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VODACOM GROUP LIMITED

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Annual General Meeting
21st July 2020
Financial Year End: 29th February 2020

Proxies voted
The Ditikeni Trust

The Integrated Annual Report (Report) asks for input and actually gives an email address to send such comments, however we have had no reply to our questions and they remain unanswered.

The independence of the board is a concern with 50% of the non-executive directors appointed by the majority shareholder, Vodafone, and in addition the CFO is seconded by that company. However, even more concerning is the lack of continuity of this board with 5 (50%) new non-executive directors appointed, average tenure of just over 2 years, 4 directors resigning in the last 12 months and the chairman retiring at this meeting. Similarly, the audit committee has only 1 director with service of more than 1 year. The company is facing significant loss of institutional knowledge.

The number of employees declined by 1.4%, staff training declined by 21%, and average staff salary increases were 5.5%. In contrast, executive remuneration increases 6.5% and 19.6% of a UK Pound amount giving an effective increase of more than 40%. Non-executive directors' fees increase between 5% and 10%. These high increases of executive and non-executive remuneration are not appropriate, particularly in these difficult times.

A headline report on electricity, water and fuel usage as well as e.waste and carbon emmissions is provided and the company publishes a fuller sustainability report.

The Report is not designed for use on a computer with we would expect from *a leading African communications company*, pages are laid out in portrait format and not landscape, and cross-references are not hyper-linked but give a page number only. Links to the website are provided in the report but they do not take the user to the relevant web page or document.

	Resolution	Rationale	Vote	Outcome of AGM
	Ordinary Resolutions			
1	Adoption of audited consolidated Annual Financial Statements (AFSs).	We commend the company for presenting the AFSs to the shareholders for adoption. The auditors have issued a report that the AFSs fairly present the results and financial position of the company.	FOR	FOR 100%
	Appointment of Directors	The appointment of the directors is of critical importance, and whilst we look at the suitability of individual directors, we also need to consider the composition of the board as a whole. We again note that full biographies of all directors and not just those standing for election should be provided, the website does not provide additional information. We consider the following factors: **Independence:** King IV requires 50% of directors be independent. The Report states that only 42% of directors are independent, 42% are appointed by Vodafone and the remaining 16% are executives 1 (8%) of whom is seconded from Vodafone. The chairman's date of appointment as a director is not included in the Report but we ascertained that he has served for 10 years and as such his independence is questioned. The boards independence is not acceptable, the companies report on compliance with King IV states … *half of our non-executive directors are not independent as recommended by King IV as they represent Vodafone. However, the Board is satisfied that the balance of power and objectivity on the Board is sufficient* … We find this statement of little comfort. **Continuity:** The report does not provide information on tenure, the following is extracted from the various reports and the website and relates to all non-executive directors: Average tenure 3.7 years, with 70% having served for less than 5 years, 20% 5 to 9 years and 10% (1 director) having served for more than 9 years. The only long serving director steps down from the board at the upcoming AGM. Tenure is a problem and there appears to be insufficient long-term planning.		

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		Diversity: The Report states that 60% of directors are black and 17% are female. However, in terms of the BBBEE score card, foreign directors of colour do not qualify as black for purposes of assessing performance for the score card. The intention is clearly to further previously disadvantaged South Africans. On that basis, only 33% of all directors are black South Africans and only 30% of non-executive directors are black South Africans. Foreign directors make up 50% of both non-executive and executive directors. A young board with only 2 directors in their 60's and an average age of non-executives of 54. The company is not meeting the levels of diversity which we expect today, particularly with regard to the promotion of women. **Skills:** Detailed profiles are not provided for all directors, the abbreviated profiles state that a director has skills in various areas but on the information provided we could not draw any conclusion on the balance of skills of the board. **The parent company has directly appointed 50% of the non-executive directors and seconded the CFO. The independence of the board is concerning.** **Continuity is a problem with a low average tenure, 5 new directors and an apparent lack of planning by the board. The only long-serving South African director retires at this AGM and average tenure will consequently be reduced to less than 3 years.**		
2	Appointment of Mr K Shuenyane as a director	Mr Shuenyane, 49, is suitably skilled and experienced to serve on the board. He is a new appointee to the board.	FOR	FOR 99.9%
3	Election of Ms LS Wood as a director	Ms Wood, 47, is one of the Vodafone appointees to the board, one of only 2 women directors, she is a new director and new employee of Vodafone. She is suitably skilled and experienced.	FOR	FOR 94.2%
4	Election of Mr P Klotz as a director	Mr Klotz, 44, is another new appointee to the board. He is Vodafone's corporate finance director and has served with that company for 9 years. He is suitably skilled and experienced.	FOR	FOR 94.7%
5	Election of Mr CB Thomson, as a director	Mr Thompson, 53, is a new South African appointee to the board. He is suitably skilled and experienced.	FOR	FOR 100%

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6	Re-election of Mr V Badrinath as a director	Mr Badrinath, 50, has served on the board for 4 years and is an appointee of Vodafone. His attendance record in 2020 was impeccable for board meetings and good for committee meetings.	FOR	FOR 94.4%
7	Re-election of Mr MS Aziz Joosub as a director	Mr Joosub is the CEO and is well regarded in this position. He also serves on the Vodafone executive committee.	FOR	FOR 99.4%
8	Appointment of Ernst & Young Inc. (EY) as auditors of the Company	EY have served as auditors for 1 year, they are one of the big four international firms and are suitably skilled and experienced to carry out the audit of Vodacom.	FOR	FOR 100%
9	Approval of the remuneration policy	The Remuneration Committee (Remco) comprises 5 directors, of which 3 are independent. The CEO and HR Officer only attend meetings as required and by invitation, which we note is best practice. Shareholder approval for the remuneration policy and implementation resolutions for the past two years has been just below 99%. Perhaps this is why the report has been copied with only minor changes. External advisors are named in the report but details of services provided are not. The Report lists financial and non-financial rewards which it seeks to achieve for employees, although details of the non-financial awards are sketchy it is pleasing that the committee is considering these matters. Executives are paid a Guaranteed Package (GP) and benefits, a short-term incentive (STI) and Long Term Incentive (LTI), which is in line with national norms. GP and STI are benchmarked and various surveys used are reported, it appears that this benchmarking is not done independently. We are concerned that the Report states STI *payments are discretionary* … executives and staff need to know what targets and rewards are. The CEOs and CFOs STI expressed as a percentage of GP is, respectively 100% or 60% on achievement of target with a maximum of 200% or 180%. STI metrics and weighting are: Service revenue 25%; EBIT 25%, Operating free cash flow 25%, and Customer appreciation 25%. It is pleasing and appropriate that Customer appreciation is a metric but	FOR	FOR 98.9%

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		less pleasing that this metric is reduced from 40% weighting to 25% thus increasing the weighting of financial metrics from 60% to 75%. Details of the individual metrics as well as threshold, target and above target weighting are provided. The Report is short on information about how targets are arrived at. LTI is benchmarked against Indi 25 companies and a list of companies used is included in the report, extra weighting is given to telecoms companies as direct comparitors. The CEO and CFO LTI expressed as a percentage of GP is respectively 190% or 70% on achievement of target with a maximum of 405% or 233%. The maximum LTI as a percentage of GP is very high in comparison with other companies in our sample. LTI metrics and weighting are: Operating free cash flow 70%, and TSR relative to peer group 30%. We note the metrics are only financial. Operating free cash flow is based on the budget whereas TSR is clearly based on peer companies. LTIs are paid in the form of Vodacom Forfeitable Share Plan and Vodafone Conditional Share Plan. Vesting of LTIs is based on achievement of Operating free cash flow and TSR and is 0% to 100% based on a scale included in the Report. The CEO and executives have minimum shareholding targets which we favour. A reasonable remuneration policy report; we do have concerns regarding the statement about Remco discretion of STIs and the fact that achievement of some targets is based on budget/business plans which makes it difficult to assess how challenging these targets are.		
10	Approval for the implementation of the remuneration policy	GP (Guaranteed Package) on which both the STI and LTI are based increased for the CEO by 6.5% and the £ (UK Pound) salary of the CFO by 19.6%. These COE's increase is high and is on top of an 8.5% increase in 2019.	AGAINST	FOR 98.9%

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		The CFO's is astonishing particularly given that it was already higher than other companies in our sample, and as we have seen an appreciation of the £ against the Rand during the past year of over 20%, his Rand salary increased by 44%. No adequate explanation is given for these increases. We are told this is as a result of benchmarking, but in comparison to our sample of companies these are very high base packages. STI achievement was 95.4% and LTI achievement was 101.6%. Insufficient information is provided to properly assess these ratings, however the company results over the past 10 years have been pleasing particularly when viewed against competitor results. The excessive increases in GP and in particular that given to the CFO and the inappropriate level of his pay as compared to other listed companies requires explanation.		
	Appointment of members of the Audit, Risk and Compliance Committee	The concern with the board and this committee is two-fold: independence from the holding company and continuity. With only 5 directors who are not appointed by the holding company there is not a lot of choice for the 4 members of this committee. Only 1 of the members of this committee served on the committee for the full year last year.		
11	Re-election of Mr DH Brown as a member of the Audit, Risk and Compliance Committee of the Company	Mr Brown, 57, is one of the longest serving directors with 8 years' service. We are more concerned about continuity with this board and this committee and with service of under 9 years and as he is not appointed by the holding company, there is no concern regarding Mr Brown's independence. His attendance record at audit committee and board meetings last year was impeccable and for other committee meetings was good.	FOR	FOR 99.6%
12	Election of Mr CB Thomson as a member of the Audit, Risk and Compliance Committee of the Company	As noted under 5 above Mr Thomson is a new appointee to the board and as such to this committee. He is suitably skilled and experienced. He is an independent director and not an appointee of the holding company.	FOR	FOR 99.9%

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13	Election of Mr K Shuenyane as a member of Audit, Risk and Compliance Committee of the Company	As noted under 2 above, Mr Sheunyane is a new appointee to the board. He is well qualified to serve on this committee. He is an independent director and not an appointee of the holding company.	FOR	FOR 99.9%
14	Election of Ms NC Ngweni as a member of the Audit, Risk and Compliance Committee of the Company	We assume the resolution is incorrect and the person being appointed is Ms Nqweni. She is a newly appointed alternate director to Ms Mahanyele-Dabengwa. We are concerned that there are insufficient independent directors to serve on this committee necessitating the appointment of an alternate director.	FOR	FOR 99.9%
	Special Resolutions			
1	General authority to repurchase shares in the Company	This resolution empowers the company or and of its subsidiaries to purchase the company shares subject to the laws and regulations provided that such purchases in aggregate shall not exceed 5% of the issued shares and the purchase price shall not be greater than 10% of the average listed price. We are told that the reason for the resolution is … *to grant the Company a general authority or permit a subsidiary Company to acquire ordinary shares in the Company* … This is not a reason, this is the resolution. A proper reason as to why the company and or its subsidiaries should be given the authority to purchase shares in the company is required.	AGAINST	FOR 99.0%
2	Increase in non-executive directors' fees	The proposed increases are: Chairman's fee and the Audit Committee Chairman's fee - 10%; and all other fees - 5%. The 2019 increases were: Chairman's fee, Lead Independent Director's fee and Board fees - 7%; all committee fees – 5%. Average staff increases are not reported but we note total staff costs increased 6%. As is correct, fees payable to the 5 Vodafone directors are paid to that company and not to those directors as they are employees of Vodafone. These increases are relatively high for the second year in a row without any clear motivation. We find these increases inappropriate in times of such economic hardship as are being experienced at present.	AGAINST	FOR 99.9%

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ANNUAL GENERAL MEETING OUTCOMES

The meeting was well attended with 92.4% of shares voted (2019 – 93%) being 37 shareholders (2019 – 72 shareholders). This is a big drop in the number of shareholders attending but a small drop in percentage voted. If Vodafone's shares are removed then 80% of minority shareholders attended which is fair attendance.

All resolutions were passed with significant majorities, with the only resistance being approximately 15% of minorities voting against Vodafone appointees to the board.