

Notes to the consolidated annual financial statements continued

Rm	2018	2017
30. Financial instruments and risk management		
30.1 Net losses on financial instruments		
Net losses on financial instruments analysed by category are as follows:		
Financial (liabilities)/assets at fair value through profit or loss	(350)	206
Loans and receivables	257	91
Financial liabilities measured at amortised cost	(2 653)	(2 671)
Net losses attributable to financial instruments	(2 746)	(2 374)
30.2 Carrying amounts of financial instruments		
Carrying amounts of financial instruments analysed by category, are as follows:		
Financial assets measured at amortised cost ¹	32 448	26 833
Financial assets at fair value through profit or loss (Note 11.2)	328	244
Available-for-sale financial assets (Note 11.3)	83	43
Derivatives designated as fair value hedging instruments (Note 14 and 19)	(140)	19
Financial liabilities measured at amortised cost	(48 698)	(46 446)
	(15 979)	(19 307)
Note:		
1. Included in the current and prior years' amounts are cash held in restricted deposits.		
30.3 Fair value hierarchy		
The table below sets out the valuation basis of financial instruments measured at fair value:		
Level one ¹		
Financial assets and liabilities at fair value through profit or loss, classified as held for trading		
Unit trust investments (Note 11)	328	244
Level two ²		
Derivatives designated as fair value hedging instruments		
Derivative financial assets (Note 14)	67	108
Derivative financial liabilities (Note 19)	(207)	(89)
	188	263

Notes:

1. Level one classification is used when the valuation is determined using quoted prices in an active market.

2. Level two classification is used when valuation inputs used to determine fair value are observable for the asset/(liability), either directly as prices or indirectly when derived from prices.



30. Financial instruments and risk management continued

30.4 Financial risk management

The Group's normal operations, its sources of finance and changing market conditions expose it to various financial risks, which highlights the importance of financial risk management as an element of control. Principal financial risks faced by the Group are foreign currency, interest rate, equity price, credit, liquidity and insurance risk.

The Group's treasury function provides a centralised service to the Group for co-ordinating access to domestic and international financial markets and the managing of foreign currency, interest rate and liquidity risk. The aforementioned risks are managed, subject to the limitations of the local markets and the regulations of the Central Bank of the country in which the various Group companies operate. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed annually by the Board.

The Group uses a number of derivative instruments that are transacted for foreign currency and interest rate risk management purposes only. There has been no significant change during the reporting period to the types of financial risks faced by the Group, the measures used to measure them or the objectives, policies and processes for managing them.

During the previous reporting periods the three international rating agencies downgraded South Africa's sovereign credit rating due to increased perception of political risk and the risk of policy shifts that could undermine fiscal and economic growth in South Africa. Fitch downgraded the local and foreign currency rating to sub-investment grade. Standard and Poor's only downgraded the foreign currency rating to sub-investment grade and downgraded the local currency rating by one notch which is still investment grade. Moody's downgraded South Africa's foreign currency and local currency by one notch, which is still considered investment grade but placed South Africa under ratings watch with a view to downgrade in the first quarter of 2018. A shift in political leadership in December 2017 has led to a new positive outlook for South Africa and in light of the renewed confidence, Moody's re-affirmed its rating and changed the outlook to stable in March 2018.

The Group looks to mitigate risk exposure as best possible and has implemented strategies in order to manage the impact of ratings downgrades through segmented propositions and micro bundles, more relevant data offerings to evolve with customer behaviour, using hedging instruments such as forward contracts, and continuously extending our debt maturity profile to alleviate refinancing and reallocation risk. The Group balances the debt structure between fixed and floating interest rates to protect against upward movement in rates but allowing for participation in downward movements.

30.4.1 Market risk management

The Group's activities expose it to the risks of fluctuations in foreign currency exchange rates (Note 30.4.1.1), interest rates (Note 30.4.1.2) and equity prices (Note 30.4.1.3).

Market risk exposures are measured using sensitivity analyses, which show how profit post tax or equity post tax would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. Sensitivity analyses are for illustrative purposes only as, in practice, market rates rarely change in isolation. Details of changes in the methods and assumptions used in preparing the sensitivity analyses are disclosed in the respective sensitivity analyses.

Notes to the consolidated annual financial statements continued

30. Financial instruments and risk management continued**30.4 Financial risk management continued****30.4.1 Market risk management continued****30.4.1.1 Foreign currency risk management**

Various monetary items exist in currencies other than the functional currencies of the entities within the Group. The tables below disclose the net currency exposure (net carrying amount of foreign-denominated monetary assets/(liabilities) expressed in the presentation currency of the Group) per functional currency. The Group is mainly exposed to the euro and United States dollar and to a lesser extent to the Congolese franc, pound sterling, Swiss franc, Australian dollar, Tanzanian shilling, Mozambican metical, Mauritian rupee, Lesotho maloti, Nigerian naira, Zambian kwacha, West African franc, Central African franc, Ghanaian cedi, Kenyan shilling and South African rand which are combined as Other.

Rm	Euro	United States dollar	Other
2018			
Functional currency			
South African rand	5	(1 035)	(16)
United States dollar	(33)	–	(62)
Tanzanian shilling	33	861	(12)
Mozambican metical	(21)	359	(81)
Nigerian naira	(1)	19	–
	(17)	204	(171)
2017			
Functional currency			
South African rand	(63)	(699)	(26)
United States dollar	(5)	–	(141)
Tanzanian shilling	(65)	494	(13)
Mozambican metical	3	(463)	(36)
Nigerian naira	(5)	61	–
	(135)	(607)	(216)

The Group's South African operations manages its exposure to fluctuations in foreign currency exchange rates by entering into foreign exchange forward contracts for foreign-denominated transactions. The contracts are entered into for specific transactions and are matched with anticipated future cash flows, in foreign currencies, primarily for the purchase of capital equipment, inventory and to a lesser extent operating expenditure. The Group's policy is generally that entities within the Group borrow funds denominated in their respective functional currencies, however, in those instances where funds are borrowed in foreign-denominated currencies and a forward market exists, exposure to fluctuations in foreign currency exchange rates is managed by entering into foreign exchange forward contracts.



30. Financial instruments and risk management continued

30.4 Financial risk management continued

30.4.1 Market risk management continued

30.4.1.1 Foreign currency risk management continued

The tables below provide a currency split of the Group's net derivative financial assets and liabilities relating to material open foreign exchange forward contracts at the reporting date:

Rm	2018	2017
Forward contracts to buy foreign currency		
Euro ¹	(42)	19
Pound sterling ²	(1)	–
United States dollar ³	(118)	10
Net derivative financial (liability)/asset	(161)	29
Notes:		
Foreign contract values amount to:		
1. €93 million (2017: €85 million)		
2. £1 million (2017: £1 million)		
3. US\$260 million (2017: US\$124 million)		
Forward contracts to sell foreign currency		
Euro ¹	1	(3)
United States dollar ²	3	–
Net derivative financial asset/(liability)	4	(3)

Notes:

Foreign contract values amount to:

1. €1 million (2017: €7 million).

2. US\$14 million (2017: US\$9 million).

Of the R156 million net liability (2017: R26 million net asset), R16 million (2017: R72 million) is reported in trade and other receivables and R172 million (2017: R46 million) in trade and other payables.

Foreign currency sensitivity analysis

The analysis below, expressed in the Group's presentation currency, discloses the Group's sensitivity to the specified percentage change in the material functional currencies against the relevant foreign currencies exposed to. Management's assessment of a reasonable possible change in prevailing non-African and African foreign currency exchange rates is based on estimated interest rate differentials.

The analysis includes outstanding foreign-denominated monetary items only and adjusts their translations, at the reporting date, to the relevant functional currencies with the specified percentage change.

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30. Financial instruments and risk management continued**30.4 Financial risk management continued****30.4.1 Market risk management continued****30.4.1.1 Foreign currency risk management continued****Foreign currency sensitivity analysis continued**

A positive number indicates an increase and a negative number a decrease in profit post tax, where the functional currencies are expected to strengthen against the relevant foreign currencies. For the same percentage weakening the impact would be equal and opposite.

	Euro	United States dollar	Other
2018			
Functional currency			
South African rand (%)	21.4	25.4	5.7 – 20.3
United States dollar (%)	3.2	–	1.9 – 25.4
Tanzanian shilling (%)	3.0	6.4	1.9 – 15.1
Mozambican metical (%)	14.1	17.9	0.3 – 17.9
Profit post tax (Rm)	(117)	(472)	(2)
2017			
Functional currency			
South African rand (%)	15.9	13.8	1.4 – 20.4
United States dollar (%)	1.9	–	0.7 – 37.0
Tanzanian shilling (%)	8.5	6.5	4.2 – 22.3
Mozambican metical (%)	36.9	34.4	1.9 – 36.9
Profit post tax (Rm)	(114)	(128)	(1)

Closing exchange rates used at the reporting date are as follows:

	Euro	United States dollar	Pound sterling
2018			
Functional currency			
South African rand	14.6	11.9	16.6
United States dollar	1.2	–	1.4
Tanzanian shilling	2 773.4	2 256.4	3 162.8
Mozambican metical	76.4	62.1	87.1
2017			
Functional currency			
South African rand	14.3	13.4	16.8
United States dollar	1.1	–	1.3
Tanzanian shilling	2 389.6	2 233.8	2 801.6
Mozambican metical	72.1	67.4	84.6



30. Financial instruments and risk management continued

30.4 Financial risk management continued

30.4.1 Market risk management continued

30.4.1.2 Interest rate risk management

The Group is exposed to fair value and cash flow interest rate risk as a result of its fixed and floating rate loans receivable, borrowings, finance receivables and bank balances. The Group's interest rate profile can be summarised as follows:

Rm	2018	2017
Financial assets		
Fixed rate financial assets	7 007	6 086
Floating rate financial assets	10 650	8 939
	17 657	15 025
Financial liabilities		
Fixed rate financial liabilities	(16 098)	(6 919)
Floating rate financial liabilities	(15 756)	(24 020)
	(31 854)	(30 939)

Included in the fixed rate financial assets above is cash held in restricted deposits relating to M-Pesa customers for which the Group has an obligation to pay the interest earned on the deposit to the customer, after deducting expenses.

The floating rates which the Group is exposed to, is the South African prime, JIBAR, South African money market, LIBOR, Lesotho prime, Democratic Republic of Congo Central Bank lending rate and Tanzanian reference treasury bill rates.

The Group's policy is to maintain an appropriate mix between fixed and floating rate instruments. The Group specifically manages its exposure to interest rate risk relating to interest bearing borrowings through a target ratio of fixed and variable rate borrowings. The Group is targeting to balance the debt structure between fixed and floating interest rates to protect against upward movements in rates but allowing for participation in downward movements. To achieve this ratio, the Group may borrow at fixed rates or enter into approved derivative financial instruments.

Interest rate sensitivity analysis

The analysis below, expressed in the Group's presentation currency, discloses the Group's sensitivity to the specified basis point change in the market interest rates exposed to. Management's assessment of a reasonable possible change in market interest rates are based on economic forecasts as published by Bloomberg.

The analysis includes both derivative and non-derivative instruments at the reporting date and in the case of floating rate instruments, the analysis is prepared assuming the amount outstanding at the reporting date was outstanding for the whole year.

A negative number indicates a decrease in profit post tax if interest rates were higher by the specified basis points. If interest rates were lower by the specified basis points, the impact would be equal and opposite. There would be no material impact on equity.

	2018	2017
South African prime, JIBAR and South African money market rates		
Basis point increase	50	25
Profit post tax (Rm)	(25)	(29)

A reasonable possible change in the remaining interest rates exposed to, being LIBOR, Lesotho prime, Democratic Republic of Congo Central Bank lending rate and Tanzanian reference treasury bill rates, would have no material impact on profit post tax.

30.4.1.3 Equity price risk

The Group is only exposed to equity price risk to a small extent and therefore a reasonable possible change in equity prices will not have a material impact on profit post tax.

Notes to the consolidated annual financial statements continued

30. Financial instruments and risk management continued**30.4 Financial risk management continued****30.4.2 Credit risk management**

Loans receivable, investments, trade and other receivables, derivatives, finance lease receivables, cash and cash equivalents, and financial guarantees granted potentially expose the Group to credit risk.

The carrying amounts of financial assets, which are net of impairment losses, represent the Group's maximum exposure to credit risk, with the exception of financial guarantees granted where the amount the Group could be required to pay or fund, if called on, represents the Group's maximum exposure. The Group considers its maximum exposure per geographical class, without taking into account any collateral and financial guarantees, to be as follows:

Rm	2018	2017
South Africa	21 545	18 781
Non-South African	7 447	4 956
	28 992	23 737

In addition, the Group holds cash in restricted deposits of R3 567 million (2017: R3 245 million) mainly as a result of its M-Pesa activities, which cash is held in accounts with reputable financial institutions.

The Group's policy is to deal with creditworthy counterparties only and to obtain sufficient collateral, where appropriate, to mitigate the risk of financial loss from counterparty defaults.

The Group generally transacts with counterparties rated the equivalent of investment grade¹ and above. This information is supplied by independent rating agencies or credit bureaus, where available. If not available, other publicly available financial information, the financial standing of counterparties, the Group's own trading records or the Group's internal grading system is used for rating the credit quality of counterparties. Contractual arrangements are entered into with network operator customers as determined by regulatory requirements and industry norms. Credit exposure is further controlled by defining credit limits per counterparty which are reviewed and approved by the credit risk department. The Group's exposure and credit ratings of counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. In determining the recoverability of trade receivables, the Group considers changes in credit quality.

The Group's largest customer represents 24.6% (2017: 24.4%) of the total trade receivable balance. With the exception of the aforementioned, the credit risk for trade, finance and other receivables is generally limited due to the customer base being large and unrelated in conjunction with stringent credit approval processes. Due to this, management believes there is no further provision required in excess of the normal provision for doubtful receivables. Credit risk is limited for loans receivable due to collateral held and for cash and cash equivalents as they are placed with high credit quality financial institutions. Credit risk relating to investments and derivatives is minimised by limiting the counterparties to major local and international banks, which are closely monitored, and the Group does not expect to incur any losses as a result of non-performance by these counterparties.

The average legally agreed credit period on trade receivables is between 0 and 60 days, for all reporting periods, for the South African operations and between 30 and 39 days, for all reporting periods, for the non-South African operations.

The Group holds collateral to the value of R4 168 million (2017: R3 518 million) over certain trade and other receivables, which is made up of demand guarantees from financial institutions, exercisable on overdue invoices. Collateral held over loans receivable is disclosed in Note 11.

Note:

1. Further details regarding the downgrading of South Africa's sovereign credit rating may be found in Note 30.4 on page 87.



30. Financial instruments and risk management continued

30.4 Financial risk management continued

30.4.2 Credit risk management continued

The table below discloses the credit quality of the trade receivables of the Group's South African-based operations which are neither past due nor impaired:

%	2018	2017
High ¹	3.5	0.2
Medium ²	2.3	2.0
Low ³	94.2	97.8
	100.0	100.0

Notes:

1. High: probability of default in payments exists and possible delinquency scenario.
2. Medium: probability of financial difficulties exists resulting in arrears.
3. Low: no default in payment occurred or anticipated.

The tables below disclose an analysis of the age of financial assets that are past due but not impaired:

Rm	2018	2017
South Africa		
1 – 30 days past due	318	308
31 – 60 days past due	208	117
61 – 120 days past due	132	53
121 days to 12 months past due	104	47
More than 12 months past due	36	16
	798	541
Non-South African		
1 – 30 days past due	278	162
31 – 60 days past due	23	40
61 – 120 days past due	397	203
121 days to 12 months past due	7	21
More than 12 months past due	5	54
	710	480

Notes to the consolidated annual financial statements continued

30. Financial instruments and risk management continued**30.4 Financial risk management continued****30.4.3 Liquidity risk management**

The tables below disclose the maturity profile of the Group's non-derivative financial liabilities and those financial assets used for managing liquidity risk. The amounts disclosed are the future undiscounted contractual cash (outflows)/inflows and therefore differ from both the carrying amount and the fair value. The tables have been drawn up based on the earliest date on which the Group can be required to settle or can require settlement and include both estimated interest and principal cash flows. Estimated interest for floating interest rate financial liabilities is calculated with reference to the applicable zero coupon yield curves, at the reporting date, as published by Bloomberg.

Rm	0-1 year	2 years	3 years	4 years	5 years	5+ years	Total
2018							
Financial liabilities							
Interest bearing borrowings	(9 093)	(13 312)	(2 664)	(4 911)	(3 525)	(4 258)	(37 763)
Non-interest bearing borrowings	(436)	–	–	–	–	–	(436)
Trade and other payables ¹	(18 073)	–	–	–	–	–	(18 073)
	(27 602)	(13 312)	(2 664)	(4 911)	(3 525)	(4 258)	(56 272)
Financial assets							
Trade and other receivables	12 604	–	–	–	–	–	12 604
Cash and cash equivalents	12 538	–	–	–	–	–	12 538
	25 142	–	–	–	–	–	25 142
2017							
Financial liabilities							
Interest bearing borrowings	(4 758)	(11 256)	(12 930)	(2 150)	(4 390)	(1 323)	(36 807)
Non-interest bearing borrowings	(436)	–	–	–	–	–	(436)
Trade and other payables ¹	(16 666)	–	–	–	–	–	(16 666)
	(21 860)	(11 256)	(12 930)	(2 150)	(4 390)	(1 323)	(53 909)
Financial assets							
Trade and other receivables	11 661	–	–	–	–	–	11 661
Cash and cash equivalents	8 873	–	–	–	–	–	8 873
	20 534	–	–	–	–	–	20 534

Note:

1. In addition, the Group holds cash in restricted deposits of R3 567 million (2017: R3 245 million) relating to mainly M-Pesa creditors, for which cash is held in accounts with reputable financial institutions.



30. Financial instruments and risk management continued

30.4 Financial risk management continued

30.4.3 Liquidity risk management continued

The tables below disclose the maturity profile of the Group's derivative financial assets and liabilities which include foreign exchange forward contracts. The amounts disclosed are the future undiscounted contractual cash (outflows)/inflows, however, for those derivative financial instruments for which gross settlement has been agreed, the cash outflows are matched in part by cash inflows, which are not reported in the tables below and if reported, the cash flows presented would be substantially lower.

Rm	0 – 1 year	2 years	3 years	4 years	5 years	5+ years	Not determinable	Total
2018								
Net settled	(195)	–	–	–	–	–	–	(195)
Gross settled								
Payable	(3 832)	(132)	–	–	–	–	–	(3 964)
	(4 027)	(132)	–	–	–	–	–	(4 159)
2017								
Net settled	(137)	–	–	–	–	–	–	(137)
Gross settled								
Payable	(2 378)	(24)	–	–	–	–	–	(2 402)
	(2 515)	(24)	–	–	–	–	–	(2 539)

The Group ensures that adequate funds are available to meet its expected and unexpected financial commitments through undrawn borrowing facilities. At the reporting date the Group had undrawn rand-denominated borrowing facilities of R3 453 million (2017: R3 331 million) and undrawn foreign-denominated borrowing facilities of US\$6 million (2017: US\$27 million), MZN388 million (2017: MZN888 million) and LSL50 million (2017: LSL45 million) available to manage its liquidity. The Group uses bank facilities and the normal operating cycle to manage short-term liquidity. The Group raises funds in bank markets and via loan funding from Vodafone Investments Luxembourg s.a.r.l and ensures a reasonable balance is maintained between the period over which assets generate funds and the period over which the respective assets are funded to manage long-term liquidity. Liquidity on long-term borrowings is managed by maintaining a varied maturity profile thereby minimising refinancing risk.

30.4.4 Insurance risk management

The Group is exposed to insurance risk as a result of its asset base as well as its customer commitments and value added services rendered. The Group is adequately covered in terms of its insurance risk profile. The annual financial statements of Vodacom Insurance Company (RF) Limited and Vodacom Life Assurance Company (RF) Limited are available at the registered office of the Group and contain further details of the value-added services and insurance risk.

Notes to the consolidated annual financial statements continued

30. Financial instruments and risk management continued**30.5 Capital risk management**

The Group finances its operations through a mixture of cash generated from operations, retained earnings, bank and other long-term borrowings. These borrowings together with surplus cash may be loaned internally or contributed as equity to certain subsidiaries.

The capital structure of the Group consists of net debt and equity. The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising return to shareholders. Capital is monitored on the basis of net debt to EBITDA.

Net debt comprises interest bearing borrowings, non-interest bearing borrowings, derivative financial instruments, bank and cash balances, bank overdrafts and financial guarantees.

EBITDA comprises earnings before interest, taxation, depreciation, amortisation, impairment losses, BBBEE charge, profit/loss on disposal of property, plant and equipment, intangible assets, subsidiaries and investment properties.

Adjusted equity comprises fully paid share capital, treasury shares, retained earnings and other reserves less trademarks and goodwill.

The Group's strategy is to maintain a net debt to EBITDA multiple of less than two. The Group's overall strategy remains unchanged from prior reporting periods. This internal ratio establishes levels of debt that the Group should not exceed other than for relatively short periods of time and it is reviewed on a semi-annual basis to ensure it is being met. The Group complied with this ratio throughout the year.

The Group's material operations are not subject to externally imposed capital requirements.

The following table summarises the capital of the Group:

Rm	2018	2017
Bank and cash balances	12 538	8 873
Borrowings and derivative financial instruments	(32 430)	(31 357)
Net debt	(19 892)	(22 484)
Equity	(70 652)	(22 996)
Capital	(90 544)	(45 480)
EBITDA and the net debt to EBITDA multiple at the reporting date is as follows:		
EBITDA	32 898	31 238
Net debt/EBITDA (times)	0.6	0.7