

Vodacom Group Limited
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("Vodacom Group")

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UPDATE ON VODACOM GROUP'S PROPOSED NEW BROAD-BASED BLACK ECONOMIC EMPOWERMENT OWNERSHIP TRANSACTION AND FINAL BEE TRANSACTION SHARE PRICE

1. Introduction

Shareholders are referred to the announcement released on SENS on Monday 11 June 2018 and published in the South African press on Tuesday 12 June 2018 detailing the BEE transaction between Vodacom Group and YeboYethu (RF) Limited ("YeboYethu") (the "BEE transaction") a copy of which can be found on the Vodacom Group website at www.vodacom.com (the "terms announcement").

Unless otherwise indicated by the context, terms defined in the above terms announcement will have the same meanings herein.

The BEE transaction was priced on, Tuesday 3 July 2018, being the last practicable date prior to formal approval by the JSE Limited ("JSE") of the Vodacom Group and YeboYethu circulars ("pricing date"). The final BEE transaction share price of R143.35 is the 60-day volume weighted average price ("VWAP") of a Vodacom Group share on the JSE, up to and including Monday, 2 July 2018, which has been used for calculating the BEE transaction size.

All the value parameters are now final except the final split of the YeboYethu gearing amount between third party financing (class A preference shares) and vendor funding from Vodacom Group (class B preference shares), which will be determined on the fourth implementation day based on the 5-day VWAP of a Vodacom Group share at that time and the IFRS 2 cost (which will be determined on the shareholder meeting date).

The final BEE transaction parameters are as follows:

60-day VWAP of a Vodacom Group share on pricing date	R143.35
Transaction value	R16.41 billion
Number of Vodacom Group shares to be issued to YeboYethu	114.45 million
Transaction size	6.23%
Equity swap ratio of Vodacom SA to Vodacom Group	73.0%
Subscription price discount from Vodacom Group	R1.95 billion
Equity reinvested by the Vodacom SA BEE shareholders	R3.86 billion
Maximum special dividend to be paid to YeboYethu shareholders	R3.26 billion (R73.00 per YeboYethu share)
Vodacom ESOP subscription for new YeboYethu ordinary shares	R750 million*
5-day VWAP of a Vodacom Group share at pricing date	R121.19
Gearing of YeboYethu (third party financing and vendor funding from Vodacom Group)	R9.91 billion (60%)

* This amount is rounded up. The exact amount, given the YeboYethu price per share, is R749 999 984.55.

2. BEE transaction steps

The BEE transaction will be implemented through a series of interlinked and inter-conditional steps as outlined below. The values based on the final BEE transaction share price of R143.35 are as follows:

2.1 Step 1: first implementation day: unwind of the existing Vodacom SA BEE transaction

Step 1 A: Implementation of the NVF structure

Vodacom SA will repurchase 114 744 844 (31 813 785 from RBH, 13 634 479 from Thebe, and 69 296 580 from YeboYethu (30 298 842 of the "public A shares", and 38 997 738 of the "ESOP A shares" (as such terms are defined in Vodacom SA's memorandum of incorporation)) Vodacom SA A shares from the Vodacom SA BEE shareholders for a nominal consideration (R0.00001 per Vodacom SA A share, and R1 147.45 in aggregate) pursuant to the Vodacom SA NVF transaction terms ("Vodacom SA repurchase"), upon which the remaining Vodacom SA A shares will rank pari passu with the Vodacom SA ordinary shares in all respects and will be unencumbered consistent with the terms of issue thereof. It is anticipated that post the Vodacom SA repurchase, the Vodacom SA BEE shareholders will collectively hold 185 255 156 Vodacom SA shares, or approximately 3.95% of Vodacom SA.

Step 1 B: Conversion and partial repurchase of YeboYethu N shares

Following implementation of the Vodacom SA repurchase, the 12 000 000 YeboYethu N shares in issue will automatically convert according to their terms of issue and at the same time 3 318 908 of those shares shall be repurchased by YeboYethu for a nominal amount (R0.00001 per share, and R33.19 in aggregate) based on the existing YeboYethu NVF transaction terms.

Of the 8 681 092 YeboYethu ordinary shares held by the YeboYethu ESOP, which remain after the conversion and repurchase described above, up to a maximum of 3 298 516 will, as set out in step 4 (paragraph 2.4), be sold to the Vodacom ESOP, and the remaining 5 382 576 YeboYethu ordinary shares will be transferred, together with the proceeds received by the YeboYethu ESOP from its sale to the Vodacom ESOP, to the existing vested beneficiaries of the YeboYethu ESOP in accordance with the terms of the YeboYethu ESOP trust deed and scheme rules, whereafter the YeboYethu ESOP will be wound-up.

2.2 Step 2: first implementation day: consolidation of Vodacom SA BEE shareholders' interests in Vodacom SA in a single vehicle

Each of RBH and Thebe will exchange their Vodacom SA shares for new YeboYethu ordinary shares in terms of asset-for-share transactions, thereby consolidating all of the Vodacom SA BEE shareholders' interests into a single vehicle, being YeboYethu.

RBH will sell its 55 126 215 Vodacom SA A shares and 7.56 million Vodacom SA ordinary shares (valued at R2 410 284 967) to YeboYethu, and in return YeboYethu will issue 15 115 295 new YeboYethu ordinary shares to RBH in consideration.

Thebe will sell its 23 625 521 Vodacom SA A shares and 3.24 million Vodacom SA ordinary shares (valued at R1 032 979 282) to YeboYethu, and in return YeboYethu will issue 6 477 984 new YeboYethu ordinary shares to Thebe in consideration.

The sales by each of RBH and Thebe, and the issue of new ordinary shares in YeboYethu, will be done simultaneously and at fair market value.

2.3 Step 3: second implementation day: YeboYethu declares a special dividend (distribution)

YeboYethu will declare a special dividend of up to a maximum of R3 261 189 876 or, in all cases, R73.00 per YeboYethu ordinary share, on the second implementation day, subject to YeboYethu meeting a solvency and liquidity test as contemplated by section 45 of the Companies Act, 2008, as amended. The special dividend represents a significant liquidity event and equates to 2.9 times the YeboYethu shareholders' original equity contribution. Vodacom Group currently has no intention to settle the BEE transaction in cash.

Despite declaration, the payment of the special dividend will only occur in (and payment will be contingent upon) step 6 (in paragraph 2.6) (and each of the preceding steps) being implemented.

2.4 Step 4: second implementation day: Vodacom Group employer companies make a contribution to the Vodacom ESOP to enable it to acquire YeboYethu ordinary shares

Vodacom Group, on behalf of itself and the employer companies, will make a capital contribution of an aggregate amount of R1.05 billion to the Vodacom ESOP. The Vodacom ESOP will, on the second implementation day or as soon thereafter as it may be implemented, use the proceeds to purchase up to a maximum of 3 298 516 YeboYethu ordinary shares valued at R300 million from the YeboYethu ESOP (and the YeboYethu ESOP beneficiaries insofar as the rights therein have vested), and will use the balance of R750 million to subscribe for 8 246 289 new YeboYethu ordinary shares for the benefit of vested beneficiaries.

Should any balance of the contribution remain after the sale and subscription above, the Vodacom ESOP will use those funds to acquire YeboYethu ordinary shares in the market after the implementation of the BEE transaction.

2.5 Step 5: YeboYethu exchanges Vodacom SA shares for new Vodacom Group shares

A new special purpose vehicle, YeboYethu Investment Company (RF) (Proprietary) Limited ("YeboYethu Investment"), has been created for the purpose of holding YeboYethu's Vodacom Group shares. YeboYethu Investment is a wholly-owned subsidiary of YeboYethu.

second implementation day

After the implementation of the aforementioned steps and the consolidation of YeboYethu's shareholding in Vodacom SA, YeboYethu will on the next day exchange its Vodacom SA shares for ordinary shares in the share capital of YeboYethu Investment ("YeboYethu Investment shares"). YeboYethu will sell its 167 255 156 Vodacom SA A shares, valued at R6 430 960 748, and 18 million Vodacom SA ordinary shares, valued at R692 100 000, to YeboYethu Investment, and in return YeboYethu Investment will issue 7 123 061 new YeboYethu Investment ordinary shares to YeboYethu in consideration.

third implementation day

After implementation of YeboYethu's exchange of Vodacom SA shares for YeboYethu Investment shares, and on the subsequent day, YeboYethu Investment will exchange its Vodacom SA shares for new Vodacom Group shares on a fair market value basis of R7 123 060 748. YeboYethu Investment will sell its 167 255 156 Vodacom SA A shares and 18 million Vodacom SA ordinary shares to Vodacom Group and in return Vodacom Group will issue 49 689 995 new Vodacom Group shares in consideration.

2.6 Step 6: fourth implementation day: YeboYethu raises vendor funding and third party financing and subscribes for additional Vodacom Group shares

In aggregate, YeboYethu will raise R9 908 154 034 in subscription proceeds from the issue of the class A preference shares and class B preference shares. The number of class A preference shares to be issued by YeboYethu, however, will be, with reference to their aggregate subscription price, equal to the lesser of R5 833 333 333 and an aggregate subscription price which is equal to a 3x share cover ratio as measured against the 5-day VWAP of a Vodacom Group share on the fourth implementation day. The number of class B preference shares will be equal to that number of class B preference shares which need to be issued, based on their aggregate subscription price, such that the total preference share funding received by YeboYethu (including the subscription funds received pursuant to the issue of the class A preference shares) is equal to R9 908 154 034.

Accordingly, although the aggregate funding received by YeboYethu from preference share subscription proceeds will remain constant, the split between the class A preference shares and class B preference shares will be determined with reference to the 5-day VWAP of a Vodacom Group share on the fourth implementation day. For illustrative purposes, below and later in the announcement, the split of the class A preference shares and class B preference shares is based on an assumed 5-day VWAP of a Vodacom Group share on the fourth implementation day of R121.19.

YeboYethu will issue class B preference shares to Vodacom Group and raise R5 284 707 866. The class B preference shares will be unsecured. YeboYethu will use the subscription proceeds received pursuant to (i) the subscription by Vodacom ESOP (as set out in step 4 at paragraph 2.4 above) and (ii) the issue of the class B preference shares, to (a) fund the payment of the special dividend (as set out in step 3 at paragraph 2.3 above) and transaction costs amounting to R64 million and (b) subscribe for 2 709 310 (at an issue price of R1 000 per share) additional YeboYethu Investment shares.

YeboYethu Investment will use the subscription proceeds received from YeboYethu above to subscribe for 23 927 991 new Vodacom Group shares (representing 1.30% of Vodacom Group shares, post the BEE transaction), valued at R3 430 077 652, at a discount of R720 767 619.

In addition, YeboYethu will issue class A preference shares to third party funders and raise R4 623 446 168. The class A share cover preference shares will be secured through YeboYethu Investment issuing a guarantee and a pledge of the Vodacom Group shares held by it to the third party funders. YeboYethu will use the entire subscription proceeds received pursuant to the issue of the class A share cover preference shares, to subscribe for 4 623 446 (at an issue price of R1 000 per share) additional YeboYethu Investment shares.

YeboYethu Investment will use the entire subscription proceeds received from YeboYethu above to subscribe for 40 833 194 new Vodacom Group shares (representing 2.22% of Vodacom Group shares, post the BEE transaction), valued at R5 853 438 396, at a discount of R1 229 992 228.

The Vodacom Group share price is a material input in calculating the financial effects of the transaction. Since the terms announcement, dated 11 June 2018, markets across the globe have been impacted by significant share price volatility. This has been driven by global factors including increased international trade uncertainty from tariff interventions mainly by the USA and China. Emerging markets have been particularly affected. International funds withdrew from riskier assets, creating negative pressure on emerging market economies and currencies. The impact of this can be clearly seen in the resultant volatile share prices across the South African market.

The table below illustrates what the split of the YeboYethu gearing amounts will be between the class A preference shares and class B preference shares based on various assumed 5-day VWAP's of a Vodacom Group share on the fourth implementation day and is provided for illustrative purposes only.

5-day VWAP of a Vodacom Group share on the fourth implementation day (Rand)	Class A share cover preference shares from third party funders (R'm)	Class B preference shares from Vodacom Group (R'm)	Total YeboYethu gearing (R'm)
150	5 723	4 185	9 908
140	5 341	4 567	9 908
130	4 959	4 949	9 908
121.19	4 623	5 285	9 908
120	4 578	5 330	9 908
110	4 196	5 712	9 908
100	3 815	6 093	9 908

2.7 Comparison of transaction parameters to terms announcement

The table below shows a comparison of the key pricing parameters of the BEE transaction between the terms announcement and this pricing announcement. The overall gearing of the BEE transaction structure does not increase (remains at 60%) but the BEE equity reinvestment and Vodacom discount ratios change. The discount from Vodacom increases from R1.75 billion to R1.95 billion (R200 million increase). As a result of the smaller deal size (R16.4 billion vs. R17.5 billion) and the proportional increase in the facilitation from Vodacom, the equity reinvestment from BEE investors decreases from R4.50 billion to R3.86 billion (R638 million decrease) and the overall funding required reduces from R10.50 billion to R9.91 billion (R592 million decrease).

Step	Description	Pricing announcement @R143.35	Terms announcement (assuming R152.50)
1 A	Aggregate Vodacom SA A shares repurchased from YeboYethu, RBH and Thebe	114 744 844	110 902 035
	Aggregate Vodacom SA shares held between YeboYethu, RBH and Thebe after the repurchase	185 255 156	189 097 965
	Aggregate % shareholding in Vodacom SA held between YeboYethu, RBH and Thebe after the repurchase	3.95%	4.03%
1 B	YeboYethu N shares automatically converted and simultaneously repurchased	3 318 908	3 154 468
	Aggregate remaining YeboYethu ordinary shares after the repurchase and conversion of YeboYethu N shares	8 681 092	8 845 532
2	Number of Vodacom SA shares to be exchanged by RBH for new YeboYethu ordinary shares	55 126 215	56 191 660
	Vodacom SA A shares and 7.56 million Vodacom SA ordinary shares in return for 15 115 295 YeboYethu ordinary shares		Vodacom SA A shares and 7.56 million Vodacom SA ordinary shares in return for 15 115 065 YeboYethu ordinary shares
	Number of Vodacom SA shares to be exchanged by Thebe for new YeboYethu ordinary shares	23 625 521	24 082 140
	Vodacom SA A shares and 3.24 million Vodacom SA ordinary shares in return for 6 477 984 YeboYethu ordinary shares		Vodacom SA A shares and 3.24 million Vodacom SA ordinary shares in return for 6 477 885 YeboYethu ordinary shares
3	YeboYethu special dividend	Up to a maximum of R3 261 189 876, in all cases or R73.00 per YeboYethu ordinary share	Up to a maximum of R3 016 419 627, in all cases or R67.28 per YeboYethu ordinary share
4	Vodacom Group capital contribution to the Vodacom ESOP	R1.05 billion	R1.05 billion
	Acquisition amount in respect of YeboYethu shares acquired by the Vodacom ESOP from the YeboYethu ESOP	Up to a maximum of R300 million	Up to a maximum of R300 million
	Number of YeboYethu shares acquired by the Vodacom ESOP from the YeboYethu ESOP	Up to a maximum of 3 298 516	Up to a maximum of 2 988 919
	Subscription amount for YeboYethu shares by the Vodacom ESOP	R750 million	R750 million
	Number of YeboYethu shares subscribed for by the Vodacom ESOP	8 246 289	7 472 297
5	Number of Vodacom SA shares held by YeboYethu post RBH and Thebe's sale of their shares in Vodacom SA to YeboYethu	167 255 156 Vodacom SA A shares and 18 million Vodacom SA ordinary shares	171 097 965 Vodacom SA A shares and 18 million Vodacom SA ordinary shares
	Number of YeboYethu Investment shares to be issued to YeboYethu in exchange for the Vodacom SA shares	7 123 061	7 516 420
	Number of Vodacom SA shares held by YeboYethu Investment	167 255 156 Vodacom SA A shares and 18 million Vodacom SA ordinary shares	171 097 965 Vodacom SA A shares and 18 million Vodacom SA ordinary shares
	Number of Vodacom Group shares to be issued to YeboYethu Investment in exchange for Vodacom SA shares	49 689 995	49 287 998
6A	class B preference shares	R5 284 707 866	R4 732 666 667
	Number of Vodacom Group shares subscribed for utilising a portion of the proceeds of the class B preference shares	23 927 991	19 084 628
	Vodacom Group discount	R720 767 619	R510 158 659
6B	class A preference shares	R4 623 446 168	R5 833 333 333
	Number of Vodacom Group shares subscribed for utilising the proceeds of class A preference shares	40 833 194	46 381 473
	Vodacom Group discount	R1 229 992 228	R1 239 841 341
Step 1-6B	Total number of Vodacom Group shares issued to YeboYethu	114 451 180	114 754 099
Step 1-6B	Percentage of Vodacom Group shares owned by YeboYethu	6.23%	6.25%

3. YeboYethu sources of funding

The table below sets out the sources of funding to discharge the payment obligations in terms of the BEE transaction. The values reflected below are based on the final BEE transaction share price of R143.35.

Sources of funding	Rm	%
Economic value of Vodacom Group discount of subscription price	1 951	11.8
Equity contribution - Vodacom SA BEE shareholders (including YeboYethu shareholders)	3 862	23.4
Equity contribution by Vodacom Group and employer companies - Vodacom ESOP*	750	4.6
Class A share cover preference shares from third party funders	4 623	28.1
Class B preference shares from Vodacom Group	5 285	32.1
Total	16 471	100
Uses of funding	Rm	%
Acquisition of Vodacom Group shares	16 407	99.6
Transaction costs	64	0.4
Total	16 471	100

* Total Vodacom ESOP contribution of R1 050 million, where up to a maximum of R300 million is utilised to acquire shares from the YeboYethu ESOP and R749 999 million is utilised to subscribe for new YeboYethu shares. The balance of the contribution to the Vodacom ESOP will be used by the Vodacom ESOP following the final implementation date to acquire YeboYethu ordinary shares in the market.

4. Financial effects

Pro forma financial effects of the BEE transaction

The table below sets out the pro forma financial effects of the BEE transaction on, inter alia, Vodacom Group's net asset value per share, net tangible asset value per share, basic earnings per share, diluted earnings per share, headline earnings per share and diluted headline earnings per share based on the most recently published audited consolidated annual financial statements of Vodacom Group for the year ended 31 March 2018.

The pro forma financial effects have been prepared using accounting policies that comply with IFRS and that are consistent with those applied in the published audited consolidated annual financial statements of Vodacom Group for the year ended 31 March 2018.

The pro forma financial effects are the responsibility of the directors of Vodacom Group and were prepared for illustrative purposes only and may not, because of its nature, fairly present Vodacom Group's financial position, changes in equity and results of its operations or cash flows nor the effect and impact of the BEE transaction going forward. It does not purport to be indicative of what the financial results would have been, had the BEE transaction been implemented on a different date.

Accounting treatment

Unwind of existing Vodacom SA BEE transaction

The existing Vodacom SA BEE transaction was predominantly accounted for as an equity-settled share based payment scheme, and YeboYethu and the special purpose vehicles created by RBH and Thebe to acquire the Vodacom SA shares were consolidated in terms of IFRS 10: Consolidated Financial Statements ("IFRS 10"). Consequently, the unwind of the existing Vodacom SA BEE transaction will result in the special purpose vehicles created by RBH and Thebe being de-consolidated. The unwind will be accounted for within equity as it is a transaction with shareholders. Vodacom Group will continue to consolidate YeboYethu while YeboYethu ESOP will be wound up.

The BEE transaction

The BEE transaction will be implemented through a series of inter-conditional steps resulting in Vodacom Group issuing 114 451 180 new Vodacom Group shares to YeboYethu Investment, of which 49 689 995 are issued at the BEE transaction share price and 64 761 185 are issued at BEE transaction discounted subscription price.

The BEE transaction meets the requirements of an IFRS 2: Share-based Payment arrangement and will predominantly be accounted for as equity-settled, and will result in a once off share-based payment charge, as well as a recurring share-based payment charge for Vodacom ESOP, which will be expensed over the vesting period. Vodacom Group currently has no intention to settle the BEE transaction in cash. The Innovator Trust and a portion of the Vodacom ESOP will however be accounted for as cash-settled due to the accounting substance thereof, of which the charge relating to the Vodacom ESOP will be expensed over the vesting period. As this part of the share based payment is cash-settled, the share based payment liability will be re-measured at each reporting period.

Based on management's judgement and application of the control principles contained in IFRS 10, management concluded that Vodacom Group will consolidate YeboYethu, YeboYethu Investment and Vodacom ESOP. As a result, the 114 451 180 new Vodacom Group shares held by YeboYethu Investment in Vodacom Group will be treated as treasury shares (i.e. it will be excluded from shares in issue and weighted average number of shares in issue for accounting purposes). When the control principles in IFRS 10 are no longer met, YeboYethu and YeboYethu Investment will be de-consolidated and the new Vodacom Group shares held by YeboYethu Investment will no longer be classified as treasury shares.

	Before the BEE transaction1 (cents) (A)	Pro forma after the BEE transaction2 (cents) (B)	Percentage change (%) (B/A)
Based on 31 March 2018			
Basic earnings per share	947	834	(11.9)
Diluted earnings per share	919	810	(11.9)
Headline earnings per share	923	810	(12.2)
Diluted headline earnings per share	895	786	(12.2)
Net asset value per share	3 792	3 607	(4.9)
Net tangible asset value per share #	3 255	3 070	(5.7)
Weighted average number of Vodacom Group shares in issue (millions)	1 620	1 620	
Weighted average diluted number of Vodacom Group shares in issue (millions)	1 622	1 668	
Number of Vodacom Group shares in issue (millions)	1 700	1 700	
- Total number of Vodacom Group shares in issue (millions)	1 721	1 836	
- Treasury shares (millions)	(21)	(136)	

Net tangible asset value is calculated as net asset value attributable to the owners of the parent, less the value of goodwill, other intangible assets and deferred tax assets attributable to the owner of the parent.

Notes and assumptions:

1. The Vodacom Group information reflected in the "Before the BEE transaction" column has been extracted from the audited consolidated annual financial statements of Vodacom Group for the year ended 31 March 2018.
2. The Vodacom Group information reflected in the "Pro forma after the BEE transaction" has been calculated on the basis that all of the steps to unwind the existing Vodacom SA BEE transaction and all of the steps to implement the BEE transaction have been completed.
3. The effects on basic earnings, diluted earnings, headline earnings, and diluted headline earnings per share are calculated on the basis that the BEE transaction was effective on 1 April 2017, while the effects on net asset value and net tangible asset value per share are calculated on the basis that the BEE transaction was effective on 31 March 2018 for purposes of presenting the pro forma financial effects thereof on Vodacom Group.

The pro forma adjustments are based on the following principal assumptions:

- Step 1: The unwind of the existing Vodacom SA BEE transaction

It has been assumed that the unwind of the existing Vodacom SA BEE transaction and the implementation of the NVF structure by way of a repurchase will take place in accordance with the memorandum of incorporation of Vodacom SA, resulting in Vodacom SA BEE shareholders collectively owning a shareholding of 3.95% in Vodacom SA.

Step 1 results in the de-consolidation of the special purpose vehicles through which RBH and Thebe own their Vodacom SA shares as well as the reversal of the non-controlling interest and the YeboYethu ESOP IFRS 2 liability which arose upon the offer to employees to take up interest-free loans with the underlying YeboYethu shares as security, and which will be extinguished upon unwinding the existing Vodacom SA BEE transaction. Vodacom Group will continue to consolidate YeboYethu.

- Step 2: Consolidation of Vodacom SA BEE Shareholders' interests in Vodacom SA in a single vehicle

This step does not give rise to any pro forma financial effects for Vodacom Group.

- Step 3: YeboYethu declares a special dividend

Other reserves are reduced for the impact of the declaration of the special dividend. The pro forma financial effects arising as a result of the settlement of the special dividend are described below.

- Step 4: Vodacom Group (on behalf of itself and other employer companies) make a contribution to the Vodacom ESOP to enable it to acquire YeboYethu ordinary shares

Other reserves and cash are each reduced for the impact of the R300 million acquisition of YeboYethu shares by Vodacom ESOP from YeboYethu ESOP, while there is no impact for the R750 million subscription for YeboYethu shares by Vodacom ESOP as it eliminates on consolidation.

- Step 5: YeboYethu exchanges Vodacom SA shares for new Vodacom Group shares

The 49 689 995 new Vodacom Group shares issued in exchange for the 3.95% shareholding that YeboYethu holds in Vodacom SA are treated as treasury shares on a consolidated level. This step results in an assumed IFRS 2 charge as described below and an increase in the total number of Vodacom Group shares in issue used for calculating dividend per share.

- Step 6: YeboYethu raises vendor funding and third party financing and subscribes for additional Vodacom Group shares

Class A preference shares

Borrowings are increased for YeboYethu's issue of class A preference shares to third party funders of R4 623 446 168. YeboYethu will use the entire subscription proceeds received to subscribe for 40 833 194 new Vodacom Group shares through its wholly owned subsidiary YeboYethu Investment at a discount of R1 229 992 228, based on the BEE transaction share price.

These shares are treated as treasury shares on a consolidated level. In addition, this step results in an IFRS 2 charge as described below and an increase in the total number of Vodacom Group shares in issue used for calculating dividend per share.

Finance cost at a rate of 68% of prime overdraft lending rate (non tax deductible) on the outstanding balance of the A preference shares has been assumed.

Class B preference shares

The issue of class B preference shares by YeboYethu to Vodacom Group of R5 284 707 866 does not give rise to any pro forma financial effects as it eliminates on consolidation. YeboYethu will use the subscription proceeds as well as the subscription proceeds to:

- Fund the payment of the special dividend of R3 261 189 876 to YeboYethu shareholders (detailed in Step 3); and
- Settle assumed transaction costs of R64 million.

The remaining balance of the class B subscription proceeds as well as the subscription proceeds received from Vodacom ESOP through the subscription of YeboYethu shares to the value of R750 million will be used to subscribe for 23 927 991 new Vodacom Group shares through its wholly owned subsidiary YeboYethu Investment at a discount of R720 767 619 based on the BEE transaction share price.

These shares are treated as treasury shares on a consolidated level. In addition, this step results in an IFRS 2 charge as described below and an increase in the total number of Vodacom Group shares in issue used for calculating dividend per share.

3.1. The BEE transaction gives rise to the following assumed IFRS 2 charges:

- A non-recurring share-based payment charge of R1 275 million, relating to YeboYethu shareholders, excluding the Vodacom ESOP; and
- A total share-based payment charge of R1 119 million, relating to Vodacom ESOP, which will be recognised on a recurring basis in tranches over the vesting period of five years.

Accordingly, the pro forma financial effects assumes a charge of R1 491 million, consisting of the non-recurring charge, and one year's vesting charge of R216 million (net of tax), in relation to the Vodacom ESOP component.

Of the total assumed IFRS 2 charge of R2 394 million, R732 million relates to a cash-settled share-based payment arrangement. On initial recognition, the liability relating to the Vodacom ESOP and the Innovator Trust will be measured at fair value using the Monte Carlo Simulation based option pricing model. The value of the liability will be re-measured at each reporting period based on changes to the various valuation inputs.

The abovementioned share-based payment charges have been calculated using a Monte Carlo Simulation based option pricing model. The economic substance of the BEE transaction mimics that of a call option, with the value of the outstanding debt at the maturity date of the transaction as the strike price of the option.

A total assumed IFRS 2 charge of R2 394 million has been determined for this transaction at inception. The assumptions used in this model for purposes of the pro forma financial effects include:

- 114 451 180 new Vodacom Group shares;
- Vodacom Group share price of R123.09, being the Vodacom Group share price on the last practicable date prior to finalising the pricing announcement;
- Volatility of 22.25% in the Vodacom Group share price, calculated using historical share price information since Vodacom Group's listing on the JSE;
- Expected costs to escalate by 6% per annum;
- Expected dividend yields of between 6.9% and 8.03%; and
- The risk free rate used was based on an independently constructed zero coupon South African Rand interest rate swap curve ranging from 6.3% to 8.4%.

These assumptions will be updated when the final IFRS 2 charge is determined upon approval of the BEE transaction.

The Vodacom Group share price is a material input in calculating the financial effects of the transaction. Since the terms announcement dated 11 June 2018, markets across the globe have been impacted by significant share price volatility. This has been driven by global factors including increased international trade uncertainty from tariff interventions mainly by the USA and China. Emerging markets have been particularly affected. International funds withdrew from riskier assets, creating negative pressure on emerging market economies and currencies. The impact of this can be clearly seen in the resultant volatile share prices across the South African market.

The IFRS 2 charge is most sensitive to changes in the share price of the Vodacom Group share. The table below illustrates what the IFRS 2 charge would be based on various Vodacom Group share prices, with all other assumptions remaining static. The table below is provided for illustrative purposes only.

Vodacom Group Limited share price (Rand)	IFRS 2 charge relating to recurring share-based payment charge after tax (Rm)	IFRS 2 charge relating to non-recurring share-based payment charge (Rm)	Total assumed IFRS 2 charge arising as a result of the assumed Vodacom Group share price (Rm)	Decrease in earnings and headline earnings per share (cents)*
150.00	365	3 269	3 634	(224)
140.00	308	2 505	2 813	(174)
130.00	253	1 767	2 019	(125)
123.09**	216	1 275	1 491	(92)
120.00	200	1 059	1 259	(78)
110.00	155	389	544	(34)
100.00	103	284	387	(24)

* This column represents the decrease in earnings per share and headline earnings per share arising as a result of the total assumed IFRS 2 charge, after tax.

** Reflected in the pro forma financial effects of the BEE transaction

The IFRS 2 charge is also sensitive to the dividend yield that is input into the Monte Carlo valuation model. This will also change based on the Vodacom Group share price.

For the purpose of performing the valuation, an annual effective dividend yield of 8.01% was used. This effective dividend yield was based on a term structure of simple dividend yields that was calculated using Bloomberg analyst forecasts, as at the last practicable date, in conjunction with a projected future share price. The projected future share price was determined under a risk-neutral framework as dictated under option pricing theory. Typically, this results in a dividend yield higher than the historical average. In order to assess the sensitivity of this input, we performed a valuation using an assumed 5.92% average historical dividend yield. This assumed average historical dividend yield was determined based on historical dividend information over the period commencing from 16 May 2012, the date at which Vodacom Group revised its dividend policy, up to and including 29 June 2018. The IFRS 2 charge that would result using the assumed average historical dividend yield would have been as follows:

Vodacom Group Limited share price (Rand)	IFRS 2 charge relating to recurring share-based payment charge after tax (Rm)	IFRS 2 charge relating to non-recurring share-based payment charge (Rm)	Total assumed IFRS 2 charge arising as a result of the assumed Vodacom Group share price (Rm)	Decrease in earnings and headline earnings per share (cents)*
123.09	224	1 403	1 627	(100)

3.2. The calculation of diluted earnings and diluted headline earnings per share is based on the weighted average number of shares in issue, increased by the number of shares to be issued for no consideration under the BEE transaction. The assumed number of dilutive shares of 46 095 623 is based on issuing 114 451 180 Vodacom Group shares, assumed proceeds based on the outstanding preference share funding and the value of services to be provided by employees in the future and an average market price of the Vodacom Group share over the reporting period of R159.03.

3.3. The net assumed cash proceeds of R992 million is assumed to earn interest at an average rate of 6.44% percent, before taxation, which interest saving thereon is of a continuing nature.

3.4. Once-off transaction costs of R152 million including VAT (non tax deductible) (inclusive of the transaction costs in Step 6) are assumed to be settled in cash and have been expensed in profit or loss. YeboYethu will incur operating expenses in the ordinary course of business. The pro forma effects exclude any incremental increase in excess of historical levels in such expenses as this cannot be quantified as at the last practicable date prior of finalising this pricing announcement.

The pro forma financial effects presented in this pricing announcement differ from those effects presented in the announcement to Vodacom Group shareholders dated 11 June 2018, due to updating the pro forma financial effects for the BEE transaction share price and due to the non-recurring impact arising from the IFRS 2 charge incorrectly being presented separately.

5. Vodacom Group dividend policy

Vodacom Group intends to maintain its dividend policy of paying at least 90% of headline earnings, excluding the contribution of the attributable net profit or loss from Safaricom and any associated intangible amortisation. In addition, Vodacom Group intends to distribute any dividend it receives from Safaricom, up to a maximum amount of the dividend received, net of withholding tax.

Vodacom Group intends to add back the day one non-recurring share-based payment charge relating to YeboYethu shareholders, excluding the Vodacom ESOP, in relation to the proposed BEE transaction to headline earnings, for the purpose of dividend calculation, for the 2019 financial year.

6. Salient dates and times

	2018
Record date for shareholders to be recorded on the register to receive a copy of the circular	Friday 6 July
Circular incorporating notice of general meeting posted to shareholders	Monday 16 July
Last day to trade in order to be eligible to attend and vote at the general meeting	Monday 6 August
Record date for attending and voting at the general meeting	Friday 10 August
Recommended day to lodge forms of proxy in respect of the general meeting by 09:00	Wednesday 15 August
General meeting of shareholders to be held at 09:00 at Vodacom World, 082 Vodacom Boulevard, Midrand for the purpose of considering and, if deemed fit, approving, with or without modification, the resolutions proposed thereat	Thursday 16 August
Results of general meeting released on SENS	Thursday 16 August
Estimated date of fulfilment of the general transaction conditions (on or about)	Friday 7 September
First implementation day (on or about) (if there are no appraisal rights exercised by YeboYethu shareholders)	Monday 10 September
First implementation day (on or about) (if any YeboYethu shareholders exercise their appraisal rights)	Tuesday 25 September

Notes:

1. The dates and times indicated in the table above are subject to change. Any such changes will be released on SENS and published in the South African press.
2. All times referred to above are references to South African standard time.
3. Forms of proxy should be forwarded to be received for the orderly arrangement of matters on the date of the general meeting (but not required) by the company's transfer secretaries, by 09:00 on Wednesday 15 August 2018 for administrative purposes (or alternatively to be handed to the chairman of the general meeting prior to its commencement).

7. Further documentation

A circular containing full details of the BEE transaction (including pro forma financial effects based on the final BEE transaction share price) and a notice of general meeting will be posted to shareholders on or about Monday 16 July 2018.

Midrand

4 July 2018

Financial adviser to Vodacom Group, debt arranger and co-funder to YeboYethu and transaction sponsor to Vodacom Group
Rand Merchant Bank (a division of FirstRand Bank Limited)

Financial adviser, co-funder and transaction sponsor to YeboYethu
Absa Corporate and Investment Bank, a division of Absa Bank Limited

Legal and tax adviser to Vodacom Group and YeboYethu
Cliffe Dekker Hofmeyr Inc.

Legal adviser to the debt arranger and co-funders
Allen & Overy (South Africa) LLP

Independent expert to Vodacom SA
Ernst & Young

Independent expert to YeboYethu
BDO Corporate Finance (Pty) Ltd

Reporting accountants
PricewaterhouseCoopers Inc.

Co-funder
Nedbank Corporate (a division of Nedbank Limited)