IFRS 16 - Leases

Disclaimer

The following presentation is being made only to, and is only directed at, persons to whom such presentations may lawfully be communicated ('relevant persons'). Any person who is not a relevant person should not act or rely on this presentation or any of its contents.

Information in the following presentation relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments. This presentation does not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in any company within the Group.

Promotional material used in this presentation that is based on pricing or service offering may no longer be applicable.

This presentation contains certain non-GAAP financial information which has not been reviewed or reported on by the Group's auditors. The Group's management believes these measures provide valuable additional information in understanding the performance of the Group or the Group's businesses because they provide measures used by the Group to assess performance. However, this additional information presented is not uniformly defined by all companies, including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, although these measures are important in the management of the business, they should not be viewed in isolation or as replacements for or alternatives to, but rather as complementary to, the comparable GAAP measures.

This presentation also contains forward-looking statements which are subject to risks and uncertainties because they relate to future events. These forward-looking statements include, without limitation, statements in relation to the Group's projected financial results.

Why change?

1

Increased comparability between companies that lease assets and companies that buy assets.

2

Increased transparency as lease liabilities will be recognised on balance sheet

3

Users of financial statements provided with a better picture of the financial position of the company.

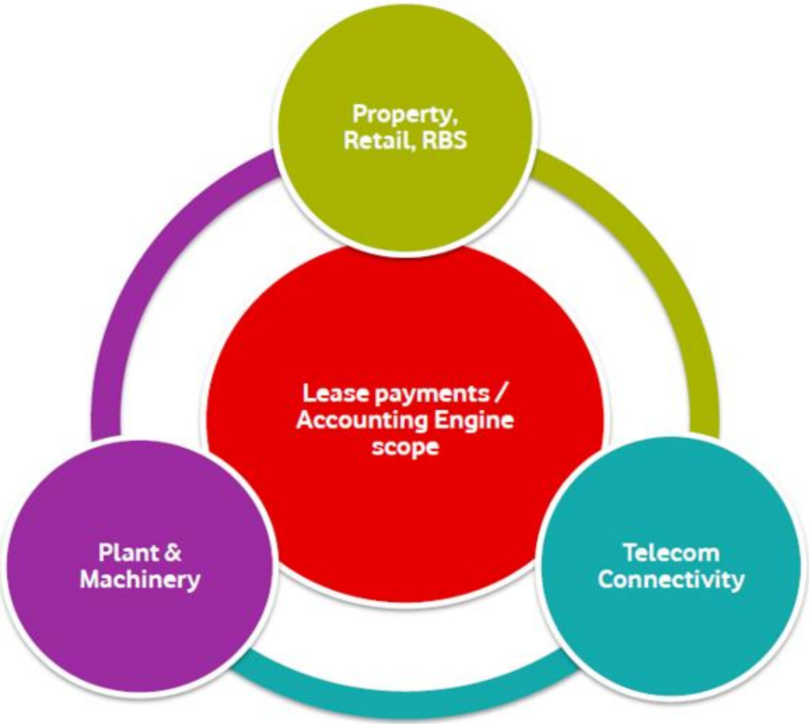
Summary of accounting changes

- IAS 17 – Did not recognise operating leases on balance sheet. Only commitments disclosed.
- IFRS 16 – Recognise right of use asset and lease liability for all leases that meet the definition.

	IAS 17	IFRS 16	Effect
Balance sheet	• Lease smoothing receivable/payable	• Recognise right of use asset • Recognise lease liability	• R9.7bn • R9.4bn • 1 April 2019
Income statement	• Operating lease on straight line basis in EBITDA	• Depreciation on right of use asset • Interest expense on lease liability (Below EBITDA/EBIT)	EBITDA and EBIT up New measure: Adjusted EBITDA – ongoing comparability
Cash flow	• Lease payment in operating activities	• Lease payment in financing activities	Geography change; Operating free cash flow, adjusted to reflect lease payments
Net debt/EBITDA	• Operating lease payment in EBITDA	• Depreciation finance cost excluded from EBITDA • Higher net debt	0.2x – 0.3x higher

Contracts that are typically affected

Contract type	Number	Period (Years)
Site rentals	18 350	3-15
Offices	97	3-34
Stores (Retail)	539	3-5
Movable assets	103	2-5
Other	8 237	m to m
Total	**27 326**	



Contracts typically excluded:

- Capacity agreements

Typical example

Period of lease (y)	6	**E**
Annual payment	150 000	
Interest rate	15%	
Present value	(567 672)	**D**
Future value	-	
Total payments	900 000	
Depreciation per year	94 612	**=D/E**

		Year						
		1	**2**	**3**	**4**	**5**	**6**	**Total**
Finance cost (leases)	**A**	85 151	75 423	64 237	51 373	36 578	19 565	**332 328**
Lease liability repaid	**B**	64 849	74 577	85 763	98 627	113 422	130 435	**567 672**
Payment	**C = A + B**	150 000	150 000	150 000	150 000	150 000	150 000	**900 000**
Lease liability		(502 823)	(428 247)	(342 484)	(243 856)	(130 435)	0	
		D - Cum (B)	**D - Cum (B)**	**D - Cum (B)**	**D - Cum (B)**	**D - Cum (B)**	**D - Cum (B)**	

Typical example

Income statement	1	2	3	4	5	6	Total
IAS 17							
....	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	**18 000 000**
Operating lease	(150 000)	(150 000)	(150 000)	(150 000)	(150 000)	(150 000)	**(900 000)**
...							
EBITDA/Operating profit	2 850 000	2 850 000	2 850 000	2 850 000	2 850 000	2 850 000	**17 100 000**

IFRS 16	1	2	3	4	5	6	Total
.....							
EBITDA	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	**18 000 000**
Depreciation (leased assets)	(94 612)	(94 612)	(94 612)	(94 612)	(94 612)	(94 612)	**(567 672)**
.....							
Operating profit	2 905 388	2 905 388	2 905 388	2 905 388	2 905 388	2 905 388	**17 432 328**
....							
Finance costs (Leases)	(85 151)	(75 423)	(64 237)	(51 373)	(36 578)	(19 565)	**(332 328)**
....							
Net profit	2 820 237	2 829 964	2 841 151	2 854 015	2 868 809	2 885 823	**17 100 000**
MEMO: Total cost (IFRS 16)	*(179 763)*	*(170 036)*	*(158 849)*	*(145 985)*	*(131 191)*	*(114 177)*	***(900 000)***
Difference IAS 17 vs IFRS 16	**(29 763)**	**(20 036)**	**(8 849)**	**4 015**	**18 809**	**35 823**	**0**

Key take out

Initial higher expense in total - reducing over time, and becoming positive

Typical example

Cash flow statement

IAS 17 (Statutory)	1	2	3	4	5	6	Total
Cash flows from operating activities	0	0	0	0	0	0	0
Cash generated from operations	(150 000)	(150 000)	(150 000)	(150 000)	(150 000)	(150 000)	**(900 000)**
Interest received							
Interest paid							
Income tax paid							
Net cash generated from operating activities	**(150 000)**	**(150 000)**	**(150 000)**	**(150 000)**	**(150 000)**	**(150 000)**	**(900 000)**
Cash flows from financing activities							
Proceeds from borrowings							
Repayments of borrowings							
Net cash used in financing activities							
Cash flow	(150 000)	(150 000)	(150 000)	(150 000)	(150 000)	(150 000)	(900 000)

IFRS 16 (Statutory)	1	2	3	4	5	6	Total
Cash flows from operating activities	0	0	0	0	0	0	0
Cash generated from operations							
Interest received							
Interest paid	(85 151)	(75 423)	(64 237)	(51 373)	(36 578)	(19 565)	**(332 328)**
Income tax paid							
Net cash generated from operating activities	**(85 151)**	**(75 423)**	**(64 237)**	**(51 373)**	**(36 578)**	**(19 565)**	**(332 328)**
Cash flows from financing activities							
Proceeds from borrowings							
Repayments of borrowings	(64 849)	(74 577)	(85 763)	(98 627)	(113 422)	(130 435)	**(567 672)**
Net cash used in financing activities	**(64 849)**	**(74 577)**	**(85 763)**	**(98 627)**	**(113 422)**	**(130 435)**	**(567 672)**
Cash flow	**(150 000)**	**(150 000)**	**(150 000)**	**(150 000)**	**(150 000)**	**(150 000)**	**(900 000)**

Capex elements

Category	Details
Owned capex (Excluding Spectrum & licenses)	Capex guidance as previously disclosed (Guidance)
Right of use assets (new under IFRS 16)	Additions to capex as a results of increased ROU
Spectrum, licenses and acquired intangibles	Separately disclosed (Never included)
Statutory additions	**Additions in the PPE and Intangible section**

Impact on guidance

Group service revenue	Group operating profit	Capex
Mid single digits	Mid to high single digits	13% - 14.5% of Group Revenue
No impact – Unchanged	Low impact - Unchanged	Low impact - Unchanged

These targets are on average, over the next three years and are on a reported basis in constant currency, excluding spectrum purchases, exceptional items and any merger and acquisition activity.

Proposed EBITDA reconciliation

		FY19	
	a-EBITDA		**Adjusted EBITDA**
Plus	Depreciation - leased assets		Assets previously classified as operating leases and finance leases; capitalised and depreciated
Plus	Finance cost - leased assets		Finance costs associated with leases previously classified as operating leases
	EBITDA	36 366	**Earnings before interest, tax, depreciation and amortisation**
	Depreciation and amortisation (Owned)		Depreciation and amortisation excluding acquired brands and customer bases
	Depreciation - leased assets		Assets previously classified as operating leases and finance leases; capitalised and depreciated
	Net profit on disposal of PPE and IA		Net profit on disposal of property, plant and equipment and intangible assets
	Amortisation - brand and customer bases		Acquired brand and customer base amortisation
	Impairment losses		
	Share based payment charges		
	Restructuring costs		
	Net profit from assosciate and joint ventures		Mainly Safaricom
	Other		BEE charge
	Operating profit	25 153	**Closest disclosed statutory measure**

Impacts – FY 2019

Operating leases	FY19 Rm
Group	2 653
South Africa	1 408
International	1 245

EBITDA	IAS 17 EBITDA	IFRS 16 EBITDA
Group	33 713	+7.9%
South Africa	27 740	+5.1%
International	6 252	+19.9%

EBITDA margin	IAS 17 EBITDA	IFRS 16 EBITDA
Group	38.9%	+3.1ppts
South Africa	40.9%	+2.1ppts
International	31.3%	+6.2ppts

Operating profit	IAS 17 Operating profit	IFRS 16 Operating profit
Group	24 490	+2.5 – 2.8%
South Africa	18 904	+1.3-1.5%
International	3 353	+11.5-12.0%

Proposed Operating free cash flow disclosure

Cash flow statement

	IAS 17	IFRS 16
EBITDA	(150 000)	0
Working capital		
Cash capex		
Right of use asset: Payments on lease		(150 000)
Other		
Operating free cash flow	(150 000)	(150 000)
Net interest		
Net taxation		
Net dividends		
Free cash flow	(150 000)	(150 000)
Net debt		
Cash flow	(150 000)	(150 000)

Results announcement disclosure

Vodacom Group Limited
Annual results for the year ended 31 March 2019

Results announcement

Vodacom Group Limited annual results for the year ended 31 March 2019

Highlights

- ....
-

Statutory performance measures

Rm	2019 IFRS 16	2018 IAS 17*	Reported % change	Normalised*
Revenue				
Net profit from associate and joint venture[Δ]				
Operating profit				
Net profit				
Earnings per share (EPS) (cents)				
Headline earnings per share (HEPS) (cents)				
Interim dividend per share (cents)				

Alternative performance measures

Rm	2019 IFRS 16	2018 IAS 17		Normalised*
Service revenue				
EBITDA				
Adjusted EBITDA				
Capital expenditure				
Operating free cash flow				
Free cash flow				

- Both EBITDA and adjusted-EBITDA will be reported.
- Adjusted-EBITDA will be the closest proxy for prior year comparison, adjusting for both the depreciation and interest effect on operating leases.
- Disclosing both will also ensure ongoing comparison to our peers.
- Operating free cash flow, will reflect payments on Right of use assets, aligning to previous operating lease payment disclosure.
  - An additional line item will be added to the Operating free cash flow reconciliation.
  - This will ensure ongoing comparison.
- This reporting will be in line with Vodafone disclosure.

Effective date and transition

- IFRS 16 is effective for periods beginning on or after 1 January 2019.
- Therefore effective 1 April 2019 (FY20) for Vodacom.
- Prior periods will not be restated in statutory accounts. A cumulative adjustment will be made against retained earnings on 1 April 2019.