YEBOYETHU

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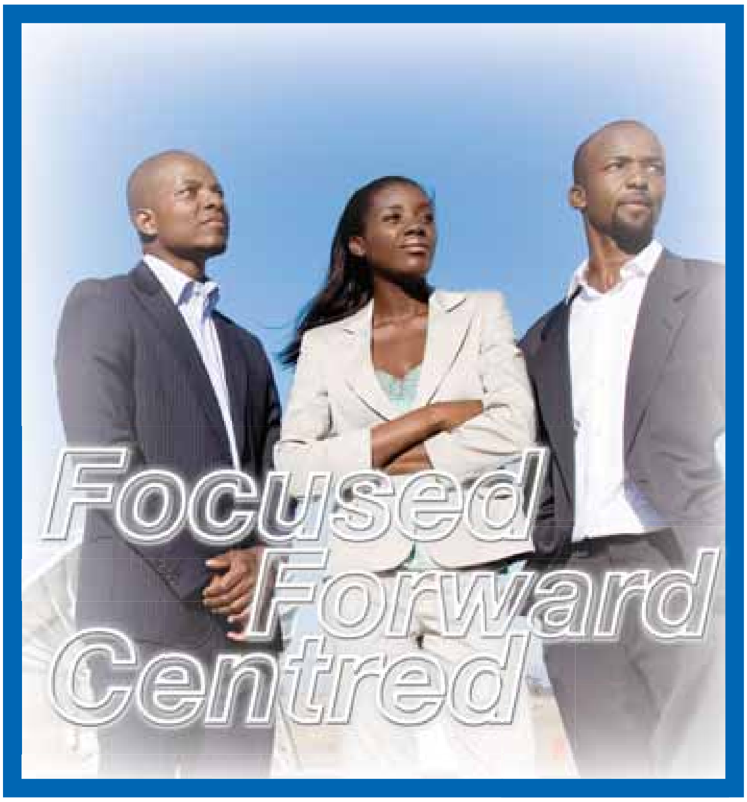



# Annual Report 2010

# YEBOYETHU LIMITED

Registration number 2008/014734/06

## Annual Report 2010

## Contents

# Chairman's report

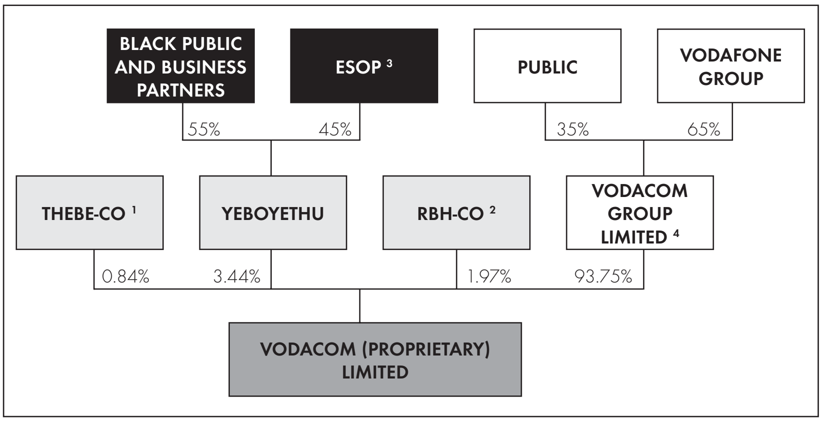
for the year ended 31 March 2010

### Introduction

This is the second annual report to the shareholders of YeboYethu Limited ('YeboYethu'), covering the year ended 31 March 2010. YeboYethu's sole asset is its 3.44% stake in Vodacom (Proprietary) Limited ('Vodacom SA'), and YeboYethu does not conduct any business outside of holding this stake. This Chairman's statement therefore reviews the performance, strategy and outlook for Vodacom SA.

### YeboYethu overview

The structure of YeboYethu is as follows:




*1 Thebe Investment Corporation (Proprietary) Limited*
*2 Royal Bafokeng Holdings (Proprietary) Limited*
*3 YeboYethu Employee Participation Trust ('ESOP')*
*4 Listed on the JSE Limited*

Vodacom SA and Vodacom Group Limited ('Vodacom Group') are not the same entity. Vodacom SA relates solely to Vodacom's South African operations. In addition to these South African operations, Vodacom Group has operations in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo, and the Gateway business that operates in 22 countries. YeboYethu shares in Vodacom SA are therefore not interchangeable with Vodacom Group shares and there is no direct correlation between the value of the shares of these two companies.

# Chairman's report

for the year ended 31 March 2010

Unlike the Vodacom Group shares listed on the JSE, YeboYethu shares held by black public shareholders carry certain restrictions and may not be traded for the first five-year period and can only be sold to other broad-based black economic empowerment ('BBBEE') investors (with credentials that are the same or better) in the second five years. Unrestricted trading in the shares will only become possible after this ten-year period, at which time a market price for the shares will be established through an 'over the counter' mechanism.

It is important to understand the different terms that apply to YeboYethu shareholders depending on whether you are a Vodacom business partner or a member of the public investing in your personal capacity (public shareholder), or alternatively a Vodacom employee represented by the ESOP (employee shareholder). The YeboYethu website provides relevant and detailed information to shareholders in this regard. If you are unable to access the website, you may contact the YeboYethu call centre for assistance.

**Internet address: www.yeboyethu.co.za**

**Email us at: yeboyethu@computershare.co.za**

Call Centre: 086 110 0918

**Vodacom SA performance**

Vodacom SA delivered a robust performance with service revenue up 7.1% to R44 040 million and earnings before interest, taxation, depreciation and amortisation ('EBITDA') up 13.6% to R18 524 million, reflecting the increasing contribution of data revenue on the other hand and success in containing operating costs. Data revenue increased 32.6% to R4 363 million due to higher penetration of mobile PC connectivity and mobile internet usage, with data connectivity customers increasing 42.3% to 1.1 million and overall active data users increasing 29.1% to 6.2 million.

Customer numbers declined 4.9% to 26.3 million as a result of a 1.9 million reduction in prepaid customers following the implementation of RICA. Contract customer growth remained strong, up 14.0% to 4.5 million. Gross connections per month have improved steadily from approximately 260 000 in August 2009 to approximately 724 000 in March 2010 and more than 11 million customers have been registered by year end. Now customer registration together with focused loyalty programmes have resulted in a further reduction in churn from 40.1% to 38.4%.

Prepaid average revenue per user per month ('ARPU') remained flat at R70 largely as a result of a 5.8% increase in minutes of use to 55 minutes, offset by lower tariffs. Contract ARPU declined 5.7% due to the successful conversion of prepaid customers to lower-end contract packages, and reduced out of bundle spend resulting in a 8.3% reduction of minutes of use to 220 minutes. Focused price promotions reduced the average effective price per minute of mobile calls by 7.7% which in turn supported traffic growth of 9.4%.

During the year under review, Vodacom Business continued to build its presence in the enterprise market, signing contracts totalling more than R800 million with some of South Africa's largest companies. In conjunction with Vodafone Global Enterprise, Vodacom Business also secured major global contracts. Vodacom Business, which now has more than 200 enterprise customers, launched 15 new products during the year and offers a complete portfolio including outsourced network and internet service provider ('ISP') services, as well as managed hosting services.

Vodacom SA continued to make substantial investments in its network, particularly to enhance quality and support the 58.4% growth in data traffic. Capital expenditure of R4 573 million was largely allocated to adding a further 462 3G base stations, increasing base station capability to 14.4 Mbps across the network, completing the metro fibre rings and upgrading the radio network.

# Chairman's report

for the year ended 31 March 2010

Peak mobile termination rates ('MTRs') were reduced by an initial 28.8% from 1 March 2010 and the regulator is currently in the process of consultation on further rate cuts. Despite the negative net impact on Vodacom SA's revenue from lower MTRs, it has responded to affordability concerns by reducing effective call rates. To mitigate the impact of lower MTRs, Vodacom SA has implemented various cost efficiency programmes which have contributed partly to the expansion of the EBITDA margin from 33.8% to 36.8% in this year.

**Strategy and outlook**

In the 12 months to March 2010, Vodacom SA executed in accordance with the overall Vodacom Group strategy. The key relevant components of this are to grow the core mobile business, to drive leadership in broadband, and to develop converged information and communications technology ('ICT') solutions. These strategic pillars will remain the focus for Vodacom SA into 2011, underpinned by a renewed focus on efficient and lean operations.

In the year ahead, Vodacom SA will aim to increase usage through the roll-out of new offerings that deliver better value to customers. It is expected that there will be a strong uptake in mobile data and broadband services, with data usage penetration amongst active customers at approximately 26%. With respect to the converged data business, the completion of fibre rings in all of the major cities in South Africa, the launch of Metro Ethernet in key urban areas and the enhanced product offerings will all provide a good basis from which to increase our share of the enterprise ICT market.

Cost management will be a focus for Vodacom SA, as a necessary response to increasing pressure to reduce MTRs and tariffs. Vodacom Group is targeting R0.5 billion in cost savings in the 2011 financial year from areas including distribution, sponsorships and network optimisation. The majority of these savings are expected to come from Vodacom SA.

Capital expenditure of R5.1 billion has been approved for Vodacom SA for the 2011 financial year. This expenditure will focus on accelerating mobile broadband coverage and self-provisioning of transmission to improve the quality of service and support, combined with growth in the data and enterprise businesses.

Despite the growth opportunities created during the year, Vodacom SA is likely to be affected by the continued competitive and regulatory pressures facing Vodacom Group as a whole that are expected to limit revenue growth in the medium term to below current levels. However, Vodacom SA is expected to benefit from the overall focus on operational delivery that is expected to drive continued margin improvement.

**Valuation of Vodacom SA option asset**

The Vodacom SA option asset is the only material asset of YeboYethu, and the valuation adjustment the only material income statement item recorded and disclosed in the annual financial statements of YeboYethu. After recording an initial fair value gain of R602 million, being the difference between the fair value and the value paid by shareholders, in the previous year, a loss of R90 million has been recorded in the current year. This resulted, in an oveall net fair value gain of R512 million since inception and translates to a value per share of R33.03 (2009: R36.45)*. The reasons for the decrease in the fair value versus the previous year largely relate to lower profits than previously forecasted in the prior year valuation, giving the impact of reduced interconnection rates and anticipated lower tariffs.

It is, however, important to consider that Vodacom's BBBEE transaction is a long-term investment, which through substantial financing provided by Vodacom SA has lowered the investment level for individual investors. This vendor finance is a cashless funding mechanism, where Vodacom SA funded the difference between the amount paid and the initial value of the Vodacom SA shares less the initial 10% discount. The notional vendor finance structure carries notional (cashless) interest at 10% per annum. The notional vendor finance structure is reduced by notional (cashless) dividends on the Vodacom SA 'A' shares so as to reduce the notional annual funding. Once the notional vendor finance has been settled, the balance of Vodacom SA shares held by YeboYethu in Vodacom SA are freely held. Shareholders will appreciate that certainty cannot be guaranteed in a volatile environment.

(*) The value per share was calculated using the following formula: Vodacom SA option asset value/shares in issue (ordinary shares and 'N' ordinary shares).

# Chairman's report

for the year ended 31 March 2010

## Dividend

YeboYethu recorded a net loss of R63 million for the year ended 31 March 2010 mainly attributable to the adjustment of the fair value gain. YeboYethu received a dividend of R18 million from Vodacom SA. After the deduction of administrative costs, I am pleased to advise shareholders that the YeboYethu Board declared and approved an annual ordinary dividend of 77 cents and a special dividend of 33 cents per share.

The ordinary dividend represents a dividend received from Vodacom SA on normal earnings. The special dividend represents an additional dividend, which is not expected to recur.

## Human capital

Vodacom SA conducted its first people survey in October 2009. The survey gave employees the opportunity to share their views on a number of issues within the company and the functional area in which they work. The survey response rate was 80%, which is an excellent achievement in the first year of such an undertaking and provides a good statistical base.

The survey measured engagement, a combination of pride, loyalty and motivation. The topics covered included leadership, innovation, customer focus, collaboration, reward and recognition. The results of the survey are compared to those in other high-performing organisations and the goal is for Vodacom SA to meet and then exceed the standards set by other organisations.

The strengths highlighted by the survey include the communication of the strategic direction of the business, and giving a clear understanding of the high performance standards expected of employees and of the training opportunities given to help meet these standards. Overall, employees felt proud to be associated with Vodacom SA as a successful business with good values. Areas for improvement included career planning and management coaching.

The results of the survey were communicated to all employees. The priorities highlighted by this process feed into departmental action plans and have been consolidated into an overall action plan.

In addition to receiving feedback via the people engagement survey, Vodacom SA also actively supports formal employee representation platforms.

## Skills development

In the year under review, Vodacom SA invested R94 million in skills development (of which R72 million was invested in black employees in South Africa; R38 million on black women), an increase of 7% on the prior year and equivalent to 3.1% of payroll in terms of BBBEE and well above the 1% spend required by the Skills Development Levies Act.

In partnership with the Information Systems, Electronics and Telecommunications Technologies Sector Education Training Authority ('ISETT SETA'), Vodacom SA contributed in the enhancement of skills for the Information communications technology industry by hosting 381 learners and interns during the year.

With respect to establishing an ongoing pipeline of new talent into the business, Vodacom SA's External Bursary Scheme ('VEBS') sponsors high-achieving students from previously disadvantaged backgrounds to study engineering and IT at various South African universities. During the year VEBS had an intake of 50 candidates.

In total, Vodacom SA currently supports 768 students via bursaries. The number of bursaries granted by Vodacom SA has increased 50% over the past two years.

The Graduate Programme for Females in Technology ('GPFT') has progressed well since its inception in 2006. Thus far, retention has been excellent with 95% of the participants in the programme remaining at Vodacom SA. The success of GPFT has led Vodacom SA to expand the scope of the programme, now called Discover, and provide both male

# Chairman's report

for the year ended 31 March 2010

and female candidates with a three-year opportunity to gain practical exposure to various areas within Vodacom SA's business. Altogether 23 participants entered the Discover programme during the year.

The Young Achievers Programme, which aims to help candidates acquire business and leadership acumen at an early stage of their careers, continues to be fully subscribed. A total of 38 candidates entered the programme this year.

Vodacom SA offers all employees including contractors, access to its Virtual Learning Centre which provides a comprehensive range of courses via the workstation. In the year under review, 15 366 courses were accessed via the Virtual Learning Centre.

A key platform for developing Vodacom SA's executive pipeline is the Vodacom Advanced Executive Programme ('VAEP'), which was launched in 2003 in partnership with universities. Altogether 19 delegates completed the programme in the 2010 financial year.

**Empowerment**

Vodacom embraces the furthering of empowerment and diversity within the organisation as vital to the ongoing success of the business. This commitment and the actions Vodacom has taken thus far were recognised in the Financial Mail's survey of Top Empowerment Companies listed on the JSE, which was published in April 2010. Vodacom Group was ranked first for empowerment amongst listed telecommunications companies, showing clear leadership in skills development and enterprise development. One of the key areas highlighted by the survey for improvement was the level of participation by designated groups, particularly black women, in management positions.

Vodacom SA has consistently demonstrated a commitment to the promotion of truly broad-based empowerment. In its first year of operation, Vodacom SA invested in the South African Government's Joint Economic Development Programme, making the R1 billion investment well ahead of the ten year deadline. This year Vodacom SA spent more than R1.3 billion in excess of its cumulative target to support enterprise development. Through the provision of support in the form of training, advertising and even office space, entrepreneurs across the country have been given a platform to build their businesses. These businesses in turn help to drive economic growth, which in the long-term creates more customers for Vodacom SA. Vodacom Group's intention is to continue to support true broad-based empowerment initiatives.

Vodacom SA's independently assessed BBBEE scorecard has shown continued improvement with the overall score increasing from 68.4% last year to 69.6% this year. Vodacom SA is ranked as a Level 4 contributor.

Vodacom SA's approach to empowerment and diversity goes beyond simply complying with those items measured in rankings and scorecards. One of the biggest contributions to empowerment that the telecommunications industry as a whole can make is to promote access to communications for all people, especially those in the lowest income groups.

***Employment equity***

A total of 68% of new appointments during the year were black candidates, bringing overall black representation in Vodacom SA to 70%.

***Preferential procurement***

Increasing the presence of black suppliers in the supply chain is one of the aims of Code 500 of the DTI's Codes of Good Practice. Vodacom SA's internal target for preferential procurement is increasing annually, driving spend towards smaller entities. R547 million of this spend was directed to Qualifying Small Enterprises ('QSE') and Exempted Micro Enterprises ('EMEs') R488 million of 51% black-owned businesses and R76 million to 30% black-owned women businesses. Some 81% of procurement spend is with locally based suppliers.

# Chairman's report

for the year ended 31 March 2010

Due to the fact that much of Vodacom SA procurement spend is on specialised and often expensive equipment not available in South Africa, directing procurement towards local suppliers remains a challenge. Vodacom SA aims to remedy this by improving skills, and providing opportunities for local BBBEE companies to provide inputs that are normally imported. Vodacom SA is also working to increase the proportion of registered BBBEE suppliers.

***Enterprise development***

Vodacom SA meets the requirements of a Level 1 contributor to BBBEE in the enterprise development pillar (scoring 15 out of 15), through discounts offered to its community services telephone operators ('CSTOs') of more than R292 million in the financial year. CSTO's, which are setup in converted shipping containers, earn 50% of the total margin on community services airtime sales.

The initial investment for a new CSTO has been reduced from R3 500 to only R800, resulting in a substantial increase in new entrepreneurs. There are now over 133 000 community services public phone services through 4 000 containers and other retail outlets, such as rural and township spaza shops.

Since 2000, the Vodashop retail franchisee model has changed to require that all new franchisees should be at least 51% black-owned, and that all existing owners seeking to acquire additional shops now have to take on a black partner. In consequence, the Vodashop franchisees are steadily transforming, with 57% now 100% black-owned, 1.6% at the 50% black-owned level and 2.3% at the 25% black-owned level. These stores receive support in a variety of forms including training, rental support, shopfitting and advertising.

During the 2010 financial year, the number of black-owned wireless application service providers grew to 18 from four in the previous year. Vodacom SA is aiming for a growth rate of 15% for 2011, following a 12% growth rate in black-owned WASPs this year.

**Appreciation**

In closing, I extend the Board's appreciation to the team at Vodacom SA for delivering a solid performance for the financial year ended 31 March 2010 amidst industry and economic challenges. To my fellow Board members, I express a special word of thanks for their dedication and counsel during the year. To each of our shareholders, thank you for your support.

**ZARINA BASSA**

# Statement of responsibility by the board of directors

for the year ended 31 March 2010

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of YeboYethu Limited ('the company').

The financial statements have been audited by the independent auditing firm Deloitte & Touche which was given unrestricted access to all financial records and related data, including minutes of meetings of shareholders, the board of directors and committees 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 financial statements for the year ended 31 March 2010 presented on pages 10 to 30 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and the Companies Act, 1973 of South Africa, as amended. They are based on appropriate accounting policies which have been consistently applied, and which are supported by reasonable and prudent judgements and estimates. The going concern basis has been adopted in preparing these financial statements. The directors have no reason to believe that the company will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The directors are also responsible for the company's system of internal controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements and to adequately safeguard, verify and maintain accountability of assets. These controls are monitored throughout the company 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 financial statements were approved by the board of directors on 10 May 2010 and are signed on its behalf:

**ZBM BASSA**
CHAIRPERSON

**MS AZIZ JOOSUB**
DIRECTOR

# Certificate by the company secretary

In terms of section 268G(d) of the Companies Act, 1973, as amended, I certify that, to the best of my knowledge and belief, YeboYethu Limited has lodged with the Registrar of Companies for the financial year ended 31 March 2010, all such returns as are required of a public company and that all such returns are true, correct and up to date.

**SF LINFORD**
COMPANY SECRETARY
10 May 2010

# Independent auditor's report to the members of YeboYethu Limited

We have audited the annual financial statements of YeboYethu Limited, which comprise the directors' report, the statement of financial position as at 31 March 2010, and the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 10 to 30.

**Directors' responsibility for the financial statements**

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements, represent fairly in all material respects the financial position of YeboYethu Limited as at 31 March 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and in the manner required by the Companies Act of South Africa.

**Deloitte & Touche**
Per DF Crowther
Registered Auditor
Partner

10 May 2010

# Directors' report

for the year ended 31 March 2010

The directors have the pleasure of presenting their report, which forms part of the audited annual financial statements, for the year ended 31 March 2010.

## 1. Nature of business

YeboYethu Limited was incorporated on 19 June 2008 under the laws of the Republic of South Africa. The principal activities of YeboYethu Limited are to:

(a) carry on business of holding only Vodacom (Proprietary) Limited ('Vodacom SA') ordinary shares and 'A' ordinary shares, cash and such assets as are received and acquired solely by virtue of or in relation to the holding of Vodacom SA ordinary shares and 'A' ordinary shares; and

(b) receive and distribute dividends and other distributions in terms of its holding in Vodacom SA.

There have been no material changes to the nature of the company's business from the prior period.

## 2. Financial results

Loss before taxation for the year was R76.7 million (profit before taxation for the ten month period ended 31 March 2009: R615.5 million).

Net loss for the year was R62.6 million (net profit for the ten month period ended 31 March 2009: R529.1 million).

This was mainly attributable to the decrease in the Vodacom SA option asset. The reasons for the decrease in value relate to a lower amount of profits forecast compared to the prior year valuation as a resulted of reduced interconnection rates and anticipated lower mobile traffic.

Cash on hand for the year was R11.8 million with R6.2 million invested with Vodacom Group Limited ('Vodacom Group') at money market rates (ten month period ended 31 March 2009: R6.2 million, and R7.3 million with Vodacom Group).

Further information on the performance and financial position of the company is presented in the annual financial statements and notes thereto.

## 3. Dividends

### 3.1 Dividend distributions

An ordinary dividend of 77 (seventy-seven) cents and a special dividend of 33 (thirty-three) cents (2009: 45 (forty-five) cents) per ordinary share were proposed and approved by the board of directors.

| | 2010<br>R000 | 2009<br>R000 |
|---|---|---|
| Final dividend declared 10 May 2010 | **15 840.0** | – |
| Final dividend declared 11 May 2009 | **–** | 6 480.0 |

The final dividend declared on 11 May 2009 was paid on 15 June 2009.

### 3.2 Dividend policy

The company has a policy to pay so much of its after taxation profits as will be available after retaining such sums and repaying such debts owing to third parties as shall be necessary to meet the required costs reflected in the budget, as a final dividend each year.

## 4. Share capital

Full details of the authorised and issued share capital of the company are contained in Note 12 of the annual financial statements.

The authorised and issued share capital remained unchanged during the year under review.

As discussed in the Prospectus, shareholders will be requested at the forthcoming Annual General Meeting ('AGM') to be held on 29 July 2010 to confer a general authority on directors and the company to repurchase shares in the company. This is to assist the executors of deceased shareholders in winding up their estates.

# Directors' report

for the year ended 31 March 2010

**5. Other matters**

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the annual financial statements, which significantly affected the financial position of the company at 31 March 2010 and the results of its operations and cash flows for the year ended.

**6. Directors and secretary**

There was no change in the directorate and secretary during the year under review. Mr SM Radebe was appointed as a director subsequent to year end on 10 May 2010. The directors and secretary as at date of this report are as follows:

| | In office 31/03/2009 | Resignations | Appointments | In office 10/05/2010 |
|---|---|---|---|---|
| **Directors** | ZBM Bassa (Chairman) | | | ZBM Bassa (Chairman) |
| | MS Aziz Joosub | | | MS Aziz Joosub |
| | D Konar | | | D Konar |
| | PB Matlare | | | PB Matlare |
| | | | 10 /05/2010 | SM Radebe |
| | CT Ralebitso | | | CT Ralebitso |
| **Secretary** | SF Linford | | | SF Linford |

In terms of the articles of association, Mr SM Radebe, who was appointed since the last annual general meeting, must retire at the forthcoming annual general meeting and Messrs MS Aziz Joosub and PB Matlare retire by rotation and being eligible, all directors are available for re-election at the annual general meeting held on 29 July 2010.

The abridged CV's of the directors and the abridged CV received from Mr TC Lefera, a shareholder, who has nominated himself as a candidate for appointment to the Board, appear on pages 31 and 32.

**7. Address**

**Registered office:** Vodacom Corporate Park
082 Vodacom Boulevard
Vodavalley
Midrand
1685

**Postal address:** Private Bag X9904
SANDTON
2146

**8. Auditors**

Deloitte & Touche has been appointed as the auditors and will continue in office in accordance with Section 270(2) of the Companies Act, 1973 of South Africa, as amended.

**9. Audit committee**

The company, in line with section 270A(f) of the Companies Act, 1973 of South Africa, as amended ('the Act'), is required to have an Audit Committee.

The Audit Committee meets in terms of formal mandates and deals with all issues as prescribed by the Act.

The Audit Committee is satisfied that:

- All functions were performed as per the charter of the Audit Committee;
- The committee has satisfied itself that the external auditor of the company is independent as defined by the Act;
- The committee, in consultation with Vodacom management, agreed to the audit fee for the 2010 financial year;
- All non-audit services performed by the external auditor were considered and approved by the committee; and
- The committee has reviewed the performance of the external auditor and nominated, for approval at the AGM, Deloitte & Touche as the external auditor for the 2011 financial year.

The committee has evaluated the annual financial statements for the year ended 31 March 2010 and considers that it complies, in all material aspects, with the requirements of the Act and International Financial Reporting Standards. The committee has therefore recommended the annual financial statements for approval to the board. The board has subsequently approved the annual financial statements.

# Income statement

for the year ended 31 March

| | Notes | 2010 R000 | Period since incorporation to 31 March 2009 R000 |
|---|---|---|---|
| Income | 3, 16 | **18 381.5** | 6 400.6 |
| Expenses | 4 | **(5 339.6)** | (1 176.5) |
| **Operating profit** | | **13 041.9** | 5 224.1 |
| Finance income | 5, 16 | **457.2** | 7 982.6 |
| Finance cost | 6 | **(0.4)** | (0.4) |
| (Loss)/gain on remeasurement of financial instruments | 7 | **(90 226.7)** | 602 286.5 |
| **(Loss)/profit before taxation** | | **(76 728.0)** | 615 492.8 |
| Taxation | 8 | **14 154.8** | (86 375.9) |
| **Net (loss)/profit** | | **(62 573.2)** | 529 116.9 |
| **Comprehensive (loss)/income** | | **(62 573.2)** | 529 116.9 |

# Statement of financial position

as at 31 March

| | Notes | 2010 R000 | 2009 R000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **873 898.8** | 962 466.5 |
| Financial asset | 9 | **872 060.6** | 962 287.3 |
| Deferred taxation | 8 | **1 838.2** | 179.2 |
| **Current assets** | | **18 219.7** | 13 422.1 |
| Accounts receivables | 10 | **6 247.2** | 7 265.8 |
| Taxation receivable | | **185.0** | – |
| Cash and cash equivalents | 11 | **11 787.5** | 6 156.3 |
| **Total assets** | | **892 118.5** | 975 888.6 |
| **Equity and liabilities** | | | |
| Share capital | 12 | **0.2** | 0.2 |
| Ordinary share premium | 13 | **359 999.9** | 359 999.9 |
| Retained earnings | | **460 063.7** | 529 116.9 |
| **Total equity** | | **820 063.8** | 889 117.0 |
| **Non-current liability** | | **71 688.4** | 84 320.1 |
| Deferred taxation | 8 | **71 688.4** | 84 320.1 |
| **Current liabilities** | | **366.3** | 2 451.5 |
| Accounts payable | 14 | **366.3** | 2 450.9 |
| Taxation payable | | **–** | 0.6 |
| **Total equity and liabilities** | | **892 118.5** | 975 888.6 |

# Statement of changes in equity

for the year ended 31 March

| | Share capital R000 | Ordinary share premium R000 | Retained earnings R000 | Total equity R000 |
|---|---|---|---|---|
| Balance at incorporation | – | – | – | – |
| Shares issued during the period | 0.2 | 359 999.9 | – | 360 000.1 |
| Net profit | – | – | 529 116.9 | 529 116.9 |
| **Balance at 31 March 2009** | 0.2 | 359 999.9 | 529 116.9 | 889 117.0 |
| Net loss | – | – | (62 573.2) | (62 573.2) |
| Dividends declared and paid | – | – | (6 480.0) | (6 480.0) |
| **Balance at 31 March 2010** | 0.2 | 359 999.9 | 460 063.7 | 820 063.8 |

# Statement of cash flows

for the year ended 31 March

| | Notes | 2010 R000 | Period since incorporation to 31 March 2009 R000 |
|---|---|---|---|
| **Cash generated from operations** | 15 | **10 948.6** | 7 675.0 |
| Taxation paid | | **(321.5)** | (2 234.4) |
| Dividends paid | | **(6 480.0)** | – |
| **Net cash generated from operating activities** | | **4 147.1** | 5 440.6 |
| **Cash flow from investing activities** | | | |
| Initial investing activity | | **–** | (360 000.8) |
| Finance income received | 16 | **484.5** | 7 916.8 |
| **Net cash generated from/(utilised in) investing activities** | | **484.5** | (352 084.0) |
| **Cash flow from financing activities** | | | |
| Finance costs paid | 16 | **(0.4)** | (0.4) |
| Share capital and share premium movement | | **–** | 360 000.1 |
| Money market deposit movement | | **1 000.0** | (7 200.0) |
| **Net cash generated from financing activities** | | **999.6** | 352 799.7 |
| **Net increase in cash and cash equivalents** | | **5 631.2** | 6 156.3 |
| Cash and cash equivalents at the beginning of the year | | **6 156.3** | – |
| **Cash and cash equivalents at the end of the period** | 11 | **11 787.5** | 6 156.3 |

# Notes to the annual financial statements

for the year ended 31 March 2010

**Basis of preparation**

The annual financial statements of YeboYethu Limited have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and have been prepared on the historical cost basis, except for financial assets and financial liabilities (including derivative instruments) recorded at fair value or at amortised cost. The financial statements have been presented in South African Rands, as this is the currency in which the company's transactions are denominated.

The following are the significant accounting policies adopted by the company in the preparation of the annual financial statements:

**1. Significant accounting policies**

**1.1 Revenue recognition**

The company measures revenue at the fair value of the consideration received or receivable. Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the company and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably. If necessary, revenue is split into separately identifiable components.

**1.1.1 Income**

**Contributions**

Contributions are recognised in the period to which it relates.

**Dividends**

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

**Interest**

Interest is recognised on a time proportion basis with reference to the principal amount receivable and the effective interest rate applicable.

**1.2 Taxation**

Income taxation expense represents the sum of the current taxation and deferred taxation.

Taxation is charged or credited to profit or loss.

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

**Current taxation**

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

**Deferred taxation**

Deferred taxation is the taxation 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 taxation bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all temporary differences and deferred taxation assets are recognised to the extent that it is probable that the 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.

# Notes to the annual financial statements

for the year ended 31 March 2010

**1.2 Taxation (continued)**

**Deferred taxation (continued)**

The carrying amount of deferred taxation assets is reviewed at each reporting date and adjusted to reflect changes in probability that sufficient taxable profits will be available to allow all, or part of the asset to be recovered.

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

**Secondary taxation on companies ('STC')**

STC is provided for at the prevailing rate on the amount of the net dividend declared by the company. It is recorded as a taxation expense when dividends are declared.

STC credits on dividends received are recorded as assets in the period that they arise, limited to the amount recoverable based on the reserves available for distribution.

**1.3 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, net of bank borrowings, all of which are available for use by the company unless otherwise stated.

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

Deposits held on call are classified as loans and receivables by the company and carried at amortised cost. Due to the short-term nature of these, the amortised cost normally approximates its fair value.

**1.4 Financial instruments**

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

**1.4.1 Financial assets**

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.

All financial assets are initially measured at fair value, including transaction costs except for those financial assets 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.

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

**Financial assets**

Financial assets comprise an investment, loans and receivables and cash and cash equivalents.

Investments at fair value through profit or loss are subsequently stated at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss.

Loans receivable are subsequently stated at amortised cost using the effective interest rate method, less any impairment. The terms of loans granted are renegotiated on a case by case basis if circumstances required renegotiation.

# Notes to the annual financial statements

for the year ended 31 March 2010

**1.4 Financial instruments (continued)**

**1.4.1 Financial assets (continued)**

**Trade and other receivables**

Trade receivables (excluding assets created by statutory requirements and prepayments) do carry interest and are subsequently stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Other receivables are subsequently stated at their nominal values.

**1.4.2 Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date.

For certain categories of financial assets, such as trade receivables that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, with the exception of trade and other receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate. For trade and other receivables, the amount of the impairment is the irrecoverable amount estimated by management.

The carrying amount is reduced directly by the impairment loss, with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, either directly or by adjusting the allowance account, through profit or loss. The carrying amount of the financial asset at the date the impairment reversed will not exceed what the amortised cost would have been had the impairment not been recognised.

**1.4.3 Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by the company 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 company after deducting all of its liabilities.

The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issuance costs.

**Financial liabilities**

All financial liabilities are intially measured at fair value, including transaction costs except for those financial liabilities 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.

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

**Trade and other payables and dividends payable**

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

# Notes to the annual financial statements

for the year ended 31 March 2010

**1.4 Financial instruments (continued)**

**1.4.4 Offset**

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

**1.5 Comparatives**

Certain comparative figures have been reclassified, where required or necessary, in accordance with current period classifications and presentation (Refer Note 16).

**2. New accounting pronouncements**

**Accounting pronoucements adopted at 31 March 2010**

The company adopted all the new, revised or amended accounting pronouncements as issued by the IASB which were effective for the company from 1 April 2009. The adopted accounting pronouncements, which had an impact on the company or were reviewed for possible impact, are as follows:

**IFRS 7: Financial Instruments: Disclosures (Amended)**

The company adopted all the expanded disclosure requirements in respect of fair value measurements and liquidity risk. The adoption of the amendments had no impact on the company's financial results for the period.

**IAS 1: Presentation of Financial Statements (Amended)**

A separate statement of comprehensive income was not presented as the company did not record any transactions which constitute any components of other comprehensive income. This resulted in the net (loss)/profit for the years being identical to the total comprehensive (loss)/income for the years. The company changed the naming of the primary financial statements and adopted new terminology as per the amendments.

All other or new amended statements or pronouncements that became effective in the current financial year had no impact on the financial statements.

**Accounting pronouncements not adopted at 31 March 2010**

**IFRS 9: Financial Instruments**

Phase 1 of the standard was issued in November 2009 and is effective for annual periods beginning on or after 1 January 2013. The Standard introduces changes to the classification and measurement of financial assets. The company is currently assessing the impact of the standard on its results, financial position and cash flows.

**Other new accounting pronouncements**

The company has not early adopted the following pronouncements, which have been issued by the IASB or the IFRIC. Except if otherwise stated the company does not currently believe the adoption of these pronouncements will have a material impact on the results, financial position or cash flows of the company.

- Amendment to IAS 39: Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge accounting, effective for annual periods beginning on or after 1 July 2009;
- Embedded derivatives: Amendments to IFRIC 9: Reassessment of Embedded Derivatives and IAS 39: Financial Instruments: Recognition and Measurement, effective for annual periods beginning on or after 30 June 2009;
- Improvements to IFRSs issued in April 2009 are effective over a range of dates, with the earliest being for annual periods beginning on or after 1 January 2010;
- IFRS 1: First-time adoption of International Financial Reporting Standards, Additional Exemptions for First-time Adopters, effective for periods beginning on or after 1 January 2010;
- IFRS 2: Share-based Payment, Group cash-settled share-based payment transactions, effective for periods beginning on or after 1 January 2010;

# Notes to the annual financial statements

for the year ended 31 March 2010

**2. New accounting pronouncements (continued)**
**Accounting pronoucements not adopted at 31 March 2010 (continued)**
**Other new accounting pronouncements (continued)**

- Amendment to IAS 32: Financial Instruments: Presentation, Classification of Rights Issues, effective for annual periods beginning on or after 1 February 2010;
- Amendment to IAS 24: Related Party Disclosures – State-controlled Entities and the Definition of a Related Party, effective for annual periods beginning on or after 1 January 2011;
- Amendment to IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, Prepayments on a Minimum Funding Requirement, effective for annual periods beginning on or after 1 January 2011;
- IFRIC 17: Distributions of Non-cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009;
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010 with early adoption permitted;
- IFRS 3: Business Combinations (Revised), effective for annual periods on or after 1 July 2009; and
- IAS 27: Consolidated and Separate Financial Statements (Amended), effective for annual periods on or after 1 July 2009.

| | | 2010 R000 | Period since incorporation to 31 March 2009 R000 |
|---|---|---|---|
| **3.** | **Income** | | |
| | Contribution received | **–** | 0.6 |
| | Dividends received – Vodacom (Proprietary) Limited | **18 381.5** | 6 400.0 |
| | | **18 381.5** | 6 400.6 |
| **4.** | **Expenses** | | |
| | Administration fees | **(4 626.8)** | (1 070.7) |
| | Auditor's remuneration | **(171.0)** | (56.0) |
| | Consultancy fees | **(251.9)** | – |
| | Information technology | **(5.5)** | (48.7) |
| | Other | **(284.4)** | (1.1) |
| | | **(5 339.6)** | (1 176.5) |

Administration fees comprise the monthly share register maintenance fee paid of R2 218 881 (2009: R1 070 667), hosting of the AGM expenses of R480 044 (2009: Rnil), as well as the printing and posting of the annual report of R1 927 903 (2009: Rnil).

Auditor's remuneration comprise audit fees of R171 000 (2009: R56 000) to Deloitte & Touche in the 2010 financial year.

Consultancy fees comprise valuation services provided by PriceWaterhouseCoopers Inc ('PWC') for R170 601, company secretarial charges of R5 691 and legal fees of R75 566 in the 2010 financial year.

Information technology comprises website maintenance and hosting for R5 529 (2009: R48 792).

Other comprises bank charges of R276 161 (2009: R1 052) and the printing of cheques for dividends of R8 228 (2009: Rnil).

# Notes to the annual financial statements

for the year ended 31 March

| | | 2010 R000 | Period since incorporation to 31 March 2009 R000 |
|---|---|---|---|
| **5.** | **Finance income** | | |
| | Deposits – Vodacom Group Limited | **457.2** | 7 982.6 |
| | Interest on financial assets not at fair value through profit or loss amounted to R457 192 (ten months ended 31 March 2009: R7 982 596). | | |
| **6.** | **Finance cost** | | |
| | Bank overdrafts | **(0.4)** | (0.4) |
| | Interest on financial liabilities not at fair value through profit or loss amounted to R435 (ten months ended 31 March 2009: R399). | | |
| **7.** | **(Loss)/gain on remeasurement of financial instrument** | | |
| | (Loss)/gain on revaluation of option asset | **(90 226.7)** | 602 286.5 |
| **8.** | **Taxation** | | |
| **8.1** | **Income taxation expense** | | |
| | **South African normal taxation** | | |
| | Current year | **(127.9)** | (2 235.0) |
| | **South African deferred taxation** | | |
| | Current year | **14 751.5** | (84 140.9) |
| | Prior year | **(460.8)** | – |
| | **Secondary taxation on companies** | | |
| | Current year | **(8.0)** | – |
| | | **14 154.8** | (86 375.9) |
| | **Reconciliation of rate of taxation** | | |
| | Normal taxation on loss/(profit) before taxation at the South African statutory taxation rate | **21 483.8** | (172 338.0) |
| | Adjusted for: | | |
| | Disallowed expenditure | **(1 495.1)** | (329.4) |
| | Secondary taxation on companies | **(8.0)** | – |
| | Deferred secondary taxation on companies | **1 659.0** | 179.2 |
| | Income received – Vodacom (Proprietary) Limited | **5 146.8** | 1 792.2 |
| | Adjustment to capital gains inclusion rate for fair value (loss)/gain | **(12 631.7)** | 84 320.1 |
| | | **14 154.8** | (86 375.9) |

The South African statutory taxation rate is 28.0% (2009: 28.0%) with capital gains rate included at 50.0% (2009: 50.0%). The South African STC rate is 10.0% (2009: 10.0%). The company's effective taxation rate is 18.4% (2009: 14.0%).

# Notes to the annual financial statements

for the year ended 31 March

**8. Taxation (continued)**

**8.1 Income taxation expense (continued)**

| | 2010 R000 | Period since incorporation to 31 March 2009 R000 |
|---|---|---|
| **Components of deferred taxation charge to income statement** | | |
| Secondary taxation on company credits | 1 659.0 | 179.2 |
| Secondary taxation on company credit created | 1 838.2 | 179.2 |
| Secondary taxation on company credit utilised | (179.2) | – |
| Capital gains taxation on fair value loss/(gain) | 12 631.7 | (84 320.1) |
| | 14 290.7 | (84 140.9) |

**8.2 Deferred taxation liabilities**

| | 2010 R000 | Period since incorporation to 31 March 2009 R000 |
|---|---|---|
| Deferred taxation assets | 1 838.2 | 179.2 |
| Deferred taxation liabilities | (71 688.4) | (84 320.1) |
| | (69 850.2) | (84 140.9) |
| **Components** | | |
| **Secondary taxation on companies credits** | | |
| Deferred taxation asset | 1 838.2 | 179.2 |
| **Capital gains taxation on fair value loss/(gain)** | | |
| Deferred taxation liability | (71 688.4) | (84 320.1) |
| | (69 850.2) | (84 140.9) |
| **Reconciliation of net deferred taxation balance** | | |
| Balance at the beginning of the year | (84 140.9) | – |
| Deferred taxation – income statement | 14 290.7 | (84 140.9) |
| Balance at the end of the year | (69 850.2) | (84 140.9) |

Deferred taxation on the revaluation of the option asset is raised at the capital gains rate.

# Notes to the annual financial statements

for the year ended 31 March

**9. Financial asset**

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

**Vodacom SA option asset**

On 8 October 2008 the company acquired a 3.44% investment in Vodacom SA by obtaining ordinary shares and 'A' ordinary shares for the benefit of its shareholders as part of a Vodacom SA Broad-based Black Economic Empowerment Transaction ('BBBEE') as follows:

| | 2010 R000 | 2009 R000 |
|---|---|---|
| 7 200 000 ordinary shares at R25.00 each | **180 000.0** | 180 000.0 |
| 82 800 000 'A' ordinary shares at R2.1739 each | **180 000.0** | 180 000.0 |
| 75 000 000 'A' ordinary shares at R0.00001 each | **0.8** | 0.8 |
| | **360 000.8** | 360 000.8 |
| Accumulated fair value adjustment | **512 059.8** | 602 286.5 |
| | **872 060.6** | 962 287.3 |
| Opening balance | **962 287.3** | 360 000.8 |
| Fair value adjustment | **(90 226.7)** | 602 286.5 |
| Closing balance | **872 060.6** | 962 287.3 |

The valuation of the option asset in Vodacom SA at 31 March 2010 was modelled as the aggregate of two components:

- A variable-strike call option with payoff equal to the expected difference between the value of the shares held by YeboYethu Limited and the value of the notional vendor debt (strike price), as at 30 September 2015, discounted to the valuation date; and
- The present value (on the valuation date) of the trickle dividends (the actual dividends expected to be received on the ordinary shares over ten (2009: twelve) dividend periods and dividends to be received on 'A' ordinary shares once the notional loan has been repaid) to be received by the BBBEE participants.

A Monte Carlo methodology was adopted to value the option. The Monte Carlo simulation allows for the option model to consider the dependencies which exist between the company value, the dividends paid, the notional funding value and the remitted value. The payoff of this structure was valued as the time adjusted difference between the future value of the company and the future outstanding balance of the debt plus the present value of the dividend remitted to YeboYethu Limited. Within the Monte Carlo method, the following input parameters were used to simulate the Vodacom SA value: the equity value of the underlying share at the valuation date, the expected dividend yield of the underlying share over the life of the option, the expected volatility of the underlying share over the life of the option, and the risk-free interest rate over the life of the model. In addition to these, in order to simulate the strike price, the expected net asset value of the underlying share was used.

# Notes to the annual financial statements

for the year ended 31 March

**9. Financial asset (continued)**

**Financial asset at fair value through profit or loss (continued)**

**Vodacom SA option asset (continued)**

The fair value of R872.1 million (2009: R962.3 million) was calculated using the following assumptions as at 31 March 2010:

- The risk-free interest rates were determined from the bootstrapped zero coupon perfect fit swap curve, sourced from the Bond Exchange of South Africa;
- The dividend yield was based on Vodacom SA's forecasted earnings and dividend policy based on a range from 30 September 2010 of 4.1% to 30 September 2015 of 8.1% (2009: 30 September 2009 of 3.8% to 30 September 2015 of 6.7%);
- Maturity date – 6 years from transaction date (2009: 7 years from transaction date);
- The expected volatility in the value of the shares granted was determined using historical share prices of Vodafone Plc London of 32.1% (2009: 34.5%) (data sourced from Bloomberg), Telkom SA Limited of 32.9% pre 18 May 2009 (2009: 31.8%), MTN Group Limited of 41.1% (2009: 40.8%) and Vodacom Group Limited of 32.1% from 18 May 2009 (data sourced from McGregor BFA);
- Strike price – the notional vendor debt as at valuation date provided by Vodacom SA amounted to R5.8 billion (2009: R5.9 billion). Interest accrues at a notional rate of 9.8% NACD (2009: 10.0% NACS). The debt at maturity represents the strike price; and
- The equity value of Vodacom SA which was determined by applying the adjusted present valuation methodology to cash flow projections for ten years. The cash flow projections are based on five year financial forecasts approved by the board of directors, which have been extrapolated for a further five years for valuation purposes.

Key cash flow assumptions included average sim penetration, market share, revenue per user, EBITDA margin and revenue growth.

Key equity value assumptions include the perpetual growth rate of 5.46% (2009: 6.15%), the pre taxation cost of debt of 10.70% (2009: 10.61%) and cost of equity of 14.14% (2009: 14.11%). The discount rate used in the valuation model includes a risk free rate of 8.64% (2009: 8.61%), market risk premium of 5.50% (2009: 5.50%), a lack of control discount and marketability discount of 10.00% (2009: 10.00%) and 5.00% (2009: 5.00%), respectively.

The directors want to emphasise that option valuations are forward looking and therefore highly subjective. The option value determined is our best estimate on a continuum of acceptable values. For each of the inputs used in determining the option value, there is a range of acceptable values. The most significant assumptions have been disclosed above. The equity value of Vodacom SA was determined to be the most sensitive input in the process of determining the option value.

# Notes to the annual financial statements

for the year ended 31 March

**9. Financial asset (continued)**

**Financial asset at fair value through profit or loss (continued)**

**Vodacom SA option asset (continued)**

Our calculations indicate that the acceptable range of equity values for Vodacom SA, would be a range of up to 10.0% higher or lower than the equity value used in the determination of the option value. The following table shows the sensitivity of the fair value of the option asset to this reasonable alternative range of assumptions as at 31 March 2010:

| | Favourable change | Unfavourable change |
|---|---|---|
| Total change from base | **R233.3** | **R224.8** |
| Total change from base (%) | **26.8%** | **25.8%** |

It is therefore important that shareholders and other users of these financial statements understand the sensitivity of the option value actually recorded to changes in any or all of the assumptions used in determining the option value.

In terms of the original notional vendor finance structure, the notional funding provided by Vodacom SA earned notional interest at a 10.0% notional annual compounded semi annually rate ('NACS'). To simplify the matter, the notional interest is now calculated using an equivalent converted notional daily compounded rate ('NACD') of 9.8%, which, in the absence of any cash flow would yield the same result. The change from NACS was approved by the shareholders of Vodacom SA on 2 March 2010.

The black public contributed R360.0 million of unencumbered equity to acquire 14.4 million ordinary shares in YeboYethu Limited. Twelve million 'N' ordinary shares were issued to the YeboYethu Employee Trust for R120. The R360.0 million was used to acquire 7.2 million ordinary shares and 82.8 million 'A' ordinary shares in Vodacom SA. The shares in Vodacom SA were issued to YeboYethu Limited in the 2009 financial year at a 10.0% discount. Vodacom SA contributed the balance of R1,665.0 million on behalf of the black public and R1 687.5 million on behalf of the employee scheme by way of notional funding. The notional funding does not give rise to a legal obligation but only facilitates the repurchase mechanism.

YeboYethu Limited received notional dividends on these shares calculated on the basis of the actual dividends paid to ordinary shareholders, divided by ordinary shares and 'A' ordinary shares, which was then used as a notional payment. The holders of ordinary shares are entitled to dividends but the holders of 'A' ordinary shares will only be entitled to dividends once the notional funding has been settled.

The closing balance as at 31 March 2010 of the notional funding loan after the notional interest and notional dividends is as follows:

| | 2010 R000 | 2009 R000 |
|---|---|---|
| Opening balance | **3 381 048.0** | – |
| Notional loan on shares contributed | **–** | 3 352 500.0 |
| Notional interest accrued | **339 582.2** | 160 574.0 |
| | **3 720 630.2** | 3 513 074.0 |
| Less: notional dividend received | **(379 194.0)** | (132 026.0) |
| | **3 341 436.2** | 3 381 048.0 |

# Notes to the annual financial statements

for the year ended 31 March

| | | 2010 R000 | 2009 R000 |
|---|---|---|---|
| 10. | **Accounts receivables** | | |
| | Prepayments | **8.7** | – |
| | Vodacom Group Limited | **6 238.5** | 7 265.8 |
| | | **6 247.2** | 7 265.8 |
| | **Timing of accounts receivables** | | |
| | Within one year | **6 247.2** | 7 265.8 |
| | All accounts receivables are rand denominated, short-term and interest is earned at money market rates on the amount receivable from Vodacom Group. | | |
| 11. | **Cash and cash equivalents** | | |
| | Bank balances | **11 787.5** | 6 156.3 |
| | The unclaimed dividends at 31 March 2010 was R159 000 (2009: Rnil). | | |
| 12. | **Share capital** | | |
| 12.1 | **Ordinary share capital** | | |
| | **Authorised** | | |
| | 40.0 million authorised ordinary shares at R0.00001 each | **0.4** | 0.4 |
| | **Issued** | | |
| | 14.4 million issued ordinary shares at R0.00001 each | **0.1** | 0.1 |
| 12.2 | **'N' ordinary shares** | | |
| | **Authorised** | | |
| | 12.0 million authorised 'N' ordinary shares at R0.00001 each | **0.1** | 0.1 |
| | **Issued** | | |
| | 12.0 million issued 'N' ordinary shares at R0.00001 each | **0.1** | 0.1 |
| | N' ordinary shares rank pari passu to ordinary shares other than the fact that they will not earn any dividends until the notional funding by Vodacom SA to purchase the 'A' ordinary shares in Vodacom SA is settled. | | |
| 13. | **Ordinary share premium** | | |
| | Ordinary share premium on shares issued during the prior period. | **359 999.9** | 359 999.9 |

# Notes to the annual financial statements

for the year ended 31 March

| | | 2010 R000 | 2009 R000 |
|---|---|---|---|
| 14. | **Accounts payable** | | |
| | Trade payable | **366.3** | 2 450.9 |
| | The average credit period is 30 days (2009: 30 days). No interest is charged on trade payables. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. | | |
| | Trade payables are short-term and stated at cost which normally approximates their fair value due to short-term maturity thereof. | | |

| | | 2010 R000 | Period since incorporation to 31 March 2009 R000 |
|---|---|---|---|
| 15. | **Cash generated from operations** | | |
| | Cash flow from operations before working capital changes | **13 041.9** | 5 224.1 |
| | Movement in prepayments | **(8.7)** | – |
| | Movement in trade and other payables and provisions | **(2 084.6)** | 2 450.9 |
| | | **10 948.6** | 7 675.0 |

**16. Reclassifications**
**Reconciliation 31 March 2009**

**16.1 Income statement**

Dividend received of R6.4 million was reclassified from finance income to income to reflect the true nature of the dividends received.

**16.2 Statement of cash flows**

Finance income received of R7.9 million and finance costs paid of R362.46 were reclassified from cash generated from operating activities to cash flow from investing activities and cash flow from financing activities, respectively. Finance income received and finance costs paid are returns on investments made.

Dividends received of R6.4 million was reclassified from finance income received to cash generated from operations to reflect the true nature of the dividends received.

The company deems the revised presentation and reclassifications to be appropriate.

# Notes to the annual financial statements

for the year ended 31 March

| | | 2010 R000 | 2009 R000 |
|---|---|---|---|
| **17.** | **Related parties transactions** | | |
| **17.1** | **Balances with related parties** | | |
| | **Accounts receivable** | | |
| | Vodacom Group Limited, parent of Vodacom (Proprietary) Limited | **6 238.5** | 7 265.8 |
| **17.2** | **Transactions with related parties** | | |
| | **Vodacom Group Limited** | | |
| | Finance income received | **457.2** | 7 982.6 |
| | **Vodacom (Proprietary) Limited** | | |
| | Dividends received | **18 381.5** | 6 400.0 |
| **18.** | **Financial instruments and risk management** | | |
| **18.1** | **Net (loss)/gain** | | |
| | **Net (loss)/gain on financial instruments analysed by category, are as follows:** | | |
| | Loans and receivables | **457.2** | 7 982.6 |
| | Financial liabilities held at amortised cost | **(0.4)** | (0.4) |
| | Revaluation of option asset | **(90 226.7)** | 602 286.5 |
| | Net (loss)/gain attributable to financial instruments | **(89 769.9)** | 610 268.7 |
| | Net gains attributable to non-financial instruments | **18 381.5** | 6 400.0 |
| | **Total net (loss)/gain** | **(71 388.4)** | 616 668.7 |
| **18.2** | **Carrying amounts of financial instruments** | | |
| | Carrying amounts of financial instruments analysed by category are as follows: | | |
| | **Assets** | | |
| | Financial assets at fair value through profit or loss | **872 060.6** | 962 287.3 |
| | Loans and receivables | **18 026.0** | 13 422.1 |
| | | **890 086.6** | 975 709.4 |
| | **Liabilities** | | |
| | Financial liabilities held at amortised cost | **366.3** | 2 450.9 |

# Notes to the annual financial statements

for the year ended 31 March

| | | 2010 R000 | 2009 R000 |
|---|---|---|---|
| 18. | **Financial instruments and risk management (continued)** | | |
| 18.3 | **Fair value hierarchy** | | |
| | An analysis of the financial instrument, Vodacom SA option asset, measured at fair value and disclosed as level three based on the degree to which the fair value is observable, is as follows: | | |
| | **Level three** | | |
| | Financial assets at fair value through profit or loss, classified as held for trading | | |
| | Vodacom SA option asset (Refer Note 9) | **872 060.6** | 962 287.3 |
| | Level three uses data inputs for the valuation of the asset that are not based on observable market data (unobservable inputs). | | |
| | **Reconciliation of fair value** | | |
| | Measurement in level three | | |
| | Opening balance at beginning of the year | **962 287.3** | 360 000.8 |
| | Recognised in net (loss)/gain on remeasurement and disposal of financial instruments | **(90 226.7)** | 602 286.5 |
| | Closing balance at end of the year | **872 060.5** | 962 287.3 |
| 18.4 | **Financial risk management** | | |
| 18.4.1 | **Interest rate risk management** | | |
| | The company's interest rate profile consists mainly of floating rate bank balances and related party receivable which exposes the company to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows: | | |
| | **Financial assets** | | |
| | Bank and related party deposits linked to floating rate of interest | **18 026.0** | 13 422.1 |

The company 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 increases or decreases, as detailed in the table below, are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Changes in prevailing market interest rates are based on economic forecasts as published by Reuters.

# Notes to the annual financial statements

for the year ended 31 March

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

**18.4 Financial risk management (continued)**

**18.4.1 Interest rate risk management (continued)**

**Interest rate sensitivity analysis (continued)**

A positive number below indicates an increase in profit post taxation 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 post taxation 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 above, there would be an equal and opposite impact on the profit post taxation.

The sensitivity analysis is representative of the company's exposure to interest rate risk.

| | 2010 R000 | 2009 R000 |
|---|---|---|
| **RSA prime rates, JIBAR rates, Money market rates and RSA BA rates** | | |
| Basis point increase | **100** | 200 |
| Profit post taxation | **129.8** | 193.3 |

**18.4.2 Liquidity risk management**

In terms of its borrowing requirements, the company 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.

The table below discloses the maturity profile of the company'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. The table has been drawn up based on the earliest date on which the company can be required to settle or can require settlement and include both estimated interest and principal cash flows.

| | 0-1 year R000 | 2 years R000 | 3 years R000 | 4 years R000 | 5 years R000 | 5+ years R000 | Total R000 |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Accounts payable | **366.3** | **–** | **–** | **–** | **–** | **–** | **366.3** |
| **Financial assets** | | | | | | | |
| Accounts receivable | **6 238.5** | **–** | **–** | **–** | **–** | **–** | **6 238.5** |
| Cash and cash equivalents | **11 787.5** | **–** | **–** | **–** | **–** | **–** | **11 787.5** |
| | **18 026.0** | **–** | **–** | **–** | **–** | **–** | **18 026.0** |
| **2009** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Accounts payable | 2 450.9 | – | – | – | – | – | 2 450.9 |
| **Financial assets** | | | | | | | |
| Accounts receivable | 7 265.8 | – | – | – | – | – | 7 265.8 |
| Cash and cash equivalents | 6 156.3 | – | – | – | – | – | 6 156.3 |
| | 13 422.1 | – | – | – | – | – | 13 422.1 |

**19. Services in-kind**

The board cannot reliably determine a fair value for services received in-kind that consist primarily of participation by board members in the business of the company, and as a result does not recognise the value of these services received in income.

# Abridged CVs for YeboYethu directors

**Current directors**

**Zarina Bibi Mahomed Bassa**

After 23 years as a corporate executive, Zarina has chosen to set up her own business. She is currently CEO of Zarina Bassa Investments (Proprietary) Limited. Prior to this Zarina was an executive director of Absa Bank Limited, as well as an Absa Group Executive Committee member with full accountability for Absa Private Bank. She joined ABSA Bank Limited in 2001 as Managing Executive of ABSA Retail Banking and progressed to Managing Executive of ABSA Private Bank and Executive Director for private banking of ABSA Bank Limited. As a Chartered Accountant (SA) and former chair of the Auditing Standards Board, Zarina also served on the Board of the SA Institute of Chartered Accountants and was vice president and chair of the Association for the Advancement of Black Accountants. Zarina is a former member of the JSE GAAP monitoring panel, the Accounting Standards Board and the Chartered Accountants Eden Trust. Zarina was previously the Finance Minister's representative on the Public Accountants' & Auditors' Board and the Chairman of the Public Accountants' & Auditors' Board. She also serves on the Boards of Kumba Iron Ore Limited, the Financial Services Board, The Banking Ombudsman, the FAIS Ombudsman, the National Business Initiative and Woolworths Financial Services of which she is also the Chairman. She is Chairman of the Kumba Iron Ore Audit Committee and also serves on the audit committees of the Banking Ombudsman. Woolworths Financial Services and the National Business Initiative. In addition, Zarina was named top woman in business at the Top Women in Business & Government awards in 2007, and 2008 Top Business Personality in Financial Services: Banking in the CEO awards.

**Deenadayalen Konar (Len)**

Len was previously executive director of the Independent Development trust where he was, among other activities, responsible for the internal audit and investment portfolios. Prior to that, he was a Professor and head of the Department of Accountancy at the University of Durban Westville. He is a member of the King Committee on Corporate Governance, the Securities Regulation Panel and the Institute of Directors. He was the chairperson of the Ministerial Panel for the Review of the Regulation of Accountants and Auditors. He was an External Audit Committee member and Chairman of the International Monetary Fund in Washington. Len also chairs or serves on the audit committees of a number of listed companies and public sector companies.

**Mohamed Shameel Aziz Joosub (Shameel)**

Shameel holds a Bachelor of Accounting Science (Honours) from the University of South Africa and a Master of Business Administration degree from the University of Southern Queensland, Australia. He is also an Associated General Accountant and Commercial and Financial Accountant (South Africa). Shameel joined Vodacom in March 1994 after completing his articles contract and has held various positions within Vodacom. He was appointed as managing director of Vodacom SA in April 2005. He has served as the managing director of Vodacom Service Provider Company (Proprietary) Limited from 2000 to 2005. He has been a director of Vodacom Group since September 2000. Shameel was also founder and managing director of Vodacom Equipment Company (Proprietary) Limited, the former handset distribution company in Vodacom from 1998 to 2000.

**Christopher Tlhabeli Ralebitso (CT)**

CT joined the Vodacom Group in January 2006 at Managing Director of Vodacom Ventures. He serves as a non-executive director representing Vodacom in companies in which Vodacom has invested. Prior to joining Vodacom, CT was director of DSI Capital (Proprietary) Limited, and investment holding company he co-founded in 2001. He also spent several years in strategy consulting where he provided advisory services to clients including early stage and industry leading companies in South Africa and the USA. CT started his career as an engineer in 1993 in research and development of energy related industrial applications of AT&T Bell Laboratories and subsequently at Eskom Holdings Limited. He progressed to positions in engineering design and construction, and manufacturing at South African Breweries Limited.

# Abridged CVs for YeboYethu directors

**Peter Bambatha Matlare**

Peter is currently the Chief Executive Officer for Tiger Brands Limited. He was previously the Chief Strategy & Business Development Officer at Vodacom Group, a position he assumed in 2007. Peter joined the group as Vodacom SA Commercial Director in 2005 after spending more than four years as Chief Executive at the SABC. Prior to that, Peter was Chief Operating Officer at Primedia Limited and Chief Executive of Primedia Broadcasting. He previously served on the Presidential National Commission on Information Society & Development and was appointed to the International Marketing Council of South Africa. Peter is also past chairman of the National Association of Broadcasters.

**Seth Radebe**

B Comm (Hons), Post Grad Dip in Acc, CA(SA)

Seth is the founder and managing director of Rebahale Chartered Accountants & Consultants. He is the chairman of the Mogale City Municipality audit and performance committees. Seth is also a member of the City of Johannesburg Metro group audit committee and non-executive director and chairman of the Safcol audit committee. Seth completed his articles at Deloitte & Touche and held various senior auditing positions at Nkonki Sizwe Ntsalube Auditors, South African Revenue Services, Office of the Auditor General, Ngubane & Co and more latterly was an engagement partner at PKF Accountants and Business Partners.

**Nomination received:**

**Tshepo Cuthbet Lefera**

Tshepo is currently a Director and Dealer Principal of Maxshell 117 Investments (Pty) Limited, a company in the liquid fuels industry which was recently awarded the Honors for Continuous Commitment to Skills Development by the Manufacturing Engineering and Related Services Sector Training Authority in the Small Business Category.

Previously he held various management roles in the Retail Sector (FMCG) and was a student leader and a Member of the Council of the University of the North.

He holds minor interests in various JSE listed companies and currently is a master's candidate and qualified in the fields of commerce, training and development and is a registered Assessor with the Manufacturing, Engineering and Related Services Sector Training Authority ('MERSETA').

He's an occasional writer and has been published by local and continental media.

# Notice of annual general meeting

## YEBOYETHU LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 2008/014734/06)
('YeboYethu' or the 'company')

Notice is hereby given that the second annual general meeting of the company will be held on Thursday 29 July 2010, in the Bytes Conference Centre, Bytes Business Park, Block C, 241 Third Road, Halfway Gardens Midrand, Johannesburg, South Africa at 11:00 to conduct the following business:

1. To receive and consider the annual financial statements for the year ended 31 March 2010.

2. To elect the following as directors:

   2.1 Mr SM Radebe, who was appointed as a director since the last annual general meeting, and in accordance with the articles of association retires at this meeting. Having so retired, Mr SM Radebe is eligible for re-election.

   2.2 Mr MS Aziz Joosub, who is obliged to retire by rotation at this annual general meeting in accordance with the articles of association. Having so retired, Mr MS Aziz Joosub is eligible for re-election.

   2.3 Mr PB Matlare, who is also obliged to retire by rotation at this annual general meeting in accordance with the articles of association. Having so retired, Mr PB Matlare is eligible for re-election.

   2.4 Mr T Lefera, a shareholder, who has nominated himself.

   The profiles of the directors up for election or re-election appear on pages 31 and 32 of the annual report.

3. To re-appoint Deloitte & Touche, as nominated by the company's audit committee, as independent auditors of the company, to hold office until the conclusion of the next annual general meeting of the company. It is noted that the individual registered auditor who will undertake the audit during the financial year ending 31 March 2011 is Mr DF Crowther.

4. **Special business**

   To consider and if deemed fit, pass with or without modification the following special resolutions:

   4.1 **Special resolution number 1**

   "RESOLVED THAT the company be and is hereby authorised to acquire ordinary shares in the company, subject to the provisions of the Companies Act, 1973, as amended, provided that:

   1. The authority granted shall be valid only until the company's next annual general meeting and shall not extend beyond 15 (fifteen) months from the date of this resolution;

   2. Any repurchase by the company of its ordinary shares in issue shall not in aggregate in one financial year exceed 20 000 (twenty thousand) of the company's issued ordinary shares at the time that the authority is granted;

   3. The authority may be varied or revoked by special resolution of the members prior to the next annual general meeting of the company;

   Having considered the effect on the company of the maximum repurchase under this authority, the directors are of the opinion that:

   – the company will be able to pay its debts for a period of 12 (twelve) months after the date of this notice of annual general meeting;

   – the assets of the company will be in excess of the liabilities of the company for a period of 12 (twelve) months after the date of this notice of annual general meeting which assets and liabilities have been

# Notice of annual general meeting

valued in accordance with the accounting policies used in the audited annual financial statements of the company for the year ended 31 March 2010;

- the share capital and reserves of the company will be adequate for the ordinary course of business purposes for a period of 12 (twelve) months after the date of this notice of annual general meeting; and
- the working capital of the company are considered adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice of annual general meeting."

**Reason for and effect of special resolution number 1**

The reason for special resolution number 1 is to comply with paragraph 12.7 of the company's prospectus dated 30 July 2008 where the company may repurchase the shares of deceased shareholders from their estates until the expiry of the lock-in period on September 2015. In order for the company to do this it needs the authority to acquire its own shares. The effect of special resolution number 1 is to confer authority on the company to repurchase its own shares to a maximum of 20 000 (twenty thousand) ordinary shares per annum.

4.2 **Special resolution number 2**

"RESOLVED THAT in terms of the provisions of section 55 of the Companies Act, 1973, and with the prior written consent of Vodacom Group Limited as required in terms of the provisions of paragraph 6.3 of the memorandum of association of the company, the main business of the company be and is hereby amended as follows with effect from the date of the passing of this resolution and that the memorandum of association of the company be amended accordingly:

"2 **PURPOSE DESCRIBING MAIN BUSINESS**

The main business which the company is to carry on is to (1) acquire and hold ordinary shares and 'A' ordinary shares in Vodacom (Proprietary) Limited (registration number 1993/003367/07) and (2) to acquire and hold interests in Vodacom Group Limited (registration number 1993/005461/06) and/or any of its subsidiaries and associated companies, for the benefit of shareholders."

**Reason for and effect of special resolution number 2**

The main business of the company is currently limited to that of acquiring and holding ordinary shares and 'A' ordinary shares in Vodacom (Proprietary) Limited. The reason for special resolution number 2 is to broaden the main business of the company so that the company also has the capacity to acquire and hold interests in Vodacom Group Limited and/or any of its subsidiaries and associated companies. The effect of special resolution number 2 is to amend the main business of the company to that of acquiring and holding ordinary shares and 'A' ordinary shares in Vodacom (Proprietary) Limited as well as interests in Vodacom Group Limited and/or any of its subsidiaries and associated companies.

4.3 **Special resolution number 3**

"RESOLVED THAT in terms of the provisions of section 55 of the Companies Act, 1973, and with the prior written consent of Vodacom Group Limited as required in terms of the provisions of paragraph 6.3 of the memorandum of association of the company, the main object of the company be and is hereby amended as follows with effect from the date of the passing of this resolution and that the memorandum of association of the company be amended accordingly:

"3 **MAIN OBJECT**

The main object of the company is to carry on the business of (1) acquiring and holding ordinary shares and 'A' ordinary shares in Vodacom (Proprietary) Limited (registration number 1993/003367/07) and (2) acquiring and holding interests in Vodacom Group Limited (registration number 1993/005461/06) and/or any of its subsidiaries and associated companies, for the benefit of shareholders."

# Notice of annual general meeting

**Reason for and effect of special resolution number 3**

The main object of the company is currently limited to that of acquiring and holding ordinary shares and 'A' ordinary shares in Vodacom (Proprietary) Limited. The reason for special resolution number 3 is to broaden the main object of the company so that the company also has the capacity to acquire and hold interests in Vodacom Group Limited and/or any of its subsidiaries and associated companies. The effect of special resolution number 3 is to change the main object of the company to that of acquiring and holding ordinary shares and 'A' ordinary shares in Vodacom (Proprietary) Limited as well as interests in Vodacom Group Limited and/or any of its subsidiaries and associated companies.

4.4 **Special resolution number 4**

"RESOLVED THAT in terms of the provisions of section 62 of the Companies Act, 1973, and with the prior written consent of Vodacom Group Limited as required in terms of the provisions of paragraph 6.3 of the memorandum of association of the company, article number 24.1 of the company's articles of association be and is hereby amended as follows with effect from the date of the passing of this resolution:

24.1 The minimum number of directors shall be 5 (five) while the maximum number of directors shall be 7 (seven)."

**Reason for and effect of special resolution number 4**

The reason for special resolution number 4 is to amend article 24.1 of the company's articles of association. The effect of special resolution number 4 is to reduce the maximum number of directors from fifteen (15) to seven (7).

4.5 **Special resolution number 5**

"RESOLVED THAT, in terms of the provisions of section 62 of the Companies Act, 1973, and with the prior written consent of Vodacom Group Limited as required in terms of the provisions of paragraph 6.3 of the memorandum of association of the company, the articles of association of the company be and is hereby amended as follows with effect from the date of the passing of this resolution:

The wording of the existing article 26.7 be and is hereby deleted and replaced with the following wording:

"26.7 No person, other than a director retiring at the meeting shall, unless recommended by the directors, be eligible for election to the office of a director at any general meeting, unless –

26.7.1 at least 7 (seven) clear days before the day appointed for the meeting, there shall have been delivered at the office of the company an original written and signed notice or notices by at least 100 (one hundred) members setting out the members' intention to propose a specific person for election as director;

26.7.2 anyone of these members may also be the proposed director duly qualified to be present and to vote at the meeting for which such notice is given; and

26.7.3 notice in writing by the proposed person of his willingness to be elected accompanies such notice or notices (except where one of the proposers is the same person as the proposed)."

**Reason for and effect of special resolution number 5**

The reason for special resolution number 5 is to amend the provisions of the articles of association of the company in order to provide that only persons with a certain minimum level of members' support are nominated by members of the company for election as directors of the company, so as to ensure that only persons who have some prospects of being elected as directors of the company are considered for election. The effect of the proposed special resolution, if approved is that a person will only be entitled to be nominated for election to the office of a director by members if the person's nomination is supported by a minimum of one hundred members.

# Notice of annual general meeting

**Voting and proxies**

Ordinary and 'N' ordinary shareholders are entitled to attend, speak and vote at the annual general meeting.

Ordinary and 'N' ordinary shareholders may appoint a proxy to attend, speak and vote in their stead. A proxy need not be a shareholder of the company.

In accordance with best practice, voting shall be by ballot only.

Shareholders who are unable to attend the annual general meeting and wish to be represented thereat, must complete the form of proxy enclosed in accordance with the instructions therein and lodge it with or mail it to the transfer secretaries.

Forms of proxy (which form may be found enclosed) should be forwarded to reach the transfer secretaries, Computershare Investor Services (Proprietary) Limited by no later than 11:00 Tuesday 27 July 2010.

The completion of a form of proxy does not preclude any shareholder attending the annual general meeting.

By order of the Board

**SANDI LINFORD**
COMPANY SECRETARY

30 June 2010

## INVITATION

Shareholders who attended the annual general meeting last year may recall that a number of shareholders requested an understanding of the annual financial statements. The directors have taken note of this and shareholders are invited to attend a presentation on the annual financial statements and other items relating to the annual general meeting which will be held just prior to the second annual general meeting at 09:30 until 10:30 in the Bytes Conference Centre, Bytes Business Park, Block C, 241 Third Road, Halfway Gardens Midrand, Johannesburg.

This presentation will be provided by Vodacom SA and be facilitated by a senior manager who is fluent in both Zulu and Sotho.

**Programme for Thursday 29 July 2010:**

| | |
|---|---|
| 09:00 | Arrival and registration with the transfer secretary |
| 09:30 -10:30 | Presentation on annual financial statements |
| 11:00 | Annual general meeting |

At the conclusion of annual general meeting, a light lunch will be served. Shareholders may also use this time to update their records with the transfer secretary.

# Form of proxy

## YEBOYETHU LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 2008/014734/06)
('YeboYethu' or the 'company')

I/We ______________________________ (name in BLOCK LETTERS)

of ______________________________ (address in BLOCK LETTERS)

Being a member/members of the company holding ______________ ordinary shares in the company

do hereby appoint: ______________________________

of ______________________________

or failing him/her ______________________________

of ______________________________

or ______________________________

or failing him/her, the Chairman of the annual general meeting as my/our proxy to represent me/us at the annual general meeting to be held on Thursday 29 July 2010 at 11:00 or at any adjournment thereof as follows:

| | | NUMBER OF ORDINARY SHARES | | |
|---|---|---|---|---|
| | | For | Against | Abstain |
| 1 | Adoption of annual financial statements | | | |
| 2 | Re-election of directors: 2.1 SM Radebe | | | |
| | 2.2 MS Aziz Joosub | | | |
| | 2.3 PB Matlare | | | |
| | 2.4 T Lefera | | | |
| 3 | Reappointment of independent auditors. | | | |
| 4.1 | Special resolution number 1 | | | |
| 4.2 | Special resolution number 2 | | | |
| 4.3 | Special resolution number 3 | | | |
| 4.4 | Special resolution number 4 | | | |
| 4.5 | Special resolution number 5 | | | |

(Indicate with an "x" or the relevant number of shares, in the applicable space, how you wish your votes to cast).

Unless otherwise directed the proxy will vote as he/she thinks fit.

Signed at ______________ this ______ day of ______________ 2010

Signature of member ______________ Assisted by (where applicable)

**Please read the notes on the reverse side hereof.**

# Notes to the form of proxy

1. A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote and speak in his/her stead at the annual general meeting. A proxy need not be a member of the company.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space(s) provided, with or without deleting "the Chairman of the annual general meeting", but any such deletion or insertion must be initialled by the shareholder. Any insertion or deletion not complying with the aforegoing will be declared not to have been validly effected. The person whose name stands first on this form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. In the event that no names are indicated, the proxy shall be exercised by the Chairman of the annual general meeting.
3. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" or the relevant number of votes exercisable by that shareholder in the appropriate box provided. An "X" in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the maximum number of votes exercisable by the shareholder or by his/her proxy.
4. To be effective, completed forms of proxy must be lodged with the company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, no less than 48 hours before the time appointed for the holding of the annual general meeting, excluding Saturdays, Sundays and public holidays. As the annual general meeting is to be held at 11:00 on Thursday 29 July 2010 forms of proxy must be lodged no later than 11:00 on Tuesday 27 July 2010.
5. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat instead of any proxy appointed in terms hereof.
6. The Chairman of the annual general meeting may reject or accept any form of proxy which is not completed and/or received other than in compliance with these notes.
7. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatory.
8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative or other legal capacity must be enclosed to this form of proxy unless previously recorded by the company or the transfer secretaries or waived by the Chairman of the annual general meeting.
9. Where there are joint holders of shares:
   - any one holder may sign this form of proxy; and
   - the vote of the senior shareholder (for that purpose, seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.

**Transfer secretaries**

Computershare Investor Services (Proprietary) Limited
70 Marshall Street
Johannesburg 2001
PO Box 61051, Marshalltown 2107
Telephone: 011 370 5000
Call Centre: 086 110 0918