**YeboYethu (RF) Limited**

**Registration no. 2008/014734/06**

**Consolidated annual financial statements**
**for the year ended 31 March 2020**

The preparation of these consolidated annual financial statements was supervised by Dr. phil. T Streichert and has been audited by the independent auditors, Ernst & Young Inc.

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## Directors' statement of responsibility

The directors are responsible for the preparation, integrity and fair presentation of the consolidated annual financial statements of YeboYethu (RF) Limited and its subsidiary ('the Group').

The consolidated annual financial statements have been audited by the independent auditing firm Ernst & Young Inc. which was given unrestricted access to all financial records and related data, including minutes of meetings of shareholders, the board and committee of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. The report of the auditors is presented on the next page.

The consolidated annual financial statements for the year ended 31 March 2020 presented on pages 7 to 30 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), the Financial Reporting Guides as issued by the South African Institute of Chartered Accountants ('SAICA') Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the Johannesburg Stock Exchange ('JSE') Listings Requirements and the requirements of the Companies Act of 2008, as amended. They are based on appropriate accounting policies which have been consistently applied, and which are supported by reasonable and prudent judgements, including judgements involving estimations. The going concern basis has been adopted in preparing the consolidated annual financial statements. The directors have no reason to believe that the Group will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The directors are also responsible for the Group's system of internal controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the consolidated annual financial statements and to adequately safeguard, verify and maintain accountability of assets. These controls are monitored throughout the Group by management and employees with the necessary segregation of authority and duties. Processes are in place to monitor internal controls, to identify material breakdowns and implement timely corrective action.

The directors confirm that the internal financial controls are adequate and effective and can be relied upon in compiling the consolidated annual financial statements, having fulfilled their role and function within the combined assurance model of the King Code on Corporate Governance 2016 (King IV), in terms of which assurance is obtained from management and from internal and external assurance providers. Where the directors are not satisfied, deficiencies in the design and operational effectiveness of the internal financial controls and any fraud that involves directors was disclosed to the audit committee and the auditors, and the necessary remedial action implemented.

The consolidated annual financial statements were approved by the board on 22 May 2020 and are signed on its behalf:

**ZBM BASSA**
Director

**TV MOKGATLHA**
Director

## Certificate by the company secretary

In terms of section 88(2)(e) of the Companies Act No. 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, YeboYethu (RF) Limited has lodged with the Companies and Intellectual Property Commission for the financial year ended 31 March 2020, all such returns and notices as are required of a public company and that all such returns and notices appear to be true, correct and up to date.

**S KHAN**
Company Secretary
22 May 2020

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## Independent Auditor's Report

To the Shareholders of YeboYethu (RF) Limited

### Report on the Audit of the Consolidated Annual Financial Statements

*Opinion*

We have audited the Consolidated Annual Financial Statements of YeboYethu (RF) Limited and its subsidiary ('the group') set out on pages 12 to 30, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the Consolidated Annual Financial Statements, including a summary of significant accounting policies.

In our opinion, the Consolidated Annual Financial Statements present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Financial Statements* section of our report. We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for *Auditors' Code of Professional Conduct for Registered Auditors* (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for *Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the group and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for *Accountants' Code of Ethics for Professional Accountants (IESBA code)* and the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Annual Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Annual Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the Consolidated Annual Financial Statements section of our report, including in relation to the matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Classification, Measurement and Disclosure of Borrowings in terms of the legal agreements**<br><br>As disclosed in note 17: Borrowings in the Consolidated Annual Financial Statements, the group has preference shares amounting to R4.4 billion to ABSA Bank Limited, FirstRand Bank Limited and Depfin Investments Proprietary Limited (Class A preference shares) as well as R5.4 billion to Vodacom Group Limited (Class B preference shares) in issue.<br><br>The preference share subscription agreement for the Class A preference shares also includes financial covenants whereby YeboYethu (RF) Limited must maintain covenant ratios in order to maintain funding.<br><br>Borrowings are an integral part of the YeboYethu (RF) Limited's business model as it is the key source of funds used by the entity. Borrowings represent 89% of the liabilities on the balance sheet. Each of the borrowing agreements has a unique set of terms and conditions. Given this is our first year as the Group's auditors, greater audit emphasis was placed on the borrowing agreements. Therefore, significant audit emphasis was required to assess the accounting treatment and disclosure of each agreement.<br><br>Given the size of the borrowings balance, and the initial audit focus required to understand each of the borrowing agreements, the accounting for borrowings was considered a key audit matter for the YeboYethu (RF) Limited audit. | Our procedures included, amongst others:<br>▶ We obtained external confirmations from banks and Vodacom for all borrowings, detailing amounts, tenure and conditions.<br>▶ We read the borrowing agreements with the financiers, including all amendments thereto, to develop an understanding of the terms associated with the facilities and the amount of facility available for drawdown.<br>▶ We inspected the loan agreements in order to agree the interest rate applicable and the repayment terms.<br>▶ Where debt is regarded as non-current, we considered whether there is an unconditional right to defer payment such that there were no repayments required within 12 months from the balance date.<br>▶ We assessed management's assessment of the classification of the borrowings as a financial liability and the measurement of these preference shares, in accordance with the principles of *IFRS 9: Financial instruments*.<br>▶ We reperformed calculations of the interest expense on the Class A and Class B preference share liabilities as at 31 March 2020 in line with the loan agreements and compared it to management's calculation.<br>▶ In relation to debt covenants for the Class A Preference shares, we obtained managements calculation and casted the schedule for mathematical accuracy.<br>▶ We recalculated financial covenant ratios in line with the loan agreements and compared this to management's calculations.<br>▶ We have assessed the presentation and disclosure in terms of IFRS 9, Financial Instruments. |

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the 30-page document titled "YeboYethu (RF) Limited Consolidated Annual Financial Statements for the year ended 31 March 2020" and in the 30-page document titled "YeboYethu (RF) Limited Annual Financial Statements for the year ended 31 March 2020", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the Consolidated Annual or the Annual Financial Statements and our auditor's reports thereon.

Our opinion on the Consolidated Annual Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Annual Financial Statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Annual Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Directors for the Consolidated Annual Financial Statements*

The directors are responsible for the preparation and fair presentation of the Consolidated Annual Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of Consolidated Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Annual Financial Statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Consolidated Annual Financial Statements*

Our objectives are to obtain reasonable assurance about whether the Consolidated Annual Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Annual Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Annual Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Annual Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Annual Financial Statements, including the disclosures, and whether the Consolidated Annual Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the Consolidated Annual Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Consolidated Annual Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*Other matter*

The Consolidated Annual Financial Statements of YeboYethu (RF) Limited for the year ended 31 March 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 7 June 2019.

*Report on Other Legal and Regulatory Requirements*

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc has been the auditor of YeboYethu (RF) Limited for 1 year.

*Ernst & Young Inc.*

Ernst & Young Inc.
Director - Imraan Akoodie
Registered Auditor
22 May 2020

## Directors' report

### Nature of business

YeboYethu (RF) Limited ('YeboYethu') was incorporated on 19 June 2008 under the laws of the Republic of South Africa. YeboYethu Investment Company (RF) (Proprietary) Limited ('YeboYethu Investment') was created on 24 April 2018 as a wholly-owned subsidiary of YeboYethu for the purpose of holding Vodacom Group Limited ('Vodacom Group') shares, which shares are held as security for the borrowings incurred from a consortium of funders (Note 17 to the consolidated annual financial statements). The principal activities of the company and the Group as a whole are to:

- carry on business of acquiring and holding shares in Vodacom Group; and
- receive and distribute dividends and other distributions received by it pursuant to its holding in Vodacom Group.

### Financial results

Net profit for the year was R764.6 million (2019: net loss R898.4 million).

This was mainly attributable to an increase in the Vodacom Group share price in the current financial year. Refer Note 11 to the consolidated annual financial statements for detail of the investment. Information on the performance of Vodacom Group for the year ended 31 March 2020 is available at www.vodacom.com.

Full details on the performance and financial position of the Group are set out in these consolidated annual financial statements.

### Dividend distribution

Dividends of R100.0 million were declared and paid during the year. Details in respect of the final dividend for the year ended 31 March 2020 are included in Events after the reporting period of the Directors' report.

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|
| Interim dividend declared 22 November 2019 and paid 17 December 2019 | 59,266 | — |
| Final dividend declared 7 June 2019 and paid 1 July 2019 | 40,745 | — |
| Interim dividend declared 16 November 2018 and paid 10 December 2018 | — | 59,266 |
| Special dividend declared 22 August 2018 and paid 14 September 2018 | — | 3,260,886 |
| Final dividend declared 11 May 2018 and paid 4 June 2018 | — | 14,395 |
| | 100,011 | 3,334,547 |

### Dividend policy

The Group's policy is to pay dividends in accordance with the priority of payments as stipulated in the funding agreements. There is however no assurance that a dividend will be paid in respect of any financial period and any future dividends is dependent upon the dividend distribution from Vodacom Group, as well as the Group's operating results and financial condition.

### Impact of COVID-19

On 11 March 2020, the World Health Organisation officially declared the novel coronavirus, COVID-19, a pandemic, triggering various government interventions in order to stem the spread. The Group's financial position and liquidity is solely dependent on its investment in Vodacom Group. Vodacom Group's performance amidst this pandemic is therefore pivotal in the assessment of the company's operations and the continuous flow of dividends. As most of the countries that Vodacom Group operates in are in the very early stages of the pandemic, the full impact of the pandemic on its operations and the economies they operate in will only be known over time. The Group has assessed the potential impact of COVID-19 on the return from its investment in Vodacom Group, including a wide range of related risks that the aforementioned will have on its performance and liquidity in the short to medium term. The going concern assumption, as adopted in the preparation of the annual financial statements for the Group, remains applicable. The Group will continue to monitor its position as more data becomes available and circumstances change.

**Directors' report (continued)**

**Going concern**

The Group's consolidated financial position and its consolidated cash flows are described on pages 13 and 14. In addition, Note 21 to the consolidated annual financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives,details of its financial instruments, and its exposures to credit and liquidity risk.

The Group generates its revenue from dividends received from its indirect investment in Vodacom Group through YeboYethu Investment.

The Group's total assets exceeds its total liabilities by R2,475.6 million (2019: R1,810.9 million) and its current assets exceeds its current liabilities by R5.2 million (2019: R7.9 million).

Taking all information into consideration as well as the impact of COVID-19 may have on the Group in the medium term, the directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly, continue to adopt the going concern basis in preparing the consolidated annual financial statements.

**Share capital and ordinary share premium**

Full details of the share capital and ordinary share premium of the Group are contained in Notes 15 and 16 of these consolidated annual financial statements.

**Shareholder analysis**

The Group's shareholder analysis as at 31 March 2020 was as follows:

| Size of holdings | Number of shareholders | Percentage of shareholders (%) | Number of shares owned | Percentage of shares (%) |
|---|---|---|---|---|
| 1-100 shares | 73,361 | 86.61 | 7,174,232 | 13.56 |
| 101-1,000 shares | 8,594 | 10.15 | 3,459,533 | 6.54 |
| 1,001-10,000 shares | 2,677 | 3.16 | 5,276,960 | 9.97 |
| 10,001-50,000 shares | 56 | 0.06 | 968,198 | 1.83 |
| More than 50,000 shares | 19 | 0.02 | 36,037,037 | 68.10 |
| | 84,707 | 100 | 52,915,960 | 100 |

| Distribution of shareholders | Number of shareholders | Percentage of shareholders (%) | Number of shares owned | Percentage of shares (%) |
|---|---|---|---|---|
| Individual | 83,011 | 98.00 | 17,164,660 | 32.44 |
| Unincorporated | 1,008 | 1.19 | 198,806 | 0.38 |
| Company | 524 | 0.62 | 22,976,278 | 43.41 |
| Trust | 164 | 0.19 | 12,576,216 | 23.77 |
| | 84,707 | 100 | 52,915,960 | 100 |

## Directors' report (continued)

### Share capital and ordinary share premium (continued)

#### Top ten shareholders

| Name of shareholder | Number of ordinary | Percentage holding (%) |
|---|---|---|
| Royal Bafokeng Holdings Limited | 15,115,295 | 28.56 |
| Vodacom Siyanda Employee Trust | 11,062,839 | 20.92 |
| Thebe Investment Corporation (Proprietary) Limited | 6,477,984 | 12.24 |
| The Innovator Trust | 1,199,367 | 2.27 |
| Jabulani Richard Khethe | 354,314 | 0.67 |
| Fareeda Aboobaker | 244,247 | 0.46 |
| Beagle Investments (Pty) Ltd - BEE | 207,315 | 0.39 |
| Royal Bafokeng Nation Platinum Province BBBEE Trust | 200,000 | 0.38 |
| Overport Brickclay Property CC | 187,345 | 0.35 |
| Metro Home Improvements (Proprietary) Limited | 145,511 | 0.27 |
| | 35,194,217 | 66.51 |

#### Share price performance

| | |
|---|---|
| Opening price 1 April 2019 | R21.05 |
| Closing price 31 March 2020 | R15.70 |
| Closing high for the period (1 April 2019 - 31 March 2020) | R21.12 |
| Closing low for the period (1 April 2019 - 31 March 2020) | R15.20 |
| Number of shares in issue | 52,915,960 |
| Volume traded during the period (1 April 2019 - 31 March 2020) | 1,157,117 |
| Ratio of volume traded to shares issued (%) (1 April 2019 - 31 March 2020) | 2.2% |
| Rand value of shares traded (1 April 2019 - 31 March 2020) | R21,090,377 |
| Total deals (1 April 2019 - 31 March 2020) | 2,900 |

**Directors' report (continued)**

**Directors and secretary**

Movements in directorate during the year under review:

| | In office 31/03/2019 and at signature date | Resignations | Appointments | In office 31/03/2020 and at signature date |
|---|---|---|---|---|
| **Directors** | ZBM Bassa (Chairperson)* | | | ZBM Bassa (Chairperson)* |
| | AM Hall* | | | AM Hall* |
| | MM Mbungela | | | MM Mbungela |
| | KKD Kobue | | | KKD Kobue |
| | U Lucht | | | U Lucht |
| | N Booi | | | N Booi |
| | B Silwanyana* | | | B Silwanyana* |
| | A Conrad* | | | A Conrad* |
| | TV Mokgatlha* | | | TV Mokgatlha* |
| | A Mjamekwana (alternate to N Booi) | | | A Mjamekwana (alternate to N Booi) |
| **Secretary** | S Khan | | | S Khan |

* Independent non-executive directors.

All directors are non-executive.

In terms of the Group's memorandum of incorporation, Mr MM Mbungela retires by rotation and is eligible and available for re-election at the annual general meeting ('AGM') to be held on 21 August 2020.

**Interests of directors**

The following director has direct and indirect beneficial interests in YeboYethu ordinary shares as at 31 March 2020.

| | Units held in Vodacom Siyanda Employee Trust | Direct beneficial percentage interest in YeboYethu | Indirect beneficial percentage interest in YeboYethu |
|---|---|---|---|
| MM Mbungela | 12,384 | 0.009% | 0.023% |

**Address**

| | | | |
|---|---|---|---|
| **Registered office:** | Vodacom Corporate Park<br>082 Vodacom Boulevard<br>Midrand<br>1685 | **Postal address:** | Private Bag X9904<br>Sandton<br>2146 |

**Auditors**

Ernst &Young Inc. has been appointed as the auditor for the current financial year and will continue in office until the next annual general meeting ('AGM') in accordance with section 90(1) of the Companies Act of 2008, as amended.

**Events after the reporting period**

A final dividend of 84 cents per share for the year ended 31 March 2020 was declared on 22 May 2020 payable on 6 July 2020 to shareholders recorded in the register at the close of business on 3 July 2020.

The net dividend is 67.2000 cents per share after taking into account dividend withholding tax of 16.8000 cents per share for those shareholders not exempt from dividend withholding tax.

The board is not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the consolidated annual financial statements, which significantly affects the financial position of the Group at 31 March 2020 and the results of its operations or cash flows for the financial year end.

## Audit committee's report

### 1. Mandate and terms of reference

The YeboYethu (RF) Limited's ('the company') Audit committee operates within a Board-approved mandate and terms of reference in line with the Companies Act of 2008, as amended. The members of the Audit committee were appointed at the annual general meeting held on 5 August 2019.

### 2. Statutory duties

In terms of section 94(7)(f) of the Companies Act of 2008, as amended ('the Act'), the Audit committee discharged all of those functions delegated to it in terms of the Audit committee mandate and the Act:

- Considered and satisfied itself that the external auditors are independent;
- Assessed the qualification, expertise, resources and effectiveness of the external auditors;
- Nominated the external auditors for appointment for the 2020 financial year;
- Agreed the audit fee for the 2020 financial year;
- Considered and approved all non-audit services performed by the external auditor as applicable;
- Approved the internal audit plan for the year;
- Held separate meetings with management and the external auditors to discuss any reserved matters as applicable;
- Ensured that the Audit committee complied with the membership criteria as set out in the Act;
- Reviewed the consolidated annual financial statements of the Group;
- Key audit matters were considered and areas in respect of which the Audit committee satisfied itself include the valuation of shares and underlying derivatives, compliance with funding and shareholding agreements, compliance with statutory requirements and the JSE Listing requirements; and
- Reviewed the appropriateness of any amendments to accounting policies and internal financial controls.

### 3. Membership

The members of the Audit committee during the current financial year included the following independent non-executive directors:

TV Mokgatlha (Chairman)
ZBM Bassa
B Silwanyana
A Conrad

The Chief Financial Officer of Vodacom Group Limited, the Managing Executive Group Finance of Vodacom Group Limited, the Executive Head of Internal Audit of Vodacom Group Limited as well as the external auditors attend the Audit committee meetings by invitation. The primary role of the Audit committee is to ensure the integrity of the financial reporting, the audit process and that a sound risk management and internal control system is maintained. In pursuing these objectives the Audit committee oversees relations with the external auditors and reviews the effectiveness of the internal audit function.

The internal and external auditors have unlimited access to the Chairman of the Audit committee.

Two Audit committee meetings are scheduled per calendar year. Additional Audit committee meetings may be convened when necessary. During the current financial year, two committee meetings were convened and attendance was as follows:

| | 07/06/2019 | 22/11/2019 |
|---|---|---|
| TV Mokgatlha (Chairman) | ✔ | ✔ |
| ZBM Bassa | ✔ | ✔ |
| B Silwanyana | ✔ | ✔ |
| A Conrad | ✔ | ✔ |

**TV MOKGATLHA**
Chairman
Audit committee

**Consolidated statement of comprehensive income**
**for the year ended 31 March 2020**

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | R'000 | R'000 |
| **Income** | 4 | 961,390 | 455,350 |
| Expenditure | 5 | (16,614) | (39,876) |
| **Operating profit** | | 944,776 | 415,474 |
| Finance income | 6 | 888 | 1,696 |
| Finance cost | 7 | (676,351) | (409,449) |
| Gain/(loss) on remeasurement of financial instrument | 8 | 638,638 | (281,485) |
| **Profit/(loss) before tax** | | 907,951 | (273,764) |
| Taxation | 9 | (143,303) | (624,620) |
| **Net profit/(loss)** | | 764,648 | (898,384) |
| **Total comprehensive income/(loss)** | | 764,648 | (898,384) |

| | | Cents | Cents |
|---|---|---|---|
| **Basic earnings/(loss) per share** | 10 | 1,445 | (2,517) |
| **Diluted earnings/(loss) per share** | 10 | 1,445 | (2,517) |

## Consolidated statement of financial position
## As at 31 March 2020

| | Notes | 2020 | 2019 Restated[1] |
|---|---|---|---|
| | | R'000 | R'000 |
| **Assets** | | | |
| **Non-current assets** | | 13,391,933 | 12,753,751 |
| Financial assets | 11 | 13,391,933 | 12,753,295 |
| Tax receivable | | — | 456 |
| **Current assets** | | 10,517 | 14,408 |
| Account receivable | 12 | 6,017 | 10,300 |
| Tax receivable | | 463 | — |
| Restricted cash | 13 | 313 | 313 |
| Cash and cash equivalents | 14 | 3,724 | 3,795 |
| **Total assets** | | 13,402,450 | 12,768,159 |
| **Equity and liabilities** | | | |
| Share capital | 15 | 4,193,265 | 4,193,265 |
| Ordinary share premium | 16 | 359,883 | 359,883 |
| Retained earnings | | (2,077,595) | (2,742,232) |
| **Total equity** | | 2,475,553 | 1,810,916 |
| **Non-current liabilities** | | 10,921,556 | 10,950,706 |
| Borrowings | 17, 26 | 9,729,015 | 9,901,219 |
| Deferred tax | 9 | 1,192,541 | 1,049,487 |
| **Current liabilities** | | 5,341 | 6,537 |
| Accounts payable | 18 | 3,342 | 4,113 |
| Tax payable | | — | 27 |
| Dividends payable | | 1,999 | 2,397 |
| **Total equity and liabilities** | | 13,402,450 | 12,768,159 |

[1] Refer Note 26 for detail.

## Consolidated statement of changes in equity for the year ended 31 March 2020

| | Notes | Share capital R'000 | Ordinary share premium R'000 | Retained losses R'000 | Total equity R'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2018** | | * | 359,883 | 1,490,599 | 1,850,482 |
| Issue of shares | | 4,193,265 | — | — | 4,193,265 |
| Net loss | | — | — | (898,384) | (898,384) |
| Dividends | | — | — | (3,334,447) | (3,334,447) |
| **Balance at 31 March 2019** | 15, 16 | 4,193,265 | 359,883 | (2,742,232) | 1,810,916 |
| Net profit | | — | — | 764,648 | 764,648 |
| Dividends | | — | — | (100,011) | (100,011) |
| **Balance at 31 March 2020** | | 4,193,265 | 359,883 | (2,077,595) | 2,475,553 |

## Consolidated statement of cash flows for the year ended 31 March 2020

| | Notes | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **Cash generated from operations** | 19 | 943,726 | 419,840 |
| Tax paid | | (282) | (448) |
| Dividends paid | | (100,410) | (3,335,109) |
| **Net cash flows generated from/(utilised in) operating activities** | | 843,034 | (2,915,717) |
| | | | |
| **Cash flows from investing activities** | | | |
| Investment in subsidiary | | — | (7,332,756) |
| Finance income received | | 888 | 1,696 |
| **Net cash flows generated from/(utilised in) investing activities** | | 888 | (7,331,060) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds on ordinary shares issues | | — | 750,000 |
| Borrowings incurred | | — | 9,905,960 |
| Repayment of borrowings | | (160,909) | (225,097) |
| Finance cost paid | | (687,647) | (189,093) |
| Overnight deposit movement | | 4,563 | 4,773 |
| **Net cash flows (utilised in)/generated from financing activities** | | (843,993) | 10,246,543 |
| | | | |
| **Net movement in cash and cash equivalents** | | (71) | (234) |
| Cash and cash equivalents at the beginning of the year | | 3,795 | 4,029 |
| **Cash and cash equivalents at the end of the year** | 14 | 3,724 | 3,795 |

(*) Less than R500.

## Notes to the consolidated annual financial statements

### Basis of preparation

The consolidated annual financial statements of the Group have been prepared in accordance with IFRS as issued by the IASB and interpretations issued by the IFRS Interpretations Committee and comply with the SAICA Financial Reporting Guides as issued by the SAICA Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of 2008, as amended. The consolidated annual financial statements are presented in South African rand which is the Group's functional and presentation currency. The significant accounting policies are consistent in all material respects with those applied in the previous year.

### Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of YeboYethu (RF) Limited and its wholly owned subsidiary, YeboYethu Investment Company (RF) (Proprietary) Limited which is one reportable segment ('the Group').

### 1. Significant accounting policies

#### Accounting convention

The consolidated annual financial statements are prepared on a historical cost basis, except for certain financial instruments which are measured at fair value or at amortised cost.

#### Accounting for subsidiaries

A subsidiary is an entity controlled by the Group. Control is achieved where the Group has existing rights that give it the current ability to direct the activities that affect the Group's returns and exposure or rights to variable returns from the entity.

The results of subsidiaries are included in profit or loss from the effective date of acquisition up to the effective date of disposal. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

All financial assets and financial liabilities are initially measured at fair value, including transaction costs except for those classified as at fair value through profit or loss which are initially measured at fair value, excluding transaction costs.

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

#### Financial assets, excluding derivative financial instruments

Financial assets are recognised and derecognised on trade-date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

Subsequent to initial recognition, these instruments are measured as follows:

- Equity investments are stated at fair value, with gains and losses arising from changes in fair value recognised in profit or loss.
- All other investments, including trade receivables, are held to collect contractual interest and principal repayments and are stated at amortised cost using the effective interest method, less any impairment.

#### Impairment of financial assets

The Group does not have an expectation of credit loss on financial assets other than those at fair value through profit or loss, as they are short-term and repayable on demand from high credit quality financial institutions.

#### Financial liabilities, excluding derivative financial instruments, and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the applicable definitions. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets.

Subsequent to initial recognition, these instruments are measured as follows:

- Borrowings are subsequently stated at amortised cost. Any difference between the proceeds and the settlement or redemption of borrowings is recognised over the term of borrowings.

## Notes to the consolidated annual financial statements

### 1. Significant accounting policies (continued)

**Financial liabilities, excluding derivative financial instruments, and equity instruments (continued)**

- Accounts payable (excluding liabilities created by statutory requirements) as well as dividends payable are not interest bearing and are subsequently stated at their nominal values.

**Restricted cash**

Restricted cash comprise of amounts deposited by potential shareholders for the purchase of YeboYethu ordinary shares on the JSE Empowerment segment and therefore are restricted in the Group's use of the funds. Restricted cash has been recognised as a financial asset and carried at amortised cost. Due to the short-term nature of these, the amortised cost normally approximates its fair value.

**Cash and cash equivalents**

Cash and cash equivalents comprise call deposits, net of bank borrowings, all of which are available for use by the Group unless otherwise stated. Included in cash and cash equivalents is amounts payable to shareholders for dividends declared prior to the listing of YeboYethu on the JSE Empowerment segment arising from failed payments. These funds are not available for general use by the Group.

Cash on hand is initially recognised at fair value and subsequently stated at its face value.

Deposits held on call are classified as financial assets at amortised cost by the Group. Due to the short-term nature of these, the amortised cost normally approximates its fair value.

**Taxation**

Taxation represents the sum of the current tax and deferred tax.

Tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same tax authority on either the same taxable entity or on different taxable entities which intend to settle the tax assets and liabilities on a net basis.

**Current tax**

Current tax payable or recoverable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that the deductible temporary difference will reverse in the foreseeable future and taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the reporting date.

**Income**

Dividends from investments are recognised when the Group's right to receive payment has been established.

## Notes to the consolidated annual financial statements

### 2. New accounting pronouncements

**Accounting pronouncements adopted**

On 1 April 2019 the Group adopted the following new accounting pronouncements, none of which were considered by the Group as significant on adoption, were adopted by the Group to comply with amendments to IFRS:

- IFRS 16: Leases
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
- Improvements to IFRS: 2015-2017 cycle;
- Amendments to IFRS 9 relating to prepayment features with negative compensation; and
- IFRIC 23: Uncertainty over Income Tax Treatments.

These changes had no impact on the results, financial position or cash flows of the Group.

**New accounting pronouncements to be adopted on 1 April 2020**

The following pronouncements issued by the IASB are effective for periods commencing on or after 1 January 2020. The Group's financial reporting will be presented in accordance with these new standards, which are not expected to have a material impact on the consolidated statement of comprehensive income, consolidated statement of financial position or consolidated cash flow statement from 1 April 2020:

- Amendments to IFRS 3: Definition of a Business,
- Amendments to IAS 1 and IAS 8 relating to the definition of "Material", and
- Amendments to IFRS 9, IAS 39 and IFRS 7 on interest rate benchmark reform.

**New accounting pronouncements to be adopted on or after 1 April 2021**

The Group is currently assessing the impact of the following new pronouncements, which have been issued by the IASB that are effective for annual periods beginning on or after 1 January 2021. Unless otherwise stated, the Group does not currently believe the adoption of these pronouncements will have a material impact on its results, financial position or cash flows:

- IFRS 17: Insurance Contracts; and
- Amendments to IAS 1 on the classification of liabilities as current or non-current.

The Group's financial reporting will be presented in accordance with the new standards above, which are not expected to have a material impact on the results, financial position or cash flows of the Group, from 1 April 2021.

The Group does not expect the adoption of IFRS 17 to have a material impact.

### 3. Critical accounting judgements including those involving estimations

**Direct and indirect tax liabilities**

The Group's total direct and indirect taxation liabilities necessarily involves judgements, including those involving estimations, in respect of certain matters where the tax impact is uncertain until a conclusion has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The Group uses in-house tax experts when assessing uncertain tax positions and seeks the advice of external professional advisors where appropriate.

Provisions are recognised for uncertain tax positions when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of economic benefits from the Group. Provisions are measured using the most likely outcome. The final resolution of uncertain tax positions may give rise to material profits, losses and/or cash flows.

The Group is regularly subject to an evaluation by tax authorities of its direct and indirect tax filings. The consequence of such reviews is that disputes may arise with tax authorities over the interpretation or application of certain tax rules to the Group's business. The tax laws are in some instances ambiguous and subject to a broad range of interpretations. To address and manage this tax uncertainty, good governance is fundamental to the Group's business sustainability. All major tax positions taken are subject to review by executive management and are reported to the Board. The Group has support from external advisors supporting the positions taken in respect of the significant tax matters which confirms the application and interpretation of the tax legislation. The Group has considered all matters in dispute with the relevant tax authorities and has accounted for any exposure identified, if required.

## Notes to the consolidated annual financial statements

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|
| **4. Income** | | |
| Dividends received - Vodacom (Proprietary) Limited | — | 3,268 |
| Dividends received - Vodacom Group Limited | 961,390 | 452,082 |
| | 961,390 | 455,350 |

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|
| **5. Expenditure** | | |
| Administration fees | (12,715) | (14,745) |
| Consulting fees | (1,566) | (23,293) |
| Auditors' remuneration | (1,094) | (621) |
| Directors remuneration (Refer Note 23) | (1,223) | (973) |
| Other | (16) | (244) |
| | (16,614) | (39,876) |

Administration fees mainly comprises:

- share register maintenance fee paid of R556 thousand (2019: R482 thousand);
- Annual General Meeting expenses of R320 thousand (2019: R462 thousand);
- fees associated with costs of trading, security license and initial listing of R143 thousand (2019: R2,170 thousand);
- administration service fees to Vodacom Group of R4,801 thousand (2019: R2,349 thousand);
- general administration and call centre agents cost of R5,165 thousand (2019: R6,238 thousand);
- costs associated with payment of dividends of R220 thousand (2019: R629 thousand);
- agency fees to Rand Merchant Bank (a division of FirstRand Bank Limited) of R531 thousand (2019: R301 thousand);
- printing and posting of the annual report and interim results of R843 thousand (2019: R1,552 thousand).

Consulting fees for the current financial period comprise of costs associated with valuation services, legal costs and placement fee on recruitment of non-executive directors, whereas in the prior financial year, costs were mainly incurred to conclude the new BBBEE deal during September 2018.

Auditors' remuneration comprises of current year costs of R817 thousand and an under accrual of prior year audit fees for R277 thousand.

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|
| **6. Finance income** | | |
| Interest income | | |
| Overnight deposit | 694 | 1,384 |
| Banks | 194 | 312 |
| | 888 | 1,696 |

All interest income is earned from financial assets not at fair value through profit or loss.

## Notes to the consolidated annual financial statements

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **7.** | **Finance cost** | | |
| | Interest expense | | |
| | Class A preference shares | (300,696) | (170,660) |
| | Class B preference shares | (375,655) | (204,135) |
| | Transaction costs | — | (34,654) |
| | | (676,351) | (409,449) |

All interest expense is incurred from financial liabilities not at fair value through profit or loss.

Interest expense is recognised at a rate of 68% of First National Bank Limited's prime overdraft lending rate ('prime') on the class A preference shares and at a rate of 70% of prime on the class B preference shares. For further details, refer to Note 17.

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **8.** | **Gain/(loss) on remeasurement of financial instruments** | | |
| | Gain/(loss) on fair value of Vodacom Group shares | 638,638 | (1,702,522) |
| | Gain on fair value of Vodacom SA option asset | — | 1,421,036 |
| | | 638,638 | (281,485) |

In the prior year, YeboYethu exchanged its option asset in Vodacom SA for shares in Vodacom Group through YeboYethu Investment Company (RF) Proprietary Limited ('YeboYethu Investment') at an equity swap ratio of Vodacom SA to Vodacom Group of 73.0%, based on the 60 day VWAP of R143.35 per Vodacom Group share, resulting in a total gain on remeasurement of the option asset of R1,421.0 million at the effective date. Refer Note 11 and Note 15 for details of the transaction.

In the prior year, the Vodacom Group share price decreased since the implementation of the transaction, to R111.43, resulting in a net loss on remeasurement of the financial instrument of R1,702.5 million at 31 March 2019. In the current year, the Vodacom Group share price has improved to R117.01 at 31 March 2020 resulting in a gain on remeasurement of financial instrument of R638.6 million. Refer Note 11.

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **9.** | **Taxation** | | |
| **9.1** | **Income tax expense** | | |
| | South African current tax | | |
| | Current year | (249) | (476) |
| | South African deferred tax | | |
| | Current year | (143,054) | (624,144) |
| | | (143,303) | (624,620) |
| | **Components of deferred tax charged to profit or loss** | | |
| | Capital gains tax on fair value gain | (143,054) | (624,144) |

**Notes to the consolidated annual financial statements**

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|

## 9. Taxation (continued)

### 9.1 Income tax expense (continued)

**Factors affecting tax expense for the year**

The table below discloses the differences between the expected income tax expense at the South African statutory tax rate and the Group's total income tax expense:

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| Profit/(loss) before tax | 907,951 | (273,764) |
| Expected income tax (expense)/credit on profit before tax at the South African statutory tax rate | (254,226) | 76,654 |
| Capital gains tax | — | (305,832) |
| Non-deductible preference share finance cost | (189,378) | (104,943) |
| Non-deductible operating expenditure | (4,652) | (20,869) |
| Gain/(loss) on remeasurement of financial instrument (capital gains tax rate difference) | 35,764 | (397,128) |
| Exempt dividend income | 269,189 | 127,498 |
| | (143,303) | (624,620) |

The South African statutory tax rate is 28.0% (2019: 28.0%); the Group's effective tax rate is 15.8% (2019: negative 228.2%).

### 9.2 Deferred tax and components

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| Deferred tax liability: Capital gains tax on fair value movement | (1,192,541) | (1,049,487) |

**Reconciliation of net deferred tax balance**

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| Balance at the beginning of the year | 1,049,487 | 425,343 |
| Charge to profit or loss | 143,054 | 624,144 |
| Balance at the end of the year | 1,192,541 | 1,049,487 |

Deferred tax on the remeasurement of the investment in Vodacom Group is raised at the capital gains tax rate.

The deferred tax on the remeasurement of the investment in Vodacom Group is based on the fair value less the base cost of the investment as rolled over in terms of Section 42 of the Income Tax Act No. 58 of 1962.

## Notes to the consolidated annual financial statements

| | | 2020 Cents | 2019 Cents |
|---|---|---|---|
| **10.** | **Earnings and dividends per share** | | |
| | Basic earnings/(loss) per share | 1,445 | (2,517) |
| | Dividends per share (Note 10.3) | 189 | 7,512 |

There were no adjustments required to earnings attributable to equity shareholders in the determination of headline earnings. Therefore headline earnings per share is the same as per basic earnings/(loss) per share disclosed above.

There are no potential ordinary shares that would have a dilutive effect on the earnings per share. Therefore diluted earnings per share and diluted headline earnings per share is the same as per basic earnings/(loss) per share disclosed above.

Earnings per share calculations are based on earnings and the weighted average number of ordinary shares outstanding as set out below:

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **10.1** | **Earnings and headline earnings** | | |
| | Earnings and headline earnings/(loss) attributable to equity shareholders for all earnings per share amounts disclosed above | 764,648 | (898,384) |

This disclosure is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with Circular 1/2019 as issued by SAICA.

| | | | |
|---|---|---|---|
| **10.2** | **Reconciliation of weighted average number of ordinary shares outstanding** | **2020** | **2019** |
| | For basic and headline earnings per share | 52,915,960 | 35,690,991 |

During the prior year 38,520,660 shares were issued. Refer note 15.

### 10.3 Dividends per share

Dividends per share of 189 cents per share consist of a final dividend per share of 77 cents based on 52,915,960 shares, paid on 1 July 2019, and an interim dividend per share of 112 cents based on 52,915,960 shares paid 17 December 2019. The prior year's dividends per share of 7,512 cents per share consist of a dividend per share of 100 cents based on 14,395,300 shares, paid on 4 June 2018, and the special dividend per share of 7,300 cents based on 44,669,671 shares, paid on 14 September 2018 as well an interim dividend per share of 112 cents based on 52,915,960 shares paid 10 December 2018.

## Notes to the consolidated annual financial statements

### 11. Financial assets

**Financial asset at fair value through profit or loss**

In demonstrating its ongoing and continued commitment to transformation and BBBEE ownership in South Africa, Vodacom Group, together with Vodacom SA entered into a number of agreements during the prior financial year in terms of which the original shareholders of YeboYethu, together with Lisinfo Investments 209 (Proprietary) Limited ('RBH) and Main Street 661 (Proprietary) Limited ('Thebe'), YeboYethu ESOP and the new Vodacom Siyanda Employee Trust ('the Trust'), acquired 6.23% of the issued shares in Vodacom Group (post issuance) in terms of a new BBBEE transaction through YeboYethu and YeboYethu Investment. The transaction entailed a series of interlinked and inter-conditional steps as described below and in Note 17.

- Vodacom SA repurchased 114,744,844 of its shares (31,813,785 from RBH, 13,634,479 from Thebe, 30,298,842 from YeboYethu (as public 'A' shares) and 38,997,738 from YeboYethu (YeboYethu ESOP 'A' shares)) for a nominal consideration (R0.00001 per Vodacom SA 'A' share, and R1,147.45 in aggregate) pursuant to the Vodacom SA notional vendor finance ('NVF') transaction terms, 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.
- The 12,000,000 YeboYethu 'N' shares in issue automatically converted into YeboYethu ordinary shares according to their terms of issue (in respect of which the YeboYethu ESOP was the sole shareholder), and at the same time 3,318,908 of those shares were acquired by YeboYethu for a nominal amount (R0.00001 per share, and R33.19 in aggregate) based on the existing YeboYethu NVF transaction terms.
- RBH and Thebe exchanged their Vodacom SA shares for 21,593,279 new YeboYethu ordinary shares in terms of share-for-share transactions, thereby consolidating all of the Vodacom SA BEE shareholders' interests into a single vehicle, being YeboYethu.
- On 22 August 2018, YeboYethu declared a special dividend of R73.00 per YeboYethu ordinary share, subject to YeboYethu meeting a solvency and liquidity test as contemplated by section 45 of the Companies Act of 2008, as amended.
- Vodacom Group (on behalf of itself and various employer companies within the Vodacom Group) made a contribution of R1,050 million to the Trust to enable it to acquire YeboYethu ordinary shares.
- YeboYethu exchanged its Vodacom SA shares for YeboYethu Investment shares.
- YeboYethu Investment then exchanged its Vodacom SA shares for 49,689,995 new Vodacom Group shares on a fair market value basis of R7.1 billion.
- YeboYethu raised R9.9 billion in subscription proceeds from the issue of the class A preference shares and class B preference shares.
- The proceeds received from the new YeboYethu ordinary shares issued to the Trust and the preference shares issued were used to subscribe for 7,332,756 shares in YeboYethu Investment for R7.3 billion, which in turn subscribed for 64,761,185 additional shares in Vodacom Group, and fund the payment of the special dividend and transaction costs associated with the preference share funding.

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|
| **Investment in Vodacom Group** | | |
| Cost | 14,455,817 | 14,455,817 |
| Accumulated fair value adjustment (refer Note 8) | (1,063,884) | (1,702,522) |
| | 13,391,933 | 12,753,295 |

The Group holds 114,451,180 (2019: 114,451,180) shares in Vodacom Group.

The investment is categorised as level 1 in the fair value hierarchy. Fair value was determined using the JSE listed closing share price of R117.01 (2019: R111.43).

## Notes to the consolidated annual financial statements

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **12.** | **Accounts receivable** | | |
| | Overnight deposit | 5,735 | 10,297 |
| | Prepayments | 282 | 3 |
| | Interest receivable | * | * |
| | | 6,017 | 10,300 |

Accounts receivable are carried at cost which normally approximates fair value due to the short-term maturity thereof. Interest is earned on overnight deposit at money market rates.

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **13.** | **Restricted cash** | | |
| | Restricted cash | 313 | 313 |

Restricted cash comprises of amounts deposited by potential shareholders for the purchase of YeboYethu ordinary shares on the JSE Empowerment segment. Refer Note 18.

| | | 2020 | 2019 |
|---|---|---|---|
| **14.** | **Cash and cash equivalents** | | |
| | Bank balances | 3,724 | 3,795 |
| **15.** | **Share capital** | | |
| | **Ordinary share capital** | | |
| | **Authorised** | | |
| | 100.0 million authorised ordinary shares at no par value | — | — |
| | **Issued** | | |
| | Opening balance (52.9 million ordinary shares at no par value (2019: 14.4 million ordinary shares and 12.0 million 'N' ordinary shares at R0.00001 each)). | 4,193,265 | * |
| | 38.5 million issued ordinary shares | — | 4,193,265 |
| | 52.9 million ordinary shares at no par value | 4,193,265 | 4,193,265 |

The company issued 38,520,660 additional ordinary shares listed on the BBBEE Segment of the JSE during the prior financial year. This is detailed as follows:

- 8,681,092 YeboYethu ordinary shares resulting from the conversion of 12 000 000 YeboYethu 'N' shares to ordinary shares;
- 21,593,279 YeboYethu ordinary shares issued to RBH and Thebe for a total value of R3,443 million; and
- 8,246,289 YeboYethu ordinary shares issued to the Vodacom Siyanda Employee Trust for a total value of R750 million.

There were no changes to the issued ordinary shares in the current financial year.

(*) Less than R500.

**Notes to the consolidated annual financial statements**

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **16.** | **Ordinary share premium** | | |
| | 14.4 million issued ordinary shares at R24.99999 each. | 359,883 | 359,883 |

| | | | |
|---|---|---|---|
| **17.** | **Borrowings** | | |
| | **Held at amortised cost** | | |
| | Class A preference shares | 4,360,171 | 4,528,120 |
| | Class B preference shares | 5,368,844 | 5,373,099 |
| | | 9,729,015 | 9,901,219 |

During the prior year, the Group raised funding through the issuance of Class A and Class B preference shares. The funding was used to subscribe for additional shares in Vodacom Group and payment of resultant transactional costs as well as a special dividend. The carrying amount of Borrowings approximates fair value as this is linked to the prime interest rate.

**Class A preference shares**

The subscribers to the Class A preference shares are ABSA Bank Limited, FirstRand Bank Limited and Depfin Investments Proprietary Limited.

Finance cost is recognised at a rate of 68% of prime (non tax deductible) on the outstanding balance of the Class A preference shares.

The final redemption date for the Class A preference shares is 5 years from subscription date that is 13 September 2023. Interest on the Class A preference shares accrues daily, capitalised monthly and settled semi-annually, subject to a permitted interest roll up to a maximum of 135%.

The Class A preference shares funding is secured as follows:

- Cession and pledge of YeboYethu's transaction account, proceeds account and redemption reserve account;
- Cession and pledge of any shares or other securities held from time to time by YeboYethu (including its YeboYethu Investment shares);
- Guarantee issued by YeboYethu Investment for the performance and payment of YeboYethu's obligations in respect of the preference shares funding; and
- Cession and pledge of:
  - any shares or other securities held by YeboYethu Investment from time to time (including its Vodacom Group shares); and
  - YeboYethu Investment's bank account.

**Class B preference shares**

In the prior year, Vodacom Group Limited subscribed for the Class B preference shares.

Interest expense is recognised at a rate of 70% of prime on the outstanding balance of the Class B preference shares.

The final redemption date for the Class B preference shares is 10 years commencing from subscription date that is 13 September 2028. Class B preference share funding is unsecured.

Interest on the Class B preference shares accrues daily, capitalised monthly and serviced, subject to available cash (taking into account the Class A preference shares and provision for ordinary dividends), within a prescribed number of days after receipt by YeboYethu of distributions from YeboYethu Investment and/or cashflow receipts on account of the disposal of YeboYethu's shares in YeboYethu Investment.

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **18.** | **Accounts payable** | | |
| | Supplier accounts payable and accruals | 2,898 | 3,759 |
| | Shareholder deposits (Refer Note 13) | 313 | 313 |
| | Payables | 131 | 41 |
| | | 3,342 | 4,113 |

The average credit period is 30 days. No interest is incurred on accounts payable. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Accounts payable are carried at cost which normally approximates fair value due to short-term maturity.

## Notes to the consolidated annual financial statements

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| **19. Cash generated from operations** | | |
| Profit/(loss) for the financial year | 764,648 | (898,384) |
| Adjusted for: | | |
| Taxation | 143,303 | 624,620 |
| Finance income | (888) | (1,696) |
| Finance costs | 676,351 | 409,449 |
| Fair value adjustments | (638,638) | 281,485 |
| Cash flow from operations before working capital changes | 944,776 | 415,474 |
| Movement in accounts receivable | (279) | 2,472 |
| Movement in account payable | (771) | 1,894 |
| | 943,726 | 419,840 |

### 20. Related parties

All transactions with related parties have been made on terms equivalent to those that prevail in arm's length transactions. Directors' remuneration is disclosed in Note 23.

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| **20.1 Balances with related parties** | | |
| **Accounts receivable** | | |
| Vodacom Group Limited | 5,735 | 10,297 |
| **Accounts payable** | | |
| Vodacom Group Limited | 123 | 41 |
| Vodacom (Proprietary) Limited | 8 | — |
| **Borrowings** | | |
| Vodacom Group Limited | 5,368,844 | 5,373,099 |
| **20.2 Transactions with related parties** | | |
| Vodacom Group Limited | | |
| Dividends received | 961,390 | 452,082 |
| Service fee | (4,801) | (2,349) |
| Finance income received | 694 | 1,384 |
| Class B preference share interest | (375,655) | (204,135) |
| Vodacom (Proprietary) Limited | | |
| Dividends received | — | 3,268 |
| The Innovator Trust (entity within the Vodacom Group structure) | | |
| Dividends paid | (924) | (90,096) |

**Notes to the consolidated annual financial statements**

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **20.** | **Related parties (continued)** | | |
| **20.2** | **Transactions with related parties (continued)** | | |
| | YeboYethu Employee Participation Trust (entity within the Vodacom Group structure) | | |
| | Dividends paid | (549) | (8,146) |
| | Vodacom Siyanda Employee Trust (entity within the Vodacom Group structure) | | |
| | Dividends paid | (20,900) | (11,420) |

In the prior year dividends was paid to the Innovator Trust and ESOP which included the payment of the special dividend as well as the interim dividend paid in December 2018.

| | | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **21.** | **Financial instruments and risk management** | | |
| **21.1** | **Net gain/(loss) on financial instruments** | | |
| | **Net gain/(loss) on financial instruments analysed by category, are as follows:** | | |
| | Gain/(loss) on fair value of financial asset at fair value through profit or loss | 638,638 | (281,485) |
| | Dividends received | 961,390 | 455,350 |
| | Financial assets measured at amortised cost | 888 | 1,696 |
| | Financial liabilities measured at amortised cost | (676,351) | (409,449) |
| | | 924,565 | (233,888) |
| **21.2** | **Carrying amounts of financial instruments** | | |
| | Carrying amounts of financial instruments analysed by category | | |
| | **Assets** | | |
| | Financial asset measured at fair value through profit or loss | 13,391,933 | 12,753,295 |
| | Financial asset measured at amortised cost | 9,772 | 14,405 |
| | | 13,401,705 | 12,767,700 |
| | **Liabilities** | | |
| | Financial liabilities measured at amortised cost | 9,734,357 | 9,907,124 |
| **21.3** | **Fair value hierarchy** | | |
| | The table below sets out the valuation basis of the financial instrument measured at fair value: | | |
| | **Level one** | | |
| | Financial asset at fair value through profit or loss | | |
| | Vodacom Group shares | 13,391,933 | 12,753,295 |

The fair value of the level one instrument is determined using the JSE listed share price (refer Note 11).

**Notes to the consolidated annual financial statements**

## 21. Financial instruments and risk management (continued)

### 21.4 Financial risk management

### 21.4.1 Market risk management

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how profit after tax and equity after tax would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

#### 21.4.1.1 Interest rate risk management

The Group's interest rate profile consists mainly of floating rate bank balances which exposes the Group to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|
| **Financial liabilities** | | |
| Borrowings linked to RSA prime rates | 9,729,015 | 9,901,219 |
| **Financial assets** | | |
| Bank and overnight deposits at floating rates of interest | 9,459 | 14,093 |

The Group is exposed to floating rates of interest namely South African prime rates and South African money market rates.

**Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for non- derivative instruments at the reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increase or decrease, as detailed in the table below discloses the Group's sensitivity to the specified basis point change in the market interest rates it is exposed to. Management's assessment of a reasonable possible change in market interest rates are based on economic forecasts.

A positive number below indicates an increase in profit after tax if interest rates were higher by the basis points indicated below in a net financial asset position.

A negative number below indicates a decrease in profit after tax if interest rates were higher by the basis points indicated below in a net financial liability position.

If interest rates were lower by the basis points indicated, there would be an equal and opposite impact on the profit after tax.

The sensitivity analysis is representative of the Group's exposure to interest rate risk. There were no changes in the methods and assumptions used in preparing the sensitivity analysis.

| | 2020 | 2019 |
|---|---|---|
| **RSA prime rates** | | |
| Basis point increase | 75 | 50 |
| Profit post tax (R'000) | (72,917) | (49,455) |

### 21.4.2 Credit risk management

Investments, accounts receivable and cash and cash equivalents potentially expose the Group to credit risk.

The Group's exposure to credit risk with regards to overnight deposit is low due to the deposit being with Vodacom Group that is placed with high credit quality financial institutions.

The Group's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

**Notes to the consolidated annual financial statements**

**21. Financial instruments and risk management (continued)**

**21.4 Financial risk management (continued)**

**21.4.3 Equity price risk management**

The Group's exposure to equity price risk arises from investment held by the Group and classified in the statement of financial position as at fair value through profit or loss (Refer Note 11).

| | 2020 | 2019 |
|---|---|---|
| % increase in listed market price | 10% | 10% |
| Profit post taxation (R'000) | 1,039,214 | 989,656 |

**21.4.4 Liquidity risk management**

In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments. In terms of its long-term liquidity risk, a reasonable balance is maintained between the period over which assets generate funds and the period over which the respective assets are funded.

Trigger events as detailed in the preference share subscription agreement between the Class A preference share funders and the Group can initiate early payment of the unredeemed preference shares on a date set out in the notice to the Group if issued. However the trigger events is closely monitored and remediation measures are in place to rectify the trigger event that is not within the control of the Group.

The ultimate maturity of the A preferences shares is 13 September 2023 and the contractual payments during the funding term is dependent on available cash resources and subject to interest roll up of a maximum of 135% . The investment in Vodacom Group shares is held to manage this liquidity risk. The ultimate maturity of the B preferences shares is 13 September 2028 and the contractual payments during the funding term is dependent on available cash resources .

The tables below disclose the maturity profile of the Group's non-derivative financial liabilities and those financial assets used for managing liquidity risk. The amounts disclosed are the future undiscounted contractual cash (outflows)/ inflows which therefore differs from both the carrying amount and the fair value. Due to the uncertainty and dependencies of the contractual cash flows of the preference shares, the tables excludes these borrowings, and the assets used to manage this risk.

| | 0-1 year R'000 | 2+ years R'000 | Total R'000 |
|---|---|---|---|
| **2020** | | | |
| **Financial liabilities** | | | |
| Accounts payable | 3,342 | — | 3,342 |
| **Financial assets** | | | |
| Accounts receivable | 5,735 | — | 5,735 |
| Cash and cash equivalents | 3,724 | — | 3,724 |
| | 9,459 | — | 9,459 |
| **2019** | | | |
| **Financial liabilities** | | | |
| Accounts payable | 4,113 | — | 4,113 |
| **Financial assets** | | | |
| Accounts receivable | 10,297 | — | 10,297 |
| Cash and cash equivalents | 3,795 | — | 3,795 |
| | 14,092 | — | 14,092 |

**21.4.5 Capital risk management**

The Group defines total capital as 'equity' in the statement of financial position. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for

**Notes to the consolidated annual financial statements**

**21. Financial instruments and risk management (continued)**

**21.4 Financial risk management (continued)**

**21.4.5 Capital risk management (continued)**

shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or improve the capital structure, the Group may adjust the amount of dividends paid to shareholders.

There is a financial condition present in the preference share subscription agreement between the Class A preference share funders and YeboYethu that YeboYethu shall ensure that on each day during the funding period the Share Cover Ratio shall not be less than or equal to 2 times and the leverage ratio not exceed 2.5 times during a financial reporting period. The Share Cover Ratio is the ratio which the aggregate market value of the Vodacom Group shares that the Group owns and any acceptable secured asset; bears to the outstanding preference shares obligations less amounts standing to the credit of the reserve account for so long as the reserve account is subject to security as contemplated by the Group cession and pledge in security. Leverage ratio is the ratio of Vodacom Group net debt as at the last day of a financial reporting period to the Vodacom Group's earnings before interest, taxation, depreciation and amortisation ('EBITDA') in respect of the financial reporting period.

The Group will be able to remedy such breach of the financial covenant (in the event a breach occurs) by either voluntary redemption of the preference shares, depositing such amount into the reserve account or encumbering other assets acceptable to the preference share agent such that the share cover ratio is greater than 2.4 times. The financial covenants are strictly monitored.

| | 2020 | 2019 |
|---|---|---|
| | R'000 | R'000 |
| **22. Commitments** | | |
| Operating commitments | 4,328 | 3,659 |

The operating commitments will be financed through internal cash generation.

| | 2020 | 2019 |
|---|---|---|
| | R | R |
| **23. Directors emoluments** | | |
| ZBM Bassa (Chairperson) | (401,775) | (357,179) |
| SM Radebe | — | (197,116) |
| AM Hall | (154,638) | (158,096) |
| S Sithole | — | (237,232) |
| B Silwanyana | (194,729) | (15,768) |
| A Conrad | (194,729) | (7,884) |
| TV Mokgatlha | (277,004) | — |
| | (1,222,875) | (973,275) |

**24. Impact of COVID-19**

On 11 March 2020, the World Health Organisation officially declared the novel coronavirus, COVID-19, a pandemic, triggering various government interventions in order to stem the spread. The Group's financial position and liquidity is solely dependent on its investment in Vodacom Group. Vodacom Group's performance amidst this pandemic is therefore pivotal in the assessment of the company's operations and the continuous flow of dividends. As most of the countries that Vodacom Group operates in are in the very early stages of the pandemic, the full impact of the pandemic on its operations and the economies they operate in will only be known over time. The Group has assessed the potential impact of COVID-19 on the return from its investment in Vodacom Group, including a wide range of related risks that the aforementioned will have on its performance and liquidity in the short to medium term. The going concern assumption, as adopted in the preparation of the annual financial statements for the Group, remains applicable. The Group will continue to monitor its position as more data becomes available and circumstances change.

**Notes to the consolidated annual financial statements**

## 25. Events after reporting period

The board is not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the consolidated annual financial statements, which significantly affects the financial position of the Group at 31 March 2020 and the results of its operations or cash flows for the financial year end.

**Dividends receivable**

Vodacom Group Limited declared a dividend of 405 cents per share on 7 May 2020 payable on 29 June 2020 to shareholders recorded in the register at the close of business on Friday 26 June 2020. In addition, on 29 April 2020, Safaricom Plc proposed a dividend of KES56.09 billion for the financial year ended 31 March 2020 subject to shareholders' approval at their AGM and payable on or about 1 November 2020. Vodacom Group intends to distribute the dividend from Safaricom in line with its dividend policy. The Vodacom Group's share of this proposed dividend, at a KES/ZAR exchange rate of 5.88, after withholding tax, amounts to R2,999 million.

**Dividend declared after the reporting date and not recognised as a liability**

A dividend of R44.4 million for the year ended 31 March 2020, was declared on 22 May 2020 payable on 6 July 2020 to shareholders recorded in the register at the close of business on 3 July 2020. The net dividend is 67.20000 cents per share after taking into account dividend withholding tax of 16.80000 for those shareholders not exempt from dividend withholding tax.

## 26. Restatement

### 26.1 Classification of liabilities

A portion of the Group's borrowings was incorrectly presented as a current liability in its financial statements for the year ended 31 March 2019. Subsequent to the release of the March 2019 audited financial results, the Group determined that all borrowings should have been presented as a non current liability as the criteria to classify it as current were not met. This results in an adjustment between current liabilities and non-current liabilities.

This had no impact on the financial performance and the cash flow of the Group as at 31 March 2019.

The effect of the adjustment on the statement of financial position as at 31 March 2019 is as follows:

| | Before adjustment | Adjustment | After adjustment |
|---|---|---|---|
| | R'000 | R'000 | R'000 |
| **Statement of financial position** | | | |
| **Non-current liability** | | | |
| Borrowings | 9,610,864 | 290,355 | 9,901,219 |
| **Current liability** | | | |
| Borrowings | 290,355 | (290,355) | — |

## 27. Company annual financial statements

The company's annual financial statements have not been presented as the material transactions within the entity is reflected in the Group's presentation of its financial performance and position which would provide duplication to information already disclosed. The company's separate annual financial statements are available for inspection at the company's registered office and have been audited by the independent auditing firm Ernst &Young Inc..

The company's material elements of their financial position is as follows:

- 100% interest in YeboYethu Investment for an amount of R14.2 billion at carrying value.
- Borrowings of R9.7 billion as disclosed in Note 17.