annual report for the financial year to March 31, 2005. Vodacom has once again exceeded expectations in respect of growth in revenue, operating profits and cash flows, demonstrating the robust growth of the cellular industry in South Africa as well as Vodacom's leadership position.

During the year under review, Vodacom was again rated by consumers as South Africa's best performing telecommunications company according to a survey conducted by the SA Satisfaction Index on behalf of the Department of Trade and Industry.

Vodacom's success is underpinned by strong business principles with respect to its partners and employees, as well as a desire to invest in improving the quality of life of local communities. Vodacom's ambition is to consistently exceed customer service expectations. The quality of our service is supported by outstanding management teams, technological advancements and investment in market research, brand development and exceptional marketing. Vodacom continues to be passionate in everything it does.

Vodacom's history is one of exceptional growth and returns to its shareholders. With our dedication to customers, strong brand



*Connect superfast with
the new 3G data card*

and technological advancement, Vodacom is well placed to continue this success and growth.

Growth and Performance

Vodacom's growth has been an inspiration. Revenue increased by 19.5% to R27.3 billion, while profit from operations was up by 23.9% to R6.5 billion. EBITDA grew by 23.6% to R9.6 billion with an EBITDA margin of 35.1%, an increase of 1.1 percentage points on the prior year. Cash generated from operations in the year totalled R10.0 billion, an increase of 31.8% on the previous year.

Vodacom now has more than 15.5 million customers, a 38.0% increase on the previous year. Vodacom continues to set new records on its gross connections for the year under review, with 7.8 million customers connected to the Vodacom networks, the highest number of gross connections in the history of the Group.

Industry Developments

During the year, several pronouncements were made by the Minister of Communications, Ivy Matsepe-Casaburri, which came into effect as of February 1, 2005. On that date, a variety of prohibitions and limitations were lifted, enabling cellular network operators to self-provide transmission links or obtain these from anyone else. Value-added network services operators (VANS) and private telecommunications network services operators (PTNS) are now able to share and sell spare capacity, with VANS now permitted to carry voice over internet protocol (VOIP). Furthermore, there has also been liberalisation in respect of public payphone licences.

The deregulation has been regarded by many as a significant regulatory event for the industry, allowing greater competition in services and suppliers which is expected to lead to lower costs to the consumer and hence lower cost of doing business in South Africa. Vodacom supports a more competitive environment with a greater degree of liberalisation, but one where the rules are negotiated, clearly defined and understood by all participants, thereby creating greater levels of certainty that protects the investment that Vodacom has injected into the South African economy.

Vodacom is currently investigating a variety of commercial opportunities that have been presented by this liberalisation, including the self-provisioning of facilities and VOIP and is addressing ways to manage the challenges posed in respect of VOIP and public payphones.

A draft copy of the Convergence Bill was published in February 2005. Vodacom recognises that convergence is a logical result of developing technologies and consumer demand and that an enabling regulatory environment to allow this is essential. Vodacom is therefore supportive of a revision of the current information, communication and technology (ICT) policy. However, Vodacom's key concerns rest on the protection of existing licensees and their vested rights and obligations, as well as additional fees and obligations being imposed on existing licensees. We expect, therefore, that dialogue with industry

stakeholders will achieve the objectives of the Convergence Bill without undermining existing commitments.

Vodacom is currently engaged in providing comments to the Ministry in this regard and hopes to find an amicable solution to these challenges.

Opportunities for Growth

Vodacom is a dynamic company with a pioneering spirit and is dedicated to growth and increasing value for its shareholders. Value is created through new investment opportunities with a view to achieving sustainable returns, enhancement and advancement of products, services and technologies such as 3G, as well as investment in the competence of our employees and the leadership of our management.

In order to achieve continued growth, Vodacom continues to focus on expansion on the African continent and is consistently evaluating new investment opportunities. However, this expansion continues to be managed cautiously to comply with good corporate governance. Vodacom is well positioned to continue expansion into the African continent which is essential for the maintenance of satisfactory levels of growth.

In December 2004, Vodacom was the first network operator to introduce 3G to its customers in South Africa. As part of this launch, Vodacom launched the Vodafone Mobile Connect 3G/GPRS datacard, which provides fast, secure access to corporate networks from laptop computers. More recently, Vodacom announced the launch of consumer services through "Vodafone live!". In March this year, Vodacom officially launched BlackBerry[®], a GPRS-based service in South Africa. We believe that this technological evolution offers Vodacom significant growth opportunities and that it is well positioned to maximise value from these investments.

Governance and Compliance

During the year, Vodacom increased its focus on the implementation of Group-wide best practices in corporate governance. Vodacom's belief is that as its African business

“Vodacom continues to play a leading role in democratising telephony on the African continent.”



expands and, in keeping with the objectives of the New Partnership for Africa’s Development (NEPAD), it is essential that we introduce and practice good corporate governance in all our African operations. To this end, Vodacom has created a new function of Chief Governance Officer to assist in building this capacity throughout the organisation.

Compliance with good corporate governance is at the forefront of Vodacom’s performance considerations. We therefore continue to adopt the recommendations of the King Committee Report on Corporate Governance 2002.

Charter Developments

Vodacom continues to be an active champion and member of the Black Economic Empowerment (BEE) Charter for the ICT sector.

The ICT Charter was submitted to the Minister of Communications on May 12, 2005 whereafter it will be tabled to Cabinet for adoption and release for public comment. Vodacom has contributed meaningfully to this release.

The steering committee reached consensus on every issue, including equity ownership targets; the details of a balanced scorecard and the creation of a charter council to guide the industry’s transformation. Vodacom endorses the principles of the balanced scorecard approach.

The ICT BEE Charter is expected to be implemented in the second half of 2005 and Vodacom will strive to comply to the extent that it participates in, and endorses, the process.

Black Economic Empowerment

In South Africa, Vodacom continues to demonstrate commitment to BEE and regards the process as essential to broaden participation in South Africa’s economic opportunities and potential.

As at March 31, 2005, 37% of Vodacom’s managers were historically disadvantaged and, at an operational level 73% of its staff members were historically disadvantaged. Vodacom is committed to being an employer of choice, with 2.0% of its total salary budget being invested in training and development.

CHAIRMAN'S REVIEW continued

Over the years we have increased focus on succession development programmes and the retention of employees who perform critical functions.

Vodacom's preferential procurement programme continues to strive for commercial equity with regards to suppliers from designated historically disadvantaged individuals and companies (HDI). HDI procurement reached R2.4 billion, representing 75.3% of commercial spend in 2005, an increase of 87.9% over last year.

Vodacom shareholders intend to actively engage in finding appropriate solutions for the company's BEE equity targets once the ICT Charter has been finalised.

Corporate Social Responsibility

Vodacom regards corporate social responsibility (CSR) as a crucial construction in a society that is burdened by huge disparities and seeks to ensure a balance between the impact it has on all stakeholders. CSR is therefore ingrained in the "Vodacom Way" and its commitment starts from the top.

Vodacom operates in a challenging environment and needs to be sensitive in its dealings with all stakeholders, including business partners, local communities and employees. Vodacom's CSR initiatives prioritise sustainability and therefore encompass corporate social investment, economic empowerment, employment equity, staff development, occupational safety and health and addressing HIV/Aids in the workplace.

In respect of corporate social investment, some R34.8 million (2004: R30.6 million) was invested by the Vodacom Foundation to support the communities in which Vodacom operates with programmes covering education, health and welfare, as well as safety and security being the main focus of Vodacom's activities.

Impact on African Economies

In a landmark study by Vodafone Group Plc, who owns 35% of Vodacom, on the impact of cellular phones on the African

continent, it was found that cellular telephony has had a pronounced impact on improving the economic and financial prospects of the continent through bridging the digital divide. Improvements include: increases in per capita Gross Domestic Product (GDP) (for every 10% increase in penetration, an estimated 0.6% growth in GDP is achieved), employment, direct foreign investment and economic development. The study has also shown that Africa has witnessed faster growth in the cellphone industry than any other region in the world over the past five years. The cellphone industry therefore underpins the key to unlocking Africa's untapped economic potential.

In South Africa, it is not unusual to see hand-painted adverts offering the services of painters or repairmen accompanied only by a cellphone number. For the past ten years, Vodacom has made it possible to offer a point of contact where they can be reached which effectively creates self-employment. It was reported that more than 85% of black-owned small businesses in South Africa rely solely on cellphones for telecommunications and 62% of these believe their profits have increased as a result of cellphones. In countries where infrastructure – such as roads, fixed line communication, postal services, etc – is ineffective, cellular communications has made a substantial contribution to development and growth as well as improvement in the quality of life for many South Africans.

Vodacom continues to play a leading role in democratising telephony on the African continent. We are extremely privileged to be able to play a leading role in the economic upliftment of the countries in which we operate.

Board of Directors

It gives me pleasure to welcome Dr Marius Mostert and Tshepo Mahloele, as representatives of Telkom, as well as Robbie Barr and Gavin Darby, as representatives of Vodafone, to the Board. All appointments bring an invaluable wealth of experience and we look forward to their contribution.

Our appreciation is extended to Shawn McKenzie and Chian Khai Tan, as representatives of Telkom, as well as

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Pietro Guindani and António Carrapatoso, as representatives of Vodafone who resigned from the Board during the year.

Conclusion

Vodacom experienced a year of exceptional performance for which I must acknowledge Alan Knott-Craig and his management team who define new performance standards each financial year.

I express my sincere gratitude to Vodacom’s 4,993 employees, who collectively have embraced the “Vodacom Way” and contribute without reservation to our success. It is through their skills, hard work and resilience that Vodacom maintains a leadership position. I also extend my appreciation to Vodacom’s loyal customers and business partners for their ongoing support.

Naturally, without my colleagues on the Board, through their wisdom and counsel, our team effort would be incomplete.

As the industry defines its future and grows its footprint in the new era of cellular telecommunications, I am confident Vodacom is well positioned for continued success in the years ahead. Our success, however, is linked to the success of individuals, entrepreneurs, businesses and countries who have come to expect us to perform beyond their expectations.

Wendy Luhabe

Chairman

Vodacom Group (Proprietary) Limited



Back from left: Tshepo Mahloele, Dillie Malherbe, Gavin Darby, Robbie Barr, Dr Marius Mostert
Front from left: Wendy Luhabe, Sizwe Nxasana
Insert: Philip Williams (not available when photograph was taken)