

Vodacom Group Limited
(Incorporated in the Republic of South Africa)
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Share code: VOD ISIN: ZAE000132577
ADR code: VDMCY ISIN: US92858D2009
("Vodacom Group")

ACQUISITION OF A 55% INTEREST IN VODAFONE EGYPT FROM VODAFONE

1. Introduction

Vodacom Group has entered into a binding agreement to acquire a 55% shareholding in Vodafone Egypt Telecommunications SAE ("Vodafone Egypt") ("the company") ("sale shares") from 2 wholly owned subsidiaries of Vodafone Group Plc ("Vodafone"), being Vodafone International Holdings B.V. (20.11%) and Vodafone Europe BV (34.89%) (collectively, "sellers") for a total equity consideration of US\$2 738 million (the "offer consideration"). 80% of the offer consideration will be settled by the issue of new Vodacom Group shares with the balance being settled in cash (the "proposed acquisition").

2. Nature of business of Vodafone Egypt

A clear market leader

Vodafone Egypt launched services in 1998 and is now the largest mobile network operator in Egypt in terms of revenue and customers with mobile market shares of 43% and 40%, respectively. Vodafone Egypt provides a range of integrated telecommunication services, including mobile and fixed voice, SMS, data and mobile money, to 43.0 million customers, serving both consumer and enterprise customers. For the year ended 31 March 2021, Vodafone Egypt's key growth driver was mobile data revenue which comprised 46% of revenue. The remaining sources of revenue comprises of voice services, financial services, content, other service revenue, fixed line and non-service revenue.

Egypt's mobile market comprises of four players, with Vodafone Egypt as the clear market leader competing with Etisalat, Orange and Telecom Egypt S.A.E ("Telecom Egypt") which is branded WE. Egypt's mobile market is predominantly prepaid, with Vodafone Egypt's customer base comprising of 38 million prepaid customers and 5 million post-paid customers.

Vodafone Egypt pioneered product segmentation in 2014. The company has three headline mobile tariffs: (i) *Red* addressing the high value customers, (ii) *Flex* aimed at the aspiring segment, and (iii) *Fakka* targeting the mass market. A combination of innovative tariffs, a strong brand and network leadership has enabled Vodafone Egypt to secure and sustain a leading market position.

Following Egypt's 2.6GHz spectrum auction in November 2020, Vodafone Egypt has the leading spectrum position in the market. The company's spectrum portfolio comprises of: 2x12.5MHz of 900MHz, 2x10MHz of 1800MHz, 2x20MHz of 2100MHz and 1x40MHz of 2600MHz. This spectrum portfolio and Vodafone Egypt's extensive 4G rollout provides it with a clear network advantage, compared to its peers.

Vodafone Egypt's digital capabilities are supported by self-developed platforms and largely in-sourced IT skills. The company's IT function is supported by several hundred software engineers, which have developed multiple platforms including the Digital eXperience Layer ("DXL"). DXL is a middleware technology that accelerates the deployment of new digital capabilities, de-coupling these from the longer and financially costly upgrade cycles for legacy billing and other systems.

Vodafone Egypt is also the country's largest mobile wallet provider through Vodafone Cash. According to the national telecom regulatory authority Vodafone cash had almost 90% market share of mobile wallet transactions as at August 2021.

Attractive growth outlook

Egypt's appeal as an investment destination is supported by its economic growth outlook, large, young and growing population and structural reform agenda. Despite the impact of the COVID-19 pandemic, Egypt delivered real GDP growth of 3.6% in 2020, and is forecast to deliver real GDP growth of approximately 5% per annum until 2025. Furthermore, the meaningful reduction of Egypt's current account and fiscal account deficits in recent years has improved the country's foreign exchange reserves, better positioning the country to absorb potential global macro volatility. This has supported a stable Egyptian Pound against the US dollar.

The Ministry of Communications and Information Technology's ("MCIT") Digital Egypt agenda has supported strong ICT sector growth with the sector's contribution to Egypt's GDP increasing from 3.2% to 4.4% between 2018 and 2020. Looking ahead, constructive regulation and structural growth drivers such as data demand support a robust growth outlook of 14% CAGR over the next three years for the overall telecom sector, including fixed and mobile, from a base of EGP77 billion in 2021. The mobile segment, serving 100 million customers, accounts for over 80% of the combined mobile and fixed revenues. The mobile market is expected to grow at a 13% CAGR over 2021-24, supported by increased mobile data penetration of approximately 60% and growth in average usage per customer from 2.8 GB per month, highlighting growth opportunities.

Vodafone Egypt's market leadership, supported by its strong brand, spectrum portfolio, network and advanced segmentation positions it well to capture the expected double digit mobile market growth opportunity. Furthermore, the company is well positioned to benefit from incremental growth drivers such as Internet of Things ("IoT"), fixed and financial services. Vodafone Egypt's strong revenue outlook combined with further operational efficiencies, is expected to support EBITDA margin expansion from the 43% achieved for the financial year ended 31 March 2021. As a result, it is expected that Vodafone Egypt will generate strong free cash flow growth into the medium term.

Vodafone Egypt's ownership and dividend policy

Vodafone currently holds a 55% controlling stake in Vodafone Egypt. The company benefits from a long standing and strategic shareholder in Telecom Egypt, the fixed line incumbent, which holds c.45% of its issued shares.

Vodacom Group has committed to Vodafone that it will sign a deed of adherence to the shareholders' agreement with Telecom Egypt. Vodacom Group will have the ability to determine the dividend policy of Vodafone Egypt subject to a minimum payout ratio of 60% of Vodafone Egypt's free cash flow.

3. Summary of Vodafone Egypt's historical financials and key performance indicators

Revenue analysis, March year end	2017	2018	2019	2020	2021	4 year CAGR%	6 months to 30 Sep 2021
Revenue (EGPm)	16 652	20 025	22 891	26 333	28 341	14.2%	16 093
- Of which data	3 497	4 806	6 638	8 953	10 770	32.5%	7 416
KPIs							
Mobile customers (million) ¹	40.9	42.3	39.1	40.2	41.7	0.5%	43.0
- Prepaid (million) ¹	37.9	38.9	35.2	35.8	36.9	(0.7%)	38.0
- Contract (million) ¹	3.0	3.4	3.9	4.2	4.8	12.9%	5.0
Mobile ARPU (EGP)	31.5	34.9	41.9	48.7	50.5	12.5%	55.2
- Prepaid ARPU (EGP)	27.0	30.2	36.4	42.8	44.3	13.2%	47.9
- Contract ARPU (EGP)	94.1	95.6	99.3	99.6	100.7	1.7%	112.1
Mobile ARPU (US\$) ²	2.0	2.2	2.7	3.1	3.2	12.5%	3.5

Revenue analysis, March year end	2017	2018	2019	2020	2021	4 year CAGR%	6 months to 30 Sep 2021
Data active users (million)	12.9	15.0	16.4	18.8	20.6	12.4%	22.2
Data usage/ active user (GB per month)	1.0	1.3	1.6	2.2	2.8	30.3%	3.4
Fixed customers (million)	0.3	0.4	0.5	0.7	0.9	31.6%	0.9

1 Based on total closing customers
2 Based on average EGP/US\$ exchange rate from 1 April 2020 to 31 March 2021 of EGP15.80 per US\$

EGP million, March year end	2019	2020	2021	2 year CAGR %	6 months to 30 Sep 2021
Revenue	22 891	26 333	28 341	11%	16 093
% Growth	14%	15%	8%	nm	17%
EBITDA ¹	9 975	11 929	11 922	9%	7 027
% Margin	44%	45%	42%	nm	44%
Net profit	5 579	5 818	5 335	(2%) ²	3 292
Capital expenditure	(3 963)	(4 437)	(4 789)	10%	(2 522)
% of Revenue	17%	17%	17%	Nm	16%
Operating free cash flow	6 206	7 136	7 434	9%	3 693
% Margin	27%	27%	26%	Nm	23%
% Cash flow conversion	62%	60%	62%	Nm	53%
Net cash/(debt) (excl. leases)	(1 279)	2 086	(4 766)	Nm	(11 748)
Net debt (excl. leases) /EBITDA	0.1x	(0.2x)	0.4x	Nm	0.8x

1 2019 prepared on an IAS 17 basis. 2020, 2021 and 1H2022 prepared on and IFRS 16 basis in respect of lease accounting
2 Impacted by a once off gain in 2020 and COVID impact in 2021

The net asset value attributable to Vodafone Egypt as at 31 March 2021 was EGP16 690 million with profit after tax for the year ended 31 March 2021 of EGP5 335 million. This information has been extracted from the unpublished management accounts.

The management accounts have been prepared in accordance with IFRS.

This financial information has not been reviewed nor reported on by Vodacom Group's external auditors.

4. Rationale for the proposed acquisition

The proposed acquisition presents a unique opportunity to advance Vodacom Group's strategic connectivity and financial services ambitions in Africa by acquiring a controlling interest in Vodafone Egypt, one of Africa's premier telecom operators. Vodafone Egypt is a clear market leader, strategically positioned to capture growth in a fast-growing Egyptian ICT market. It is expected to diversify and accelerate Vodacom Group's medium-term operating profit growth potential into double digits. We intend to provide an update on our medium-term targets at our full year results ended 31 March 2022, which will be reported in May 2022.

Vodafone Egypt is a high quality asset, with 43% mobile revenue market share and a clear network leadership position supported by a comprehensive spectrum portfolio, the highest density network and a scalable IT platform. Vodafone Egypt has a proven track record of consistently delivering strong revenue growth, evidenced by a 14% revenue CAGR during the FY17-21 years, while its future growth potential is underpinned by a broad range of fundamental sector and company specific drivers. In addition to a track record of revenue growth, Vodafone Egypt generates attractive margins and strong free cash flow. Despite COVID-19 related subdued economic demand, Vodafone Egypt delivered 8% revenue growth for the financial year ended 31 March 2021, and EBITDA and operating free cash flow margins of 42% and 26%, respectively.

For the six month period ended 30 September 2021, revenue and EBITDA growth accelerated to 17% and 29%, respectively.

Vodafone Egypt's financial profile and prospects provide a compelling opportunity for Vodacom Group to diversify and accelerate its growth in a single transaction. Its interest in Vodafone Egypt would have contributed approximately 15% of its earnings based on Vodacom Group's attributable earnings to equity shareholders as reported in its audited consolidated annual financial results for the year ended 31 March 2021. Additionally, with Vodafone Egypt in the portfolio, Vodacom Group's network reach would span across 37 000 network sites, making it one of Africa's largest tower owners.

Following the proposed acquisition, Vodacom Group will cover a population of more than 500 million and more than 40% of Africa's GDP, across the Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Lesotho, Mozambique, South Africa and Tanzania. Significantly, Vodacom Group is the market leader across all the markets in which it operates, supporting attractive Return on Capital Employed ("ROCE"). Notably, Vodafone Egypt generated a ROCE in excess of 30% for the financial year ended 31 March 2021.

In addition to being an attractive asset on a standalone basis, Vodacom Group sees scope to create significant value by scaling Vodacom Group's multi-product strategy, which Vodacom refer to as the System of Advantage into Egypt. A key element of our System of Advantage is financial services. With more than 80% of Egypt's 100 million population unbanked, Vodacom Group sees a compelling addressable market opportunity for Vodafone Egypt and scope to leverage Vodacom Group's financial services platforms, (*inter alia*, MPesa Roadmap, VodaPay and VodaSure products), global partnerships and best practices.

In addition to financial services, Vodacom Group sees attractive synergy potential from combining Vodafone Egypt's software factory with Vodacom Group's existing big data capabilities, closer cooperation in scaling pan-African enterprise and IoT solutions, enabling the proliferation of digital services through a platform approach, and also talent sharing. As Vodacom Group evolves from a telco to a techco, access to skilled talent is critical with Vodafone Egypt being an excellent source.

Vodacom Group has no intention of expanding its geographic footprint post the proposed acquisition.

5. Structure and offer consideration

Vodacom Group will acquire a 55% shareholding in Vodafone Egypt from the sellers for an equity purchase consideration of US\$2 738 million. Based on Vodacom Group's effective share of the net debt (excluding lease liabilities) of Vodafone Egypt of US\$412 million as at 30 September 2021, this implies a value of US\$3 150 million on a debt, cash free basis ("enterprise value").

The offer consideration implies an enterprise value/ EBITDA multiple for the twelve months ended 30 September 2021 of 6.8x. For illustrative purposes only, by doubling the EBITDA for the six months ended 30 September 2021, the offer consideration would imply an enterprise value/ EBITDA multiple of 6.5x. Given Vodafone Egypt's strong market position, growth, EBITDA margins and cash generation, Vodacom Group believes that these multiples are attractive relative to Vodafone Egypt's peers.

80% of the offer consideration will be settled by the issue of 242.0 million new Vodacom Group shares at an issue price of R135.75 per 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 60.5% to 65.1%. The Johannesburg Stock Exchange ("JSE") has taken note that Vodacom Group's JSE defined free float will be below 20% as a result of Vodafone's increased ownership and has indicated that it has no objection to the reduced free float given the adequacy of Vodacom Group's current liquidity on the JSE. Vodafone confirms that it has no current intention to dispose of any of its shares in Vodacom in the market to increase Vodacom's free float. Furthermore, should

Vodafone form a firm intention to undertake an on-market disposal prior to the 1st anniversary of the closing date, then Vodafone has agreed that it will consult with Vodacom Group regarding the potential disposal as regards process and timing thereof. In addition, Vodafone will consult and collaborate with Vodacom Group on the allocation methodology and principles applicable thereto. The decision to undertake and implement a disposal will remain in the sole discretion of Vodafone.

The remaining US\$548 million will be settled in cash.

Any move in the net debt and agreed working capital of Vodafone Egypt between signing and closing will be adjusted for in accordance with the Share Purchase Agreement ("SPA"). These adjustments will impact the cash consideration and not the number of shares to be issued.

Vodafone will be entitled to the cash generated by Vodafone Egypt between signing and closing. Vodafone will not be entitled to receive the interim dividend for the new Vodacom shares but will be entitled to the pro rata share of Vodacom Group's final dividend for the financial year ended 31 March 2022 with regard to the new Vodacom shares that it will receive for the period between closing and the ex date of the dividend.

The initial cash consideration will be settled via the draw down of a bridge facility which will be put in place ahead of closing. Vodacom Group is currently evaluating an appropriate hedging strategy together with various debt funding options including bank debt and, potentially, ZAR denominated bonds to refinance the bridge facility.

As contemplated in the shareholder's agreement with Telecom Egypt, the sellers have a right to transfer their shareholding within the broader Vodafone Group without triggering a right of first refusal or tag along rights in favour of Telecom Egypt. There are minority shareholders holding in aggregate c.0.05% of Vodafone Egypt's issued shares, who shall be entitled to participate in a mandatory tender offer if Vodacom Group does not obtain an exemption from Financial Regulatory Authority in Egypt ("FRA").

6. **Change in Vodacom Group's dividend policy**

Vodacom Group's current dividend policy is to pay at least 90% of adjusted headline earnings, which excludes the contribution of the attributable net profit or loss from Safaricom and any associated intangible amortisation. In addition, Vodacom Group distributes any dividend it receives from Safaricom, up to a maximum amount of the dividend received, net of withholding tax. Subject to Board approval, this policy will be maintained for the remainder of the current financial year, and until the proposed acquisition is completed.

The proposed acquisition provides a compelling opportunity to accelerate our System of Advantage and Vodacom Group's growth profile. Mindful that this proposed acquisition will utilise debt capacity and while also wanting to retain headroom to invest into growth areas, the Board considered it appropriate to review the current dividend policy.

On completion of the Vodafone Egypt acquisition, Vodacom Group intends to amend and simplify its dividend policy to at least 75% of Vodacom Group headline earnings. The simplified policy and proposed acquisitions combine to provide a high pay-out on enhanced growth prospects. Notwithstanding the change in dividend policy, Vodacom Group will still have one of the highest dividend pay-out policies on the JSE. Additionally, the policy provides scope for Vodacom Group

to invest within its existing 13.0%-14.5% capital intensity target, de-lever and accommodate the upstreaming and dividend pay-out profiles of Safaricom and Vodafone Egypt.

7. **Conditions precedent**

The closing is conditional on the fulfilment or waiver of a number of suspensive conditions, including but not limited to:

- Vodacom Group shareholders, other than Vodafone and its associates, as defined in the JSE Listings Requirements approving the proposed acquisition by means of an ordinary resolution as a related party transaction as contemplated in section 10 of the JSE Listings Requirements;
- Vodacom Group shareholders approving:
 - 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
 - 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;
- the receipt of the approval of the proposed acquisition in writing from the Financial Surveillance Department of the South African Reserve Bank;
- the JSE having approved a listing of the new Vodacom Group shares on the JSE with effect from the effective date;
- Vodacom Group procuring approval of the National Telecom Regulatory Authority of Egypt (“NTRA”) for the transfer of the sale shares (i) from the sellers to Vodacom Group and (to the extent required by the NTRA) any other shares pursuant to the mandatory tender offer;
- Vodacom Group obtaining
 - the exemption; or
 - in case an offer is required to be made, the preliminary approval by the FRA in relation to the offer.

No competition approval is required in Egypt or South Africa with only a post closing notification required in Egypt.

The proposed acquisition is expected to close before 31 March 2022.

8. **Warranties and indemnities and Vodafone Egypt articles of association**

The SPA includes warranties and indemnities normal for a transaction of this nature.

The articles of association of Vodafone Egypt will neither frustrate nor relieve Vodacom Group’s compliance with the JSE Listings Requirements.

9. **Shareholder support**

Vodacom Group has received an irrevocable undertaking to vote in favour of the proposed acquisition from YeboYethu Investment Company (RF) Proprietary Limited which owns 6.2% of the Vodacom Group shares in issue and 15.8% of the Vodacom Group shares in issue outside those held by Vodafone. Vodacom Group has also received an in-principle letter of support to

vote in favour of the proposed acquisition from Public Investment Corporation (“PIC”) which owns 14.3% of the Vodacom Group shares in issue and 36.1% of the Vodacom Group shares in issue outside those held by Vodafone as at the date of their letter. The PIC’s in-principle support is subject to it conducting an assessment and evaluation process upon receipt of the circular to be distributed to Vodacom Group shareholders.

10. Transaction categorisation and fairness opinion

The independent committee has appointed an independent expert, PricewaterhouseCoopers Corporate Finance Proprietary Limited (“PwC”), to provide a fairness opinion on the proposed acquisition. PwC have provisionally indicated that the proposed acquisition is fair and reasonable to the minority shareholders. Their final opinion will be included in the circular to be distributed to shareholders.

The proposed acquisition is classified as a Category 2 transaction in terms of the JSE Listings Requirements.

A circular containing details of the proposed acquisition, together with the fairness opinion, and a notice of general meeting will be posted to Vodacom Group shareholders in due course.

11. Investor and analyst conference call

Vodacom Group will host a conference call at 16:00 (SA time), 14:00 (London time) and 09:00 (New York time) today, 10 November 2021 to discuss the proposed acquisition. For conference call details please email vodacomir@vodacom.co.za.

Midrand

10 November 2021

Financial advisor and lead transaction sponsor
UBS South Africa (Proprietary) Limited

Independent expert
PricewaterhouseCoopers Corporate Finance Proprietary Limited
Legal advisor
ENS Africa Incorporated

Joint transaction sponsor
Vunani Sponsors Proprietary Limited