

17. Other reserves

17.1 Share-based payment reserve

The following equity-settled share-based payment expense is recognised in profit or loss in terms of IFRS 2: Share-based Payment:

Rm	2016	2015
Share plans (Notes 17.1.1 to 17.1.3)	(144)	(130)
BBBEE staff expense (Note 17.1.4)	(100)	(13)
BBBEE charge (Note 17.1.4)	(55)	47
	(299)	(96)

17.1.1 Forfeitable share plan ('FSP') reserve

This share-based payment arrangement is accounted for as an equity-settled share-based payment transaction.

Under the FSP, awards of performance shares are granted to executive directors and selected employees of the Group. The vesting of these shares is subject to continued employment, and is conditional upon achievement of performance targets, measured over a three-year period, for directors, senior management and other selected employees.

	Weighted average fair value at grant date R 2016	Number of shares 2016	Weighted average fair value at grant date R 2015	Number of shares 2015
Share awards				
Movements in non-vested shares:				
1 April	117.06	4 283 818	101.83	4 524 493
Granted	136.88	1 765 229	131.28	1 529 808
Forfeited	117.60	(485 269)	110.30	(292 470)
Vested	102.38	(1 141 060)	86.50	(1 478 013)
31 March	128.67	4 422 718	117.06	4 283 818
Ordinary shares available for utilisation:				
1 April		69 716 185		69 475 510
Granted		(1 765 229)		(1 529 808)
Forfeited		485 269		292 470
Vested		1 141 060		1 478 013
31 March		69 577 285		69 716 185

The fair value of the share awards on grant date were measured using the quoted market price of a Vodacom Group Limited share without adjusting for expected dividends and non-market performance conditions. Market conditions are adjusted for.

Notes to the consolidated annual financial continued

17. Other reserves continued

17.1 Share-based payment reserve continued

17.1.2 Restricted share plan reserve

This share-based payment arrangement is accounted for as an equity-settled share-based payment transaction.

Executives who have a conditional benefit in terms of their previous service contract have the option to convert a portion or all of their benefit to restricted shares for the purpose of meeting the shareholding guidelines. These shares are subject to the same conditions as those of the underlying conditional benefit.

	Weighted average fair value at grant date R 2016	Number of shares 2016	Weighted average fair value at grant date R 2015	Number of shares 2015
Share awards				
Movements in non-vested shares:				
1 April	112.93	1 581 477	111.71	1 829 159
Granted	—	—	131.99	48 210
Forfeited	—	—	110.66	(19 123)
Vested	121.92	(119 332)	111.75	(276 769)
31 March	112.19	1 462 145	112.93	1 581 477

The fair value of the share awards on grant date were measured using the quoted market price of a Vodacom Group Limited share without adjusting for expected dividends and performance conditions.

17.1.3 Vodafone performance share plan reserve

This share-based payment arrangement is accounted for as an equity-settled share-based payment transaction.

Under this plan, awards of shares are granted to executive directors and prescribed officers of the Group. During the current year 247 278 (2015: 384 782) shares were granted and no shares vested. The vesting of these shares is subject to continued employment, and, for some awards, is conditional upon achievement of performance targets, measured over a three-year period. A charge is recognised based on the fair value of the award on the grant date.

17.1.4 Broad-based Black Economic Empowerment ('BBBEE') transaction

In October 2008 the Group's shareholders approved a BBBEE transaction which entailed the issue and allotment of ordinary shares and 'A' ordinary shares representing, in aggregate, 6.25% of Vodacom (Pty) Limited's ('Vodacom SA') issued share capital to eligible employees, Broad-based Black South African Public ('Black Public'), Vodacom Black Business Partners ('Business Partners') and Broad-based Strategic partners ('Strategic partners'). The transaction was introduced to assist the Group in meeting its empowerment objectives for its South African operations.

17. Other reserves continued

17.1 Share-based payment reserve continued

17.1.4 Broad-based Black Economic Empowerment ('BBBEE') transaction continued

Components of the transaction	Notes	Percentage allocated %	Transaction value Rm	Cash received Rm
Employees: YeboYethu Employee Participation Trust ('the Trust')	17.1.4.1	1.56	1 875	–
Black Public and Business Partners: YeboYethu Limited	17.1.4.3	1.88	2 250	360
Strategic Partner: Royal Bafokeng Holdings (Pty) Limited	17.1.4.4	1.97	2 366	378
Strategic Partner: Thebe Investment Corporation (Pty) Limited	17.1.4.4	0.84	1 009	162
		6.25	7 500	900

Rm	2016	2015
Summary of the financial impact of share based payment arrangements		
Cash-settled share based payment liability		
Employees (Refer Note 17.1.4.1)	(103)	(59)
Innovator Trust (Refer Note 17.1.4.6)	(234)	(232)
	(337)	(291)
Equity-settled share based payment reserve		
Employees (Refer Note 17.1.4.1)	(66)	(17)
Black Public and Business Partners (Refer Note 17.1.4.3)	(622)	(622)
Strategic Partners (Refer Note 17.1.4.4)	(923)	(923)
Storage Technologies Services (Pty) Limited (Refer Note 17.1.4.8)	(32)	–
	(1 643)	(1 562)

Notes to the consolidated annual financial continued

17. Other reserves continued

17.1 Share-based payment reserve continued

17.1.4 Broad-based Black Economic Empowerment ('BBBEE') transaction continued

17.1.4.1 Employees

An employee ownership trust¹ ('the Trust'), was established for the benefit of all eligible employees. The Trust holds 'A' ordinary shares in Vodacom SA through its interest in YeboYethu Limited. The 'A' ordinary shares are a separate class of shares in Vodacom SA, ranking *pari passu* with the ordinary shares except that they do not entitle the holder to dividends in cash until a notional loan is repaid.

Employees participated in the transaction by being allocated units in the Trust based on a varying percentage of their guaranteed total cost of employment per annum taking into account their employment level and racial and gender classification.

As at 31 March 2016, all units were allocated and are 100.0% vested. The total forfeited units available as at 31 August 2015 (18.96%) were allocated effective 14 March 2016 with a grant date of 14 March 2016 to employees in proportion to the number of units held on this date.

The cash-settled share based payment liability as at 31 March 2016 is R103 million (2015: R59 million) and the equity-settled share based payment reserve as at 31 March 2016 is R66 million (2015: R17 million).

Note:

1. Consolidated by the Group as a structured entity in terms of IFRS 10: Consolidated Financial Statements, as issued by the IASB.

17.1.4.2 Share rights

	2016	2015
Movements in non-vested share rights:		
1 April	286 012 319	285 782 839
Granted	13 987 681	535 560
Forfeited	—	(306 080)
31 March	300 000 000	286 012 319
Vesting period of share rights granted:		
Vested	300 000 000	284 814 468
Within one year	—	1 197 851
	300 000 000	286 012 319

No share rights are currently exercisable through the notional funding mechanism. Since the funded portion of the fair value is repaid through notional dividends on the 'A' ordinary shares issued, the exercise price at the date the share rights become exercisable can vary depending to what extent the notional amounts outstanding have been recouped.

17. Other reserves continued

17.1 Share-based payment reserve continued

17.1.4 Broad-based Black Economic Empowerment ('BBBEE') transaction continued

17.1.4.3 Black Public and Business Partners

The Black Public and Business Partners hold ordinary and 'A' ordinary shares in Vodacom SA through YeboYethu Limited¹. For the first five years the Black Public and Business Partners will not be entitled to sell their ordinary and 'A' ordinary shares in Vodacom SA. After the fifth anniversary until the expiry of the 10 year lock-in period they will be entitled to sell or transfer these shares to approved BBBEE parties. After the expiry of the 10 year lock-in period the Black Public and Business Partners will be entitled to freely trade the ordinary and 'A' ordinary shares. The over-the-counter ('OTC') trading commenced on 3 February 2014. The equity-settled share based payment reserve remained unchanged.

Note:

1. Consolidated by the Group as a structured entity in terms of IFRS 10: Consolidated Financial Statements, as issued by the IASB.

17.1.4.4 Strategic Partners: Royal Bafokeng Holdings (Pty) Limited and Thebe Investment Corporation (Pty) Limited

The two Strategic Partners respectively hold ordinary and 'A' ordinary shares in Vodacom SA through two wholly-owned ring-fenced private companies named Lisinfo 209 Investments (Pty) Limited¹ and Main Street 661 (Pty) Limited¹.

The Strategic Partners will not be able to trade their shares during the first seven years of the 10 year lock-in period. After the seventh anniversary and until the expiry of the lock-in period, the Strategic Partners will be entitled to trade their shares subject to Vodacom SA having a first pre-emptive right to repurchase, and other Strategic Partners, if introduced with Vodacom SA's approval, having a second ranking pre-emptive right to purchase the shares. If none of the parties exercise their right, the Strategic Partners will be entitled to sell their shares to any other party with a similar or higher BBBEE rating than themselves, subject to Vodacom SA approval. After the expiry of the 10 year lock-in period the Strategic Partners will be entitled to freely trade their shares. The equity-settled share based payment reserve remained unchanged.

Note:

1. Consolidated by the Group as a structured entity in terms of IFRS 10: Consolidated Financial Statements, as issued by the IASB.

17.1.4.5 Funding

The difference between the value of the shares allocated and the proceeds received was funded by Vodacom SA on a notional funding basis. Initially the loan carried a notional interest rate of 9.8%, representing a nominal annual rate compounded daily ('NACD') with a maturity date of 30 September 2015. In October 2014, the interest rate on the loan was amended to 8.0% NACD and the maturity date was extended to 30 September 2018.

The BBBEE participants receive a notional dividend on the 'A' ordinary shares, which is used as a notional payment against the notional loan. If the notional loan has not been fully repaid by the notional dividends, Vodacom SA has the right to repurchase a variable number of shares from the BBBEE participants at par value. The variable number of shares will be calculated based on a specified formula which takes into account the outstanding balance of the notional loan and the underlying value of the shares held in Vodacom SA. This repurchase feature is a mechanism to redeem any outstanding notional loan balances and therefore results in an in-substance option in terms of IFRS 2, to issue a variable number of shares to the BBBEE participants in the future. Since there is no obligation on Vodacom SA to repurchase any shares, it does not render the share-based payment to be cash-settled, nor does it impact the vesting rights.

The notional funding closing balance for employees amounted to R1 620 million (2015: R1 669 million), for Black Public and Business Partners R1 385 million (2015: R1 470 million) and for Strategic Partners R2 077 million (2015: R2 205 million).

To compensate current employees and employees previously employed (collectively employees) for the reduced liquidity as a result of the extension of the notional loan maturity date to 30 September 2018, the Group provided employees with the option to subscribe for an interest free loan, repayable 1 March 2019.

Notes to the consolidated annual financial continued

17. Other reserves continued

17.1 Share-based payment reserve continued

17.1.4 Broad-based Black Economic Empowerment ('BBBEE') transaction continued

17.1.4.6 Innovator trust¹

During the 2015 financial year, the Innovator Trust, a consolidated structured entity¹, acquired shares from the existing BBBEE shareholders through the OTC trading platform of YeboYethu. The objectives of the Innovator Trust include facilitating enterprise development.

The ability of the Innovator Trust to purchase YeboYethu shares provides the Group with a choice of settlement to the BBBEE shareholders, for up to 34.0% of the YeboYethu shares. The Group can either settle the award in YeboYethu shares or repurchase the equity instruments and thereby settle the transaction in cash. With the first purchase of YeboYethu shares by the Innovator Trust in the prior year, the Group created a past practice of settling the awards in cash and recognised its present obligation to settle in cash as a deduction from equity.

The cash-settled share based payment liability as at 31 March 2016 is R234 million (2015: R232 million).

Note:

1. Consolidated by the Group as a structured entity in terms of IFRS 10: Consolidated Financial Statements, as issued by the IASB.

17.1.4.7 BBBEE valuation

Equity-settled share based payment transaction

BBBEE credentials are not separable and cannot be valued other than by reference to the fair value of the equity instruments granted. The share-based payment expense was calculated using the Monte-Carlo option pricing model, which is reflective of the underlying characteristics of the BBBEE transaction, using the following assumptions at grant dates for the grants made during the 2015 and 2016 financial year:

	2016	2015
Risk-free rate (%) ¹	6.8 – 7.9	5.5 – 7.1
Expected volatility (%) ²	22.7	22.0
Vesting period (years)	–	1.0
Contractual life (years)	2.5	1.0
Original grant valuation (Rm)	102	102
Final grant fair value (Rm)	69	–

Notes:

1. Determined from the South African swap curve.

2. Determined using historical share prices of Vodacom Group Limited.

17. Other reserves continued

17.1 Share-based payment reserve continued

17.1.4 Broad-based Black Economic Empowerment ('BBBEE') transaction continued

17.1.4.7 BBBEE valuation continued

Cash-settled share based payment transaction

The cash-settled liabilities relating to employees (compound instruments) and the Innovator Trust (ability to purchase up to 34.0% of YeboYethu shares) are measured at fair value through profit and loss at each reporting date and on settlement. These share-based payment liabilities are calculated using the Monte-Carlo option pricing model, which is reflective of the underlying characteristics of the BBBEE transaction, using the following assumptions:

	2016	2015
Risk-free rate (%) ¹	6.8 – 7.9	5.5 – 7.1
Expected volatility (%) ²	22.7	22.0
Vesting period (years)	–	1.0
Contractual life (years)	2.5	1.0
Weighted average fair value of instruments granted (Rm)	383	274

Notes:

1. Determined from the South African swap curve.
2. Determined using historical share prices of Vodacom Group Limited.

17.1.4.8 Storage Technologies Services (Pty) Limited ('Stortech')

During the current financial year, a Special Purpose Vehicle ('SPV')¹ was created pursuant to a BBBEE deal to acquire a 44.0% shareholding in a subsidiary of the Group, Stortech. The SPV is held by two BBBEE shareholders with a respective shareholding of 70.0% held by a non-executive director of Vodacom Group and 30.0% held by In2salad (Pty) Limited. The purchase price amounting to R72 million was partially funded by loans guaranteed by Vodacom SA with the shares in the SPV acting as the only security. The transaction was finalised on 15 September 2015 and the new structure provided Stortech with the necessary black female and black shareholding that it requires for qualifying BBBEE credentials in terms of the BBBEE codes.

The transaction represents an in-substance option for the BBBEE shareholders to acquire a variable number of shares in the future. The option falls into the scope of IFRS 2 as the BBBEE shareholders receive shares in Stortech at a discount to fair value in exchange for BEE credentials. The scheme is an equity-settled share-based payment arrangement. The IFRS 2 charge amounted to R32 million and was recognised as an expense immediately on grant date. An option pricing model has been used to value the option on grant date. There are no subsequent measurement considerations as this is an equity-settled scheme. The option pricing model used the following assumptions:

The charge for the current financial year was R30 million and the equity-settled share based payment reserve as at 31 March 2016 is R32 million.

Valuation date	15 September 2015
Maturity date	15 September 2020
Weighted average fair value of instruments granted (Rm)	64
Strike price (Rm) ²	40
Risk-free rate (%) ³	6.2 – 8.7
Expected volatility (%) ⁴	36.9
Dividend yield (%) ⁵	3.2 – 9.4
Market value of underlying equity (Rm)	107
Share-based payment expense (Rm)	32

Notes:

1. Consolidated by the Group as a structured entity in terms of IFRS 10: Consolidated Financial Statements, as issued by the IASB.
2. The starting value for the strike price input into the option pricing model is the loan carrying value on grant date.
3. Determined from the South African swap curve.
4. Determined using the weighted average volatility of 3 peer companies as a proxy for Stortech's volatility.
5. Determined using the dividend per share forecasts for Stortech in conjunction with projected future share prices as at the dividend payment dates.