



Vodacom Group Limited
(Incorporated in the Republic of South Africa)
(Registration number 1993/005461/06)
Share code: VOD ISIN: ZAE000132577
ADR code: VDMCY ISIN: US92858D2009
("Vodacom Group" or "the company")

Acquisition of an indirect 34.94% interest in Safaricom

1. Introduction

Shareholders are advised that, on 14 May 2017 ("signature date"), Vodacom Group entered into an agreement ("the agreement") in terms of which Vodacom Group will acquire a 34.94% indirect interest in Safaricom Limited ("Safaricom") from Vodafone International Holdings B.V. ("Vodafone") by acquiring 87.5% of the issued share capital of Vodafone Kenya Limited ("Vodafone Kenya") and Vodafone will subscribe for new Vodacom Group shares. The purchase consideration payable by Vodacom Group is the sum of an amount equal to the subscription price payable by Vodafone for 226.8 million new ordinary Vodacom Group shares ("new Vodacom Group shares"), which will be set off against the same amount of the purchase consideration, and a maximum amount of KES393.75 million (R51 million) payable to Vodafone in cash (the "proposed transaction").

2. Nature of business of Vodafone Kenya and Safaricom

Vodafone Kenya holds, as its only material asset, a 39.93% interest in Safaricom and is wholly owned by Vodafone. Vodafone will retain a 12.5% interest in Vodafone Kenya, equivalent to 4.99% interest in Safaricom, after completion of the proposed transaction.

Vodafone Kenya currently has a right to appoint, remove and/or replace four of Safaricom's ten directors. Following the proposed transaction, Vodafone Kenya will retain this right. Vodafone will have the right to nominate one of the four directors appointed by Vodafone Kenya to Safaricom's board of directors for so long as it retains at least 12.5% of the issued share capital of Vodafone Kenya.

Safaricom, established in 1997 and listed on the Nairobi Securities Exchange ("NSE") with a market capitalisation of c.US\$8 billion, provides a range of integrated telecommunications services, including mobile and fixed voice, SMS, data, internet and mobile money ("M-Pesa") to over 28.1 million total customers, including both consumer and enterprise.

Safaricom is owned by the government of Kenya (35%), Vodafone Kenya (39.93%), public investors (25%) and Safaricom employees (0.07%).

3. Rationale for the proposed transaction

The proposed transaction presents a unique opportunity to acquire a significant strategic interest in the premier telecom operator in East Africa.

Safaricom is the market leader in Kenya with a 71% mobile customer market share, has one of Kenya's most recognisable brands and a highly experienced management team. Safaricom is a high growth, high margin, and high cash generating business. In its 2017 financial year, Safaricom delivered 8.8% revenue growth, adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") margin of 48.1% and cash flow conversion of 65.9%. The company benefits from well-invested state-of-the-art infrastructure and is the only operator with a nation-wide network which currently provides 3G and 4G coverage to 85% and 25% of the population respectively.

Safaricom has a track-record of sustainable growth, having delivered a compound annual growth rate in revenue of 14.8% over the last five years whilst its future growth potential is underpinned by a broad range of fundamental drivers. The proposed transaction will expose Vodacom Group to the attractive high growth Kenyan market, being one of the largest and most advanced economies in east and central Africa that has made significant strides in technological innovation. According to the International Monetary Fund, the Kenyan economy is projected to grow at 6% per annum over the next five years.

Kenya has a mobile penetration of 88%, which is well below South Africa's mobile penetration of 146%. Kenya has an emerging, urban middle class with an appetite for high value goods and services. Kenya has high potential for further growth in mobile penetration and data usage is expected to continue to grow, which will increase customer demand for Safaricom's 3G and 4G mobile, fixed line and digital services. Safaricom's leading mobile money platform, M-Pesa, is an important driver of Kenyan economic growth, providing essential financial services to over 19 million 30-day active customers.

Vodacom Group sees scope to create further value through closer cooperation between both companies, including best practice sharing; replication of Safaricom's success in M-Pesa in Vodacom Group's other territories; and the creation of new pan-African enterprise solutions in contiguous markets in East Africa.

The proposed transaction also offers an opportunity to diversify Vodacom Group's economic exposure and earning's profile in a single transaction. Its interest in Safaricom will contribute approximately 15% of its earnings (before amortisation for the fair value adjustment of assets on acquisition) based on Vodacom Group's net profits as reported in its preliminary results for the year ended 31 March 2017.

Following the proposed transaction, Vodacom Group will occupy a leading position in its markets with approximately one third of sub-Saharan Africa's gross domestic product.

4. Purchase consideration for the proposed transaction

The purchase consideration, payable by Vodacom Group for the sale and transfer of 87.5% of the issued share capital of Vodafone Kenya, is the sum of an amount equal to the subscription price payable by Vodafone for the new Vodacom Group shares, which will be set off against the same amount of the purchase consideration, and a maximum amount of KES393.75 million (R51 million) in cash. As at the signature date, the subscription price amounts to R34.6 billion, based on the Vodacom Group share price on Friday 12 May 2017.

Vodafone Kenya holds 16 000 000 000 shares in Safaricom. The implied share subscription and set-off ratio for the number of new Vodacom Group shares to be issued, in respect of 87.5% of the 39.93% Safaricom shares held by Vodafone Kenya, is equivalent to 1.62 new Vodacom Group shares (cum dividend) for every 100 shares in Safaricom, held by Vodafone Kenya.

The agreed share subscription and set-off ratio implies:

- ▶ a 5.9% discount compared to the implied share subscription and set-off ratio of 1.72 based on the closing share prices of Vodacom Group and Safaricom on Friday 12 May 2017;
- ▶ a 4.8% discount compared to the implied share subscription and set-off ratio of 1.70 based on the volume weighted average share prices of Vodacom Group and Safaricom for the 30 days prior to and including Friday 12 May 2017;
- ▶ a 0.6% discount compared to the implied share subscription and set-off ratio of 1.63 based on the volume weighted average share prices of Vodacom Group and Safaricom for the 180 days prior to and including Friday 12 May 2017; and
- ▶ a share price of KES19.05 based on the Vodacom Group closing share price on Friday 12 May 2017.

The new Vodacom Group shares to be issued by the company to Vodafone will be adjusted, after the signature date, if Vodacom Group declares any distribution ("Vodacom Group distribution") to its shareholders where the record date for such distribution is set to occur prior to the effective date of the proposed transaction, being the 10 business days after the fulfilment of the last of the suspensive conditions set out below ("effective date"). Such adjustment will be equal to:

- (i) the rand equivalent of the Vodacom Group distribution per Vodacom Group share;
- (ii) multiplied by the number of new Vodacom Group shares immediately prior to any adjustment; and
- (iii) divided by the closing price of a Vodacom Group share on the JSE Limited ("JSE") on Friday 12 May 2017 less the Vodacom Group distribution per Vodacom Group share.

As a result of the issue of the new Vodacom Group shares to Vodafone, the interest held by Vodafone in Vodacom Group will increase from 65.0% to 69.6% (excluding any potential adjustment necessary due to a Vodacom Group distribution). Following the proposed transaction Vodacom Group's expected free float may be below the minimum free float requirement of 20% for its listing on the JSE. Should there be a breach in free float as a result of this transaction, Vodacom Group has secured a two-year exemption from the JSE from the date of implementation of the proposed transaction. Vodafone has committed to Vodacom Group that, if required, it will sell down up to 36.3 million of its shares in Vodacom Group before the exemption expires in order to rectify the position.

5. Suspensive conditions

The proposed transaction is subject to the fulfilment or waiver of the following suspensive conditions:

- 5.1 the adoption by the existing shareholders of Vodafone Kenya of new articles of association in the form prescribed in the agreement (subject only to comment and sign off by Kenyan counsel for each of Vodacom Group and Vodafone) and the subsequent filing of the articles of association and the special resolution passed in respect thereof with the Kenyan Companies Registry;
- 5.2 to the extent required, Vodacom Group obtaining an unconditional exemption (as contemplated in section 121(b)(ii) of the Companies Act 71 of 2008 of South Africa ("the Act")) or an unconditional compliance certificate (as contemplated in section 121(b)(i) of the Act) from the Takeover Regulation Panel;
- 5.3 Vodacom Group shareholders, other than Vodafone and its associates, as defined in the JSE Listings Requirements, approving the proposed transaction by means of an ordinary resolution as a related party transaction as contemplated in section 10 of the JSE Listings Requirements;
- 5.4 Vodacom Group shareholders approving:
 - 5.4.1 the issue of the new Vodacom Group shares by means of a special resolution as contemplated in section 41(1)(b) of the Act; and
 - 5.4.2 the issue of the new Vodacom Group shares by means of an ordinary resolution as contemplated in clause 5.7.2 of the memorandum of incorporation of Vodacom Group;
- 5.5 the receipt of the approval of the proposed transaction in writing from the Financial Surveillance Department of the South African Reserve Bank;
- 5.6 the JSE having approved a listing of the new Vodacom Group shares on the JSE with effect from the effective date;
- 5.7 Vodafone Kenya, Vodacom Group and Vodafone entering into an agreement ("director appointment right agreement") which provides for Vodafone's right to nominate for appointment one of the Safaricom directors appointed by Vodafone Kenya, and Vodafone's right to cede its rights and obligations under the director appointment right agreement, and such agreement becoming unconditional in accordance with its terms, save for any condition requiring the agreement to become unconditional; and
- 5.8 the receipt of an exemption, in a form acceptable to Vodacom Group, from the Capital Markets Authority of Kenya in terms of regulation 5(1) of the Capital Markets (Take-overs and Mergers) Regulations, 2002 ("regulations") from compliance by Vodacom Group and/or Vodafone Kenya with any requirement under the regulations to make a mandatory offer to the remaining shareholders of Safaricom pursuant to the implementation of the proposed transaction.

6. Warranties and indemnities

As required by JSE Listings Requirements, Vodacom Group confirms that warranties and indemnities applicable to the proposed transaction are normal for transactions of this nature.

7. Pro forma financial effects of the proposed transaction

The table below sets out the *pro forma* financial effects of the proposed transaction on the published reviewed preliminary condensed consolidated financial results of Vodacom Group for the year ended 31 March 2017. The *pro forma* financial effects have been prepared for illustrative purposes only and because of their *pro forma* nature, they may not fairly present Vodacom Group's financial position,

changes in equity, results of operations or cash flows, nor the effect and impact of the proposed transaction going forward.

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 reviewed preliminary condensed consolidated financial results of Vodacom Group for the year ended 31 March 2017. The *pro forma* financial effects are presented in accordance with the JSE Listings Requirements and the Guide on *Pro Forma* Financial Information issued by the South African Institute of Chartered Accountants.

The directors of Vodacom Group are responsible for the compilation, contents and preparation of the *pro forma* financial effects. Their responsibility includes determining that the *pro forma* financial effects have been properly compiled on the basis stated, which is consistent with the accounting policies of Vodacom Group and that the *pro forma* adjustments are appropriate for purposes of the *pro forma* financial information disclosed pursuant to the JSE Listings Requirements.

The *pro forma* financial effects of the proposed transaction have been included on a voluntary basis.

	Before the proposed transaction (cents) (A)	After the proposed transaction (cents) (B)	Percentage change (%) (B/A)
Basic earnings per share	915	861	(5.9)
Diluted earnings per share	886	836	(5.6)
Headline earnings per share	923	875	(5.2)
Diluted headline earnings per share	894	850	(4.9)
Net asset value per share	1 617	3 420	111.5
Net tangible asset value per share	1 004	1 105	10.1
Weighted average number of Vodacom Group shares in issue (millions)	1 467	1 694	
Weighted average diluted number of Vodacom Group shares in issue (millions)	1 469	1 696	
Number of Vodacom Group shares in issue (millions)	1 488	1 715	

Notes and assumptions:

- a) The Vodacom Group information reflected in the "Before the proposed transaction" column has been extracted from the published reviewed preliminary condensed consolidated financial statements of Vodacom Group for the year ended 31 March 2017.
- b) The effects on basic earnings, diluted earnings, headline earnings and diluted headline earnings are calculated on the basis that the proposed transaction was effective 1 April 2016, while the effects on the net asset value and net tangible asset value per share are calculated on the basis that the proposed transaction was effective 31 March 2017.
- c) Vodafone Kenya is an investment holding company, with its only material asset being the 39.93% investment in Safaricom. Management has determined that Vodacom Group will, through the acquired interest in Vodafone Kenya, be able to exercise significant influence over Safaricom, but not control Safaricom. The acquisition by Vodacom Group of a controlling interest of 87.5% in Vodafone Kenya is therefore treated as the acquisition of a subsidiary that does not meet the definition of a business. The 39.93% equity interest that Vodafone Kenya holds in Safaricom is treated as an investment in an associate in terms of IAS 28: Investments in Associates and Joint Ventures.
The equity accounting method has been used to account for Vodafone Kenya's equity interest in Safaricom. Under the equity method, the 39.93% investment is initially recognised at cost, including directly attributable transaction costs. A provisional fair value allocation of the investment in the associate was performed. The resulting notional goodwill, calculated as the difference between the cost of the investment and Vodafone Kenya's share of the fair value of identifiable assets and liabilities of Safaricom is included in the carrying amount of the investment in associate. The identifiable tangible and intangible assets are assumed to be amortised over their respective useful lives as determined within the provisional fair value allocation exercise.
Vodafone will retain a 12.5% non-controlling interest in Vodafone Kenya. On consolidation, 12.5% of the net assets and earnings are therefore allocated to non-controlling interests.
A detailed fair value allocation will be performed on the effective date of the proposed transaction and may differ from the assumptions underlying these *pro forma* financial effects.
- d) The financial information for Vodafone Kenya has been extracted from unaudited management accounts for the year ended 31 March 2017, while the financial information for Safaricom has been extracted from the audited condensed consolidated financial statements for the year ended 31 March 2017 as published on the NSE on Wednesday 10 May 2017.
- e) For accounting purposes the assumed purchase consideration is determined as follows:
New Vodacom Group shares:
226.8 million new Vodacom Group shares at a price of R152.49 per new Vodacom Group share, being the closing share price of Vodacom Group on Friday 12 May 2017, being the last practicable date prior to this announcement (the assumed price of the new Vodacom Group shares will be determined on the effective date of the proposed transaction and may differ from the assumptions underlying these *pro forma* financial effects).
The number of new Vodacom Group shares has been fixed at 226.8 million, subject only to adjustment in respect of distributions to shareholders where the record date for such distribution is set to occur prior to the effective date. The *pro forma* financial effects have been prepared on the assumption that the fixed number of new Vodacom Group shares reflect fair value of the purchase consideration and equity interest in Safaricom on the assumed effective dates of the proposed transaction, which is 1 April 2016 for purposes of calculating the effect on basic earnings, diluted earnings, headline earnings and diluted headline earnings per share, and 31 March 2017 for purposes of calculating the effect on net asset value and tangible net asset value per share. The *pro forma* financial effects do not reflect any adjustments that may result from movements in the fair value of Vodacom Group, Safaricom, or the ZAR/KES exchange rate between the date of signing the agreements and the effective date of the proposed transaction.
Furthermore, the *pro forma* financial effects do not consider potential adjustments to the purchase consideration arising pursuant to a Vodacom Group distribution.
Cash consideration:
Assumed cash consideration of R51 million in lieu of actual cash in Vodafone Kenya, being the Vodacom Group's share of KES500 million less withholdings tax converted at 7.6867, being the closing ZAR/KES exchange rate at 31 March 2017.
- f) Assumed directly attributable transaction costs (non-recurring) to the value of R417 million have been added to the purchase consideration which has consequently increased notional goodwill by the same value. This includes security transfer taxes of 1% of the assumed purchase consideration amounting to R346 million.
- g) All effects are of a recurring nature except where otherwise noted.
- h) 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.

8. Value and profits attributable to the net assets of Vodafone Kenya

Vodafone Kenya is a wholly-owned subsidiary of Vodafone and consequently does not prepare consolidated results. The results of Vodafone Kenya do not therefore include its share of the profits from its investment in Safaricom. The carrying value of the net assets of Vodafone Kenya as at 31 March 2017, being Vodafone Kenya's most recent reporting date, is KES5 202 million, being an equivalent of R677 million (calculated at the closing ZAR/KES exchange rate at 31 March 2017 of 7.6867) and profits attributable to the net assets for the year ended of KES23 297 million, being an equivalent of R3 205 million (calculated at an average ZAR/KES exchange rate for the year ended 31 March 2017 of 7.2699).

9. Articles of association of Vodafone Kenya

Vodacom Group confirms that the provisions of the articles of association of Vodafone Kenya will neither frustrate nor relieve Vodacom Group's compliance with the JSE Listings Requirements.

10. 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, the company intends to distribute any dividend it receives from Safaricom, up to a maximum amount of the dividend received, net of withholding tax.

Dividends will be paid after consideration of the factors below:

Vodacom Group intends to pay as much of its after tax profits as will be available after retaining such sums and repaying such borrowings owing to third parties as shall be necessary to meet the requirements reflected in the budget and business plan, taking into account monies required for investment opportunities. There is no fixed date on which entitlement to dividends arises and the date of payment will be determined by the Board or shareholders at the time of declaration, subject to the JSE Listings Requirements.

11. Related party transaction

The proposed transaction is a "related party transaction" in terms of the JSE Listings Requirements as Vodacom Group will be transacting with a related party, being Vodafone. Vodafone is a material shareholder by virtue of being an indirect 65% shareholder in Vodacom Group and is also the direct 100% shareholder in Vodafone Kenya.

The Vodacom Group Board appointed a committee consisting of independent directors who have unanimously approved the proposed transaction.

The company appointed an independent expert, Deloitte & Touche, to provide a fairness opinion on the proposed transaction which will be included in the circular to be distributed to shareholders as referred to in paragraph 12 below.

12. Categorisation of the proposed transaction

The proposed transaction is further classified as a Category 2 transaction in terms of the JSE Listings Requirements as the purchase consideration, being the issue of the new Vodacom Group shares and the cash consideration, is 5% or more, but less than 30% of Vodacom Group's issued share capital and market capitalisation, respectively, as at the date of signature of the agreement.

As the proposed transaction is categorised as a "related party transaction" and a "Category 2 transaction" in terms of the JSE Listings Requirements, a circular containing details of the proposed transaction, together with the fairness opinion referred to in paragraph 11 above, and a notice of general meeting will be posted to Vodacom Group shareholders in due course. Vodacom Group shareholders, other than Vodafone and its associates, will be required to approve the proposed transaction at the general meeting by means of an ordinary resolution.

Midrand

15 May 2017

Financial and transaction advisor



Independent expert

Deloitte.

Legal advisor

edward nathan
sonnenbergs



Transaction sponsor

