BLUE LABEL TELECOMS

INTEGRATED ANNUAL REPORT 2017

Blue Label is a **magnet for foot traffic** with over **half a million touch points** globally

a magnet for foot traffic

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www.bluelabeltelecoms.co.za

Key facts

Founded in
2001

Business model underpinned by **long-term distribution contracts**

Main products and services:

- airtime, starter packs, data, hardware, postpaid contracts and content;
- electricity and water;
- ticketing; and
- financial, fintech and value-add services.

BLUE LABEL
TELECOMS

Maiden dividend paid in September 2010

- Listed as BLU on JSE in 2007
- Market capitalisation **R14.2 billion**
- Free float 57% with diverse institutional shareholders
- ADRs launched in 2013

CSI spend **R8.5 million** and skills spend **R9.4 million**

Highlights

INCREASE IN REVENUE TO

R26.3 billion

INCREASE IN GROSS PROFIT OF 19% TO

R2.2 billion

INCREASE IN EBITDA OF 7% TO

R1.3 billion

INCREASE IN EARNINGS PER SHARE OF 14% TO

117.92 cents

INCREASE IN HEADLINE EARNINGS PER SHARE OF 18% TO

117.98 cents

INCREASE IN CORE HEADLINE EARNINGS PER SHARE OF 17% TO

120.09 cents

INCREASE IN DIVIDEND PER SHARE OF 11% TO

40 cents

NET ASSET VALUE PER SHARE AMOUNTED TO

R7.32

INCREASE IN CASH AND CASH EQUIVALENTS BY R762 MILLION TO

R1.35 billion

Business model

INVESTMENT PROPOSITION

THE APPEAL OF PREPAID PRODUCTS AND SERVICES

TO CONSUMERS:

- Consumers have an alternative of how to pay for products and services – prepay or as it is sometimes described as "pay-as-you-go".
- Prepaid products and services are the ultimate budgeting tool, as consumers have absolute choice and control over what they spend.
- The majority of prepaid transactions are cash based, thereby removing the requirement for credit vetting.
- Prepaid products and services can be conveniently topped up, either virtually or physically, as and when required by consumers.
- Prepaid products and services are sold across a broad footprint of traditional and non-traditional outlets.
- Prepaid products and services enable the world's unbanked and badly banked consumers to purchase first-world products and services in a manner which suits them and allows consumers to transact as and when they wish.

TO SUPPLIERS:

- Prepaid products and services are cash upfront, thereby guaranteeing payment.
- Guaranteed payments translate into no need for debtor collections and in turn, no bad debts.

TO MERCHANTS:

- Blue Label's expanding distribution network covers over 150 000 devices, from major retail chains to registered individuals. We continue to expand our footprint across the emerging markets of India and Mexico.
- Blue Label's prepaid products and services allow for multiple products to be sold from one device, thereby enabling merchants to have multiple revenue streams utilising a relatively small retail space.
- Prepaid products and services are delivered virtually, thereby eliminating stock management.

BUSINESS MODEL STRENGTHENED

- Business founded in 2001 by entrepreneurial thinkers and commercial implementers.
- Business model strengthened by restructuring and consolidation ahead of listing.
- Listing in November 2007, raised R1.3 billion.
- Governance and compliance structure strengthened.
- Global shift in consumer transactional behaviour: from credit to debit to prepaid terms.
- High-volume low-margin distribution and sale of e-tokens of value.
- Leveraging favourable working capital management.
- Typical market in emerging and developing economies.
- Target market is world's unbanked and underbanked consumers.
- Enabling access to prepaid products and services.
- Strong barriers to entry for competitors include entrenched relationships, vendor lock-up through systems integration, ubiquity of POS and proprietary technologies.
- Long-term contracts with suppliers.
- Long-term relationships with participants across seven main distribution channels.
- Holds approximately 60% of South African prepaid airtime and about 50% of prepaid electricity market.
- In-house developed and maintained proprietary technology.
- Monetising existing footprint by offering additional value-added services.
- Processes over five billion transactions per annum.
- CSI programme.
- Creative, youthful and talented management team.

OUR BUSINESS MODEL

Business model strengthened since listing + positive cash generation + robust growth footprint + resilience to fluctuations in economic conditions

POSITIVE CASH GENERATION

- Cash-generative business even during recessionary times.
- Trading revenue predominantly from sales of prepaid virtual and physical mobile and data airtime, prepaid electricity, hardware and postpaid contracts, tickets for events, sports and transport, insurance and other financial and value-added transactional services via its wholesale, retail and merchant distribution footprint.
- Trading and annuity revenue from sale of starter packs, their activation and ongoing utilisation.
- Annuity revenue from subscription-based services.
- Interest income derived from a combination of high-revenue volumes and favourable trading terms.
- Annual dividend policy.
- Capital expenditure relates mainly to point-of-sale devices and IT requirements.

ROBUST GROWTH FOOTPRINT

- Licensing of technology as an alternative to equity investment.
- Expanding goods and service offerings in South Africa: prepaid electricity, prepaid water, ticketing, loyalty programmes, bill payments, debit and credit card acquiring, money transfers.
- Replicating business model in other emerging markets, as in India and Mexico.
- Imparting offerings and learnings across global footprint.
- Established systems and infrastructure through airtime offerings, facilitating the introduction of new products and at relatively nominal incremental costs.
- Growth prospects, through both organic and by mergers and acquisitions.

Our business

With at least 50% of the global population without access to bank accounts, our prepaid offerings are a lifestyle enabler for the majority of people in the countries we service.

Blue Label is a JSE-listed company that provides innovative technology for mobile commerce to emerging markets in South Africa and abroad.

Consumers are located in rural and urban areas and our services enable them to interact and transact on an equal footing. We reach them by utilising both physical and virtual distribution channels. We are a lifestyle enabler, rather than a technology disruptor.

We target many of our services at consumers who do not have easy access to bank accounts, and we provide them with the convenience of being able to transact whenever is suitable to them. Our solid reputation is our licence to operate.

We know that prepaid provides certainty and believe that if a product can be digitised, we can create it and distribute it.

We are innovative and entrepreneurial. We focus on managing the last mile of the m-commerce distribution network.

We offer suppliers and merchants a mechanism to sell multiple products and services without incurring additional costs. We utilise neutral aggregation and intelligent switch capabilities with our proprietary technology, which offers multiple products and services that are distributed through a single interface. This allows the convergence of all suppliers under one roof.

We operate in South Africa, Mexico (Blue Label Mexico) and India (Oxigen Services).

Our business model is based on strategic partnerships, underpinned by long-term contracts and we market our products directly to customers through our expanding distribution channels and our increasing number of retail outlets in small towns and township shopping centres.

Our strategy is to extend our global footprint of touch points, both organically and through acquisitions. As a single distributor, we are able to utilise a variety of delivery mechanisms to service numerous merchants or vendors, providing multiple prepaid products and services that serve the ever-increasing need for them.

Our products and services include:

Airtime, hardware, starter packs, data and postpaid contracts

Prepaid electricity and water

Ticketing for events, sports and transport

Financial, fintech and value-added services

Vision, mission and values

OUR VISION

is to be the leading global distributor of secure fintech products and services within emerging markets.

OUR MISSION

is to provide products and services required by the middle and lower tiers of the world's economic pyramid. We focus on diversifying the range of products and services we offer, while expanding our distribution footprint through organic and acquisitive growth.

OUR VALUE SYSTEM

Customer service orientation

Customers are our most important assets and our function is to satisfy their expectations in a sustainable manner.

Achievement and drive to succeed

We recognise and reward the achievement of goals and targets. We celebrate creative and exceptional deliverables.

Honesty and integrity

By conducting ourselves with honesty and integrity in all interactions, we create trust which is a key driver to maintaining stakeholder relationships.

Enjoyment

We believe in creating an enjoyable work environment in which we motivate and incentivise employees to be more productive and creative.

Collaboration

Consulting and working together as a team towards a common goal ensures that we can achieve our objectives, simultaneously developing sustainable value propositions for each stakeholder grouping.

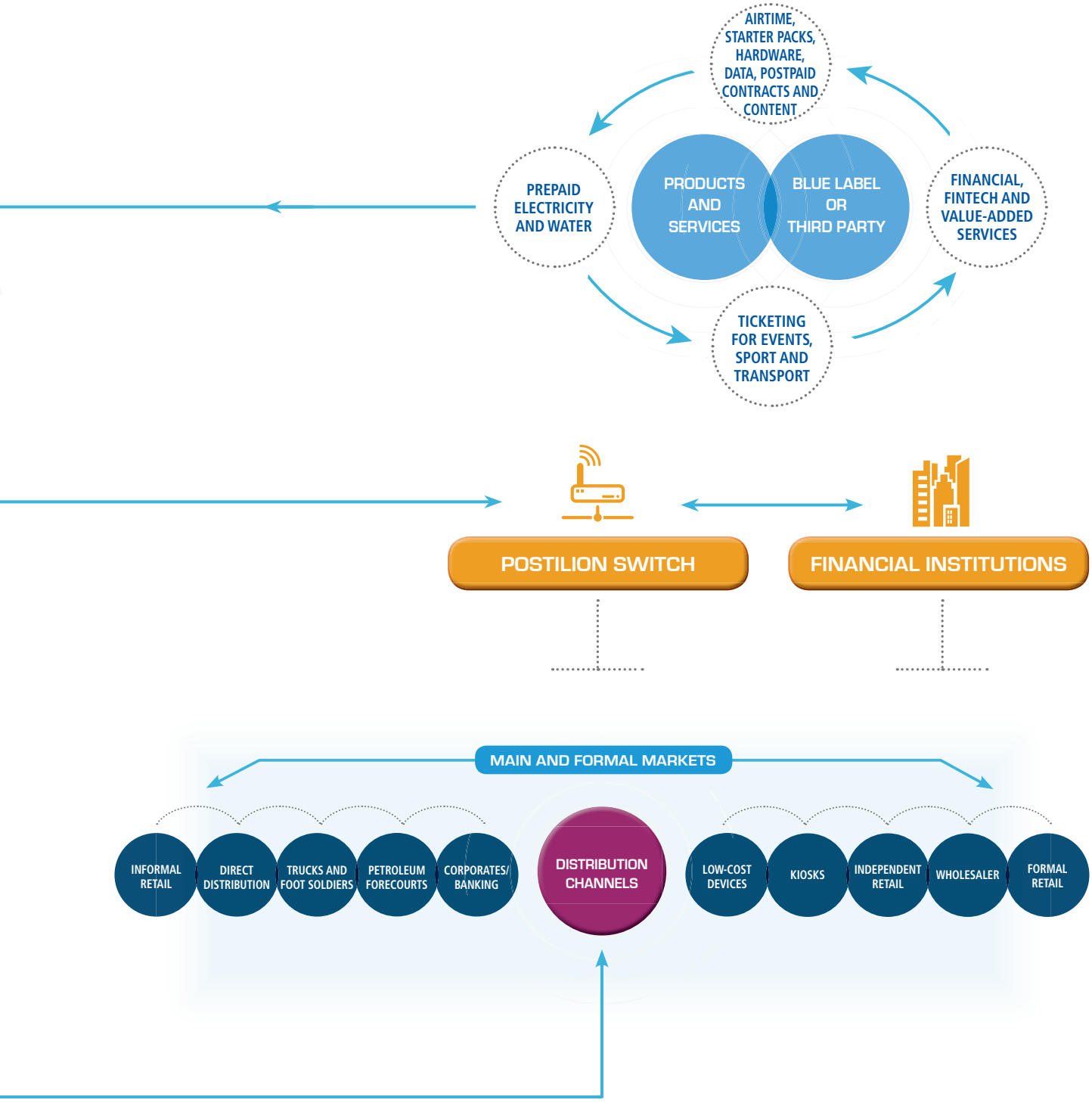
How we work – business illustrated

Blue Label Telecoms is:

- the owner of scalable and transferable proprietary technology;
- distributor of products and services in an open loop:
  - hardware agnostic; and
  - product and services agnostic;
- a payment facilitator.

Blue Label Telecoms further is:

- a virtual mall:
  - our products and services require no stock management for the merchants, thereby eliminating obsolescence
  - our devices accommodate all methods of payment by the consumer.



Approach and reporting frameworks

Approach

This is Blue Label's seventh integrated annual report, which continues to document the journey of our unique story, encompassing how the entrepreneurial Levy brothers envisioned and then built a business which listed on the JSE as Blue Label Telecoms Limited in 2007. Simultaneously, the report shares with stakeholders Blue Label's integrated thinking as it implements its strategy across the Group.

In following the recommendations of the King Code of Governance Principles for South Africa and the structure set out by the International Integrated Reporting Council's framework, Blue Label's process aims to link material Group information with reference to strategy, governance, performance, remuneration and prospects in a manner which enables stakeholders to obtain a view of the commercial, social and environmental context within which the Group operates.

This integrated annual report is the Group's primary report. It covers its business segments and its financial and operational performance for the financial year ended 31 May 2017. Non-financial and sustainability information is limited to the South African operations, as our international operations are not required to report on these matters.

The report contains issues material to our strategy and of interest to our stakeholders. Blue Label has mapped its stakeholders, in particular its relationship with its employees, providers of capital, the media, customers, business partners and suppliers, communities, educational institutions and government bodies. These stakeholder groupings receive more structured engagement processes than other groupings and the level of inclusivity with these stakeholders is correspondingly more integrated into the Group's strategic thinking (refer to the stakeholder relations section on pages 51 to 55.)

The integrated annual report provides a detailed understanding of the financial aspects of the Group's business. The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa.

This report contains the notice of Annual General Meeting, proxy form and information to enable shareholders to exercise their vote on the resolutions to be put to the meeting. The notice and other related disclosures have been condensed into a booklet for physical distribution to shareholders at their request. The complete integrated annual report is also produced and is available for viewing and download via the website.

Various supporting documents to the Group's library of disclosure, such as results presentations, short-form advertisements and SENS announcements are accessible via the website.

Ultimately, the report aims to provide stakeholders with the means to assess the Group's ability to create and sustain value over the short, medium and long term.

Reporting frameworks

This report has been compiled in line with the requirements of King IV report on corporate governance for South Africa 2016 (King IV) and the principles of the International Integrated Reporting Framework. This is the first reporting cycle that requires King IV adoption and disclosure. The disclosure requirements of King IV have been adopted in this year's integrated annual report, as far as possible, and explain the continuation of robust governance principles and practices adopted under King III and some of the transitional initiatives to adopting King IV.

Blue Label utilises a risk-based model which identifies internal risks and stakeholder issues, in order to determine the material content of the report.

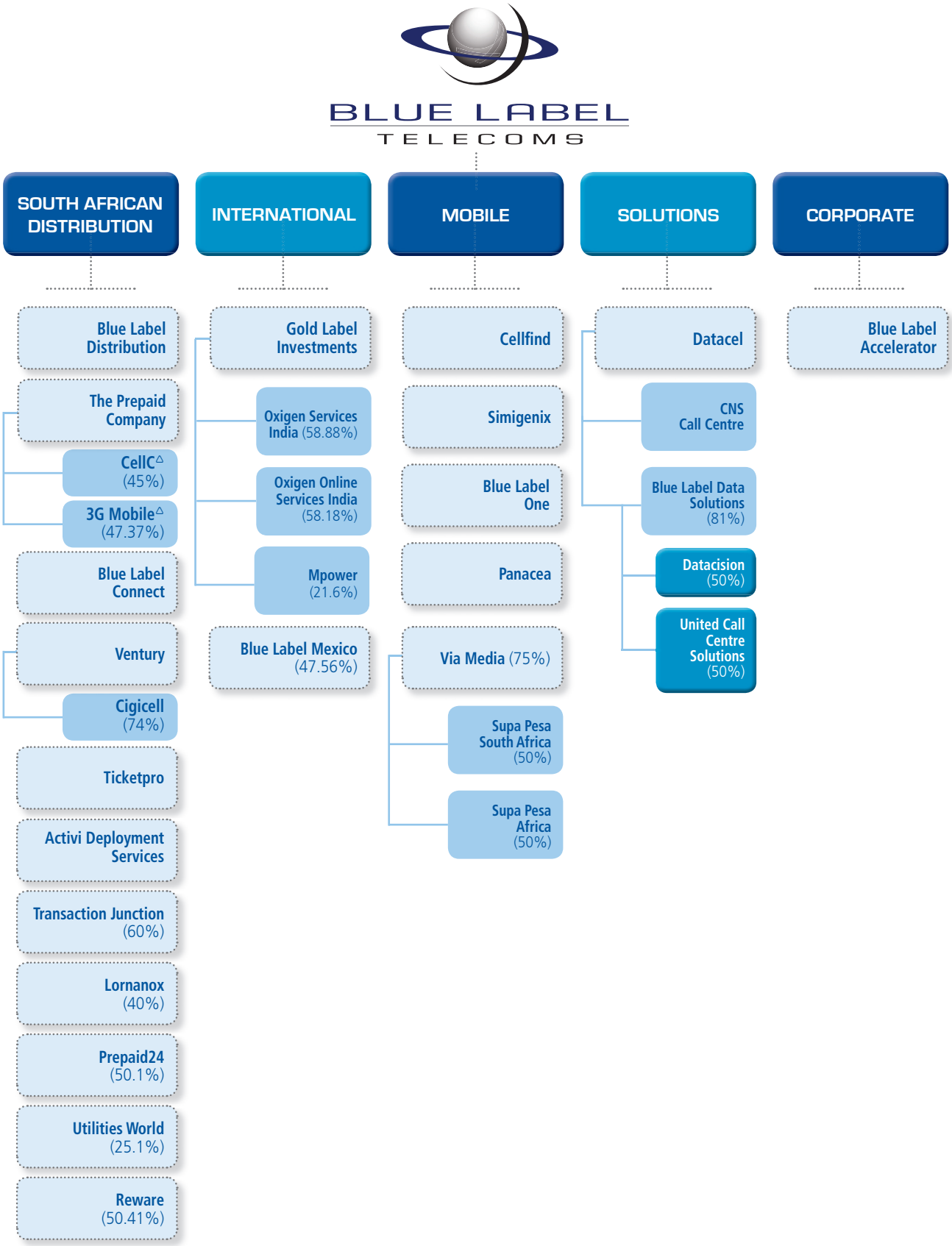
Board responsibility and approval statement

Our process of integrated reporting continues to evolve and at this stage the Group has not sought external assurance of the content or part thereof apart from the annual financial statements, which the external auditor, PwC, has provided assurance as confirmed in the independent auditor's report. The Board, assisted by its Audit, Risk and Compliance Committee, is ultimately responsible for overseeing the integrity of the integrated annual report. The Board has applied its collective mind to the preparation and presentation of the integrated annual report and has concluded that it is presented substantially in accordance with the principles of the International Integrated Reporting Framework.

The integrated annual report was approved by the Board and signed on its behalf by:

Larry Nestadt
Chairman

Group operating structure



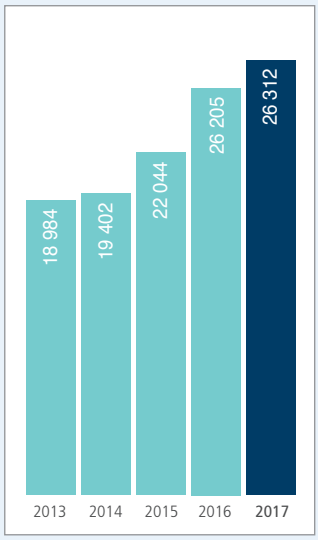
** 100% unless otherwise stated.*
△ Acquired subsequent to year-end.

Ten-year review

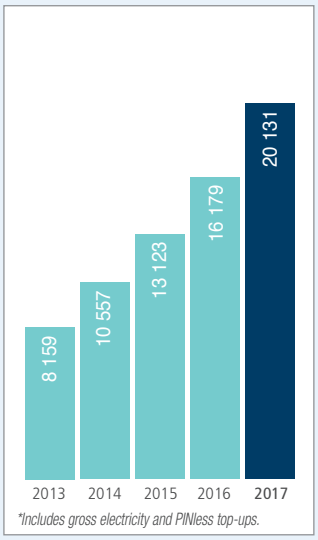
	2017 R'000	2016 R'000	2015 R'000
Revenue	**26 311 875**	26 204 722	22 044 222
Gross profit	**2 172 582**	1 829 694	1 644 340
GP (%)	**8.26**	6.98	7.46
EBIT	**1 218 472**	1 142 376	986 146
EBITDA	**1 331 323**	1 240 559	1 080 165
Net profit attributable to the parent	**786 965**	691 590	577 617
Cash from operating activities	**1 361 959**	432 942	132 495
Cash and cash equivalents	**1 350 666**	589 027	788 411
Capital expenditure	**113 280**	127 131	178 684
Ratios			
EPS (cents)	**117.92**	103.85	86.86
HEPS (cents)	**117.98**	100.35	82.26
Core HEPS (cents)	**120.09**	102.85	85.11
NAV per share (cents)	**731.98**	662.32	578.87
Dividends declared per share (cents)	**40***	36*	31*
Dividend cover on headline earnings (cents)	**2.25***	2.75*	2.62*
Weighted average number of shares ('000)	**667 349**	665 950	665 030
Number of employees at year-end – subsidiaries	**796**	776	1 305

** Gross ordinary dividend.*
*** Figures relate to the pro forma unaudited information.*
**** Includes a once-off income receipt of R79.4 million.*

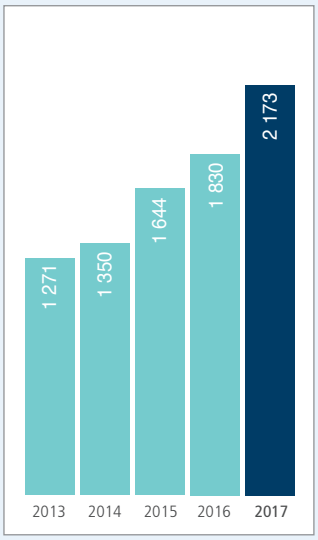
Revenue
(R'million)



Gross PINless transactional values* (R'million)

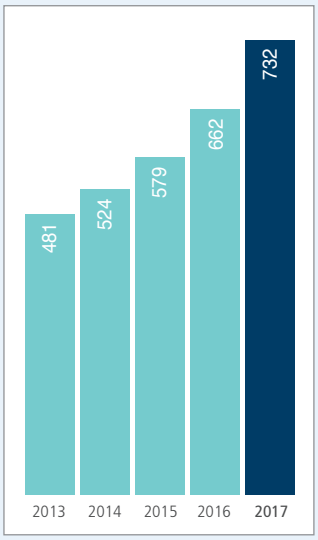


Gross profit
(R'million)

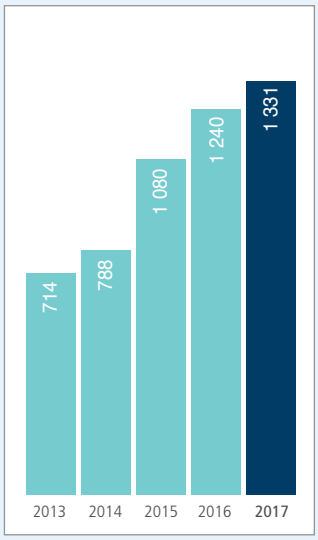


2014 R'000	2013 R'000	2012*** R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
19 401 666	18 984 210	18 722 080	18 601 571	17 027 696	15 281 449	12 930 609**
1 349 534	1 271 245	1 208 077	1 124 569	1 174 224	1 065 609	719 102**
6.96	6.70	6.45	6.05	6.90	6.97	5.56**
722 856	645 671	643 828	517 060	569 459	474 847	273 254**
787 993	713 622	735 385	710 192	689 244	568 067	346 929**
450 230	424 841	438 104	431 448	365 022	390 547	269 423**
907 332	(439 794)	528 109	427 663	515 910	666 994	(19 796)
1 184 131	941 282	1 975 242	2 226 170	2 054 902	1 756 806	1 328 294
149 089	291 605	164 485	186 196	195 817	103 496	70 136
67.88	64.22	61.87	57.04	48.17	51.13	35.16**
67.98	64.17	64.65	46.20	48.27	51.63	34.86**
69.54	66.08	67.15	49.50	52.44	56.43	48.10**
524.40	480.77	432.08	388.90	342.76	294.04	249.17
27*	25*	23*	14	12	—	—
2.48*	2.52*	2.95*	3.30	4.02	—	—
663 298	661 578	708 060	756 359	757 793	763 834	766 361
1 176	1 112	1 216	1 357	1 620	1 979	1 616

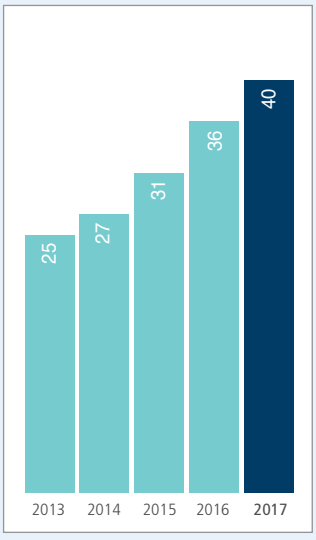
NAV per share
(cents)



EBITDA
(R'million)



Dividends declared per share
(cents)



Understanding material matters

Fluctuating economic conditions, including political, social and environmental conditions in South Africa and on the international front

These factors can affect consumer health, and in turn could have an adverse effect on revenue and profitability, in spite of the Group's historical resilience to adverse economic conditions.

It has been the Group's experience that the diversity of its mix of products and services and distribution channels has limited its exposure to economic downturns. Consumers appear to be unwilling to reduce spending on utilities, transport and airtime. In this regard the Group's products continue to be in demand and remain resilient to downturns. The Group is focusing on its existing platforms, both locally and internationally. Its vast geography of point-of-sale presence afford continuous opportunities to provide additional products and services to be expedited on these expanding points of presence.

Margin compression

The network operators determine the margins to the prepaid airtime distribution channel. The Group may not always be able to pass on to the retailer, merchant or customer any margin compression enforced by the network operators.

Management is confident, that based on historical trends, the Group will be able to continue to pass on any margin compression to the distribution channel. Any margin compression is also likely to eliminate inefficient distributors out of the distribution channel. In addition, the Group is constantly looking to introduce new product and service offerings at comparatively higher margins than its traditional business, through the leverage of its significant distribution footprint and merchant relationships.

Interest rates

Fluctuations in interest rates have an impact on the cost of Group borrowings.

Foreign exchange rates

Fluctuations in exchange rates have an impact on the results reported from, and any refinancing required by, associate and joint venture companies located in India, Mauritius and Mexico.

Non-compliance with legislation

Non-compliance with legislation applicable to the Group could lead to fines and negative reputational impact, i.e. POPI, CPA, WASPA legislation, Companies Act, Income Tax Act, Value Added Tax Act, JSE Listings Requirements, OHSA, BEE Act, Employment Equity Act, industry charters and scorecards.

Legislation that affects the Group is identified, analysed and categorised according to its impact and relevance. The process is ongoing in order to test and ensure total compliance at an operational level.

The compliance function is managed by Group Legal and Company Secretarial, as assisted by the internal auditor.

Ability to attract and retain skilled resources

The Group's future performance will depend largely on the efforts and abilities of its key personnel and employees. The existing Group Executive Management pioneered the mass prepaid market and established the Group's business model. The Group's future success will depend, in part, upon its ability to continue to attract, retain, motivate and reward personnel, including executive officers and certain other key and specialised employees. There is a dearth of suitable technical skills in the ITC sector.

The joint CEOs and co-founders are both substantial shareholders and are dedicated to the sustainability and growth of the Group.

Key members of the management team are bound by service and restraint agreements and in most instances they are shareholders of Blue Label via the forfeitable share scheme. Executive Management has implemented talent management and succession planning in key areas of the Group. Appropriate skills transfer activities are ongoing through on the job and other training programmes.

The RNC has approved remuneration policies which include long-term retention benefits, short-term incentives and an outperformance bonus. In addition, key components of the Group's remuneration policy include retention.

Increasing exposure to issues such as data security, breaches in technology security or privacy

As the bulk of the Group's inventory is of a virtual nature, defence against cybercrime is a top priority, as susceptibility to hacking and the penetration of firewalls and other defence systems are always matters of extreme concern.

The Group is dependent on the systems and platforms that it utilises to deliver its products and services, as well as management of its merchant base. In recent years, technology spend has been increasing in recognition of this key imperative, in order to support not only organic and acquisitive growth in the business (and the concomitant rise in the number and type of transactions processed), but also to improve system availability and resilience. This invariably includes a major focus on the security of all systems, both production and enterprise, in order to suitably detect and manage security threats, as well as the ability to recover from collateral damage that may be caused as a result of cyber security breaches.

Elimination of the middle man

In most industries a wholesaler is at risk of being eliminated from the supply chain if the supplier has the infrastructure and capabilities to supply the customer directly.

From inception, the objective of the Group was to become a one-stop destination for the supply and distribution of all of the mobile network offerings. This would provide both convenience and efficiency to the retailer and customer. Furthermore, the technology and footprint developed by the Group allows retailers to earn additional revenue by introducing additional products. This would make it difficult to disintermediate the Group.

No single network can offer this complete solution.

The introduction of the sale of prepaid electricity tokens and its phenomenal uptake in South Africa, strengthens the Group's foothold as a one-stop destination that is most convenient to the retailer. The Group's increasing bouquet of products and its neutral aggregation thereof will continue to ensure that its middle-man status as distributor is essential to the retailer and will remain entrenched. The Group will continually develop and upgrade new, innovative products to strengthen the foundation of its middle-man status. Many merchants have limited cash flow; however, utilising the Group's vending solutions allows them to vend products and services which they previously could not afford. The lack of affordability was due to various complexities, such as managing stock levels, obsolescence, pilferage at store level, the inability to order small quantities and access to limited stock ranges.

In addition the introduction of a growing suite of products necessitates that the Group not only excels in the sourcing, management and delivery of these products and the management of relationships in its merchant base, but simultaneously delivering an excellent supporting back-office capability – including the ability to deliver and manage reconciliation and settlement on behalf of its customers, extensive and professional merchant support services, and deep technology support for online and integrated systems. These competencies make it even more difficult for the Group to be disintermediated, because of the significant value that it provides to merchants, not only in the products and services that it delivers, but also in respect of the increasingly complex back-office support functionality required to deliver such services.

The Group is an aggregator and an enabler to both its customers and suppliers.

Without a distributor, every one of the four mobile operators and around 200 utilities across South Africa would need to deploy a device linked to technology at every merchant in the country, in order to provide the same access and level of service as that of which the Group has to offer.

In comparison to the amount of commission the mobile network operators afford the Group for distribution, it would be more costly to them and they would not be able to provide the same level of service if they were to do it themselves. In addition, the Group provides the capex, field support, R&D and call centre services to the merchant base.

Understanding material matters continued

Disaster recovery and continuity of business

The Group has developed proprietary technology supporting the roll out of its bouquet of products and services. Its infrastructure connects into some of South Africa's major banks, public and private utility companies and telecommunication operators. In addition, the Group switches both debit and credit cards, electronic funds transfer transactions and e-token products on behalf of the country's leading retailers and petroleum companies. The effective and continuous operation of this infrastructure is critical to the Group's service delivery.

Management recognises the importance assigned to IT in its corporate governance systems. The Group's business continuity and disaster recovery plan provides guidance for emergency and crisis management, business unit recovery and technology disaster recovery. The latter includes the restoration of IT facilities. The plan describes the IT framework and procedures to be activated in the event of a disaster.

The major goals of the plan are to:

- minimise interruptions and limit damage to normal operations;
- minimise the economic impact of the interruption;
- establish alternative means of operation in advance;
- train personnel on emergency procedures;
- provide for rapid restoration of service, ensuring availability/ continuity of critical business operations; and
- communicate appropriately to relevant stakeholders.

Investments in Cell C and the 3G Mobile group

The investment of R5.5 billion in Cell C and R1.9 billion in the 3G Mobile group represent a significant percentage of the market capitalisation of Blue Label Telecoms.

The failure of Cell C would not only negatively impact the investment therein, but would have a compounded effect on the 3G Mobile group, in that a significant portion of its profitability stems from its trading relationship with Cell C.

In order to contribute to the success of Cell C, Blue Label has representation on the board of directors, which will afford it complete oversight of the performance of the Company and ensuring that the agreed strategy is adhered to.

The above contributions, combined with the major reduction in interest-bearing debt and foreign exchange exposure thereto, are all positive indicators for sustainable success in longevity.

Ethical leadership and business conduct

Good corporate governance is essentially about effective and responsible leadership. It is characterised by the ethical values of responsibility, accountability, fairness and transparency. The typical aspects of corporate governance, such as the role and responsibilities of the Board and Directors individually, internal audit, risk management and stakeholder engagement rest on a foundation of ethical values.

Blue Label's ethical standards are encapsulated in its ethics statement (page 35), which serves as a framework for ethical reasoning applicable to all employees in their dealings with both internal and external stakeholders. The ethics statement applies to employees across the Group, customers, business partners, suppliers and other stakeholders. Each is requested to uphold the ethical principles underpinning the statement, thereby enabling us to live our values.

The purpose of the ethics statement is to:

- emphasise the Group's commitment to ethics and compliance with laws and regulations;
- set out basic standards of ethical and legal behaviour;
- provide reporting mechanisms for known or suspected ethical or legal violations; and
- help prevent and detect wrongdoing.

Blue Label reiterates its stance on the following matters:

- fraudulent, corrupt or illegal practices are not tolerated. Bribes or any other illicit payments including facilitations will neither be paid nor received;
- the Group does not participate in any illegal anti-competitive activity. Employees cannot authorise or participate in any illegal conduct or action that purports to restrict competition; and
- the Group is non-political.

Employees are expected to demonstrate ethical business practices at all times. All new staff members undergo an induction programme that includes training on the above code of business conduct, including the function of the ethics hotline, such as what should be reported and how to report unethical behaviour via this channel. The ethics hotline is outsourced to KPMG Ethics Line, a division of KPMG, and has been certified by EthicsSA as fulfilling the External Whistleblowing Hotline Service Provider Standard EO1.1.1. This standard is a best practice set of guidelines or norms for the professional and ethical conduct of external whistleblowing hotline service providers operating their own centres or facilities.

A number of incidents were reported during the year. All incidents were human resource-related and were resolved by the Group Head of Human Resources and the relevant line managers, in terms of the Group's policies and procedures.

Board of Directors

1. LAURENCE (LARRY) NESTADT

Independent Non-Executive Chairman
Born: 1950

Larry Nestadt has a long and successful global corporate career. He is a co-founder and former executive director of Investec Bank Limited. Larry has been instrumental in the creation and strategic development of a number of listed companies including Capital Alliance Holdings Limited (Capital Alliance Life – acquired by Liberty Life; Capital Alliance Bank – now Brait), Super Group Limited, HCI Limited, SIB Holdings Limited, CorpGro Limited and Global Capital Limited. He also served as past chairman on the boards of these companies. Previously, Larry sat on the boards of Softline Limited, JCI Limited and Abacus Technologies Holdings Limited. Further he has been a former chairman on a number of non-listed company boards both in South Africa and abroad including Stenham Limited (UK) and Prefsure Life Limited (AUS). Larry is the current executive chairman of Global Capital Proprietary Limited and the current chairman of Blue Label Telecoms Limited, Dis-Chem Pharmacies Limited, National Airways Corporation Proprietary Limited, the Morecorp Group, Melrose Motor Investments Proprietary Limited and SellDirect Marketing Proprietary Limited. He also serves as deputy chairman of Cell C Proprietary Limited. Larry is a life member of the World Presidents Organisation, Lloyds of London (since 1983).

Larry joined the Board on 5 October 2007. As a respected senior member of the South African business community, his strategic vision, guidance and experience contribute significantly to the Board and its deliberations.

He also chairs the Nomination Committee.

2. BRETT LEVY

Joint Chief Executive Officer
Born: 1975

Brett has an impressive entrepreneurial record of founding and operating many small businesses across a wide range of industries. These include the distribution of fast-moving consumer goods and insurance replacements for electronic goods. Brett plays a key role in refining the Group's strategy. His achievements have earned him a number of prestigious nominations, accolades and awards. These include the Absa Bank Jewish Entrepreneur of the Year Award (2003) and the Absa Jewish Business Achiever Non-Listed Company Award (2007), which he won jointly with his brother Mark. Brett was nominated as an Ernst & Young World Entrepreneur SA Finalist for 2007. In 2010 he received the Liberty Life Award for a Remarkable Success Story in the David Awards and was a finalist in the Top Young Entrepreneur category of the African Access National Business Awards. In 2011 he shared with Mark the Top Entrepreneur accolade in the African Access National Business Awards.

Brett joined the Board on 1 February 2007 and is a director of various local and global Group companies.

He is also a member of the Social, Ethics and Transformation Committee.

3. MARK LEVY

Joint Chief Executive Officer
BCompt (Unisa)
Born: 1971

Mark graduated with a BCompt from Unisa in 1993. After some years as a commodities trader, he decided to pursue a goal of becoming an entrepreneur. At Blue Label, Mark is integral in spearheading Blue Label's organic and acquisitive growth as well as expansion in international markets. His leadership stature is frequently recognised. Together with his brother Brett, Mark received the Absa Jewish Business Achiever Non-Listed Company Award (2007). He was nominated as an Ernst & Young World Entrepreneur SA finalist for 2007. In 2010 Mark was voted Top IT Personality of the year by ITWeb and was a finalist in the Top Young Entrepreneur category of the African Access National Business Awards. In 2011 he shared with Brett the Top Entrepreneur accolade in the African Access National Business Awards.

Mark joined the Board on 1 February 2007 and is a director of various local and global Group companies.

4. DEAN SUNTUP

Financial Director
BCom (Wits), Hons (Unisa), CA(SA)
Born: 1977

Dean completed his articles at PwC where he continued working after qualifying as a chartered accountant, participating in the audits of various large corporations and multinational companies. In 2003 he joined BSC Technologies, a business established by the Levy brothers, and where he later became financial director. In 2005 he transferred to The Prepaid Company in the role of Financial Director. In heading up finance at Blue Label, Dean contributes significantly to the governance and reporting systems across the Group. Dean is a member of SAICA.

Dean joined the Board on his appointment as Financial Director on 14 November 2013 and is a director of various other Group companies.

5. GARY HARLOW

Independent Non-Executive Director
BBusSci (Hons) (UCT), FCMA, CGMA, CA(SA)
Born: 1957

Gary graduated from the University of Cape Town in 1979, qualifying as a Chartered Accountant (SA) in 1982, an associate of the Chartered Institute of Management Accountants (UK) in 1983 and as a Fellow Chartered Management Accountant (UK) in 1996. His career was forged in merchant and investment banking. In the early 1990s he became an adviser to the African National Congress in developing black economic empowerment strategies and in 1992 was instrumental in the creation of Thebe Investment Corporation, South Africa's first broad-based black-owned company. Gary served as joint chief executive officer of Msele Corporate and Merchant Bank, South Africa's first black-controlled merchant bank.

In 1996, Gary was appointed group chief executive officer of Unihold Limited, where he remains executive chairman. He led its transition from an engineering conglomerate to an international IT and telecommunications group, followed by a delisting through a management buyout in 2002. Gary continues to serve on numerous private and public company boards and is chairman of Newpark Reit Limited.

Gary joined the Board on 5 October 2007 and is also chairman and/or director of various Group subsidiaries.

He chairs the Investment Committee and Remuneration Committee. Gary is also a member of the Nomination Committee as well as the Social, Ethics and Transformation Committee.

6. JERRY VILAKAZI

Independent Non-Executive Director
BA (Unisa), MA (Thames Valley), MA (London), MBA (California Coast University)
Born: 1961

Jerry is executive chairman of Palama, which he co-founded to facilitate investments in strategic private and listed companies. He is a past CEO of Business Unity South Africa, during which period he served as business representative at Nedlac and on various international business councils. Prior to this, he held various executive positions in government and in the private sector including that of managing director of the Black Management Forum where he also served on the board of the BMF investment company. In 2009 Jerry was appointed to the Presidential Broad-based Black Economic Empowerment Advisory Council and was appointed as a Commissioner of the National Planning Commission in 2010. He was appointed Public Service Commissioner in 1999 and played a role in shaping public service policies in post-1994 South Africa. Jerry was chairman of the Mpumalanga Gambling Board from 2006 to 2015 and the State Information Technology Agency (SOC) Proprietary Limited until the end of his term in 2015. He previously held the position of chairman of Netcare Limited and adviser to Citi Bank. He is non-executive director of Sibanye-Stillwater Limited where he also chairs the social and ethics committee. He led a consortium that acquired equity and subsequently served on the board of PPC Limited in 2008.

Jerry joined the Board on 19 October 2011. He also chairs the Social, Ethics and Transformation Committee.

7. JOE MTHIMUNYE

Independent Non-Executive Director
BCompt (Hons)/CTA (Unisa), CA(SA)
Born: 1965

Joe qualified as a chartered accountant in 1993. In 1996, he co-founded Gobodo Incorporated, an accounting practice with eight other partners which in time became the largest black accounting firm in South Africa. In 1999, he led a management buyout of Gobodo Corporate Finance from the accounting firm and rebranded it AloeCap Proprietary Limited, of which he is currently executive chairman. He also serves on the board of directors of various non-listed companies in which AloeCap Private Equity is invested. Joe is a director of Dis-Chem Pharmacies Limited and Cell C Proprietary Limited. He is also chairman of Cell C's audit committee.

Joe joined the Board on 5 October 2007. He chairs the Audit, Risk and Compliance Committee and is a member of the Remuneration and Nomination Committee as well as the Investment Committee.

8. KEVIN ELLERINE

Non-Executive Director
National Diploma in Company Administration
Born: 1968

Kevin joined the family business, Ellerine Holdings, in 1991. After serving in various roles, in 1993 he was appointed as property manager of Ellerine Bros. Proprietary Limited, rising to managing director of the property division in 2000, a position he still holds today. He sits on the boards of the property and private equity companies in which Ellerines is invested. He is also a director of Hyprop Investments Limited and Newpark REIT Limited. Kevin's all-round business skill and acumen contribute to Board and Committee deliberations of the Group.

Kevin joined the Board on 8 December 2009 and is a director of various other companies, including some Group subsidiaries.

He is a member of the Investment Committee as well as the Social, Ethics and Transformation Committee.

9. PHUTI MAHANYELE

Independent Non-Executive Director
BA Economics (Rutgers, USA),
MBA (De Montfort, UK),
Executive Education Programme (Harvard, USA)
Born: 1971

Phuti is Executive Chairperson of Sigma Capital, an investment holding company. She is the former CEO of Shanduka Group. Previously, she held senior positions at the Development Bank of Southern Africa, and in the North American and South African offices of Fieldstone, an international firm specialising in financing infrastructure assets. Currently, she sits on the board of Comair Limited.

Phuti chairs the Bain Academy, which supports professionals in corporate Africa. She also participates in the Young Global Leaders initiative of the World Economic Forum. Phuti is an honorary member of the Golden Key International Honour Society and sits on the advisory board of the University of Stellenbosch.

Phuti joined the Board on 1 September 2016. She is a member of the Audit, Risk and Compliance Committee, Investment Committee as well as the Social, Ethics and Transformation Committee.

Senior Management

1. ANDREW MURRAY
Chief Information Officer
BSc Eng (Wits)

2. ARCHIE RANTAO
Director of Sales Community Channels
Executive Development Programme (Unisa)
Certificate in Operations Management (Wits)

3. ETIENNE DE VILLIERS
General Counsel
BA LLB (Natal) Admitted Attorney

4. GARTH MACKINTOSH
Chief Executive Officer – Mobile
BCom, Honours (Information Systems),
MBA (UCT)

5. INGRID HINDLEY
Group Head of Human Resources
BSocSci Honours (Industrial Psychology) (Natal)

6. JABU MOGANE
Director Sales and Marketing of Community Channels

7. JANINE VAN EDEN
Group Company Secretary
BProc LLB (RAU), Conveyancing

8. LARRY POGIR
Executive Chairman – Blue Label Data Solutions
BCom (Unisa)

9. MICHAEL CAMPBELL
Group Head of Investor and Media Relations
BProc, FCIS, AIAC, EMP (UCT)

10. ROB FLEMING
Chief Marketing Officer
BCom (Rhodes)

11. SHARMINE NAICKER
Managing Director – Edgars Connect
Business Leadership Management (GIBS)

12. TANYA GROTA
Group Finance – Chief Technical Adviser
BCom Hons (Wits), CA(SA)

13. WAYNE MCCAULEY
Chief Operations Officer – South Africa Distribution
BCom, MBL (Unisa), Business Leadership Programme Oxford

Chairman's report

"Blue Label continues developing a rich ecosystem, enhanced by recent landmark acquisitions which expand both its supply chain and distribution footprint."

Dear stakeholders

The Group continues delivering on its strategy of distributing secure fintech products and services to the main consumer market in emerging communities in South Africa, India and Mexico. This year marked a significant enhancement in Blue Label's business model as it embraced a number of vertical integration opportunities in its ecosystem.

Blue Label's participation in the recapitalisation of Cell C in which it acquired a 45% shareholding, as well as its two-stage acquisition of the entire share capital of 3G Mobile, will expand both the Group's supply chain and distribution footprint. In July 2017, 200 million unissued shares were placed under the control of directors for the purposes of funding an element of these transactions.

Acquisitions are considered according to a number of criteria, including synergies, earnings accretion, additions to the product line, enhancement of the distribution network or geography and which benefit the Group strategically.

Organic growth primarily contributed to core headline earnings in the South African Distribution Segment increasing by 19% to R893 million. The Group's share of losses in Blue Label Mexico narrowed 42% to R37 million, as distribution of additional products and services continued to gain traction.
In recognising fundamental changes to India's fintech sector during the year, the Board has reviewed its strategy regarding our stake in Oxigen Services India. As a result thereof, the investment therein is accounted for as a venture capital investment.

Group headline earnings per share increased by 18% to 117.98 cents, predominantly achieved through increases in revenue to R26.3 billion, gross profit by 19% to R2.2 billion and EBITDA by 7% to R1.3 billion. Earnings per share increased by 14% to 117.92 cents.

Capital and reserves accumulated to R5 billion, net of accumulated dividends paid totalling R1.16 billion. The net asset value per share increased by 11% to R7.32.

In August 2017, the Board declared a dividend of 40 cents per share, equating to a 2.25 times cover on headline earnings.

The Group's flagship CSI project, Boys & Girls Club of South Africa at Protea Glen, enhanced its after-school and extramural offerings. Over 500 pupils attend the club on a daily basis and future plans include the roll out of a further eight clubs in disadvantaged areas over the next three years. The Social, Ethics and Transformation Committee supported CSI expenditure of R8.5 million during the year for projects focusing on youth development through education, sport and entrepreneurship.

Looking ahead:

- As Blue Label is one of the primary distribution channels for Cell C's products and services, its acquisition therein provides a compelling value proposition to realise synergies in product distribution. Blue Label will benefit from improving operational and financial performance from the combined platform. In turn, Cell C's new sustainable capital structure enables it to deliver on its strategic objectives to improve financial returns from increased network utilisation, the upgrading of network infrastructure and the expansion of LTE coverage.
- 3G Mobile is one of Africa's largest suppliers, distributors and financiers of tier 1 and tier 2 mobile handsets to major retailers and cellular network providers. Its wholly owned subsidiary, Comm Equipment Company, provides financing to Cell C for the mobile handset component of postpaid and hybrid contracts, with the capability of extending such services to other networks and channels. 3G Mobile provides the ideal platform for combining Blue Label's low cost and certified pre-owned mobile handset divisions into a consolidated group, well positioned for distribution to the burgeoning low cost smartphone market.
- Blue Label Mexico is expected to provide a positive contribution to Group profitability, given its consistent growth at sustainable improved gross profit margins and compounding annuity revenue generated from starter pack sales.
- "Big Data" consolidates and aggregates transactions across the divisions within the Group, which creates the opportunity to up-sell and cross-sell the various bouquets of products and services that Blue Label has to offer through its distribution channels, by intelligently understanding consumer behaviour.
- Value-added services, including the provision of short-term finance for emergency airtime recharge required by consumers, are current initiatives with high growth possibilities.

The Blue Label entrepreneurial culture came to the fore this year in completing two significant acquisitions with a combined price tag of R7.4 billion, as well as a sound financial performance in a difficult trading environment.

I acknowledge and thank my fellow Directors, the management team led by Brett Levy and Mark Levy, the senior management team, all employees and other stakeholders for their considerable efforts over the past year, contributing to the success of the Group.

In achieving another milestone, Blue Label marked its 10th anniversary of listing on the JSE on 14 November 2017.

Larry Nestadt
Chairman

23 November 2017

The Joint Chief Executive Officers' report

For over 16 years, Blue Label has delivered on its strategic objective of distributing electronic tokens of value in emerging markets. In a targeted approach driven by data analytics, we continue to expand our range of products and services while increasing our distribution footprint through a vast network of POS devices and electronic wallets, enabling consumers to transact conveniently.

Physical and virtual tokens are delivered through the deployment of various technologies embedded in our technical vending solutions. We liken our distribution methodology to a virtual delivery system, whereby our sophisticated proprietary technology is the carrier enabling such transactions. Incremental costs are minimal, as the heavy lifting to establish the distribution network is already in place, resulting in profit margins filtering directly to the bottom line.

In deployment campaigns, we observe merchants benefit through increased turnover of our products, as well as those of others from the moment our POS device is installed. The longer duration that a device operates in the market, the more transactions it records and the less churn is encountered. Hence, we are a *'magnet for foot traffic'* – be it in South Africa, India or Mexico.

In South Africa, the Group distributes a range of offerings, including prepaid airtime, starter packs for voice, data consumption and content downloading; a complete range of tier one to tier four hardware devices, such as branded and unbranded, new and refurbished handsets and tablets; finance for the mobile device element of postpaid and hybrid contracts; prepaid electricity and water e-tokens; ticketing for the events, sports and transport sectors; as well as fintech and value-added services, such as debit and credit card acquiring, bill payments, Lotto, money wallets and transfers and other value-added services.

Blue Label is a "magnet for foot traffic"

This variety and depth of digital products and services, along with merchants and consumers increasingly adopting more tech savvy practices, places Blue Label at the convergence of the next Industrial Revolution.

Blue Label complements its distribution by embracing the retail channel in serving consumers in '*the last mile*'. The relevance of this is that the operator of the last mile of the channel determines merchandising practices and pricing, as the POS terminal is located in this part of the channel and in most instances is placed there by Blue Label.

How we operate

The distribution model is based on strategic partnerships between ourselves and our suppliers and customers which are underpinned by long-term contracts. These inevitably evolve into constructive relationships where customers in our ecosystem become our partners. The integrity of these relationships enables the model to continuously develop and evolve.

Blue Label derives income from three main pillars: the sale of commodities (such as airtime, electricity and ticketing), annuity transactions (from our starter pack base, location-based services, content and other subscription services) and interest earned on any surplus cash generated.

The discount structure is based on long-term contracts with network operators and other product and service providers, which cover payment terms, annuity and commissions receivable. Discounts received are shared with merchants in the distribution channel as an incentive to distribute our merchandise. In turn, the Group channels merchants' feedback and manages all their field support requirements, in addition to supplying products, services and marketing materials, as well as looking at building their future needs.

Group performance

Group earnings continue to increase organically, primarily attributable to the South African Distribution segment raising its contribution to core headline earnings by 19%. Group core headline earnings increased by 17% to R801 million.

Group revenue remained static at R26.3 billion, congruent with an escalating shift in consumer buying patterns from traditional purchasing of airtime to that of "PINless top-ups". Only the gross profit earned thereon is accounted for in revenue, as opposed to the gross amount of such transactions. On imputing such amounts the effective growth in revenue would have equated to 7%.

Gross profit increased by 19% to R2.2 billion, in line with an increase in margin from 6.98% to 8.26%.

In measuring performance, we place reliance on gross profit as a growth metric rather than revenue. A further example of our preference for measuring gross profit is in our accounting treatment of prepaid electricity, PINless airtime and water sales. We act as the agent on behalf of utilities, as only the commission earned on these sales is included in revenue, and not the product's face value.

South Africa's core business

South African Distribution segment is the predominant contributor to Group profitability. Revenue remained consistent at R25.8 billion. However, revenue generated on "PINless top-ups" increased by R2 billion to R6.1 billion, equating to an effective growth in revenue of 7%, as only the commissions earned thereon are recognised.

This year the management team was enhanced by the appointment of experienced professionals in distribution.

International segment

The investment in Oxigen was initially of a long-term nature as it was expected to emulate the business model of the South African distribution operations. However, its profile has changed from that of the traditional Group business model to one of generating growth in the

The Joint Chief Executive Officers' report
continued

market value of the investment with a view to unlocking the Group's share thereof. With the advent of its change in focus to financial services through wallet subscription, it is no longer strategically aligned with the other business units of the Group and is unlikely to generate profitability in the short to medium term. However, the market value of the company is expected to increase in conjunction with its growth in wallet subscribers. This in turn creates the potential to unlock the investment in the future and the Group is pursuing this new strategy with respect to its investment in Oxigen.

Blue Label Mexico's losses continued to decline, with the Group's share thereof reducing 42% to R37 million, mainly underpinned by higher blended gross profit margins.

Vertical integration of our ecosystem

Blue Label's model of distributing virtual goods and services across multiple economic sectors affords it access to vertical integration possibilities in its ecosystem. Our strategy is to combine or link appropriate opportunities into a richly networked ecosystem.

Integration creates further scope for design thinking alongside existing operating processes and systems. Integration also brings together a number of different players, which are now able to serve markets in ways previously beyond the capacity of a single organisation. The ecosystem's diversity and collective capability to learn, adapt, enable, disrupt and innovate are key in determining its further successes and sustainability.

Acquisitions

Blue Label delivered two landmark transactions subsequent to financial year-end:

Cell C

The R5.5 billion funding of Blue Label's participation in the recapitalisation of Cell C was funded through a hybrid of our own cash resources and the placement of shares. Implementation of the acquisition was effective on 2 August 2017.

Our rationale for the vertical integration with Cell C embraces three main pillars:

1. Creating value as a free-standing entity;
2. Ensuring longevity of our existing trading relationship with Cell C; and
3. Commercial synergies, as Blue Label becomes a service and product provider to Cell C across multiple shared services arising from the alliance.

3G Mobile

In August 2017, Blue Label announced the acquisition of 3G Mobile, a distributor of the major tier 1 and 2 mobile device and handset manufacturers, such as Apple, Samsung, Huawei, ZTE and Nokia. Through 3G Mobile's wholly owned subsidiary, Comm Equipment Company, it offers financing for the mobile handset element of postpaid and hybrid contracts.

The R1.9 billion acquisition cost was structured in two stages. Initially 47.37% was acquired for R900 million. The remaining 52.63% will be acquired for a further R1.0 billion, subject to the fulfilment of conditions precedent in relation thereto, the completion of which is anticipated to be in early 2018. Of the initial purchase price, R250 million was applied through vendor placement of shares, and the balance of R650 million will be payable on 28 February 2018.

Our existing handset and tablet business comprises both low-cost smart phones and certified pre-owned mobile handsets. By vertically integrating with 3G Mobile, we are now able to offer a complete range of handsets and tablets.

Blue Label's success going forward will be characterised by management's execution capability in aligning, integrating and extracting operational and financial metrics from these significant investments.

Evolving our digital presence in Africa

The recent acquisition of 3G Mobile instantly augmented Blue Label's footprint across the continent. When coupled with Blue Label's merchandise available through its Mobile segment, countries now served include Botswana, Cameroon, DRC, Ghana,

Guinea, Lesotho, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, in addition to core businesses in South Africa.

Technology and big data

The Group's distribution capability is underpinned by its sophisticated proprietary technology platforms. Technology is both our cornerstone and competitive advantage. Its robustness can be attributed to its adaptability to ever-changing demands, complemented by a thorough deployment methodology. It is product and hardware agnostic, a neutral aggregator, capable of plug 'n play, proven, scalable and does not outsource its ongoing development.

The advanced level of our technology platforms has enabled the introduction of modern products and services, such as prepaid electricity and water, and the proprietary UniPIN, which is the offline solution to an online problem. Other capabilities include our online wallet and sophisticated ticketing engine.

The Group continues to accumulate merchant and consumer transactional big data mindful of its obligations in terms of POPI and the CPA. Data scientists aggregate, process and analyse vast sets of information gathered from across the Group and our partners. Insights from these records enable us to form a single, content-rich profile per customer, which in turn creates multiple cross-selling and up-selling opportunities throughout the Group. We are now able to identify unique characteristics and traits, which allow us to mine data intelligently and more effectively, thereby enabling us to focus on specific market segments with unique and differentiated products. This targeted approach is especially relevant in the main market segment, where the typical consumer is unbanked or badly banked and therefore does not qualify for credit. Our sophisticated technology enables us to build a thin file or "cash" risk profile for each consumer.

Marketing

Our marketing approach focuses on delivering technology, products and services, as required by merchants and consumers. Extensive research, project work, pilots, trials and perception studies are utilised in identifying opportunities in order to entrench our distribution footprint in formal retail, independent, petroleum forecourts, corporate and rural areas.

Brett Levy **Mark Levy**
Joint Chief Executive Officers

23 November 2017

Financial Director's report

"Group earnings continued to increase organically primarily attributable to South Africa Distribution increasing its contribution to Group core headline earnings by 19%."

A **strong** underlying **performance**

Financial review

Although Blue Label Mexico (BLM) incurred losses, its losses continued to decline, with the Group's share thereof reducing by 42%, from R63 million to R37 million.

The continuous shift in consumer buying patterns from traditional purchasing of airtime to that of "PINless top-ups" resulted in limited growth in Group revenue. Only the gross profit earned thereon is accounted for in Group revenue as opposed to the gross amount generated from transactions of this nature. On imputing such amounts, the effective growth would have equated to 7%.

Gross profit increased by R343 million (19%) to R2.2 billion congruent with an increase in margins from 6.98% to 8.26%.

After accounting for a negative turnaround in foreign exchange movements of R125.7 million, a net negative movement of R37.9 million relating to a release of a contingent portion of deferred purchase considerations and an increase in overheads of R90 million, the resultant EBITDA increased by R91 million (7%) to R1.33 billion.

The investments in Oxigen Services India, Oxigen Online Services India, collectively (Oxigen Services India), and 2DFine Holdings Mauritius (2DFine) were historically accounted for as investments in associates and joint venture, applying the equity method up until 30 November 2016.

From that date these entities are accounted for as venture capital investments, which, in accordance with IAS 28 – *Investments in Associates and Joint Ventures*, have been accounted for at fair value. The differential between the carrying value of the investments and their fair value is reflected as a gain on associates and joint venture measured at fair value.

A fair value gain of R160 million and the Group's share of losses for the year under review of R125 million, equated to a net positive contribution of R35 million to Group earnings. On exclusion of this positive contribution, headline earnings would have amounted to R752 million and core headline earnings to R766 million, equating to 112.74 cents and 114.85 cents per share respectively.

Capital and reserves accumulated to R5 billion, net of accumulated dividends paid to date totalling R1.16 billion, further strengthening the Group's balance sheet. The net asset value increased by 11% to R7.32 per share.

Group income statement

	May 2017 R'000	May 2016 R'000	Growth R'000	Growth %
Revenue	**26 311 875**	26 204 722	107 153	0%
Gross profit	**2 172 582**	1 829 694	342 888	19%
GP margins (%)	**8.26%**	6.98%	1.28%	
Other income	**16 814**	126 294	(109 480)	(87%)
Overheads	**(858 073)**	(715 429)	(142 644)	(20%)
EBITDA	**1 331 323**	1 240 559	90 764	7%
Depreciation, amortisation and impairment	**(112 851)**	(98 183)	(14 668)	(15%)
EBIT	**1 218 472**	1 142 376	76 096	7%
Finance costs	**(303 027)**	(214 110)	(88 917)	(42%)
Finance income	**242 194**	193 899	48 295	25%
Gain on associates and joint venture measured at fair value	**160 200**	–	160 200	
Share of losses from associates and joint ventures	**(164 941)**	(71 770)	(93 171)	(130%)
Net profit before taxation	**1 152 898**	1 050 395	102 503	10%
Taxation	**(332 037)**	(318 783)	(13 254)	(4%)
Net profit after tax	**820 861**	731 612	89 249	12%
Non-controlling interest	**(33 896)**	(40 022)	6 126	15%
Net profit attributable to equity holders of parent	**786 965**	691 590	95 375	14%
Core intangible adjustment	**14 069**	16 650	(2 581)	(16%)
Core net profit	**801 034**	708 240	92 794	13%
Headline earnings adjustment	**362**	(23 329)	23 691	102%
Core headline earnings	**801 396**	684 911	116 485	17%
Earnings per share (cents)	**117.92**	103.85	14.07	14%
Headline earnings per share (cents)	**117.98**	100.35	17.63	18%
Core headline earnings per share (cents)	**120.09**	102.85	17.24	17%

Financial Director's report continued

Revenue

Although growth in revenue was confined to R107 million, revenue generated on "PINless top-ups" escalated, congruent with the continued shift in consumer buying patterns from the traditional purchasing of airtime to that of "PINless top-ups". As only the commission earned thereon is accounted for, the effective growth in group revenue equated to 7%.

Gross profit

The increase in revenue, underpinned by an improvement in gross profit margins from 6.98% to 8.26%, resulted in gross profit increasing by R343 million (19%) to R2.17 billion.

The improvement in margins was attributable to a hybrid of additional discounts received on early settlement payments and compounded annuity revenue.

Overheads

Overheads, comprising employee costs and operating expenses, increased by 20% to R858 million, of which the former accounted for 6% and the latter 41%.

The increase in operating expenses was predominately due to foreign exchange losses incurred as well as sponsorship costs both totalling R81 million.

EBITDA

After accounting for a negative turnaround in foreign exchange movements of R126 million, a net negative movement of R38 million relating to a release of a contingent portion of deferred purchase considerations and an increase in overheads of R90 million, the resultant EBITDA increased by R91 million (7%) to R1.33 billion.

Depreciation, amortisation and impairment charges

Depreciation, amortisation and impairment charges increased by R15 million to R113 million.

Of this amount, R18 million pertained to the amortisation of intangible assets resulting from purchase price allocations on historical acquisitions compared to R20.6 million in the comparative year. The balance of the increase was congruent with capital expenditure incurred during the year.

Net finance costs

Finance costs

Finance costs totalled R303 million, of which R106 million related to interest paid on borrowed funds and R197 million to imputed IFRS interest adjustments on credit received from suppliers. On a comparative basis, interest paid on borrowed funds amounted to R48 million and the imputed IFRS interest adjustment equated to R166 million.

The increase of R58 million on interest paid on borrowed funds was mainly due to applying funds to bulk inventory purchase transactions and early settlement payments attracting favourable discounts.

Finance facilities were utilised on a piecemeal basis for this purpose and repaid during the current year. The additional finance costs were more than compensated for by the growth in gross profit and gross profit margins.

Finance income

Finance income totalled R242 million, of which R79 million was attributable to interest received on cash resources and R163 million to imputed IFRS interest adjustments on credit afforded to customers. In the prior year, interest received on cash resources amounted to R64 million and the imputed IFRS interest adjustment to R130 million.

The increase in interest received from cash resources was mainly attributable to growth in working capital resources, partially offset by the utilisation of funds for financing and investing activities.

Gain on associates and joint venture measured at fair value

With effect from 30 November 2016, Oxigen Services India and 2DFine have been accounted for as venture capital investments. The differential between the carrying value of the investments and their fair values amounted to R160 million and has been accounted for as a gain on associate and joint venture measured at fair value. This is further elaborated on in the International Distribution segment, under "Oxigen Services India and 2DFine Holdings Mauritius".

Share of losses from associates and joint ventures

The Group's share of losses primarily related to Oxigen Services India, 2DFine and BLM.

The financial performance of Oxigen and 2DFine for the six months ended November 2016 was equity accounted for, of which the Group's share of losses amounted to R125 million. Consequently, any further losses incurred by Oxigen and 2DFine Holdings Mauritius, from that date, will have no impact on Group earnings. The investment therein will continue to be measured at fair value.

The Group's share of losses in BLM amounted to R37 million after the amortisation of intangible assets.

Non-controlling interests

Non-controlling interests comprise a minority share of profits in Cigicell, Transaction Junction, Via Media and Blue Label Data Solutions, the total of which equated to R34 million.

Of this amount, R6.9 million was attributable to Cigicell, R12.1 million to Via Media, R10.1 million to Transaction Junction and R4.5 million to Blue Label Data Solutions.

Core headline earnings

Core headline earnings increased by R116 million (17%) to R801 million. This equated to core headline earnings per share of 120.09 cents.

Segmental report

South African Distribution

	May 2017 R'000	May 2016 R'000	Growth R'000	Growth %
Revenue	**25 786 396**	25 722 540	63 856	0%
Gross profit	**1 917 023**	1 582 743	334 280	21%
EBITDA	**1 388 296**	1 133 433	254 863	22%
Core net profit	**893 106**	750 951	142 155	19%
Core headline earnings	**893 128**	751 086	142 042	19%
Gross profit margin	**7.43%**	6.15%		
EBITDA margin	**5.38%**	4.41%		

Revenue remained consistent with that of the prior year. However, revenue generated on "PINless top-ups" increased by R2 billion from R4.1 billion to R6.1 billion, equating to effective growth in South African Distribution revenue of 7%, in that only the commission earned thereon is recognised.

Net commissions earned on the distribution of prepaid electricity continued to increase, escalating by R18 million to R215 million on a value of R14 billion generated on behalf of the utilities.

Gross profit margins improved from 6.15% to 7.43%, resulting in an increase in gross profit of R334 million (21%) from R1.58 billion to R1.92 billion. The improvement in margins was attributable to a hybrid of additional discounts received on early settlement payments and compounded annuity revenue. The increase in gross profit was partially negated by additional net finance costs, congruent with applying excess funds and facilities on a piecemeal basis to early settlement discounts.

EBITDA increased by 22% to R1.39 billion equating to an EBITDA margin of 5.38%.

Contribution to Group core headline earnings increased by R142 million (19%) to R893 million.

International Distribution

	May 2017 R'000	May 2016 R'000	Growth R'000	Growth %
EBITDA	**(31 792)**	44 152	(75 944)	(172%)
Gain on associate measured at fair value	**160 200**	—	160 200	
Share of (losses)/profits from associates and joint ventures	**(162 218)**	(70 283)	(91 935)	(131%)
– Oxigen Services India	**(119 831)**	(27 672)	(92 159)	(333%)
– Blue Label Mexico	**(36 978)**	(63 293)	26 315	42%
– 2DFine Holdings Mauritius	**(5 409)**	19 734	(25 143)	(127%)
– Mpower	**—**	948	(948)	(100%)
Core net loss	**(17 213)**	(29 352)	12 139	41%
Core headline loss	**(16 874)**	(59 327)	42 453	72%

Financial Director's report continued

The decline in EBITDA of R76 million was directly attributable to a negative turnaround in foreign exchange movements.

The share of net losses from associates and joint ventures comprised the following:

Oxigen Services India and 2DFine Holdings Mauritius

The financial performance of Oxigen Services India for the six months ended November 2016 was equity accounted for, of which the Group's share of losses amounted to R120 million. The major portion of these losses was attributable to substantial expenditure incurred on the marketing of the brand and the acquisition of wallets.

The Group's share of losses in 2DFine amounted to R5.4 million for the six months ended November 2016. These losses were attributable to interest incurred on historical loans from Gold Label Investments and Blue Label.

In the prior year, the Group's share of profits amounted to R19.7 million. This pertained to a gain on dilution of R30 million, being the Group's share of the increased net asset value emanating from a rights issue in Oxigen Services India, offset by a share of losses of R10.2 million relating to interest incurred on the above loans. The gain on dilution was deducted as a headline earnings adjustment, resulting in a negative contribution of R59.3 million by the International segment to core headline earnings.

With effect from 30 November 2016, Oxigen Services India and 2DFine have been accounted for as venture capital investments, and as a result thereof the investments are measured at fair value. Consequently, any further losses incurred by the above entities from that date will have no impact on Group earnings.

The differential between the carrying value of the investments and their fair value amounted to R160 million and has been accounted for in the reviewed condensed Group statement of comprehensive income as a gain on associate and joint venture measured at fair value. The fair value gain of R160 million and the Group's share of losses for the year of R125 million, equated to a net positive contribution of R35 million to Group earnings.

Blue Label Mexico

BLM's losses declined from R130 million to R74 million, of which the Group's share amounted to R37 million after the amortisation of intangible assets. In the comparative period the Group's share of losses amounted to R63 million.

The decline in losses was achieved in spite of a reduction in revenue by 23%. This decline was caused by intense competition amongst carriers, resulting in lower tariffs payable by the end user. However, in the latter half of the financial year pricing stabilised, resulting in an increase in revenue during that period.

The overall decline in revenue was compensated for by an increase in gross profit of R26.6 million (32%), underpinned by higher gross profit margins.

The increase in gross profit was primarily attributable to BLM becoming a multicarrier distributor as opposed to historically being confined to one network. This has created a more competitive environment amongst the networks to the benefit of the Company.

Focus on cost efficiencies resulted in a decrease in operational expenditure by 9%. While the resultant EBITDA remained negative, it increased by R42.7 million (61%). Bill payments, credit and debit card acquiring, food vouchers and compounding annuity revenue emanating from starter pack distribution are perpetually increasing, which together with improved margins and expense containment resulted in a decline in losses.

Mobile

	May 2017 R'000	May 2016 R'000	Growth R'000	Growth %
Revenue	**347 858**	291 856	56 002	19%
Gross profit	**200 079**	182 533	17 546	10%
EBITDA	**99 101**	111 142	(12 041)	(11%)
Core net profit	**56 327**	64 273	(7 946)	(12%)
Core headline earnings	**56 289**	65 333	(9 044)	(14%)

This segment comprises Viamedia, Supa Pesa, Blue Label One, Cellfind, Panacea and Simigenix.

Although revenue increased by 19% and gross profit by 10%, a negative movement of R12 million relating to a release of a contingent portion of deferred purchase consideration resulted in negative growth in EBITDA by 11%.

On exclusion of the deferred purchase consideration adjustment, the effective contribution to core headline earnings equated to a growth of R3 million (5%).

Solutions

	May 2017 R'000	May 2016 R'000	Growth R'000	Growth %
Revenue	**177 621**	190 326	(12 705)	(7%)
Gross profit	**55 480**	64 418	(8 938)	(14%)
EBITDA	**34 020**	35 889	(1 869)	(5%)
Core net profit	**18 956**	16 116	2 840	18%
Core headline earnings	**18 956**	21 564	(2 608)	(12%)

In October 2015, Velociti was disposed of at a loss of R5.4 million. On exclusion of this capital loss from core net profit in the prior year, core headline earnings in the remaining entities declined by R2.6 million.

On omission of Velociti's historical contribution, revenue generated by the remaining entities, dominated by Blue Label Data Solutions, increased by 10%. However, margin compression resulted in static growth in gross profit, which together with an increase in overheads, which included a R4 million loan impairment, resulted in the decline in its core headline earnings of 12%.

Corporate

	May 2017 R'000	May 2016 R'000	Growth R'000	Growth %
EBITDA	**(158 302)**	(84 057)	(74 245)	(88%)
Core net loss	**(150 142)**	(93 748)	(56 394)	(60%)
Core headline loss	**(150 103)**	(93 745)	(56 358)	(60%)

Of the decline in EBITDA of R74 million, R46 million pertained to a negative turnaround in foreign exchange movements and R26 million to a net negative movement relating to a release of a contingent portion of deferred purchase considerations. Its negative contribution to Group core headline earnings increased by R56 million to R150 million.

Financial Director's report continued

Statement of financial position

Total assets increased by R1.4 billion to R8.7 billion of which current assets increased by R1.5 billion and non-current assets reduced by R76 million.

Non-current assets included increases in capital expenditure net of depreciation of R11 million, in loans receivable of R30.9 million and trade and other receivables of R13.3 million. These increases were offset by decreases of R86 million in intangible assets and goodwill and R50.6 million in investments in associates and joint ventures.

The net decrease of R50.6 million in investment in associate and joint ventures comprised the R160 million gains measured at fair value relating to Oxigen Services India and 2DFine, a capital contribution of R25.5 million to Oxigen Services India, a further equity loan granted to Lornanox of R9.3 million, the acquisition of Utilities World for R12 million, interest of R23.5 million capitalised on loans and loans granted of R14 million. These increases were offset by the Group's share of losses therein totalling R165 million inclusive of the amortisation of applicable intangible assets, a negative impact on foreign currency translation reserves of R82.4 million and unrealised foreign exchange losses on loans of R47.2 million.

The net decline of R86 million in intangible assets and goodwill mainly pertained to the amortisation of intangibles by R143 million, offset by R56 million expended on the purchase of software, internally generated software development costs and starter pack bases.

Of the increase in current assets, material movements included increases in inventories of R521 million, loans receivable of R90 million, cash resources of R762 million and trade receivables of R80 million.

The stock turn equated to 33 days compared to 25 days for the comparative year. Bulk inventory purchase opportunities at favourable discount rates validated the consequent increase in inventory. The nature of the business enables it to reduce its inventory holdings within the above number of days at any given time.

The debtors' collection period increased to 39 days compared to 38 days for the comparative year.

Net profit attributable to equity holders of R787 million, less a dividend of R243 million, resulted in retained earnings accumulating to R3.6 billion.

Trade and other payables increased by R881 million, with average credit terms increasing to 53 days compared to 40 days for the comparative year.

Statement of cash flows

Cash flows generated from operating activities amounted to R1.36 billion, predominately attributable to increased trading activity, net of working capital requirements.

Cash flows applied to investing activities amounted to R320 million. Of this amount, R56 million related to the purchase of intangible assets, R57 million to capital expenditure, R25.5 million to a capital contribution to Oxigen Services India, R133 million to net loans granted, R50.7 million to earn outs relating to prior acquisitions and R7.5 million to the acquisition of Utilities World. These outflows were partially offset by R1.7 million from the sale of fixed assets and R13 million from an earn-out received emanating from the sale of Ukash.

After applying R7 million to the acquisition of treasury shares and a dividend payment of R270 million to shareholders and non-controlling interests, cash on hand at year-end amounted to R1.35 billion.

Forfeitable share scheme

Forfeitable shares totalling 1 376 257 (2016: 2 591 066) were issued to qualifying employees. During the year 121 226 (2016: 612 453) shares were forfeited and 2 141 673 (2016: 3 163 359) shares vested.

Dividend

The Group's current dividend policy is to declare an annual dividend. On 23 August 2017 the Board approved a gross ordinary dividend (dividend number 8) of 40 cents per ordinary share (32 cents per ordinary share net of dividend withholding tax) for the year ended 31 May 2017.

The dividend of R349 803 616 inclusive of withholding tax equates to a 2.25 cover on headline earnings. The dividend for the year ended 31 May 2017 has not been recognised in the financial statements as it was declared after this date.

Subsequent events

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company Proprietary Limited (The Prepaid Company), acquired 45% of the issued share

capital of Cell C for a purchase consideration of R5.5 billion. In part settlement of this amount, 183 333 333 ordinary shares in Blue Label were subscribed for by third parties at an issue price of R15.00 per share, equating to R2.75 billion.

On the same date, The Prepaid Company concluded an agreement to purchase 100% of the issued share capital in 3G Mobile from its shareholders for a purchase consideration of R1.9 billion. The acquisition has been structured in two stages, whereby 47.37% of the issued share capital was initially acquired for a purchase consideration of R900 million. The remaining 52.63% of the issued share capital will be acquired for a further R1.0 billion, subject to the fulfilment of conditions precedent. Of the initial purchase of 47.37%, 16 666 666 ordinary shares were issued to the vendors at R15.00 per share, equating to R250 million. The balance of R650 million will be payable on 28 February 2018.

As part of the restructure of the debt within Cell C by third-party lenders, The Prepaid Company will be required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited (3C), of up to USD80 million, which liquidity support will be provided over 24 months and will be in the form of subordinated funding to SPV2. Oger Telecoms contributed USD20 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD60 million. In addition, to the extent that certain assets of Oger Telecoms are realised within the aforesaid 24-month period, a portion of such realisation shall further reduce The Prepaid Company's obligation. In this regard, USD16 million has been realised to date, thereby reducing its current exposure to a maximum of USD44 million.

The Prepaid Company, with effect from 2 August 2017, purchased Bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited (SPV1), which is 100% held by 3C, from Saudi Oger Limited with a capital redemption value of USD18 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million, of which USD6 million has been paid, USD3 million will be paid imminently and USD9 million will be payable on 30 November 2017. The Prepaid Company is entitled to assign its rights and obligations, in whole or in part, to a nominee. Accordingly, it has assigned such rights and obligations in respect of 50% of the Bond notes, which assignment has been accepted by the assignee.

The Prepaid Company concluded an agreement with Cell C on 2 August 2017 in terms of which it has undertaken to advance R1.34 billion on a piecemeal basis for the purpose of applying such funds towards capital expenditure. This advance, which is interest bearing, will be repayable in full by the end of July 2018.

Subsequent to year-end, dividend number 8 was declared and approved by the Board.

Appreciation

I wish to express my gratitude to the Group's finance team for their professional input and dedication throughout the year.

Dean Suntup
Financial Director

23 November 2017

Governance philosophy and approach

Entrepreneurship and innovation underpinned by good governance

The philosophy of the Group is that good corporate governance provides an essential platform upon which to achieve its strategic objectives through the pursuit of the entrepreneurial and innovative ethos of the Group. The Board recognises that good corporate governance is essentially about effective and responsible leadership that rests on a foundation of ethical values.

King IV and Blue Label Telecoms

The Group favours the outcomes-based approach of the King IV Report on Corporate Governance for South Africa 2016 (King IV) that focuses on the quality of governance outcomes and not simply the structural and compliance approach. The Board sees the adoption of King IV as an opportunity to review, revitalise and streamline its governance structures and practices to the requirements of the expanding group. A process is currently under way to review the most appropriate recommended practices and adaptations to be applied in achieving the outcomes-based principles of King IV. Based on this review an implementation plan will be determined to fully transition the Group to the desired application of King IV.

In the interim the disclosure requirements of King IV have been adopted in this year's integrated report, as far as possible, and explain the continuation of robust governance principles and practices adopted under King III and some of the transitional initiatives to adopting King IV.

Current year Board focus and future focus

The focus of the Board in the current year has been on continuing development and maturing of the risk management and compliance of the Group as it expands both organically and through acquisitions. While focus was maintained on the core operations, intensive Board attention has been placed on the acquisition of 3G Mobile and the 45% interest in Cell C.

Further focus will be placed on overseeing the integration and synergy plans relating to these acquisitions. With the broadening footprint and scale of the Group's operations continued attention will be paid to further developing the governance framework for Group companies and investments to ensure that adequate strategic direction and oversight is placed on these investments.

Effective and ethical leadership

Ethics in action

Good corporate governance is essentially about effective and responsible leadership. It is characterised by the ethical values of responsibility, accountability, fairness and transparency. The typical aspects of corporate governance, such as the role and responsibilities of the Board and Directors individually, internal audit, risk management and stakeholder engagement rest on a foundation of ethical values.

The Board subscribes to the same ethical standards contained in the ethics statement and seeks to demonstrate these standards in all engagements with stakeholders, deliberations and decisions made as well as monitoring the ethical culture and compliance of the Group. Conflict of interest declarations are made by all directors at each Board and committee meeting.

The purpose of the ethics statement is to:

- emphasise the Group's commitment to ethics and compliance with laws and regulations;
- set out basic standards of ethical and legal behaviour;
- provide reporting mechanisms for known or suspected ethical or legal violations; and
- help prevent and detect wrongdoing. **https://www.bluelabeltelecoms.co.za/sus-ethics-statement.php**

Blue Label reiterates its stance on the following matters:

- fraudulent, corrupt or illegal practices are not tolerated. Bribes or any other illicit payments including facilitations will neither be paid nor received;
- the Group does not participate in any illegal anti-competitive activity. Employees cannot authorise or participate in any illegal conduct or action that purports to restrict competition; and
- the Group is non-political.

Employees are expected to demonstrate ethical business practices. All new staff members undergo an induction programme that includes training on the code of business conduct, including the function of the ethics hotline, such as what should be reported and how to report unethical behaviour via this channel. The Group recently implemented an interactive online portal called Blue Galaxy. The aim is to facilitate the awareness of issues relating to ethics, Group policy and procedure, security awareness and best practice. All staff have access to the portal and are required to read and understand the relevant topic, answer and number of specific questions relating to the topic and acknowledge receipt of the relevant document or policy. The ethics hotline is outsourced to KPMG Ethics Line, a division of KPMG, and can be accessed on 0800 22 10 20. No incidents were reported during the year ended 31 May 2017.

The Social, Ethics and Transformation Committee maintains oversight of the ethics policies and applications in the Group and the Chairman of the Board sets the ethical tone for the Board as a whole. Focus areas during the year and going forward included:

- Appropriate use and safeguards of customer data including confidentiality regulations
- Accreditation and monitoring of business partners' adherence to Group ethical standards

Responsible corporate citizenship

Making a difference in South Africa is a key component of the Group's purpose and core strategy in so far as the positive impact we have on the economy, communities, customers, employees and our business partners. The continued economic, business and societal transformation of South Africa is considered integral to the future success of our business.

The very nature of our business operations extends to empowering our consumers through:

- Innovative products and services providing access to airtime, data, utilities, financial services and ticketing;
- Reaching unbanked and underbanked communities enabling convenient payment mechanisms and taking products to the people; and
- Enriching and uplifting quality of life.

The market we service extends to nearly 1.5 million merchants in the formal and informal market. Informal and indirect employment opportunities abound within our network of merchants including foot soldiers and BLU agents. Our entrepreneurial trading models including gazebos, umbrellas, tables and stalls allow easy access for individuals into the market.

The investment in our people extends to our extensive and blended development programmes, training and learnership programmes (refer to Human capital section on page 81).

Effective and ethical leadership continued

Our transformation plans extend to employment equity plans, enterprise and supplier development as well as specific socio-economic projects that are reported on pages 80 to 83.

The Social, Ethics and Transformation Committee specifically oversees and monitors transformation, socio-economic development, labour, employment, corporate citizenship, health, safety and environmental practices throughout the Group. Their detailed report can be found on page 71. In addition the Board actively considers the responsible corporate citizenship and making a difference in South Africa in its core strategy and purpose.

Focus areas during the year included the launch of the School of Entrepreneurship in Tshwane and Soweto, involving the accredited training of unemployed South Africans in how to run a successful SMME, and growing the Group's distribution footprint in the main market channel. A further focus area has been leveraging off the access to matriculants that Blue Label has via the primary SED initiative, the Boys & Girls Club of South Africa (BGCSA).

Value creation and reporting

The Board regards governance as essential for the success of the Group's business. It is committed to applying the principles of good governance in directing and managing the Group in order to achieve its strategic objectives. The integration of our stakeholder engagement, material matters assessment, strategy and business model development together with our performance management and outlook ultimately encapsulates the value creation story of the Group overseen by our governance framework.

The Group endeavours to provide relevant reporting in a transparent manner to its stakeholders through the integrated report, annual and interim financial statements as well as supplementary reports and engagement with various stakeholders during the year.

The integrated report is our primary annual report and is supported by supplementary reports available on our website **www.bluelabeltelecoms.co.za.**

Board composition, structure and report back

Board of Directors

The Board directs the Group towards and facilitates the achievement of the Group's strategy and operational objectives. It is accountable for the development and execution of the Group's strategy, operating performance and financial results. Its primary responsibilities include: determining the Group's purpose and values, providing strategic direction to the Group, appointing the Joint Chief Executive Officers, identifying key risk areas and key performance indicators of the Group's businesses, monitoring the performance of the Group against agreed objectives, deciding on significant financial matters, approving policies and reviewing the performance of the Executive Directors against defined objectives. A range of non-financial information is also provided to the Board to enable it to consider qualitative performance factors that involve broader stakeholder interests.

The Board, which meets at least quarterly, retains full and effective control over all the operations. Additional ad hoc Board meetings are convened as circumstances require.

Board Charter

Our Board Charter assists our Board in conducting its business according to legislative requirements and the principles of good corporate governance. It ensures that each director is aware of his or her powers, duties and responsibilities when acting on behalf of the Blue Label Telecoms Group. The Board Charter is subject to the provisions of the Companies Act, JSE Listings Requirements, our Memorandum of Incorporation, and all other applicable legislation. The Board Charter covers the role and function of the Board; its detailed responsibilities; how it discharges its duties; the Board composition; and the establishment of Board Committees.

The Board has concluded that it has collectively satisfied and fulfilled its responsibilities in accordance with the charter.

Governance framework

The Board regards governance as a fundamental essential for the success of the Group's business. It is committed to applying the principles of good governance in directing and managing the Group in order to achieve its strategic objectives. The Board is the focal point for and custodian of the Group's governance framework, and is supported by its committee structures, management, shareholders and other stakeholders of the Company. The Board is ultimately accountable for the performance and affairs of the Company.

The governance framework facilitates a balance between the Board's role of providing direction and oversight with accountability to support acceptable risk parameters, consistent compliance with regulations, standards and codes relevant to the Group. At the same time the Board encourages entrepreneurship and innovation, which are recognised as key drivers of Group performance. At the operations, governance processes are aligned with the governance framework established by Blue Label. Each subsidiary company has its own board of directors and its strategy, business plan and performance criteria are clearly defined. The strategy and business plan of each subsidiary are presented to the Blue Label Board by the subsidiary's board each year. Subsidiary boards comprise Executive and Non-Executive Directors, some of whom are Executive and Non-Executive Directors of Blue Label.

Board composition

Blue Label has a unitary Board structure comprising nine Directors. Five are Independent Non-Executive Directors, while one is Non-Executive and three are Executive Directors. A biography of each Director appears on pages 16 and 17 of the integrated annual report.

The Board has a balance of independent directors and non-executive directors. This is incorporated into our Board Charter, which promotes a clear balance of power and authority at board of directors' level, to ensure that no one director has unfettered powers of decision-making. In line with King IV, the roles of the Chairman and the Chief Executives are separate. The Board is led by Larry Nestadt, an independent non-executive Chairman. The Joint Chief Executives are Brett Levy and Mark Levy.

The Chairman's role includes setting the ethical tone for the Board and ensuring that the Board remains efficient, focused and operates as a unit. The Chairman provides overall leadership to the Board, without limiting the principle of collective responsibility for Board decisions. He also facilitates appropriate communication with shareholders and enables constructive relations between the Executive and Non-Executive Directors.

The Joint Chief Executives' principal role is to provide leadership to the executive team in running the Group's businesses. The Board defines the Group's levels of authority, reserving specific powers for the Board, while delegating others to Senior Management. The collective responsibility of management vests with the Joint Chief Executives who regularly report to the Board on the Group's progress in delivering its objectives and strategy.

Board composition, structure and report back

continued

The Group's Financial Director is Dean Suntup. The Audit, Risk and Compliance Committee is satisfied that he has the appropriate expertise and experience for this position.

The Group has implemented a succession planning process at both top level management and subsidiary management level. The succession plans are reviewed and approved by the appropriate bodies annually and documented accordingly. Furthermore, the business continuity plan for the Group has been drafted such that it incorporates the subsidiary succession plans. The Group has influential joint CEOs who co-founded the business, both of whom have a vested interest in the long-term future of the Group. However, in unforeseen circumstances, the Group has robust succession planning in place for both CEOs.

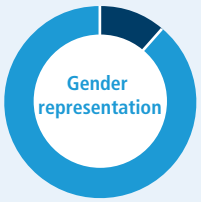
The Group considers gender equality on appointments made within the Group and the Board on an ongoing basis to ensure that the Group and the Board is sufficiently gender diverse. The Group will update its policies to address race diversity as required in terms of the JSE Listings Requirements which would be effective from 1 June 2018.

The Board has concluded that it has the appropriate mix of knowledge, skills, experience and independence.

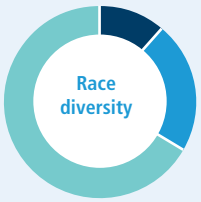
The Remuneration and Nomination Committee annually debates the independence of its Independent Non-Executive Directors who have served on the Board for a period of nine years or more. Laurence Nestadt, Gary Harlow and Joe Mthimunye have been assessed in this regard and the committee has found them suitably independent, with continuing strong contributions.

Board composition

- Independent non-executive directors 5
- Non-executive directors 1
- Executive directors 3



- Woman 1
- Men 8



- Black woman 1
- Black men 2
- White men 6

- 0 – 3 years 1
- 3 – 6 years 2
- 6 – 9 years 1
- 9+ years 5

Board appointments

One-third of the Directors retire by rotation every three years in terms of the MoI. If eligible, available and recommended for re-election by the RNC, their names are submitted for re-election at the AGM, accompanied by a short biography set out in the integrated annual report. In this regard Messrs KM Ellerine, MS Levy and DA Suntup will be retiring at the forthcoming AGM and, being eligible, have made themselves available for re-election. A brief biography of each Director appears on pages 16 and 17.

The RNC assists the Board with the assessment, recruitment and nomination of new Directors, subject to the whole Board approving these appointments. Board members are also invited to interview potential appointees.

A formal and transparent procedure applies to all new Board appointments, which are subject to approval by shareholders at the first AGM following that Director's appointment. Prior to appointment, candidates are required to complete a fit and proper test, as per the JSE Listings Requirements.

Mr Y Mahomed resigned as a Director of the Board and member of the Social, Ethics and Transformation Committee with effect from 11 January 2017, due to ill health. Ms P Mahanyele was appointed as a Director of the Board and member of the Audit, Risk and Compliance Committee on 1 September 2016, as a member of the Social, Ethics and Transformation Committee on 7 March 2017 and as a member of the Investment Committee on 31 August 2017.

Board effectiveness

The Board Charter provides for assessing of the Board and its committees every other year, which is recommended by King IV. In the prior year the Board and its committees assessed its performance and effectiveness according to the following categories:

- Effectiveness and composition;
- Dynamics;
- Risk management;
- Succession planning;
- Ethical leadership; and
- Corporate citizenship.

Based on the consolidated feedback from the assessment, the Board is satisfied with the overall performance and effectiveness of the Board, its members and the committees. The 2016 internal evaluation revealed no major concerns, however gender diversity aspirations were noted. In response, Ms P Mahanyele was appointed as a member of the Social, Ethics and Transformation Committee and the Investment Committee. Aligned with our gender policy we will continue to pursue gender diversification on the Board.

The Board is satisfied that the evaluation process improves performance and effectiveness.

Refer to Remuneration section (page 60) for performance evaluation of CEOs against agreed upon performance measures and targets.

Evaluations of individual Executive Directors' performance take place annually, once during remuneration increase and performance bonus award periods and, as applicable, prior to the AGM regarding the re-election of Directors. Evaluations of individual Non-Executive Directors' performance takes place annually (in respect of those standing for re-election at the AGM) and for the remaining Directors every other year (as part of the Board and committee evaluations). Refer to Remuneration section for further details.

Induction of a new Director is tailored according to the knowledge and experience of the Director in a listed environment. Focus is placed on providing information on the Board structure, business operations and Group strategy. Ongoing training and development of Directors involve ad hoc presentations to the Board by professional advisers and Senior Management to ensure the Board is kept abreast of governance, regulatory and operational developments.

Company Secretary

Our Board remains satisfied with the competency and experience of our Group Company Secretary, Janine van Eden (BProc, LLB, Conveyancing). The performance appraisal of the Company Secretary for the year under review took into account the quality of support received and guidance provided to the Board. She maintains an arm's length relationship with the Board, providing guidance to Board members on execution of their duties and keeps up to date on the latest developments in corporate governance and regulation. All Directors have full access to the services and advice of the Group Company Secretary in all aspects of the Board's mandate and operations of the Group, the Board is satisfied that these arrangements are effective.

Board Committees

The Board has delegated certain functions to well-structured committees without abdicating its own responsibilities and accountability. Board Committees operate under written terms of reference approved by the Board. Board Committees are free to take independent professional advice as and when deemed necessary, for which a formal policy is in place. The Group Company Secretary provides secretarial services for the committees.

There is transparency and full disclosure from Board Committees to the Board. The minutes of committees are submitted to the Board for noting and discussion. In addition, Directors have full access to all Board Committee documentation and committee chairpersons provide the Board with verbal reports on recent activities.

The Board is of the opinion that all Board Committees have effectively discharged their responsibilities, as contained in their respective terms of reference.

Board composition, structure and report back

continued

Our Board subcommittees are structured as follows:

Attendance at meetings

	Board	Special Board	Audit, Risk and Compliance	Remuneration and Nomination	Social, Ethics and Transformation	Investment
Total number of meetings held during the year	4	4	4	4	2	3
Actual attendance/possible maximum attendance of meetings						
LM Nestadt	4/4	4/4	–	4/4	–	–
KM Ellerine	4/4	4/4	–	–	1/2	2/3
GD Harlow	4/4	4/4	4/4	4/4	2/2	3/3
BM Levy	3/4	4/4	2/4*	2/4*	2/2	3/3
MS Levy	4/4	4/4	4/4*	3/4*	–	3/3
Y Mahomed~	3/4	2/2	–	–	0/1	–
P Mahanyele	2/2#	4/4	1/2#	–	1/1°	–
JS Mthimunye	4/4	3/4	4/4	4/4	–	3/3
SJ Vilakazi	4/4	4/4	4/4	–	2/2	–
DA Suntup	4/4	4/4	4/4*	4/4*	–^	3/3
DR Hilewitz	–	1/1**	–	–	–	3/3

* *Attendee.*
** *By invitation.*
° *Appointed 7 March 2017.*
~ *Resigned 11 January 2017.*
# *Appointed 1 September 2016.*
^ *Alternate to BM Levy.*

Subcommittee structure and report back

The Board remains accountable for all matters where it has delegated responsibility to its subcommittees. The committees, their members and principal functions and focus areas are set out below:

Executive Committee

Members and attendees	Number of meetings
MS Levy (C) BM Levy DA Suntup EC de Villiers* DR Hilewitz* DB Rivkind* W van Reenen*#	**Weekly**
	Member attendance
	100%

(C) *Chairman.*
* *Attendee.*
\# *Resigned on 31 July 2017.*

Key objective and terms of reference (TOR)

The Group Executive Committee is responsible for managing the business and affairs of the Group, implementing the strategies and policies of the Group and establishing and maintaining best management practices and standards.

The Executive Committee currently has authority to make any decision to purchase or dispose of assets and otherwise enter into any transaction outside the ordinary course of business, subject to the maximum value of the transaction not exceeding R40 million.

The Executive Committee has concluded that it has fulfilled its responsibilities in accordance with its terms of reference.

2017 Focus areas and activities

In addition to discharging its obligations in terms of its terms of reference, during the year under review the Executive Committee managed and implemented several large and challenging acquisitions.

Refer to CEO discussion and operational review for further details.

2018 Focus areas

Key focus areas of the Executive Committee during the 2018 financial year shall include assimilating acquisition targets into the Group and ensuring that the historic business units and new acquisitions:

- adhere to the strategies and policies of the Group;
- adhere to best management practices and functional standards;
- adhere to legal compliance and internal control; and
- are efficiently and competently managed.

Board composition, structure and report back

continued

Audit, Risk and Compliance

Members and attendees	Number of meetings
JS Mthimunye (C) GD Harlow P Mahanyele SJ Vilakazi EC de Villiers* BM Levy* MS Levy* DA Suntup*	**4**
	Member attendance
	93%

(C) *Chairman.*
* *Attendee.*

Key objective and terms of reference (TOR)

Provides governance over internal controls, compliance, performance of internal and external audit, appropriateness of accounting and adequacy of external reporting.

The Audit, Risk and Compliance Committee concluded that it has fulfilled its responsibilities in accordance with its terms of reference.

2017 Focus areas and activities

- examining and reviewing the Group's financial statements and reporting of interim and final results;
- reviewing and considering, for recommendation to the Board, the consolidated budget for the ensuing financial year;
- overseeing integrated reporting;
- overseeing the Internal Risk and Compliance Committee function;
- monitoring the risk management framework and assessing the risks that impact on the Group's ability to achieve its strategic objectives;
- reviewing and satisfying itself of the expertise, resources and experience of the Blue Label finance function;
- overseeing the internal audit function and internal financial control process;
- recommending the appointment of the external auditor and overseeing the external audit process, including their audit fee, independence and nature and extent of any non-audit services; and
- monitoring compliance activities.

Refer to governance of risk, technology and information governance, combined assurance and to the Audit, Risk and Compliance Committee report for further details.

2018 Focus areas

- Successful integration, accounting treatment of acquisitions, establish compliance framework for the Group with specific focus on foreign operations.
- Assessing the impact of IFRS 16.
- Continued focus on King IV transition.

Remuneration and Nomination

Members and attendees	Number of meetings
GD Harlow (C of RC) LM Nestadt (C of NC) JS Mthimunye EC de Villiers* BM Levy* MS Levy* DA Suntup*	**4**
	Member attendance
	100%

(C) *Chairman.*
* *Attendee.*

Key objective and terms of reference (TOR)

Ensure competitive remuneration and incentive policies aligned with strategy, review design and targets of the Group's forfeitable share plan and review associated annual awards under the share plan, executive and non-executive appointments and succession, annual evaluation of independence of Non-Executive Directors and composition of Board and its committees.

The Remuneration and Nomination Committee concluded that it has fulfilled its responsibilities in accordance with its terms of reference.

2017 Focus areas and activities

- ensuring that the Group upholds its entrenched remuneration philosophy;
- ensuring that the combination of fixed and variable pay is appropriate when benchmarking remuneration levels;
- reviewing incentive schemes aligned to growth in shareholder value;
- reviewing incentive schemes to ensure that they are administered and implemented in terms of their rules and performance targets;
- reviewing remuneration of Executive Directors and Senior Management;
- submitting recommendations to the Board with regard to non-executive remuneration for ultimate approval by shareholders;
- managing stakeholder relations and expectations, as deemed appropriate on remuneration matters;
- ensuring that the Group continues to progress with race and gender diversity on the Board and committees; and
- ensuring that the Group has implemented succession planning at both top level management and subsidiary management level.

Refer to Remuneration report on pages 56 to 66 for further details on our remuneration philosophy, policy and implementation.

2018 Focus areas

Continue to ensure that total rewards are set at levels that are competitive and drive performance in the short and long term ensuring alignment with shareholder interest and at the same time promote an ethical culture and responsible corporate citizenship.

Board composition, structure and report back

continued

Social, Ethics and Transformation

Members and attendees	Number of meetings
SJ Vilakazi (C) KM Ellerine GD Harlow BM Levy (alternate DA Suntup) Y Mahomed~ P Mahanyele° MJ Campbell* EC de Villiers* IJ Hindley*	**2**
	Member attendance
	80%

(C) *Chairman.*
* *Attendee.*
° *Appointed 7 March 2017.*
~ *Resigned 11 January 2017.*

Key objective and terms of reference (TOR)

Monitor the Group's activities and compliance with legislation relating to equality, black economic empowerment, good corporate citizenship, the environment, health, public safety, and consumer and labour relations, as well as advise the Board where necessary and appropriate. Review ethical business conduct, including any activity on the ethics hotline.

The Social, Ethics and Transformation Committee concluded that it has fulfilled its responsibilities in accordance with its terms of reference.

2017 Focus areas and activities

Focus areas for the year have been the following:

- the alignment of business strategy and practice to ensure appropriate B-BBEE ratings;
- the tracking of Group performance against employment equity targets;
- monitoring Group learning and development initiatives such that they are aligned with strategic intent and B-BBEE requirements;
- the alignment of Group CSI, enterprise development and supplier development strategies and the creation of a shared value model between the various beneficiaries and the Group; and
- monitoring and supporting Group health and safety policies and practices.

Refer to Social, Ethics and Transformation Committee report, and to Effective and Ethical Leadership and Stakeholder Relations sections for further details.

2018 Focus areas

- To continue to ensure the alignment of business strategy to B-BBEE requirements with particular emphasis on the JSE regulations regarding a Group consolidated scorecard.
- To continue to track Group performance against employment equity targets.
- To continue to monitor the Group learning and development initiatives such that they are aligned with strategic intent and B-BBEE requirements.
- The scale up the Group CSI, enterprise development, and supplier development initiatives through the formation of a Foundation as an enabler for the shared value model between the various beneficiaries and the Group.
- To continue to monitor and support Group health and safety policies and practices.

Investment (ad hoc, minimum two meetings)

Members and attendees	Number of meetings
GD Harlow (C) KM Ellerine DR Hilewitz BM Levy MS Levy JS Mthimunye DA Suntup EC de Villiers*	**3**
	Member attendance
	95%

(C) *Chairman.*
* *Attendee.*

Key objective and terms of reference (TOR)

- Reviewing acquisitions, investments and disposals made within the Executive Committee's mandate.
- Reviewing, considering and approving proposed acquisitions, investments and disposals of the Group recommended by the Executive Committee ranging between R40 million and R100 million per transaction.
- Reviewing, considering and recommending to the Board acquisitions and investments of the Group above R100 million.
- Annually review the performance of each investment and acquisition made.

The Investment Committee concluded that it has fulfilled its responsibilities in accordance with its terms of reference.

2017 Focus areas and activities

Blue Label's strategy is to grow its businesses organically and to enhance its competitive advantage and offering to its customers through strategic acquisitions. All new investments which are considered have to be motivated by alignment with Group objectives, strategic focus and they have to enhance future profitability. Among the considerations are the requirements that the future returns exceed Blue Label's weighted average cost of capital (WACC), enhance Blue Label's service and product offerings or complement existing ones, attract new skills and management and offer synergy benefits.

The main challenge is that Blue Label operates in a rapidly developing and highly competitive market where the customer is "king". Acquisitions need to be strongly motivated to the investment committee to meet these challenges.

Past acquisitions over the previous four years are reviewed annually in terms of actual performance compared to budget and whether they met the criteria set when they were initially approved by the Investment Committee. Any sub-performance is analysed in full to assist the committee in shaping its criteria for future acquisitions as well as advising management on corrective steps to be taken.

In August 2017 the Cell C and 3G acquisitions were implemented.

2018 Focus areas

As the Group is in the expansion phase of its development, further acquisitions are being pursued and appraised and are likely to continue in the next financial year.

A challenge for the committee will always be to look at ways of retaining the entrepreneurial management teams that come with these acquisitions through our long-term share plan.

King IV functional areas

King IV's philosophy of integrated thinking and governance promotes the integration of governance functional area report back into the rest of the integrated reporting elements. Oversight of these functional areas is maintained by the Board and its subcommittees as follows:

King IV functional area	Committee oversight	Report back
Risk	Audit, Risk and Compliance	Governance of risk (page 47) Understanding material matters (page 12)
Technology and information	Audit, Risk and Compliance	Technology and information governance (page 48) Solutions segment (page 76) Understanding material matters (page 12)
Regulatory compliance	Audit, Risk and Compliance Social, Ethics and Transformation	Compliance report (page 49) Social, Ethics and Transformation Committee's report (page 71) Social practices (page 80) Human capital (page 81)
Assurance	Audit, Risk and Compliance	Approach and reporting frameworks (page 8) Combined assurance (page 50) Governance of risk (page 47) Audit, Risk and Compliance Committee's report (page 67)
Stakeholder relationships	Social, Ethics and Transformation	Stakeholder relations (page 51) Ethics in action (page 35) Social, Ethics and Transformation Committee's report (page 71) Responsible corporate citizenship (page 35) Corporate social investments (page 83)
Remuneration	Remuneration and Nomination	Remuneration report (page 56)

Governance of risk

Structure

The Board accepts its responsibility for the governance of risk, which includes the total process of risk management and the formation of its opinion on the effectiveness of the process. The Board forms its opinion on the process of risk management based on the recommendations of the ARCC and is satisfied with the effectiveness of the risk management process. The ARCC is responsible for ensuring that the Group has implemented an effective policy and plan for risk management and that the risk disclosures are comprehensive, timely and relevant. The Board and committees' responsibilities are documented in the Blue Label Integrated Risk Assurance Policy and Framework.

Management is accountable to the Board for designing, implementing and monitoring the process of risk management. The Internal Risk and Compliance Committee function (IRCC), established by management, supports the enterprise-wide risk approach by identifying, evaluating and measuring Group-wide risks and compliance in all functional areas of the Group, as well as maintaining adequate internal controls. The IRCC reports to the ARCC bi-annually in this regard, which oversees the effectiveness of risk management arrangements.

Process

Group-wide strategic risk assessments are conducted bi-annually. These assessments are facilitated by the internal auditor, which plays an important role in evaluating the risk management process and guiding management to continuing improvement. The internal auditor does not take any direct responsibility for making risk management decisions or managing the risk management function. The risk assessment process incorporates value drivers that guide the Group's strategic pursuits. The risk assessments conducted involve risk identification and prioritisation at subsidiary and holding company level, followed by interviews with Senior Management at subsidiary level and key members of Executive Management to confirm risks, their descriptions and prioritisation. Each risk is evaluated in terms of the potential impact, the likelihood of occurrence and the perceived effectiveness of controls in place to manage the risks according to set criteria. The Group has identified its strategic risks and acknowledges that its appetite to accept risk varies across those identified. The assessment process includes the setting of risk appetite and tolerance on a qualitative basis. The outcome of the risk assessments is integral in refining our strategic response and in developing a plan for internal audit engagements for the forthcoming year. Action plans are documented in response to risk appetite and tolerance thresholds that are breached. The Integrated Risk Assurance Policy and Framework will be updated to incorporate the identification and management of opportunities. The Group's material risks are listed on pages 12 to 14.

Technology and information governance

The Board is responsible for the Group's technology and information governance risk and compliance. The Board has delegated its responsibility for the implementation of IT governance to management, which in turn, has adopted an IT governance framework. The Information Security Officer continues to drive a number of operational and educational programmes across the organisation in order to ensure the framework is effectively communicated and that all Group companies are informed of the framework and associated policies. Management has implemented controls to ensure that the policies are effectively adopted and maintained across the organisation.

IT controls have been tested to ensure consistent and adequate risk management has been applied. The operation's environment has been tested to ascertain the process requirements from both an enhancement as well as a compliance perspective.

On project and system changes, processes are in operation to ensure that focus is appropriately maintained. Congruent with growth in business, there has been a marked increase in new requests for technology enhancements. These processes ensure that efforts are focused on developments that will assist customers to meet their objectives, while maintaining acceptable performance levels from the systems.

In order to gear the technology function to support the growing business environment, a number of governance, risk and compliance objectives were set and have been met. The governance framework was developed by initially identifying generic technology risks and the policies developed aligned to the framework are in some cases more Group specific, and these are being refined and defined in more detail to ensure a higher level of maturity.

The most significant key risk is the threat from cyber security. A significant effort is spent with internal audit, external audit and specialist third parties to ensure that we continually update and test our systems to ensure that we have taken every precaution possible.

The 'big data' programme is regularly reviewed with the compliance officer to make sure that we are compliant with POPI and other appropriate legislation in the use of the Group's data.

Refer to the Group's material risks on pages 13 and 14 which includes further detail on cybercrime risk and mitigation and disaster recovery and continuity of business.

Compliance report

The Internal Risk and Compliance Committee function (IRCC) oversees the discharge of legal and regulatory responsibilities. The committee monitors, assesses, researches and reports on the regulatory environment in which the Group operates. The IRCC reports to the Audit, Risk and Compliance Committee.

The process of compliance reporting encompasses:

- identifying and prioritising all acts and regulations at a national level applicable to Blue Label;
- incorporating regulatory requirements into control measures such as standard operating procedures or processes, manuals or policies;
- recommending corrective measures or steps to ensure compliance; and
- monitoring compliance through the adequacy and effectiveness of control measures, which includes the use of best industry practice compliance tools.

There have been no material instances of non-compliance by the Group or its Directors during the past financial year.

Future focus areas include:

- Blue Label is in the process of appointing a dedicated Compliance Officer who will be tasked to oversee the compliance function within the Group; and
- develop compliance risk management plans in respect of priority legislation, including monitoring thereon.

Combined assurance

The objectives of assurance are to assess whether the internal control environment is effective, to assess whether there is sufficient integrity in the information used for internal decision-making and to support the integrity of external reports. The Audit, Risk and Compliance Committee of Blue Label is responsible for overseeing the effectiveness of combined assurance arrangements within the organisation, which is documented within the Blue Label Integrated Risk Assurance Policy and Framework. The Internal Risk and Compliance Committee is responsible for directing and assisting in the co-ordination of the combined assurance arrangements within Blue Label as well as to ensure that a robust integrated risk assurance plan is compiled and executed by the various assurance providers on an annual basis.

Blue Label has adopted a combined assurance model, in line with corporate governance objectives, to optimise assurance obtained from management, corporate functions, and internal and external assurance providers on the risks affecting the business. The combined assurance model is integrated within the risk management process, including reporting to and oversight from the IRCC and ARCC, from which the annual integrated assurance plan is developed in respect of the priority risks for the Group across the four lines of defence (Management, Corporate Functions, Independent Assurance and Oversight Committees) through defined assurance activities. The assurance plan is a key tool to support the Audit, Risk and Compliance Committee and the Board in making its endorsement on the effectiveness of internal controls in the integrated report and to support the integrity of information that underpins internal decision-making within Blue Label and reporting to its stakeholders.

Embedding combined assurance throughout the Group will be a future area of focus.

Stakeholder relations

The Board has ultimate accountability for stakeholder strategy and engagement, recognising that developing and nurturing dialogue with key stakeholders is a driver of business sustainability.

The Board acknowledges that Blue Label's relationship with its stakeholders is a core capital, as defined by the framework for International Integrated Reporting. The responsibility for satisfactory stakeholder relationships vests with every employee in the Group, as we consider a good reputation to be a competitive advantage, which affords the Group the ability to create additional value.

We approach stakeholders with trust and respect and look to them for the same mutual good faith. A broad range of internal and external stakeholders with a material or potential interest in, or who are affected by us, have been identified.

We recognise the importance of identifying issues of a shared interest, but also value the opportunity for engagement, as it provides a unique insight into the expectations of each stakeholder group. We apply a measured approach to interacting with and responding to stakeholders, with a view to establishing enduring relationships. A stakeholder engagement programme has been formalised for key stakeholder groupings. This process takes into account the impact that each stakeholder group may have on our business, ensuring that the frequency and form of engagement is aligned to its estimated impact.

Some of the initiatives and methods used in the process of engaging with stakeholders comprise: face-to-face formal or informal, individual or group meetings (including the AGM), media and securities exchange news announcements, presentations, roadshows, telephone and conference calls, the Blue Label website **(www.bluelabeltelecoms.co.za)**, investor site and trade visits. We rely on the results of perception studies, independent research, reputation audits, whistleblowing facilities and formal grievance mechanisms as well as financial and sustainability reports. In addition, we initiate newsletters, circulars and e-mail updates, regular customer, business partner and supplier meetings, below and above-the-line advertising and marketing across various channels, formal consultations and audit processes, and host management and sales conferences. Dialogue, review and feedback are encouraged wherever possible, which in turn are presented to Exco for consideration.

We monitor the effectiveness of stakeholder management by taking cognisance of external and internal inputs such as perception studies, independent research, reputation audits, whistleblowing facilities and formal grievance mechanisms.

Blue Label's stakeholder engagement programme supports its efforts to be a successful, stable and ethical company contributing to the economic growth of the communities in which we operate.

The Board's approach to stakeholder management

In identifying and prioritising stakeholders, the Board considers the following criteria:

- Groupings which interact with the Group, or are directly or indirectly affected by the Group's activities; and
- Groupings which have a positive or negative impact on our ability to operate.

On listing in 2007 we identified our key stakeholder groupings. On an annual basis Exco assesses the completeness thereof, with reference to the ecosystem in which the Group as a whole operates. This approach to stakeholder identification and engagement is cascaded to all subsidiaries across the regions, although each is responsible for managing its own stakeholder relationships. Any key concerns at subsidiary level are escalated, either to line management or via the Internal Risk and Compliance Committee. Stakeholder identification and prioritisation is an ongoing process and is evolving as the Group expands.

The Board's approach to stakeholders also embraces:

- appreciating that stakeholder perceptions affect reputation, and therefore managing reputation risk;
- delegating to management the responsibility to deal with stakeholder relationships;
- overseeing the mechanisms and processes for the constructive engagement of stakeholders;
- disclosing stakeholder engagement in the integrated annual report;
- striving to achieve a balance of stakeholders' legitimate expectations in the best interests of the Group; and
- ensuring equitable treatment of shareholders.

In profiling key stakeholder groupings, the nature of engagement, the method of engagement and the dialogue process and outcomes are reported alongside each grouping.

Stakeholder group

Employees

- investing in the development of our people.

Nature of engagement

Continuous communication with employees covers matters of a strategic, financial and operational nature, including new developments, product launches, health and safety initiatives, internal policies and practices such as the ethics hotline, competitions, business initiatives, charitable initiatives, human resource matters, staff wellness, staff-related news and regulatory and compliance matters.

Stakeholder relations continued

Blue Label also holds an annual off-site conference attended by Directors and Senior Management. The purpose of the conference is to obtain input and feedback from attendees on strategic and common operational matters. Subsidiaries host their own management, sales and strategy conferences at least once a year.

Method of engagement

Staff meetings, newsletters, posters, e-mails, staff notices posted on notice boards, in the canteen and in elevators, lunch and coffee station discussions, line management engagements on personal performances, top management presentations and briefings of strategy updates, material acquisitions made, interim and year-end financial results.

For those staff based in outside regions, access to relevant information is directed via the MyTrack portal. Other forms of engagement include wellness days, a carnival day, blood donor drives, health campaigns, the year-end awards ceremony, and social events with employees, customers and service providers. More details are provided in the human capital section on page 81.

From time to time, keynote and motivational speakers are invited to address discussion groups, breakaway sessions and team building exercises. Later this calendar year, Blue Label Galaxy will be launched. This internal communication platform will enable comprehensive and targeted communication with staff regarding Company policies and procedures.

Dialogue process and outcomes

Newly appointed staff attend an induction programme held at the beginning of each month.

Innovation in our entrepreneurial environment is nurtured and motivation and values are reinforced in a safe and rewarding environment. Focus is on balancing the organisation's entrepreneurial spirit with a structured work environment by streamlining processes and procedures in a relatively flat organogram and an open communication system. This year the Group ran the "what's the big idea" initiative, which encouraged staff to submit innovative and creative ideas to enhance business for a reward.

Staff performance is reviewed bi-annually with the intention of measuring performance and reviewing salaries. There is a forum to which staff may make recommendations and/or requests.

External training, coaching and mentoring programmes are available to staff on the recommendation of their line manager.

See page 80 for more details of the Group's social practices.

Ongoing focus areas include the identification and selection, as well as the retention, of technically skilled staff.

Stakeholder group

Providers of capital, including shareholders, institutional and retail investors and financial analysts

- delivering value to Blue Label's shareholders.

Nature of engagement

Engagement includes ongoing and/or *ad hoc* meetings with senior management, involving presentations and discussions covering Group financial performance, overview of strategic direction and the investment proposition.

Visits to head office and the warehouse at No 75 Grayston Drive and to a local shopping centre, merchant trading grounds and our customers' sites are arranged on request.

Individuals from this stakeholder group and their contact details are registered on the Blue Label investor database.

Questions received via telephone or e-mail are answered expediently, with a return time of no longer than 48 hours from receipt, with due regard of close periods.

Method of engagement

Management undertakes local and international roadshows to existing and prospective institutional investors and analysts, at which one-on-one and group meetings take place.

Integrated annual report, interim report and AGM.

The highlights of the interim and year-end results are published in the press as a short-form advertisement, with more detailed information posted on the website.

Material announcements are issued through SENS via the JSE.

Ad hoc face-to-face meetings, group meetings, teleconference and videoconference calls with management and/or the Head of Investor Relations.

Speaker and presenter at local and international investor conferences, JSE showcases and other workshops. Investor alerts are e-mailed to those registered on our database.

Other activities as arranged by sell-side analysts, banks and financial communication and media houses.

Future focus areas include enhancing financial disclosure of Cell C's performance, and that of other acquisitions, to enable stakeholders to fairly value their contributions to the Group.

Dialogue process and outcomes

To address this stakeholder group's request to increase its understanding of the business model, the geographies and markets in which we operate, as well as the five categories of products and services distributed, management is available to take meetings and conference calls throughout the year, subject to close period dates. Presentations and webcasts are posted on the website.

A warehouse, situated at No 75 Grayston Drive, can be visited by prior arrangement.

Visits are arranged to local markets, petroleum forecourts, retail outlets, Mom & Pop stores and malls, where our merchants' activities can be witnessed. By prior arrangement the truck and footsoldier model can be seen in action in nearby local communities. Visits of this nature were held in and around Johannesburg during the year.

Stakeholders showed significant interest in the Group's acquisition strategy this year, resulting in management hosting a number of individual and group progress meetings and conference calls with investors and analysts.

Stakeholder group

Customers

- enhancing innovation.

Nature of engagement

The Group's customer base comprises corporate clients, chain stores, petroleum forecourts, large independent retail clients, wholesale/cash-and-carry stores, and Mom & Pop stores.

Engagement involves servicing customers, through a dedicated call cycle where face-to-face meetings take place at which sharing of information on new products, market research and trends, business queries and other growth opportunities are discussed. Field technicians are deployed to assist customers with technical support and installation of terminals. Outbound calls to merchants measure customer satisfaction scores regarding touch points, trade marketing and Blu Approved branding.

Senior Management liaises regularly with its customers and supplier counterparts and, in so doing, continues building and strengthening long-term relationships, which in turn, enhances growth opportunities.

Method of engagement

A dedicated, national helpdesk operating daily from 07:00 to 21:00, with a team of customer relationship and technical support consultants. Face-to-face formal and informal meetings, as well as formal consultation.

The Group has a CRM system, self-help facilities and dedicated sales and technical consultants to enhance its customer engagement service. Customer satisfaction surveys are carried out across all customer segments on a regular basis.

Future focus areas will be driven by the newly strengthened management team heading up Blue Label Distribution and will include reinforcing a customer-centric approach to the main market.

Dialogue process and outcomes

Price and value for money drive the relationship with this stakeholder group. FAQs by customers usually involve technical matters or account queries. It is essential that queries are expeditiously resolved in order to impart a greater sense of value to the customer. A call-out is logged for technical matters and a technician will visit the site within 24 to 48 hours. Account queries that require escalation are dealt with by a CRC who will visit the merchant. The contact centre reports regular updates to the merchant base through SMS and e-mail communications.

CRCs and regional managers maintain good relationships through a scheduled call cycle that ensures open communication and updates on new product offerings. Support is also provided for POS material, branding, minor repairs and maintenance. Emphasis is placed on upselling and cross-selling opportunities within the Group's products and services. Differentiating service levels incentivise merchants to upgrade to a higher level, enhancing their value proposition in selling more of our products and services.

Stakeholder group

Business partners and suppliers

- we collaborate to enhance the end customer's experience.

Nature of engagement

The relationships with business partners such as Vodacom, MTN, Cell C, Telkom, Eskom, municipalities, utilities, parastatals, event, concert and sport organisers, transport providers, entertainment and gaming suppliers, commercial banks and merchant acquirers, as well as service providers are managed in terms of written distributor and/or dealer agreements. The nature of agreements are generally long term.

Relationship managers are appointed to each partner to provide a single and dedicated point of contact.

Suppliers are managed in a formal procurement process, during which issues such as quality of product, creditworthiness and B-BBEE status are confirmed, prior to their appointment. Suppliers of services are, if appropriate, initially engaged through a tender process and, where successful, agreements are concluded. The majority of the Group's goods and

Stakeholder relations continued

services are procured from locally based suppliers.

Engaging this group of stakeholders also provides a platform for product innovation, as well as line of sight into indicative market supply and demand trends.

Existing trading relationships with the network operators afford the Group a clear line of sight into cross- and up-selling opportunities.

Method of engagement
Written distributor and/or dealer agreements.

Formal and informal meetings.

Site visits are held on request.

Supplier relationships may transform into customer service arrangements.

A future focus area will be in ensuring that constructive relationships are maintained with the main network operators, following the Group's acquisition of a 45% stake in Cell C in August 2017.

Dialogue process and outcomes
We recognise the need to work co-operatively in order to ensure quality and value for money in products and services. Adherence to contract terms and conditions and full payment for goods delivered and services rendered, are key to maintaining sound relationships with this stakeholder group. Matters raised pertain mostly to technical and operational issues, which are resolved timeously thereby ensuring a smooth service delivery.

Supplier relationships may transform into customer service arrangements.

During the year a number of meetings were held with network operators in advising each of the rationale for and progress on Blue Label's acquisition of a 45% stake in Cell C.

Stakeholder group
Communities, educational institutions and research organisations
- participating with leaders in the communities in which we operate.

Nature of engagement
By deepening our understanding of the interests of the communities in which we operate, we enhance trust and strengthen relationships.

The TPC community channel specialises in the development and empowerment of broad-based communities through the deployment of mobile technology and products. The community channel aims to distribute the Group's products more widely, to create job opportunities for members of the communities and to share a portion of the revenue with them.

Senior Management, such as the Group Head of Human Resources and the Head of Investor and Media Relations, also engage regularly with the business community, professional associations and research organisations across various levels.

The Joint CEOs and Senior Management are involved in collaborative projects and workshops with local and international business and secondary schools.

Management also takes cognisance of the published works of Financial Technology Partners LP, Frost and Sullivan and the Institute for Futures Research at the University of Stellenbosch. The outputs of relevant print, electronic and social media monitoring services are also noted.

A Group CSI Manager was recently appointed, who actively engages with those in charitable organisations aligned with Group strategy regarding youth development, with a view to improving service delivery and securing a satisfactory return on investment.

The Joint CEOs are regularly recognised for their contributions to entrepreneurialism, business development and the community at large, if not as award recipients, then as judges. Some accolades are listed in each of their biographies on page 16.

Method of engagement
Formal and informal meetings and forums.

Training and workshops. Outreach programmes, as requested.

Presentation at conferences, participation in panel and roundtable discussions.

Addressing public conferences, roundtable sessions on best practices, governance and sustainability.

Frequent engagement with lecturers, students and scholars at formal and informal settings. Case studies assist the Group and the community in gaining a better understanding of developments, challenges, achievements and failures.

The Group, represented by Executive Directors or Senior Management, frequently participates in group discussions with the community on business entrepreneurialism and administration.

Future focus areas will be driven by the recently appointed Group CSI Manager.

Dialogue process and outcomes
The Group supports making responsible contributions to broader societal issues, be it through its charitable donations, CSI spend or in developing our business model among communities. See page 83 for more detail.

The communities in which the TPC community channel operates mainly focuses on the upliftment of their

communities, the enhancement of skills and the delivery of services in their mostly rural areas. These issues are directly addressed by the community channel, in focusing on providing services, creating job opportunities and stimulating economic upliftment.

These opportunities provide extramural stimulus for senior staff and enable them to extend their knowledge, mentoring reach and networks. This provides the Group access to talented individuals, while gaining direct line of sight into academia, where it may be able to offer and receive learning.

During the period of the Group's intense acquisition activity, it deferred a number of reach-out opportunities, which will now be re-initiated, over time.

Stakeholder group

Members of the media, including journalists, reporters and editors

- engaging with outsiders to our business who may have difficulty understanding our activities.

Nature of engagement

Briefings to media are held at the interim and full-year results, followed by Q&A. One-on-one interviews are conducted on radio, TV and with print and online journalists and editors. *Ad hoc* requests for interviews and participation in panel discussions. Daily media monitoring assists the Group in understanding the reach, interpretation and needs of this stakeholder group.

Method of engagement

News releases are distributed to media and news services both locally and overseas, as per a database maintained by the Company. Print, online, broadcast and social media monitoring is outsourced and reports of coverage are received and distributed daily among business segments, as appropriate.

A media agency is engaged to assist the Group in maximising its news-worthy activities.

Future focus areas include enhancing stakeholders' understanding of Blue Label's acquisition strategy, in particular Cell C.

Dialogue process and outcomes

Mid-cap companies do not readily gain news coverage. To raise this stakeholder group's interest and awareness of the scope of business, products and services, media briefings and trade visits were held throughout the year.

Numerous interviews with Senior Management resulted in articles being published in the press, clips aired on radio and TV, on subjects such as profiles of the CEOs, Group financial performance, various new products such as ticketing and prepaid water, and the acquisitions of equity in a recapitalised Cell C and in 3G Mobile. Management participates on radio and TV at the release of interim and year-end financial results.

This stakeholder grouping showed significant interest in the Group's acquisition strategy this year, resulting in management hosting a number of interviews and group meetings with a range of media members.

Stakeholder group

Government, regulatory bodies and the public sector

- we believe in partnering.

Nature of engagement

The Group regularly engages national and local government, parastatals and other public organisations through various tender processes.

From a compliance perspective, the completion and rendition of statutory returns are undertaken diligently. Blue Label is not a member of any business or industry association or national/international advocacy organisation in which the Company has positions in governance bodies, participates in projects or committees or provides substantive funding.

The Group occasionally consults the Department of Labour and physically lodges returns at the CIPC to expedite registration.

Method of engagement

Formal personal meetings, written communications and tender processes. The Group takes cognisance of the implications of the B-BBEE Codes of Best Practice.

Meetings are held covering matters such as health and safety, employment equity, and the Codes of Best Practice. The Group meets all its statutory filing obligations in respect of the Department of Labour, CIPC, SARS, etc.

Focus areas are determined on an *ad hoc* basis.

Dialogue process and outcomes

Our sound reputation is our licence to operate and we therefore have to uphold our stature with all stakeholders.

During the year under review no prosecutions were brought against the Group for the contravention or non-compliance of any laws or regulations.

Remuneration report

Philosophy

Blue Label's remuneration philosophy is to reward employees and executives in a fair and equitable way in order to attract the best talent and ensure a culture of high performance in the execution and support of Blue Label's business strategy and vision. Rewards are set at levels that are competitive and drive performance in the short and long term, ensuring alignment with shareholder interests and simultaneously promoting an ethical culture and responsible corporate citizenship. Incentive-based rewards are earned through the attainment of demanding key performance indices and targets, consistent with shareholder growth expectations. We consult our key shareholders on any proposed changes to our remuneration and reward policy with due cognisance given to the non-binding advisory votes at the AGM.

Incentive packages, both short and long term, are aligned with best practice and benchmarked regularly where we aim to be in the top quartile of the peer review group. This review is performed from time to time, utilising the services of third-party consultants. Our goal is to profile Blue Label as an "employer of choice", enabling us to attract and retain the best skills required in a constantly evolving technology landscape, enhancing our ethos of entrepreneurship and innovation.

In the previous year we re-aligned the criteria pertaining to the forfeitable share plan as well as introducing an outperformance bonus for senior executives, further enhancing the alignment of executive remuneration with shareholder interests. The RNC strives to meet all requirements of the JSE and King IV and will take cognisance at the AGM of any vote against the remuneration and reward policy of 25% or more of the votes exercised and will, as a matter of policy, engage where necessary to ascertain the reasons thereof and where legitimate reasonable objections are raised, these will be considered by RNC.

We are pleased to report that at the 2016 AGM, votes in respect of the non-binding advisory vote on endorsement of the Group remuneration policy was 97.73% in favour, 2.24% against and 0.03% abstained.

Governance

The Board has delegated to the Remuneration and Nomination Committee (RNC) the responsibility of determining the remuneration of the Executive Directors and Senior Managers, as well as to approve the allocation of shares under the Group's forfeitable share scheme. The RNC also fulfils the functions of the Nomination Committee.

The RNC consists of three Independent Non-Executive Directors, namely Messrs GD Harlow (Chairman of the RNC), LM Nestadt (Chairman of the Nomination Agenda of the RNC), and JS Mthimunye. The chairpersons respectively report to the Board on deliberations and decisions. The Joint CEOs and the Financial Director may attend meetings of the RNC by invitation, but do not vote on decisions.

With regard to the annual salary review of staff, the Group Head of Human Resources presents recommendations for consideration by the RNC. The RNC formulates its own proposals regarding the fee structure for Non-Executive Directors and the fees payable to members of Board Committees for consideration by the Board and ultimately, for approval by shareholders.

Key duties of the RNC include:

- ensuring that the Group upholds its entrenched remuneration philosophy;
- ensuring that the combination of fixed and variable pay is appropriate when benchmarking remuneration levels;
- reviewing incentive schemes aligned to growth in shareholder value;
- reviewing incentive schemes to ensure that they are administered and implemented in terms of their rules and performance targets;
- reviewing remuneration of Executive Directors and Senior Management;
- submitting recommendations to the Board with regard to non-executive remuneration for ultimate approval by shareholders;
- managing stakeholder relations and expectations, as deemed appropriate on remuneration matters;
- ensuring that the Group continues to progress with race and gender diversity on the Board and committees; and
- ensuring that the Group has implemented succession planning at both top level management and subsidiary management level.

In the course of deliberations, the RNC considers the views of the Joint CEOs on the remuneration and performance of other Executive Directors and Senior Management.

From time to time, independent advice on market information and remuneration trends is provided to the RNC by external remuneration consultants. Blue Label's Human Resources Department also assists the committee by providing supporting information and documentation relating to matters for its consideration, including the assessment of proposed changes to legislation, such as determining the employer's responsibility to provide retirement funding for staff. *Ad hoc* consultations are held with key institutional shareholders for their comment and input.

Additional governance principles applicable to the composition and principal activities of the RNC are fully set out on page 37 (Governance Framework – Board Committees) of the integrated annual report.

The Remuneration and Nomination Committee concluded that the remuneration policy has achieved its desired objectives and addresses fair and reasonable remuneration for executive management in the context of employee remuneration.

The Remuneration Committee has the right to exercise its discretion from time to time in the awarding of all incentive bonuses as well as the awarding and vesting of shares pertaining to the forfeitable share scheme. The exercising of this right only occurs in exceptional circumstances in which the committee believes that a change in policy is merited.

REWARD EMPLOYEES IN FAIR AND EQUITABLE WAY
▸ ENSURE A CULTURE OF HIGH PERFORMANCE

FIXED REMUNERATION	SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES	
Fixed monthly salary and benefits ▸ Median for relevant market	**Incentive bonus** ▸ Variable pay element to reward financial, strategic and personal performance	**Forfeitable share scheme** ▸ Based on percentage of total annualised fixed remuneration ▸ Rewards sustained long-term performance ▸ Aligns Executive and Senior Management interests with those of shareholders	**Outperformance bonus** ▸ Additional share allocation to Executives ▸ Linked to share price annual growth ▸ Rewards contribution to Group strategy

REMUNERATION DESIGNED TO SUPPORT BUSINESS STRATEGY AND VISION

Remuneration report continued

Policy

The remuneration of employees is determined on a total cost-to-company basis, comprising four components:

The table below summarises the remuneration policy and composition for all employees and non-executives

	Fixed remuneration			
	Base salaries	**Non-Executive Directors' fees**	**Retirement benefits**	**Other benefits**
Purpose	Provides a fixed level of earnings appropriate to the requirements of the role	Remunerates non-executive directors for their Board and Board committees' responsibilities and time commitments	Provides for retirement savings	Provides benefits appropriate to the market and the role
Application dependent on employee type and level	All employees	Non-Executive Directors	All new employees since October 2016 are required to join the Group Provident Fund. This is Employee funded. All existing staff are eligible to contribute towards the provident fund	Employees earning in excess of R6 500 per month are required to belong to the approved medical aid, alternatively they may be a dependant on their spouse's medical aid
Operational and performance measures	Fixed remuneration is reviewed annually in order to ensure that Executive Directors and Senior Management, who contribute to the success of the Group, remain remunerated at appropriate levels in accordance with the remuneration philosophy Blue Label applies a discretionary approach in all remuneration reviews and there is no minimum across-the-board increase to all employees. Salary increases for the 2017 financial year ranged from 0% to 6.5% (2016: 0% to 6%). Management of each operating company were granted discretion to apply an appropriate increase, within the stipulated range, to each staff member under their control	Non-Executive Directors receive fees for their services on the Board and Board Committees, dependent on their attendance at meetings. Non-Executive Directors do not receive short-term incentives, nor do they participate in the forfeitable share plan or outperformance bonus of the Company. Historically, increases in Non-Executive Directors' fees were in line with inflation. On assessing comparative fees payable to non-executive directors of listed companies of a similar size as well as the sector in which they are quoted, adjustments have been proposed to ensure that the fees are benchmarked in the upper quartile of the peer review group, in order to ensure retention of our Non-Executive Directors and enable attraction of future directors with the necessary experience and expertise to guide the group in achievement of its strategic goals. The fees payable to the Chairman and Non-Executive Directors are recommended by the RNC to the Board which, in turn, proposes the fees for approval by the shareholders at the AGM Non-Executive Directors may be contracted to render services to the Group in addition to the foregoing services from time to time. There were no services contracted with Non-Executive Directors during the year The proposed annual capped Non-Executive Directors' remuneration for the 2018 financial year is illustrated on page 66 and will be adjusted for any non-attendance of meetings.	The Group Provident Fund is compulsory for all new staff and elective for all existing staff (employed prior to October 2016). The fund is employee funded. The minimum contribution is 5% of pensionable income increasing in increments of 2.5% to a maximum of 27.5%	The Group offers an employer funded Group Life benefit which includes a death benefit, disability benefit, severe illness benefit and a funeral benefit. The Group also acknowledges long service for 5, 10, 15 and more recently 20 years' performance

	Short-term incentives	Long-term incentives	
	Incentive bonus	**Forfeitable share scheme**	**Outperformance bonus**
Purpose	Reward and motivate the achievement of Group and subsidiary financial targets, as well as strategic and personal performance	Reward sustained long-term performance and to align the interests of the Executive Directors and senior managers with those of shareholders	Linked to the annual growth in the share price, with the intention of recognising and rewarding their contribution to the overall performance of the Group
Application dependent on employee type and level	All Executives and senior managers – Performance based All other employee levels receive a 13th cheque	All Executives and senior managers	Executives and identified Key Senior Management
Operational and performance measures	Executives and senior managers: An annual incentive bonus structure which is based on the achievement of short-term performance targets and is measured against the achievement of financial (80% weighting) and non-financial (20% weighting) metrics The Joint CEOs may earn a maximum annual incentive bonus of up to 120% and the Financial Director of up to 70% of annualised fixed remuneration. Senior Management may earn up to 50% of their annualised fixed remuneration For senior managers the financial (80%) metrics are further split between the performance of the subsidiary (60% of the 80%) and on Group performance (20% of the 80%) The following criteria will be taken into account in determining qualification for the non-financial metrics (20%): ▶ the achievement of agreed transformation targets; ▶ progress in delivering the Group's growth strategy; ▶ the roll-out of the Group's transactional footprint; and ▶ the rate and level of progress made in respect of organisational development and succession planning, together with the application of leadership qualities, corporate governance best practices and risk mitigation.	Targets comprise retention and financial measures with the financial measures split between core headline earnings growth and shareholder returns. Allocations have been made for the 2014, 2015 and 2016 share scheme in those relative years. The 2017 share scheme was allocated in September 2017. The quantum of shares to be awarded is calculated on an annual basis, based on a percentage of the recipient's annual cost to company, on the following basis: ▶ Executive Directors 35% ▶ Senior managers 18% or 25% The financial performance criteria for the forfeitable shares allocated in 2017 to senior managers will be measured on vesting at subsidiary level as opposed to group level that was the case in 2016. The vesting criteria comprise: ▶ retention; ▶ growth in core headline earnings per share; and ▶ growth in shareholder returns over the three-year vesting period measured with reference to the compounded growth in the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.	This bonus, awarded in shares, is earmarked for Executives and identified Senior Management and will be based on the growth in the share price The quantum of shares to be awarded will be calculated on an annual basis at the end of each financial year and at the ruling share price at that date. 50% of the award will vest one year later and a further 50% one year thereafter, on the proviso that the recipients remain in the employ of the Company throughout the relative vesting periods
Vesting Criteria	The 80% financial component is based on the achievement of core headline earnings growth in comparison to CPI. This financial element will be earned in the following percentages if core headline earnings per share is: ▶ Less than CPI — Executive Directors: 0%; Senior managers: 0% ▶ Equal to CPI plus 10% (or Pro-rated as the case may be) — Executive Directors: 70% of the 80% at Group level; Senior managers: 70% of the 60% at subsidiary level; and 70% of the 20% at Group level ▶ Greater than CPI plus 10% — Executive Directors: 100% of the 80% at Group level; Senior managers: 100% of the 60% at subsidiary level; and 100% of the 20% at Group level The 20% non-financial component is based on the achievement of criteria, as mentioned above.	The vesting criteria for the 2017 share scheme allocation, the measurement period being 1 June 2017 to 31 May 2020 are as follows: Retention (3 years from date of award) — Executive Directors: 33,33%; Senior managers: 40% Growth in core headline earnings per share: ▶ is 5% above CPI compounded annually over three years, then 20% of the 33.33% / 30% will vest — Executive Directors: 6,7%; Senior managers: 6,0% ▶ between 5% and 10% above CPI compounded annually over three years, then 70% of the 33.33% / 30% will vest; and — Executive Directors: 6.7% to 23.3%; Senior managers: 6% to 21% ▶ between 10% and 25% above CPI compounded annually over three years, then 100% of the 33.33% / 30% will vest. — Executive Directors: 23.3% to 33.33%; Senior managers: 21% to 30% Growth in shareholder return — Executive Directors: 33.33%; Senior managers: 30% Refer to note 5.1 in the Group annual financial statements for the vesting criteria on the 2014, 2015 and 2016 schemes.	The percentage of annual cost to company that can be earned based on the growth in the share price is within the following ranges of share price growth: ▶ Below 15% growth — 0% ▶ Between 15% and 20% growth — Pro rata to 50% ▶ 20% or more growth — 50%

Remuneration report continued

Executive Directors' service contracts

The three-year service contracts of the following Executive Directors, which expired on 14 November 2017, have been renegotiated and extended for a further three years:

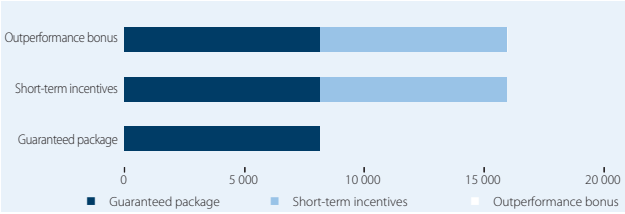
- BM Levy
- MS Levy
- DA Suntup

BM Levy and MS Levy have agreed to the tenure of their restraint of trade undertakings to endure for a period of 36 months as opposed to 12 months that was conditional in the expired contract. In return for this extension of restraint they will receive a restraint payment of R10 million each, payable in 36 equal monthly instalments commencing on 1 November 2017. These terms have been incorporated in their renewed employment contract.

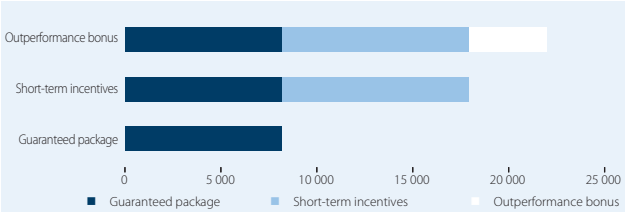
Executive Directors' composition of total remuneration

The graphs below provide an indication of remuneration outcomes for the executive directors illustrating actual value of package excluding long-term incentives compared to the potential maximum value of package.

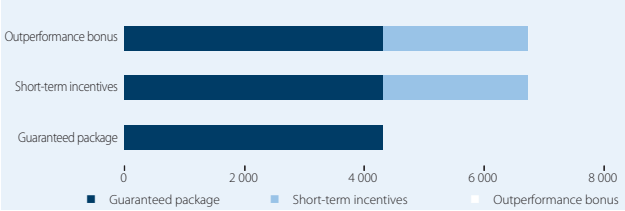
Chief Executive Officers – actual value (R'000)



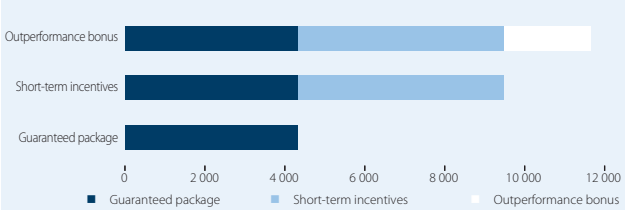
Chief Executive Officers – maximum value (R'000)



Financial Director – actual value (R'000)



Financial Director – maximum value (R'000)



The scenario charts assume:
Guaranteed package – fixed pay and benefits for the year ended 31 May 2017
Short-term incentives – short-term performance-related bonus payments
Outperformance bonus – a bonus in the form of additional share allocations linked to the current growth in the share price

Implementation report

Executive directors' remuneration for the year ended 31 May 2017:

	Fixed Remuneration (salary, allowances, retirement and other benefits) R'000	Short-term bonus R'000	Other benefits R'000	Fair value of forfeitable shares vested during the year R'000	Total R'000
For the year ended 31 May 2017					
Executive directors					
BM Levy	7 973	7 808	160	5 642	21 583
MS Levy	7 985	7 808	149	5 642	21 584
DA Suntup	4 159	2 412	149	2 460	9 180
	20 117	18 028	458	13 744	52 347

Remuneration report continued

Forfeitable share scheme – granted and unvested

Employees

Directors' emoluments

	Issue date	Issue price R	Vesting date	Awards outstanding as at the beginning of the year
Forfeitable share scheme per Director For the year ended 31 May 2017				
BM Levy	2 September 2013	8.75	18 October 2016	271 883
BM Levy	3 September 2014	8.90	31 August 2017	283 339
BM Levy	1 September 2015	10.17	31 August 2018	262 834
BM Levy	18 October 2016	20.75	31 August 2019	–
				818 056
MS Levy	2 September 2013	8.75	18 October 2016	271 883
MS Levy	3 September 2014	8.90	31 August 2017	283 339
MS Levy	1 September 2015	10.17	31 August 2018	262 834
MS Levy	18 October 2016	20.75	31 August 2019	–
				818 056
DA Suntup	2 September 2013	8.75	18 October 2016	118 540
DA Suntup	3 September 2014	8.90	31 August 2017	150 067
DA Suntup	1 September 2015	10.17	31 August 2018	139 207
DA Suntup	18 October 2016	20.75	31 August 2019	–
				407 814

** The fair value is based on the closing price of R15.70 at 31 May 2017 and excludes performance criteria.*

Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year	Fair value at grant date R'000	Fair value at 31 May 2017* R'000
–	–	-271 883	–	–	–
–	–	–	283 339	2 522	4 448
	–	–	262 834	2 673	4 126
137 194	–	–	137 194	2 847	2 154
137 194	–	-271 883	683 367	8 042	10 728
–	–	-271 883	–	–	–
–	–	–	283 339	2 522	4 448
	–	–	262 834	2 673	4 126
137 194			137 194	2 847	2 154
137 194	–	-271 883	683 367	8 042	10 728
–	–	-118 540	–	–	–
–	–	–	150 067	1 336	2 356
	–	–	139 207	1 416	2 186
72 663	–	–	72 663	1 508	1 141
72 663	–	-118 540	361 937	4 260	5 683

Remuneration report continued

Short term incentive bonus

For the 2017 financial year, the Group achieved the levels required in terms of its predetermined targets for growth in core headline earnings per share. In addition, the non-financial targets set for the Executive Directors were also achieved. As a result, the Joint CEOs and Financial Director qualified to be paid their short term incentive bonuses. This equated to 120% of the annual salaries for the CEOs and 70% of the annual salary for the Financial Director. In spite of qualifying for these bonuses, as demonstrated in the table below, the remuneration committee, at their mandated discretion, determined that the above bonuses should be limited to 96% of the annual salary in the case of the joint CEOs and 56% of the annual salary in the case of the Financial Director.

Long term incentive plan

The long term incentive plan related to the allocation of shares in 2013, which vested on 18 October 2016. The financial measurement was for the period 1 June 2013 to 31 May 2016.

The retention criteria of 40% was met.

Growth in core headline earnings per share over the three year period equated to 48.46%. Growth in CPI over the three year period accumulated to 17.15%, which after inclusion of the maximum growth target of 25%, equated to 42.15%. As the actual growth amounted to 48.46%, the resultant allocation of 50% was met.

In respect of growth in shareholder returns, the weighted average price per share at commencement of the allocation in September 2013 was R8.75. The required compounded growth of 10% per annum over the vesting period as at 18 October 2016 equated to a targeted share price of R11.65 inclusive of dividends paid totalling R0.83. The qualifying target equated to R10.82 net of dividends. The market price at vesting date was R20.75, thereby exceeding the minimum target requirement.

In line with the criteria being met in all respects, vesting of the 2013 share scheme allocations fell due on 18 October 2016.

Outperformance bonus

For the year ended 31 May 2017, the members of the executive committee did not qualify for an outperformance bonus due to static movement in the share price. The share price as at 31 May 2016 was R15.70 and at 31 May 2017 R15.70.

Performance metric	Target	Actual performance	Weighting	Executive Directors
Short term incentive bonus				
Financial target				
Group core headline earnings per share growth	**greater/equal to CPI + 10%**	17%	80%	14 422 000
Non-financial targets	**Varies across the Group**	Varies across the Group	20%	3 606 000
Total				18 028 000
Long term incentive plan (2013 Forfeitable share scheme vested in 2016)				
Retention	**3 years**		40%	5 497 200
Growth in core HEPS	**25% + (cumulative CPI over 3 years) = 42.15%**	48.46%	50%	6 871 500
Shareholder returns	**R10.82 market price per share**	R20.75 market price per share	10%	1 375 300
Total				13 744 000
Outperformance bonus				
Annual growth in the share price	**R18.84 market price per share**	R15.70 market price per share	0%	

Remuneration report continued

Non-executive remuneration

	Directors' fees R'000	Consulting fees R'000	Total R'000
Non-executive directors			
LM Nestadt	1 214	–	1 214
K Ellerine	439	–	439
G Harlow	1 363	–	1 363
J Mthimunye	820	–	820
JS Vilakazi	564	–	564
P Mahanyele	339	–	339
Y Mahomed#	303	–	303
	5 042	–	5 042

Resigned 11 January 2017.

The proposed fees payable to Non-Executive Directors are set out below:

	Current fee 2017 R	Proposed fee 2018 R
Services as Directors		
– Chairman of the Board (per annum)	1 008 404	1 700 000
– Board members (per meeting)	46 171	–
– Board members (per annum)	–	375 000
Audit, Risk and Compliance Committee		
– Chairman (per meeting)	64 126	–
– Chairman (per annum)	–	340 000
– Member (per meeting)	38 476	–
– Member (per annum)		210 000
Remuneration and Nomination Committee		
– Chairman (per meeting)	51 301	–
– Chairman remuneration (per annum)	–	200 000
– Chairman nomination (per annum)	–	140 000
– Member (per meeting)	30 782	–
– Member (per annum)	–	120 000
Investment Committee		
– Chairman (per meeting)	38 476	–
– Chairman (per annum)	–	200 000
– Member (per meeting)	23 086	–
– Member (per annum)	–	120 000
Transformation, Social and Ethics Committee		
– Chairman (per meeting)	38 476	–
– Chairman (per annum)	–	120 000
– Member (per meeting)	23 086	–
– Member (per annum)	–	75 000
Ad hoc Committee		
– Chairman (per meeting)	38 476	45 000
– Member (per meeting)	23 086	27 000

The Remuneration and Nomination Committee is satisfied that the remuneration policy has been complied with for the year under review.

GD Harlow
Chairman

23 November 2017

Audit, Risk and Compliance Committee's report

The Audit, Risk and Compliance Committee (ARCC) is pleased to present its report for the financial year ended 31 May 2017.

The Committee is an independent statutory committee appointed by the shareholders of the Company. In addition to its statutory duties, the Board has delegated further duties to the Committee. This report covers both these sets of duties and responsibilities.

Mandate and terms of reference

The Committee has adopted comprehensive and formal terms of reference which have been approved by the Board and which are reviewed on an annual basis. The responsibilities of the ARCC include:

- examining and reviewing the Group's financial statements and reporting of interim and final results;
- reviewing and considering, for recommendation to the Board, the consolidated budget for the ensuing financial year;
- overseeing integrated reporting;
- overseeing the Internal Risk and Compliance Committee function;
- monitoring the risk management framework and assessing the risks that impact on the Group's ability to achieve its strategic objectives;
- reviewing and satisfying itself of the expertise, resources and experience of the Blue Label finance function;
- overseeing the internal audit function and internal financial control process;
- recommending the appointment of the external auditor and overseeing the external audit process, including their audit fee, independence and nature and extent of any non-audit services; and
- monitoring compliance activities.

Membership and meetings held

In accordance with the requirements of the Companies Act, No 71 of 2008 (the Act) JS Mthimunye, GD Harlow, P Mahanyele and SJ Vilakazi were appointed to the Committee by shareholders at the Annual General Meeting held on 8 December 2016.

Membership of the Committee for the year under review:

- JS Mthimunye (Independent Non-Executive Chairman)
- GD Harlow (Independent Non-Executive Director)
- SJ Vilakazi (Independent Non-Executive Director)
- P Mahanyele (Independent Non-Executive Director)

The members of the Committee collectively have experience in audit, accounting, commerce, economics, law, corporate governance and general industry. All of the members of the ARCC are Independent Non-Executive Directors.

The Committee meets quarterly and the quorum for each meeting is three members present throughout the meeting. Mandatory attendees at the meetings are the Joint Chief Executive Officers and the Financial Director of Blue Label. The external audit partner from PricewaterhouseCoopers Inc. (PwC) and a director from KPMG Services Proprietary Limited (KPMG), to whom Blue Label outsources its internal audit function, are also attendees. Both internal and external auditors are afforded the opportunity to address the meeting and have unlimited access to the Committee. During the year, the Committee met with the external and internal auditors respectively without the presence of management. The internal audit function reports directly to the ARCC and is also responsible to the Financial Director on day-to-day administrative matters.

Statutory duties discharged

In execution of its statutory duties during the year under review, the Committee:

- nominated and recommended to shareholders the reappointment of PwC as independent external auditors, with Deon Storm the audit partner, as the registered independent auditor;
- approved the fees to be paid to PwC and other external auditors, where applicable, and approved the terms of engagement;
- maintained a non-audit services policy which determines the nature and extent of any non-audit services that PwC may provide to the Group;
- discharged those statutory duties as prescribed by section 94 of the Act, acting in its capacity as the appointed audit committee of the subsidiary companies of Blue Label;

Audit, Risk and Compliance Committee's report continued

- considered the Committee's report describing how duties have been discharged; and
- submitted matters to the Board concerning the Company's accounting policies, financial controls, records and reporting, as appropriate.

Other duties discharged

Financial statements and reporting

The Committee:

- ensured that the Group has established appropriate financial reporting procedures and that those procedures are operating (per JSE mandatory King IV practices);
- monitored compliance with accounting standards and legal requirements and ensured that all regulatory compliance matters had been considered in the preparation of the financial statements;
- reviewed the external auditor's report to the Committee and management's responses thereto and made appropriate recommendations to the Board of Directors regarding actions to be taken;
- reviewed and commented on the annual financial statements, interim reports, paid advertisements, announcements and the accounting policies and recommended these to the Board for approval;
- reviewed and recommended to the Board for adoption the consolidated budget for the ensuing financial year; and
- considered the going concern status of the Company and Group on the basis of review of the annual financial statements and the information available to the Committee and recommended such going concern status for adoption by the Board. The Board statement on the going concern status of the Group and Company is contained on page 87 of the Directors' report.

External audit plan, audit fees and non-audit services

The ARCC has satisfied itself as to the independence of the external auditor, PwC, as set out in section 94(7) of the Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought from and provided by PwC that internal governance processes within the firm support and demonstrate its claim to independence. D Storm is the individual registered auditor and member of the aforegoing firm who undertakes the audit with the rotation of the designated audit partner during 2019 for the 2020 financial year-end. PwC has been the auditor of the Group for 13 years. The Audit Committee confirms that it has executed its responsibilities in terms of paragraph 3.84(g)(iii) of the Listings Requirements in its assessment of the sustainability of the auditor. To assess the effectiveness of the external auditors, the Committee considered PwC's fulfilment of the agreed audit plan and variations from the plan, and the robustness and perceptiveness of PwC in its handling of key accounting treatments and disclosures.

The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2017 financial year.

Any non-audit services to be provided by the external auditors are governed by a formal written policy which incorporates a monetary delegation of authority in terms of non-audit services to be provided. The non-audit services rendered by the external auditors during the year ended 31 May 2017 comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R8.4 million (2016: R11.7 million), of which R6.0 million (2016: R9.3 million) relate to acquisition-related costs.

Appointment of PwC

The ARCC has nominated, for approval at the Annual General Meeting, the reappointment of PwC as registered auditors for the 2018 financial year. The Committee also satisfied itself that PwC is accredited and appears on the JSE List of Accredited Auditors as contemplated in paragraph 3.86 of the JSE Listings Requirements.

Internal audit and internal controls

Blue Label's internal audit function is outsourced to KPMG Services Proprietary Limited and the role of the Chief Audit Executive is fulfilled by the Engagement Director. The ARCC concludes that the Chief Audit Executive and internal audit arrangements are effective.

The Committee:

- reviewed the co-operation and co-ordination between the internal and external audit functions in order to avoid duplication of work;
- have requested the continued support from the internal and external audit teams to work towards an effective and efficient combined assurance approach;
- examined and reviewed the progress made by internal audit against the approved 2016/17 audit plan;
- approved the internal audit plan for the 2017/18 financial year;
- considered the effectiveness of internal audit;
- considered internal audit findings and corrective actions taken in response to such findings; and

- reviewed the effectiveness of the systems of internal control, including internal financial control and risk management.

The ARCC has evaluated the internal audit function and satisfied itself to place reliance thereon.

The ARCC concludes that the design and implementation of internal controls, including financial controls and risk management, are effective.

Refer to page 50 for the arrangements in place for combined assurance. The ARCC concludes that the combined assurance arrangement is effective and will continue to evolve as the Group grows.

Risk management and compliance

The Committee:

- reviewed the integrity of the risk control systems and ensured that the risk policies and strategies of the Company are effectively managed;
- made recommendations to the Board concerning the levels of tolerance and risk appetite;
- monitored bi-annual risk assessments;
- ensured that management considered and implemented appropriate risk responses;
- reviewed legal matters that could have a material impact on the Group; and
- reviewed developments in corporate governance and best practice and considered their impact and implications across the Group with particular reference to the principles of King IV.

Expertise and effectiveness of the Financial Director and finance function

The Committee considered the appropriateness of the expertise and effectiveness of the Financial Director and finance function in accordance with the JSE Listings Requirements and governance best practice.

The Committee confirms that it is satisfied that Dean Suntup possesses the appropriate expertise and experience to effectively discharge his responsibilities as Financial Director, and confirms the effectiveness of the finance function.

Annual financial statements

The Committee has reviewed the accounting policies and financial statements of the Company and the Group and is satisfied that they are appropriate and comply with International Financial Reporting Standards, the JSE Listings Requirements and the requirements of the Act.

The Committee has evaluated the Group and Company financial statements of Blue Label Telecoms Limited for the year ended 31 May 2017 and based on the information provided to the Committee, the Committee recommends the adoption of the annual financial statements by the Board.

The significant audit matters considered by the Committee were:

1. the impairment assessment of goodwill arising from business combinations;
2. the impairment assessment of the investment in BLM; and
3. the fair value assessment of the investment in Oxigen, Oxigen Online and 2DFine.

These matters were addressed as follows:

The impairment assessment of goodwill arising from business combinations

For the year ended 31 May 2017, management performed an impairment assessment over the goodwill balance as follows:

- assessing the recoverable amount as being value-in-use, as entities are held for trading and not for sale;
- calculating the value-in-use for each cash-generating unit (CGU) using a discounted cash flow model; and
- performing a sensitivity analysis over the value-in-use calculations, by varying the assumptions used (growth rates, terminal growth rate and WACC, i.e. discount rate) to assess the impact on the valuations.

Management concluded there was no need for any impairment.

The impairment assessment of the investment in BLM

For the year ended 31 May 2017, management performed an impairment assessment over the investment in BLM as follows:

- assessing the recoverable amount as being value-in-use, as BLM is held for trading and not for sale;
- calculating the value-in-use for BLM using a discounted cash flow model;
- performing a sensitivity analysis over the value-in-use calculations, by varying the assumptions used (growth rates, terminal growth rate and WACC, i.e. discount rate) to assess the impact on the valuation; and
- as a final check, comparing the carrying value of the Group's investment in BLM with the calculated value-in-use.

Management concluded there was no need for any impairment.

Audit, Risk and Compliance Committee's report continued

The fair value assessment of the investment in Oxigen, Oxigen Online and 2DFine

The investments in Oxigen Services India, Oxigen Online Services India, collectively (Oxigen Services India), and 2DFine Holdings Mauritius (2DFine) were historically accounted for as investments in associates and joint venture, applying the equity method up until 30 November 2016. From that date, the exemption available in IAS 28 – *Investments in Associate and Joint Ventures* for venture capital organisations has been applied to these investments and accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* at fair value with changes in fair value recognised in profit or loss. The difference between the carrying value of the investments as previously determined using the equity accounting method and their fair value is reflected as a fair value gain on a financial instrument through profit and loss for the year ended 31 May 2017. In order to determine the fair value, management used an independent third party with the requisite expertise in assisting it with the determination of the fair value of the investments.

These investments were initially of a long-term nature as they were expected to emulate the business model of the South African distribution operations. However, their profile has changed from that of the traditional Group business model to one of generating growth in the market value of the investments with a view to unlocking the Group's share thereof. With the advent of the change in focus to financial services through wallet subscription, they are no longer strategically aligned with the other business units of the Group and are unlikely to generate profitability in the short to medium term. This in turn creates the potential to unlock the investment values in the future and the Group is pursuing this new strategy with respect to these investments.

Integrated annual report

The Committee considered the integrated annual report, incorporating the annual financial statements for the year ended 31 May 2017. The Committee considered the sustainability information as disclosed in the integrated annual report and assessed its consistency with operational and other information known to its members. The Committee recommended the approval of the integrated annual report to the Board.

The ARCC is satisfied that it has complied with its legal, regulatory and other responsibilities as per its terms of reference and that it has executed its responsibilities in terms of paragraph 3.84(g)(iii) of the Listings Requirements in its assessment of the suitability of the auditor. The contents of the ARCC report was discussed at the Committee meeting and were approved by the Committee members on 23 November 2017.

On behalf of the Audit, Risk and Compliance Committee

JS Mthimunye
Chairman

23 November 2017

Social, Ethics and Transformation Committee's report

Dear stakeholders

I am pleased to report on the activities of the Committee for the financial year ended 31 May 2017.

The Committee was formed in February 2012 in accordance with section 72(4) of the Act and operates under Board-approved terms of reference, which includes holding meetings twice per financial year.

As prescribed by the Act, the role of the Committee is to monitor the Group's activities in respect of:

- social and economic development, including the Group's compliance with the Broad-Based Black Economic Empowerment Act and the Employment Equity Act;
- consumer relations and the Group's compliance with consumer protection laws;
- the Group's standing in terms of the ILO protocol on decent work and working conditions, the Group's employment relationships and its contribution to the educational development of its employees;
- good corporate citizenship, including the Group's promotion of equality, prevention of unfair discrimination and reduction of corruption, contribution to development of the communities in which the Group operates, and its record of sponsorships, donations and charitable givings;
- the environment, health and public safety and the impact thereon of the Group's activities; and
- the ten principles of the United Nations Global Compact.

This year the Committee met twice. Areas discussed with management included transformation across the Group's workplace focusing on the following issues:

- The regulatory landscape.
- Impacts of the revised and clarified dti codes of good practice.
- Reviewing current initiatives and their effectiveness and making appropriate recommendations.
- Monitoring progress of the roadmap to address equity B-BBEE shortfalls.
- Company and subsidiary B-BBEE ratings.

The following items were also considered during the year:

- Social and economic development matters.
- Coaching and skills development initiatives.
- Employment equity, including feedback from the Group Employment Equity Committee.
- Ten principles of the United Global Compact.
- Corporate citizenship:
  - Corporate Social Investment, including monitoring and spend on projects;
  - sponsorship and donations, in particular our ongoing support of the flagship project, the Boys & Girls Club in Protea Glen, Soweto; and
  - ethics statement and whistle-blowing policy.
- Environment:
  - health and safety review;
  - health and safety practices; and
  - review of environmental footprint.

The Committee believes that the Group complies with the statutory duties, save for issues being addressed by management with regard to employment equity and aspects of procurement as the Group purchases mainly from the networks and power utilities.

On 11 January 2017 Yusuf Mahomed resigned and on 7 March 2017 we welcomed Phuti Mahanyele as a member to the Committee.

I look forward to reporting on our progress next year.

SJ Vilakazi
Chairman

23 November 2017

Operational overview

South African Distribution

The South African Distribution segment (SA Distribution) is the largest distributor of prepaid products and transactional services in South Africa, covering both the wholesale and retail markets. The product range includes prepaid airtime, data, starter packs, postpaid contracts, hardware, electricity, water and all forms of ticketing and financial services. These products are supplied across a diverse distribution footprint reaching all South Africans, thereby achieving the strategic objective of positioning core products and services within arm's reach of urban and rural communities.

SA Distribution is the predominant contributor to the Group's revenue and profitability. The principal operating companies therein are The Prepaid Company, Cell C, Blue Label Connect, Blue Label Distribution, TicketPro, 3G Mobile, Cigicell, Prepaid24, Utilities World, Reware, Edgars Connect and Transaction Junction.

Overview

As the leading distributor of prepaid airtime and electricity in South Africa, this segment is well positioned to supply its expanding suite of products and services through its widespread distribution footprint of approximately 150 000 devices. Distribution channels range from Mom & Pop stores, spaza shops, independent stores, wholesalers, petroleum forecourts to multi-channel retail and corporate banking partners.

SA Distribution's unique ability to deliver both virtual and physical products to an extensive distribution footprint through a single company with a proven platform across different channels to market, differentiates it as the market leader in South Africa.

Products include, but are not limited to, physical products such as hardware (POS terminals, handsets, tablets and accessories), prepaid starter packs, postpaid contracts and virtual products such as prepaid airtime, prepaid data, prepaid electricity, prepaid water, bill payments, voucher products, gaming, money transfers and ticketing.

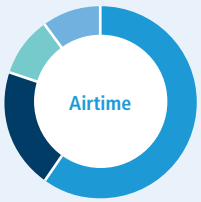
The informal sector contributes approximately 85% to SA Distribution's revenue, with the remaining 15% derived from the corporate and formal retail sectors. In reaching into and uplifting rural communities, SA Distribution utilises unique and diverse route-to-market strategies. Solutions are facilitated by a fleet of trucks accompanied by foot soldiers, with further opportunities available through *Start your own Business* initiatives, which include bicycle traders and informal vending points or the option of purchasing *Business in a Box* from sales agents or retail partners. In addition, incentives are offered to retain merchants and reward their growth, resulting in further opportunities to cross- and up-sell our merchandise.

The majority of SA Distribution's revenue continues to be derived from the sales and distribution of prepaid airtime, electricity, data and starter packs.

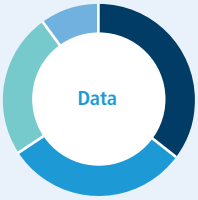
Prepaid airtime sales are predominantly voucher based and utilised for redeeming voice/data top-ups. Growth in prepaid airtime sales is driven further by "PINless" or "direct" top-ups, as an alternative redemption method for prepaid airtime. The trend in consumers opting for "PINless", which is primarily sold in the independent channel, continues to escalate with sales increasing 49% to R6.1 billion during the past year. Growth in data sales is mostly derived from the independent and corporate/banking channels. The *chat 4 change* product continues to gain momentum, further differentiating prepaid offerings in the market.

SA Distribution's prepaid starter pack offers differentiation through community driven SIM packs that are pre-commissioned with community-related added value and content. All starter pack sales are tracked via state-of-the-art software and systems to ensure effective and accurate reporting. Flexible RICA registration solutions allow merchants to RICA SIM cards via a terminal, USSD and online from a mobile application.

Growth in sales is driven primarily through the merchant base increasingly selling more of our product lines and the expansion of the distribution footprint, both of which are complemented by the increasing range of products and value added services.



Independents	60%
Corporate sales	20%
Formal retail	10%
Petroleum	10%



Corporate sales	35%
Independents	31%
Formal retail	24%
Petroleum	10%

THE PREPAID COMPANY

The Prepaid Company (TPC)

TPC is the leading distributor of prepaid products on behalf of all major network operators. It facilitates, manages and distributes all airtime and data, as well as approximately 80 million bulk print vouchers per month. In addition, TPC connects over 700 000 starter packs monthly. Services are supported by proprietary technology, which ensures purchasing efficiency, inventory control and activation management.

TPC is responsible for supplier agreements and procurement on behalf of the Group, including wholesale and community sales, starter packs, handsets, tablets and bulk airtime printing. Group treasury falls under its ambit.

THE POWER IS IN YOUR HANDS

Cell C

Subsequent to financial year-end, Blue Label announced that through its wholly owned subsidiary, TPC, it had concluded an agreement to participate in the recapitalisation of the mobile network operator, Cell C, by acquiring a 45% interest in Cell C for R5.5 billion. Since Cell C's recapitalisation on 2 August 2017, its growth continues as it expands and upgrades its mobile network coverage. Approximately 16 million customers now benefit from the latest technologies, as well as innovative and value-added products and services, such as the recently launched content and entertainment platform, black.

BLUE LABEL DISTRIBUTION

Blue Label Distribution

Blue Label Distribution is the largest distributor of virtual vouchers, offering bespoke solutions enabling virtual products and services to reach a diverse distribution footprint.

Distribution extends across all segments of the market and includes corporates (insurance, banking), retail (food and non-food retailers including pharmaceuticals), petroleum forecourts, independent/informal channels (Moms & Pops/spaza shops), store-in-store and standalone stores.

Products and services are enabled in several ways, including connectivity to terminals, touch screens, vending machines, self-service terminals, mobile platforms and third-party integration into existing POS software and mobile channels.

The merchant base is supported by eight regional offices located in Johannesburg, Polokwane, Mbombela, Bloemfontein, Durban, Port Elizabeth, East London and Cape Town. Regional offices ensure that customer support teams are in close proximity to merchants in providing service and field support, while feeding back requirements and future needs.

Operational overview continued

Edgars Connect

Edgars Connect is managed in partnership with the Edcon Group. It represents our strategic reach into the retail channel in serving customers in "the last mile". Edgars Connect is our one-stop connectivity destination store across the nation, currently with 64 standalone outlets.

It offers premium brands, specialist services and expert advice. The extensive range of products and services includes mobile devices, tablets, wearables, accessories, gadgets, smart home concepts and automation, wifi routers, laptops and a host of convenience items and services such as airtime, data, bill payments and ticketing.

Hardware, including handsets and tablets

The Group distributes tier 3 hardware, such as handsets, tablets and phablets, under proprietary brand names such as Boost, Verssed and Blaupunkt.

The product suite was recently augmented by smart watches and fitness bands. The Group's subsidiary, Reware, refurbishes and distributes preowned tier 4 smartphones through its outlets in Sandton and Braamfontein.

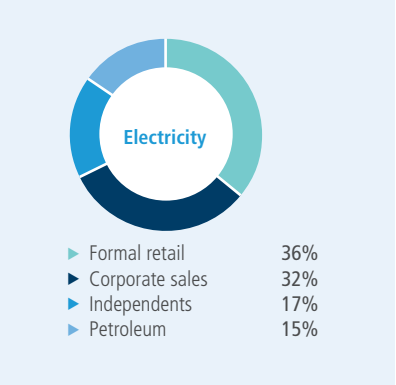
The Group's acquisition of 3G Mobile, offering tier 1 and tier 2 handsets, complements our hardware offering. Through its wholly owned subsidiary Comm Equipment Company, it provides financing of the handset element of postpaid and hybrid contracts on behalf of networks.

Prepaid electricity and water

The Group has been vending prepaid electricity for the past 13 years and is a leading distributor in this field.

Commissions earned on the supply of prepaid electricity equated to R215 million on sales of R14 billion generated on behalf of utilities. The Group acts as an agent and not as a principal in respect of sales, resulting in only the commissions earned thereon, and not the face value of sales, being accounted for in revenue.

Blue Label owns 50.1% of Prepaid24, an online vendor of prepaid products and payment services via the web, as well as a 25.1% stake in Utilities World, a provider of revenue management software and services to municipalities. The Group benefits from the re-award of distribution contracts by utilities and municipalities, distribution on behalf of additional municipalities, and growth in vending tokens in the retail and corporate channels.



TicketPro

TicketPro is South Africa's second largest ticketing company and continues to expand into the sports, events, exhibitions, transport and travel ticketing sectors. Its sophisticated ticketing engine enables the administration of all forms of ticketing, including 1D, 2D, NFC, secure print, home print and till slips.

TicketPro's ticketing platform is also one of the most innovative in the country, offering promoters, event organisers, stadiums, transport and travel companies a single turnkey ticketing system. It offers flexible payment options, CRM functionality with extensive and customisable reporting, complementary ticket management, tailor-made accreditation systems and state-of-the-art access control, including NFC and season ticket functionality.

The extensive distribution channel expanded further this year with the availability of ticketing across the Spar chain. Its large retail footprint and extended trading hours are particularly convenient for consumers.

During the year, Ticketpro expanded its product offerings in the bus transport sector. The Putco commuter ticket was introduced at over 200 stores strategically positioned around its key routes. Ticketing on behalf of Autopax was also implemented.

Financial services

In support of financial inclusion, Blue Label offers a comprehensive suite of financial services, including bill payments, merchant acquiring and money transfers. Distribution footprint in the independent and informal channels continues to increase steadily.

Technology

The SA Distribution segment houses Blue Label's Technology division. The segment's dependency on back-end system management, up-time and product and service delivery is crucial to ensuring the continual expansion of the distribution footprint and products and services offered.

The proprietary AEON and AMS systems, as well as Transaction Junction's Postilion switch, entrenches the Group's capability as a neutral aggregator in connecting to multiple service providers, product providers and distribution channels, regardless of the channel's technology requirements.

TRANSACTION JUNCTION

Transaction Junction (TJ) is the foremost bank independent payment services provider in southern Africa. It processes over 1.2 billion transactions per annum. TJ plays a vital role in the payment ecosystem by consistently delivering quality solutions to customers. It serves multiple industries, including major retailers, financial institutions, petroleum companies and others seeking to extend their payment services requirements securely and on time.

The SA Distribution segment's contribution to core headline earnings equated to R893 million (2016: R751 million).

Mobile segment

This segment provides mobile phone users with a complete ecosystem of services, including smartphone applications, WAP, MMS, e-mail, LBS, instant messaging, web messaging, SMS and USSD.

The Mobile segment's capability enables the rapid roll out of mobile-mediated sales, financial services, banking, couponing, loyalty, rewards, ticketing, transport, media advertising, gaming and LBS. Our technologies and products enable our customers to reach their customers, agnostic to any phone type or any mobile operator.

Core headline earnings from this segment amounted to R56.3 million (2016: R65.3 million).

The Mobile segment houses the following main operating entities:

cellfind

- Cellfind is one of Africa's largest enablers of mobile messaging, VAS and mobile financial services. It boasts an impressive sending capacity of greater than 2 000 SMSs per second. During the year it delivered 3.2 billion SMSs, up 23% on the previous year, in spite of a contracting market.

viamedia

- Viamedia offers content for mobile phone users, across both B2C and B2B platforms. Its extensive infotainment catalogues are downloadable across networks in nine countries in Africa and in 10 languages.

Operational overview continued

Solutions segment

This segment specialises in providing data and analytical support services.

Blue Label Data Solutions (BLDS) is a market leader in consumer data, big data, validation, verification, cleansing of data and lead generation. BLDS is accredited by the Direct Marketing Association of South Africa, of which it is a founding member.

It delivers a targeted approach of mining data and harnessing algorithmic technology, where data scientists transform large and complex datasets into effective and insightful marketing information.

Characteristics of underlying consumers are identified, and in turn, consumer behaviour patterns and trends are profiled.

Our databases continue to amplify and now exceed 65 million consumers. This year over 3 million qualifying leads were generated out of 1.2 billion SMSs delivered.

BLDS remains mindful of its obligations and adherence to the terms of POPI and the Financial Advisory and Intermediary Services Acts.

In compliance with POPI, the opt-in register is rebuilt every month by removing new opt-outs, adding new opt-ins, market segmenting opt-ins and recording other requested updates.

Core headline earnings from this segment amounted to R19.0 million (2016: R21.6 million).

International segment

The strategy of the International segment is to pursue growth opportunities for Group and third-party products and services across its global footprint, by systematically rolling out points of presence, in a replication of the proven South African business model. International operations comprise Blue Label Mexico and Oxigen Services India.

Blue Label Mexico (BLM)

BLM continues to deliver its growth strategy of building market share by expanding its POS network and distributing incremental products and services through its technology platform.

Currently, some 81 000 terminals are deployed. Initiatives to drive additional product and service transactions through the Red Qiubo terminal base include utilising data analytics.

The range of products and services includes "PINless" airtime recharge, SIM card distribution and bill payments. Financial services, such as cash collections and card acceptance and acquiring, are offered with CitiBanamex as the acquirer and Visa as a strategic partner. Digital food vouchers are delivered on behalf of the major food distributors, namely Edenred, Si Vale, Sodexo and Inbursa.

Blue Label's share of losses continue to narrow and amounted to R37 million (2016: R63 million loss).

Oxigen Services India

The government's demonetisation of high denomination notes in November 2016, intended to transition India's cash economy in favour of digitisation, resulted in the dynamics of the fintech sector changing significantly.

Initially the floodgates for the creation of e-wallets were opened. Subsequently, the introduction of new legislation and technologies has required fintech businesses to adapt and modify their strategies.

Since inception, Oxigen focused on expanding its offline network of retail outlets, currently reaching approximately 200 000 merchants. In support of government's call to industry for deploying up to 20 million terminals over the next few years, Oxigen has embarked on rolling out its own micro-ATM POS to access "the last mile".

Each micro-ATM is equipped with a biometric scanner allowing customers to transact by using their Aadhaar ID number as authentication. Micro-ATMs are connected to the National Payments Corporation of India (NPCI), which facilitates cash deposit and withdrawal transactions. Oxigen's platform already enables it to perform the functions of a bank by delivering the convenience of comprehensive payment solutions through connectivity to NPCI's Bill Payments and Settlement System (Bharat) and IMPS (Immediate Payments Service), an instant 24/7 interbank electronic funds transfer service.

Oxigen's main offline products include mobile airtime top-ups, data card recharge, satellite TV recharge, bill payments, correspondence banking and domestic remittances.

Whilst Oxigen entered the online wallet market some years ago, the effects of demonetisation continue to evolutionise and disrupt the e-wallet industry. For example, government's Unified Payments Interface (UPI) app allows merchants and consumers to pay and receive money in an instant transfer between any two bank accounts, a facility that is not afforded to other apps.

As a result, Oxigen is now focused on its core business of rolling out its footprint in the offline environment, whilst its e-wallet strategy follows a B2B2C approach of acquiring subscribers through white labelling its platform. Consequently, the online business and its high cost base is being scaled back significantly.

Blue Label's holding in Oxigen is held as a venture capital investment. The fair value gain of R160 million and the Group's share of losses to 30 November 2016 of R125 million equated to a net contribution of R35 million to core headline earnings.

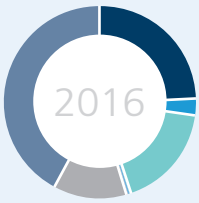
Value added statement

	2017 R'000	2017 %	2016 R'000	2016 %
VALUE ADDED				
Value added by operating activities	**1 792 768**	**95.8**	1 674 203	96.3
Revenue	**26 311 875**		26 204 722	
Net operating expenses	**(24 519 107)**		(24 530 519)	
Value added by investing activities	**79 125**	**4.2**	64 266	3.7
Interest income	**79 125**		64 266	
	1 871 893	**100**	1 738 469	100
VALUE DISTRIBUTED				
Distributed to employees	**452 985**	**24.2**	427 116	24.6
Salaries, wages, medical and other benefits	**452 985**		427 116	
Distributed to providers of finance	**105 518**	**5.6**	48 207	2.8
Finance costs	**105 518**		48 207	
Distributed to the state	**345 990**	**18.5**	305 420	17.6
Income tax	**345 990**		305 420	
Distributed to social responsibility	**8 460**	**0.5**	6 528	0.4
Corporate social investment	**8 460**		6 528	
Value reinvested	**138 079**	**7.4**	219 586	12.6
Depreciation, amortisation and impairment	**112 851**		98 183	
Net discounting finance cost	**34 440**		36 270	
Gain on associates and joint venture measured at fair value	**(160 200)**		–	
Share of losses of associates and joint ventures	**164 941**		71 770	
Deferred taxation	**(13 953)**		13 363	
Value retained	**820 861**	**43.8**	731 612	42.0
Retained profit	**786 965**		691 590	
Minority shareholders' interest	**33 896**		40 022	
	1 871 893	**100**	1 738 469	100

Value distributed

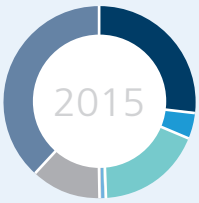
- Employees 24.2%
- Providers of finance 5.6%
- The state 18.5%
- Social responsiblitiy 0.5%
- Reinvested 7.4%
- Value retained 43.8%

Value distributed



- Employees 24.6%
- Providers of finance 2.8%
- The state 17.6%
- Social responsiblitiy 0.4%
- Reinvested 12.6%
- Value retained 42.0%

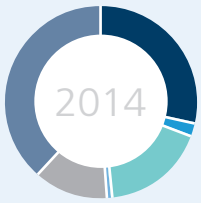
Value distributed



- Employees 26.8%
- Providers of finance 4.5%
- The state 18.1%
- Social responsiblitiy 0.4%
- Reinvested 12.2%
- Value retained 38.0%

2015 R'000	2015 %	2014 R'000	2014 %	2013 R'000	2013 %	2012 R'000	2012 %
1 492 949	98.0	1 125 610	96.7	1 050 765	95.9	1 068 131	94.7
22 044 222		19 401 666		18 984 210		18 722 080	
(20 551 273)		(18 276 056)		(17 933 445)		(17 653 949)	
30 721	2.0	38 807	3.3	45 489	4.1	59 730	5.3
30 721		38 807		45 489		59 730	
1 523 670	100	1 164 417	100	1 096 254	100	1 127 861	100
407 448	26.8	332 542	28.6	332 901	30.4	329 406	29.2
407 448		332 542		332 901		329 406	
67 964	4.5	22 993	2.0	23 767	2.2	3 307	0.3
67 964		22 993		23 767		3 307	
275 768	18.1	208 996	17.9	215 075	19.6	190 759	16.9
275 768		208 996		215 075		190 759	
5 336	0.4	5 075	0.4	4 242	0.4	3 340	0.3
5 336		5 075		4 242		3 340	
185 961	12.2	145 896	12.5	112 164	10.2	181 575	16.1
94 019		65 137		67 951		91 557	
22 875		26 440		15 558		66 505	
–		–		–		–	
79 338		56 873		47 326		19 835	
(10 271)		(2 554)		(18 671)		3 678	
581 193	38.0	448 915	38.6	408 105	37.2	419 474	37.2
577 617		450 230		424 841		438 104	
3 576		(1 315)		(16 736)		(18 630)	
1 523 670	100	1 164 417	100	1 096 254	100	1 127 861	100

Value distributed



- Employees 28.6%
- Providers of finance 2.0%
- The state 17.9%
- Social responsiblitiy 0.4%
- Reinvested 12.5%
- Value retained 38.6%

Value distributed

- Employees 30.4%
- Providers of finance 2.2%
- The state 19.6%
- Social responsiblitiy 0.4%
- Reinvested 10.2%
- Value retained 37.2%

Value distributed

- Employees 29.2%
- Providers of finance 0.3%
- The state 16.9%
- Social responsiblitiy 0.3%
- Reinvested 16.1%
- Value retained 37.2%

Social practices

The Group continues to strive towards implementing sound initiatives aimed at creating a positive work environment aligned to the Group's strategy and transformation agenda. These initiatives embrace learning and development, talent management, social upliftment and health and safety.

Learning and development

The Group continues to adopt a targeted approach to learning and development. Staff are able to participate in learning and development opportunities in order to enhance their skills set and addressing development needs in the workplace. The latter is particularly evident in the technology division where the demands on technical skills and knowledge evolves at a rapid rate.

Staff utilise the Mytrack online portal to access all product-related materials and updates. To ensure that staff keep abreast of product development, they are required to complete one product-related module per month, the progress of which is accordingly monitored.

Other internal initiatives focus on developing middle and senior management. Programmes, facilitated by external professional coaches, cover leadership skills, effective communication, motivation, conflict resolution and strategic thinking.

In line with the revised B-BBEE scorecard, the Group allocates funds for the development of skills among black people. In a targeted approach, Blue Label has selected entrepreneurs from the informal sector, as beneficiaries of this initiative. In partnership with ESpaza Sum, a level 1 rated B-BBEE company, and Bytes People Solutions, 26 spaza shop owners in Mamelodi undertook an accredited training course on how to transform a spaza shop into a thriving business.

The Group has also partnered with Repassen 18 to offer unemployed youths an accreditation opportunity in the New Venture Creation learnership, which is registered through the Services Seta. Currently there are 30 students registered on the programme. On completion of the course in August 2018, learners will not only have a qualification, but also skills sets appropriate for establishing and operating their own ventures.

Learnerships

Blue Label invests in learnerships, recognising this as an opportunity to develop relevant skills for its resource pool. Currently there are 38 learners (2016: 14), 10 of whom are alumni of the Boys & Girls Club of South Africa, our flagship CSI project. Learners are registered with various SETA's ranging from financial administration, technological and systems support, end-user computing and contact centre certification.

Enterprise and supplier development

The Group supports three Enterprise and Supplier Development Initiatives.

1. **ESpaza Sum**
   In addition to the development skills training referred to above, the Group provided financial support and expertise to ESpaza Sum for the refurbishment of the 26 spaza shops, the establishment of an effective buying group and the installation of a low cost, high impact, POS system. These outlets have now become the shopping destination of choice for many residents in Mamelodi and within a nine-month period, have reported an increase in total turnover amounting to R14 million. We have also been able to secure the supply of prepaid products and services to these shops on an exclusive basis.

2. **The Marvellous Company**
   The Group outsources services such as the staff canteen and a car wash facility, to The Marvellous Company, which is level 1 B-BBEE rated. During the year the Myfitness initiative was piloted, which aims at utilising technology to measure healthy lifestyles. A formal launch will be held later in 2017.

3. **Zok Cellular**
   The Group provides financial and strategic support to budding entrepreneurs through ZOK's retail container project. It is intended for the participants on the New Venture Creation learnership programme to graduate to the ZOK Cellular business of operating retail outlets.

Human capital

We have adopted a number of initiatives aimed at driving a high performance culture, where staff are recognised and rewarded commensurately with their contributions.

Talent acquisition and retention

The Group adheres to a defined process for talent acquisition, so that all vacant roles can be filled within a short space of time followed by an effective recruitment process. This process includes a targeted search of relevant job portals, selection of candidates involving line managers and colleagues, after assessments where applicable.

Performance assessments are conducted with new staff after six weeks in the role in order to ensure that any issues that may arise are addressed. The formal performance management procedure aims at achieving our required standards. Performance is monitored on a biannual basis and measured against established and agreed key performance criteria. These measures are used to determine bonuses and increases payable.

Employee benefits

The Group offers several employee benefits, including group life insurance (inclusive of a life policy, severe illness, disability and a funeral cover) and medical aid through Discovery Health and a provident fund through Destiny Retirement Fund. As we have adopted a Total Cost to Company remuneration system, the costs of medical aid and provident fund are included in staff packages. The cost of the group life benefit is borne by the company.

Staff wellness

We host an annual Vitality wellness day at head office enabling staff to undergo various medical assessments. During the year staff were afforded the opportunity to check blood pressure, eye sight, to donate blood to the South African National Blood Service, to obtain flu injections and to undergo HIV testing and counselling, as applicable. Staff also have access to qualified counselling on issues such as depression, stress, burnout and addiction.

Staff regularly volunteer their support for various community and charity initiatives throughout the year, including hosting and assisting at youth events, Cyclethon and the JP Morgan Corporate Challenge Race.

Employment equity

The principles supporting and promoting equal opportunity as well as fair and consistent treatment to all staff, are embodied in the Group's employment equity and transformation policy.

Learning, development and talent acquisition are aimed at promoting and encouraging employment equity.

The Employment Equity Committee, which reports to the Social, Ethics and Transformation Committee, is representative of gender, race, employment level and geography within the Group. The committee meets quarterly to discuss specific items, such as employment equity targets, barriers to employment, learning and development and any work place issues.

The Employment Equity Plans submitted to the Department of Labour in 2012 have expired and are being reviewed, with the intention of resubmitting revised targets in early 2018 in respect of the period 2018 to 2023.

Human capital continued

Headcount

Levels	AM	CM	IM	WM	AF	CF	IF	WF	**Total 2017**	Total 2016	Total 2015
Unskilled and defined decision-makers	0	0	0	0	12	0	0	0	**12**	39	52
Semi-skilled and discretionary decision-makers	85	14	7	10	113	22	4	32	**287**	274	240
Skilled technical and academically qualified workers, junior management, supervisors	82	35	23	130	33	12	10	67	**392**	355	351
Professionally qualified and experienced specialists and mid-management	0	1	3	41	2	0	2	8	**57**	66	92
Senior management	0	0	1	23	1	0	1	6	**32**	24	33
Top management	3	0	0	13	0	0	0	0	**16**	18	27
Total permanent	**170**	**50**	**34**	**217**	**161**	**34**	**17**	**113**	**796**	**776**	**1 305**
Split as follows:											
Total permanent staff	166	48	34	215	145	34	17	112	771	743	795
Non-permanent staff	4	2	0	2	16	0	0	1	25	33	510

AM = African male, CM = Coloured male, IM = Indian male, WM = White male,
AF = African female, CF = Coloured female, IF = Indian female, WF = White female.

The increase in headcount is attributable to demand for skilled technical capabilities in the technical division. All recruitment efforts in the year under review have been around satisfying attrition.

Growth at the levels of skilled technical, junior management and senior management levels is due to attracting high calibre talent and the upskilling of staff from lower levels resulting in establishing more senior roles.

Health and safety

The Health and Safety Committee meets monthly to review and monitor health and safety practices. Its current focus is on ensuring that building evacuation and health and safety practices are aligned with the Group's business continuity plan.

The Health and Safety Committee comprises:

Role and responsibility	Number
SHEQ Manager	1
Health and safety representatives	17
Fire marshalls	10
First aiders	7

Nine reportable incidents (2016: ten) occurred during the year.

Disabling injury frequency rate (DIFR)

	2017	2016	2015	2014	2013
South Africa	**1.1**	1.75	0.92	0.74	0.62
Work-related fatalities	**0**	0	0	0	1

The significance in DIFR is due to two reportable incidents resulting in absences from work in excess of 20 days each.

Corporate social investment

The Group's corporate social responsibility remains unchanged, focusing on the areas of youth development, entrepreneurship and sport. We take the view that grooming young people into well rounded individuals enables them to develop entrepreneurialism and form the workforce of our future. The projects and programmes that we embrace are aimed at supporting underprivileged youth in succeeding not only academically and in sport, but also in the development of their softer skills, such as leadership and life skills. In trying to understand the many social challenges our youth are often exposed to, our pool of beneficiaries incorporates those that address issues such as domestic violence and abuse, as well as food security. Among these have been organisations, including JAM International, Reach for a Dream, Netcare Foundation and Women and Men Against Child Abuse. Our flagship projects are Boys & Girls Club South Africa and the Blue Label Alexander Cricket Development Programme.

Boys & Girls Club South Africa

Blue Label continues to support Boys & Girls Club of South Africa (BGCSA), a non-profit organisation dedicated to supporting school going and school aged children during non-school hours, when they are traditionally unsupervised and idle. BGCSA currently serves over 1 000 youths through programmes and services that promote academic success, a healthy lifestyle and improved character. There are currently two clubs, in Pimville and Protea Glen, Soweto.

BGCSA provides access to a safe environment, a meal a day, and programmes and activities such as assistance with homework, sports, life skills, career guidance and access to technology. BGCSA's goal is to support young people through their school going years and ultimately, assist them in completing school and then place them in a post-matric educational or to provide an economic opportunity. Ten BGCSA alumni were placed in learnerships with the assistance of Blue Label in 2017 through the BYTES Technology Group. They will do practical training in the Group in the second half of 2017.

BGCSA has a solid proof of concept. Growth plans include operating 10 clubs by 2020 and developing an extensive support network for more children and families across greater Johannesburg.

Blue Label Alexander Cricket Development Programme

Blue Label shares a purpose of addressing inequality of opportunity, by enabling all South Africans to interact and transact on an equal footing. Inequality is not limited to the commercial world, but more pervasive at an educational level, where opportunities are limited for young black children.

The objective of the Alexander Development Programme is to develop cricket within the Alexandra Township Primary Schools through a mass participation programme focusing on teaching fundamental cricket and life skills. During the year the programme ran over a 12 week cycle with 6 000 children participating from 12 previously disadvantaged schools.

Focus areas for 2017 – 2018

- Creating a social enterprise strategy;
- Forming a stronger business alignment with mainstream business strategy and operations;
- Forming a stronger partnership with increasing collaboration among beneficiaries; and
- Continuing to focus on the expansion of our flagship project, Boys & Girls Club of South Africa.

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Prominent notice

These Group and Company annual financial statements have been audited by our independent external auditor PricewaterhouseCoopers Inc. in compliance with the applicable requirements of the Companies Act, No 71 of 2008.

Dean Suntup, Financial Director, supervised the preparation of the Group and Company annual financial statements.

DA Suntup CA(SA)
Financial Director

Statement of Directors' responsibility for the year ended 31 May 2017

The Directors are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the Group and Company financial statements of Blue Label Telecoms Limited, its subsidiaries, joint ventures and associates (the Group).

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the Financial Reporting Guides as issued by the South African Institute of Chartered Accountants (SAICA) Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of 2008.

The Directors consider that having applied IFRS in preparing the Group and Company financial statements they have selected the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all IFRS statements that they consider to be applicable have been followed.

The Directors are satisfied that the information contained in the Group and Company financial statements fairly presents the results of operations for the year and the financial position of the Group and Company at year-end. The Directors prepared the other information included in the Group and Company financial statements and are responsible for both its accuracy and its consistency.

In addition, the Directors are responsible for the Group's systems of internal financial control. 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 the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Group and Company financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Group have adequate resources in place to continue in operation for the foreseeable future, based on forecasts and available cash resources. These Group financial statements support the viability of the Group.

The independent auditing firm PricewaterhouseCoopers Inc., which was given unrestricted access to all financial records and related data including minutes of all meetings of shareholders, the Board of Directors and Committees of the Board has audited the Group financial statements. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

Approval of the financial statements

The financial statements which appear on pages 96 to 197 were produced and approved by the Board of Directors on 23 November 2017 and are signed on its behalf by:

LM Nestadt
Non-executive Chairman

DA Suntup
Financial Director

BM Levy
Joint Chief Executive Officer

MS Levy
Joint Chief Executive Officer

Declaration by the Company Secretary

For the year ended 31 May 2017

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008 (the Act), I confirm that for the year ended 31 May 2017, Blue Label Telecoms Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Act and that all such returns and notices are true, correct and up to date.

J van Eden
Group Company Secretary
Sandton
23 November 2017

Directors' report

The Directors have pleasure in presenting the Group and Company annual financial statements of Blue Label Telecoms Limited (Blue Label Telecoms or the Company) and its subsidiary, associate and joint venture companies (the Group) for the year ended 31 May 2017.

Principal activities and strategy

Blue Label Telecoms' core business is the virtual distribution of secure electronic tokens of value and transactional services across its global footprint of touch points. The Group's stated strategy is to extend its global footprint of touch points, both organically and acquisitively, to meet the significant demand for the delivery of multiple prepaid products and services through a single distributor, across various delivery mechanisms and via numerous merchants or vendors.

Financial results

The Group recorded a net profit after tax attributable to equity holders for the year ended 31 May 2017 of R787 million (2016: R692 million). Full details of the financial position and results of the Company, the Group and its segments are set out in the annual financial statements and Group annual financial statements. The Group and Company annual financial statements for the year ended 31 May 2017 were approved by the Board and signed on its behalf on 23 November 2017.

Going concern

The financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Blue Label Telecoms Group and the Company have adequate resources in place to continue in operation for the foreseeable future.

Acquisitions

The Group's effective shareholding in Oxigen Services India Private Limited (OSI) prior to April 2017 was 58.18%. Of this shareholding, 40.96% was held by Gold Label Investments (GLI), a wholly owned subsidiary of the Group and 17.21% indirectly through the Group's 50% shareholding in 2DFine Holdings Mauritius. In April 2017, a rights issue was offered by OSI for USD1.5 million. The Group exercised its rights for the entire amount through GLI congruent with 2DFine Holdings Mauritius waiving its rights. The effect of this is that GLI's shareholding has increased from 40.96% to 41.96% and its indirect shareholding of 17.21% has been diluted to 16.92%. The Group's effective shareholding in OSI therefore increased by 0.7% to 58.88%.

Blue Label Telecoms acquired 25.1% of Utilities World on 1 June 2016 for a payment of R7.5 million and a further contingent payment of R5.0 million.

Refer to note 2.1 of the Group annual financial statements for further information.

Share capital

Full details of the authorised, issued and unissued capital of the Company at 31 May 2017 are contained in note 6 of the Group annual financial statements. There were no shares issued during the financial year ended 31 May 2017 (2016: nil).

Subsequent events

Subsequent to year-end, dividend number 8 was declared and approved by the Board.

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company Proprietary Limited (The Prepaid Company), acquired 45% of the issued share capital of Cell C Proprietary Limited (Cell C) for a purchase consideration of R5.5 billion. Of this amount, 183 333 333 ordinary shares were subscribed for by third parties at an issue price of R15.00 per share, equating to R2.75 billion.

On the same date, The Prepaid Company concluded an agreement to purchase 100% of the issued share capital in 3G Mobile Proprietary Limited (3G Mobile) from its shareholders for a purchase consideration of R1.9 billion.

The acquisition has been structured in two stages, whereby 47.37% of the issued share capital was initially acquired for a purchase consideration of R900 million. The remaining 52.63% of the issued share capital will be acquired for a further R1.0 billion, subject to the fulfilment of conditions precedent. Of the initial purchase of 47.37%, 16 666 666 ordinary shares were issued to the vendors at R15.00 per share, equating to R250 million. The balance of R650 million will be payable on the 28 February 2018.

As part of the restructure of the debt into Cell C by third party lenders, The Prepaid Company will be required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited of up to USD80 million, which liquidity support will be provided over 24 months and will be in the form of subordinated funding to SPV2. Oger Telecoms contributed USD20 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD60 million. In addition, to the extent that certain assets of Oger Telecoms are realised within the aforesaid 24 month period, a portion of such realisation shall further reduce The Prepaid Company's obligation. In this regard, USD16 million has been realised, thereby reducing its exposure to a maximum of USD44 million.

Directors' report continued

With effect from 2 August 2017 The Prepaid Company purchased Bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited, from Saudi Oger Limited with a capital redemption value of USD18 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million, of which USD6 million has been paid, USD3 million will be paid imminently and USD9 million will be payable on 30 November 2017. The Prepaid Company was entitled to assign its rights and obligations, in whole or in part, to a nominee. Accordingly, it has assigned such rights and obligations in respect of 50% of the Bond notes, which assignment has been accepted by the assignee.

On 2 August 2017 The Prepaid Company concluded an agreement with Cell C in terms of which it has undertaken to advance R1.34 billion on a piecemeal basis for the purpose of applying such funds towards capital expenditure. This advance, which is interest bearing, will be repayable in full by the end of July 2018.

Dividend

On 23 August 2017 the Board approved a dividend of 40 cents per ordinary share. The dividend in respect of ordinary shares for the year ended 31 May 2017 of R349 803 616 has not been recognised in the financial statements as it was declared after this date. The salient dates are as follows:

Last date to trade cum dividend	Tuesday, 12 September 2017
Shares commence trading ex dividend	Wednesday, 13 September 2017
Record date	Friday, 15 September 2017
Payment of dividend	Monday, 18 September 2017

Share certificates may be dematerialised or rematerialised between Wednesday, 13 September 2017 and Friday, 15 September 2017, both days inclusive.

Before declaring the final dividend the Board applied the solvency and liquidity test on the Company and reasonably concluded that the Company will satisfy the solvency and liquidity test immediately after payment of the final dividend. The final dividend will be paid 24 days after the Directors have performed the solvency and liquidity testing.

Dividend tax is provided for at 20% of the amount of any dividend paid by Blue Label Telecoms, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Directorate

The following are the details of the Company's Directors:

Name	Office	Appointment date	Date and nature of change
Larry M Nestadt	Independent Non-Executive Director	5 October 2007	—
Brett M Levy	Joint Chief Executive Officer	1 February 2007	—
Mark S Levy	Joint Chief Executive Officer	1 February 2007	—
Kevin M Ellerine	Non-Executive Director	8 December 2009	—
Gary D Harlow	Independent Non-Executive Director	5 October 2007	—
Phuti Mahanyele	Independent Non-Executive Director	1 September 2016	Appointed 1 September 2016
Yusuf Mahomed	Independent Non-Executive Director	18 August 2015	Resigned 11 January 2017
Joe S Mthimunye	Independent Non-Executive Director	5 October 2007	—
Dean A Suntup	Financial Director	14 November 2013	—
Jeremiah S Vilakazi	Independent Non-Executive Director	19 October 2011	—

Directors' interests

The individual interests declared by Directors in the Company's share capital as at 31 May 2017, held directly or indirectly, were as follows:

	Nature of interest			
	Direct beneficial		Indirect beneficial	
Director/officer	**2017**	2016	**2017**	2016
BM Levy	**63 155 047**	62 883 164	**21 272 778**	21 272 778
MS Levy	**55 747 639**	55 475 756	**21 272 777**	21 272 777
KM Ellerine	**—**	—	**266 667**	266 667
GD Harlow	**—**	—	**2 414 815**	2 414 815
P Mahanyele	**—**	—	**—**	—
Y Mahomed	**—**	—	**—**	12 500
JS Mthimunye	**30 000**	30 000	**5 000**	5 000
LM Nestadt	**—**	—	**8 204 674**	8 204 674
DA Suntup	**658 545**	540 005	**3 877 778**	3 877 778
JS Vilakazi	**—**	—	**—**	—

Directors' report continued

The aggregate interest of the current Directors in the capital of the Company was as follows:

	Number of shares	
Director/officer	**2017**	2016
Beneficial	**176 905 720**	176 255 914

The beneficial interest held by Directors and officers of the Company constitutes 26.48% (2016: 26.46%) of the issued share capital of the Company.

Post year-end and prior to the approval of the annual financial statements, JS Mthimunye has increased his indirect beneficial interest by 20 000 shares and his direct beneficial interest by 15 000 shares.

Details of Directors' emoluments and equity compensation benefits are set out in note 5.3 of the Group annual financial statements and details of the forfeitable share plan are set out in note 5.2.

Resolutions

On 8 December 2016 the Company passed and filed with the Companies and Intellectual Property Commission the following special resolutions:

- approving the remuneration of non-executive directors;
- granting a general authority to repurchase the Company's shares;
- granting financial assistance in terms of section 44 and 45 of the Act; and
- approving fraction of shares amendment of memorandum of incorporation.

Except for the aforementioned, no other special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of affairs of the Group, were passed by the Company or its subsidiaries during the period covered at the date of signing these Group and Company annual financial statements.

Company Secretary

The Board is satisfied that Ms J van Eden has the requisite knowledge and experience to carry out the duties of a company secretary of a public company in accordance with section 88 of the Act and is not disqualified to act as such. She is not a director of the Board and maintains an arm's-length relationship with the Board.

The business and postal address of the Company Secretary appear on the Company's website at www.bluelabeltelecoms.co.za.

American depository receipt facility

Blue Label Telecoms has a sponsored American depository receipt facility. The facility is sponsored by BNY Mellon and details of the administrators are reflected on the Company's website.

Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(6) of the Companies Act.

Larry Nestadt
Chairman

Independent auditor's report to the shareholders of Blue Label Telecoms Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Blue Label Telecoms Limited (the Company or BLT) and its subsidiaries (together the Group) as at 31 May 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

What we have audited

Blue Label Telecoms Limited's consolidated and separate financial statements set out on pages 96 to 197 comprise:

- the Group and Company statements of financial position as at 31 May 2017;
- the Group income statement for the year then ended;
- the Group and Company statements of comprehensive income for the year then ended;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Our audit approach

Overview

Overall Group materiality

- Overall Group materiality: R49.6 million, which represents 5% of consolidated profit before tax adjusted for the significant gain on the fair value assessment of the investments in Oxigen Services India Private Limited, Oxigen Online Services Private Limited and 2DFine Holdings Mauritius (OSI).

Group audit scope

- We conducted full scope audits for 10 reporting components based on their financial significance.

Key audit matters

- Impairment assessment of goodwill arising from business combinations and impairment assessment of investment in Blue Label Mexico S.A. de C.V. (BLM).
- Fair value assessment of investment in OSI.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Independent auditor's report to the shareholders of Blue Label Telecoms Limited continued

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	R49.6 million
How we determined it	5% of consolidated profit before tax adjusted for the significant gain on the fair value assessment of the investment in OSI.
Rationale for the materiality benchmark applied	We chose an adjusted consolidated profit before tax benchmark because, in our view, it is an appropriate measure of underlying performance and it is the benchmark against which the performance of the Group is most commonly measured by users. We chose 5% which is within the range of acceptable quantitative materiality thresholds used for profit-oriented companies in this sector. Profit before tax was adjusted downwards by excluding the gain on associate measured at fair value as this is the first fair value adjustment for this investment.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 25 reporting components, comprising the Group's operating businesses and centralised functions. Of these reporting components, we selected 10 components for full scope audits due to their financial significance.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, the component auditors from other PwC network firms and the non-PwC firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

We had various interactions with our significant component teams in which we discussed and evaluated recent developments, the scope of audits, audit risks, materiality and audit approaches.

We discussed the reports of the component teams, the findings of their procedures and other matters which could be of relevance for the consolidated financial statements. In the current year the Group engagement leader visited the component audit team responsible for the audit of Blue Label Mexico S.A. de C.V.

By performing the procedures above, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Independent auditor's report to the shareholders of Blue Label Telecoms Limited continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters below relate to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements to describe in our audit report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill arising from business combinations and impairment assessment of investment in Blue Label Mexico S.A. de C.V. (BLM) Due to the number of business combinations that the Group enters into, the Group's net assets include a significant amount of goodwill. Goodwill comprises 7% of the total consolidated assets in the consolidated statement of financial position. These assets have been recognised in the consolidated statement of financial position as a consequence of the acquisitive nature of the Group. Goodwill is tested annually for impairment or whenever there is an impairment indicator identified by management. This annual impairment test was a matter of most significance to our audit because management's assessment process is complex and highly judgemental and is based on assumptions, specifically the terminal growth rate, discount rate and forecast cash flows, which are affected by expected future market or economic conditions, particularly those in South Africa. The balance of R604.6 million as at 31 May 2017 is material to the financial statements. For the year ended 31 May 2017 management performed an impairment assessment over the goodwill balance as follows: • Assessing the recoverable amount as being value-in-use, as entities are held for trading and not for sale; • Calculating the value-in-use for each cash generating unit (CGU) using a discounted cash flow model; and • Performing a sensitivity analysis over the value in use calculations, by varying the assumptions used (growth rates, terminal growth rate and WACC i.e. discount rate) to assess the impact on the valuations. Refer to note 2.1 for details of management's impairment test and assumptions Under IFRS, the Group is required to test the recoverable amount of investments for impairment if there is an indicator of impairment. This impairment test was significant to our audit because BLM reported a loss of R77.8 million for the year. The BLM investment balance of R173.7 million includes a goodwill balance of R120.1 million as of 31 May 2017. Management's assessment process is consistent with the process followed for goodwill as described above. The process is complex and highly judgemental and is based on assumptions, including the terminal growth rate, discount rate and forecast cash flows, which are affected by expected future market or economic conditions, particularly those in Mexico. Refer to note 2.1 for details of management's impairment test and assumptions.	We made use of our internal valuations expertise to assess whether the approach adopted by management in the valuation models for both goodwill and the investment in BLM is in line with market practice and the applicable requirements of International Accounting Standard (IAS) 36 – *Impairment of Assets*. We also tested the mathematical accuracy of the valuation models through performing a recalculation. We assessed management's cash flow forecasts and agreed them to the latest BLT Group Board approved budgets which is subject to oversight by the subsidiary directors. We held discussions with management regarding the process by which the budgets were developed and to understand the basis for the assumptions used. The Board approved budgets cover a period of five years and the forecasts for the purpose of the value-in-use calculations extend out to five years. We made use of our valuations expertise to independently calculate a discount rate taking into account independently obtained data such as the cost of debt, risk free rates in the market, market risk premiums, country risk premium, specific risk premium, debt/equity ratios as well as the beta of comparable companies. This was compared to the discount rate used by management. We found the discount rate used by management to be within an acceptable range of our independent calculations. The terminal growth rate was compared to forecast industry trends and to management's past forecast history for similar operations. We also assessed whether assumptions, such as working capital and capital expenditure, had been determined and applied consistently across the CGU's. We performed independent sensitivity calculations on the impairment assessments, to determine the degree by which the key assumptions needed to change in order to trigger an impairment. We discussed these with management and based on the evidence obtained we accepted management's conclusion that the key assumptions applied in the models were reasonable. As a final test we compared the Group's net assets as at 31 May 2017 of R5 billion to its market capitalisation of R10.5 billion and noted that the R5.5 billion of implied headroom was consistent with the results of our testing.

Independent auditor's report to the shareholders of Blue Label Telecoms Limited continued

Key audit matter	How our audit addressed the key audit matter
Fair value assessment of Investments in OSI The exemption available in IAS 28 – *Investments in Associate and Joint Ventures* has been applied to the investment in OSI from 30 November 2016 and the investment is accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* at fair value with changes in fair value recognised in profit or loss. The difference between the carrying value of the investment as previously determined using the equity accounting method and its fair value is reflected as a fair value gain on a financial instrument through profit and loss for the year ended 31 May 2017. This remeasurement to fair value is considered to be a matter of most significance to the current year audit due to the significant judgements made by management regarding the change in intention in relation to the operations of OSI, terminal growth rate, discount rate and forecast cash flows included in the analyses used to perform the valuation, as well as the fact that this is the first such remeasurement. Management has used an independent third party with the requisite expertise in assisting them with the determination of the fair value of the investment. Refer to note 2.2 for details of fair value assumptions.	We made use of our PwC India Component team's valuation expertise, as well as that of our own, to assist in our procedures performed over the fair value assessment. We assessed whether the approach adopted by the independent valuations expert in the valuation models is in line with market practice and the applicable requirements of IFRS 13 – *Fair Value Measurement*. We also tested the mathematical accuracy of the valuation model by performing a recalculation. We assessed management's cash flow forecasts and the process by which these were developed. We compared these to the latest Board approved budgets. We found that the budgets used in the value-in-use calculations were consistent with the Board approved budgets and noted that the key assumptions were subject to oversight by the Directors. The approved budgets cover a period of 10 years and the forecasts for the purpose of the value-in-use calculations extend out to 10 years. We assessed whether assumptions, such as working capital and capital expenditure, had been determined and applied consistently. We independently calculated a discount rate taking into account independently obtained data such as the cost of debt, risk free rates in the market, market risk premiums, country risk premium, specific risk premium, debt/equity ratios as well as the beta of comparable companies; and this was compared to the discount rate used by management. We found the discount rate used by management to be within an acceptable range of our independent calculations. The terminal growth rate was compared to forecast industry trends and to management's past forecast history for similar operations and was considered to be within an acceptable range of our independent calculations. We then performed a sensitivity analysis over the assumptions, to analyse the possible impact on the value-in-use by using other growth rates and discount rates which were within a reasonably foreseeable range. We discussed these with management and based on the evidence obtained we accepted management's conclusion that the key assumptions applied in the models were reasonable.

Independent auditor's report to the shareholders of Blue Label Telecoms Limited continued

Other information
The Directors are responsible for the other information. The other information comprises the Directors' report, the Audit, Risk and Compliance Committee's report and the Declaration by the Company Secretary as required by the Companies Act of South Africa, and the contents page, Prominent notice, the Statement of Directors' responsibility, the Approval of the financial statements and the Annexure to the Company financial statements – Shareholder analysis, and the other information contained in the integrated annual report 2017. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the shareholders of Blue Label Telecoms Limited continued

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

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Blue Label Telecoms Limited for 13 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D Storm
Registered Auditor
Johannesburg

23 November 2017

Group income statement

For the year ended 31 May 2017

	Notes	2017 R'000	2016 R'000
Revenue	1.2	**26 311 875**	26 204 722
Other income		**16 814**	126 294
Changes in inventories of finished goods		**(24 139 293)**	(24 375 028)
Employee compensation and benefit expense	5.2	**(452 985)**	(427 116)
Depreciation, amortisation and impairment charges		**(112 851)**	(98 183)
Other expenses		**(405 088)**	(288 313)
Operating profit	1.3	**1 218 472**	1 142 376
Finance costs	1.4	**(303 027)**	(214 110)
Finance income	1.4	**242 194**	193 899
Gain on associates and joint venture measured at fair value	2.2	**160 200**	—
Share of losses from associates and joint ventures	2.1	**(164 941)**	(71 770)
Net profit before taxation		**1 152 898**	1 050 395
Taxation	7.1	**(332 037)**	(318 783)
Net profit for the year		**820 861**	731 612
Net profit for the year attributable to:			
Equity holders of the parent		**786 965**	691 590
Non-controlling interest		**33 896**	40 022
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	1.5	**117.92**	103.85
– Diluted	1.5	**116.91**	102.84

Group statement of comprehensive income

For the year ended 31 May 2017

	2017 R'000	2016 R'000
Net profit for the year	**820 861**	731 612
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Foreign exchange (loss)/profit on translation of associates and joint ventures*	**(82 424)**	81 544
Foreign exchange loss on translation of foreign operations*	**(52)**	(15)
Other comprehensive (loss)/income for the year, net of tax	**(82 476)**	81 529
Total comprehensive income for the year	**738 385**	813 141
Total comprehensive income for the year attributable to:		
Equity holders of the parent	**706 396**	770 652
Non-controlling interest	**31 989**	42 489

** These components of other comprehensive income do not attract any tax.*

Group statement of financial position

As at 31 May 2017

	Notes	2017 R'000	2016 R'000
Assets			
Non-current assets		**2 198 757**	2 275 161
Property, plant and equipment	4.3	**111 599**	100 434
Intangible assets	4.2	**511 164**	598 333
Goodwill	4.1	**604 590**	603 440
Investments in and loans to associates and joint ventures	2.1	**315 833**	910 567
Investments in and loans to venture capital associates and joint ventures	2.2	**544 165**	—
Loans receivable	3.1.1	**36 851**	5 910
Starter pack assets		**5 346**	6 099
Trade and other receivables	3.1.2	**42 512**	29 166
Deferred taxation assets	7.2	**26 697**	21 212
Current assets		**6 491 513**	5 030 790
Starter pack assets		**1 365**	1 576
Inventories	4.4	**2 180 121**	1 658 860
Loans receivable	3.1.1	**188 229**	98 217
Trade and other receivables	3.1.2	**2 758 997**	2 679 023
Current tax assets		**12 135**	4 087
Cash and cash equivalents	3.1.3	**1 350 666**	589 027
Total assets		**8 690 270**	7 305 951
Equity and liabilities			
Capital and reserves		**5 004 442**	4 519 567
Share capital	6	*****	*
Share premium		**4 012 359**	4 012 359
Treasury shares		**(58 488)**	(69 847)
Restructuring reserve		**(1 843 912)**	(1 843 912)
Foreign currency translation reserve		**99 215**	179 784
Non-distributable reserve		**7 821**	7 821
Transactions with non-controlling interest reserve		**(975 302)**	(965 861)
Equity compensation benefit reserve		**46 420**	42 039
Retained earnings		**3 649 192**	3 105 050
Total ordinary shareholders' equity		**4 937 305**	4 467 433
Non-controlling interest		**67 137**	52 134
Non-current liabilities		**59 226**	102 954
Deferred taxation liabilities	7.2	**52 952**	62 141
Trade and other payables	3.2.1	**6 274**	40 813
Current liabilities		**3 626 602**	2 683 430
Trade and other payables	3.2.1	**3 517 673**	2 601 807
Provisions	4.5	**35 071**	24 928
Current tax liabilities		**55 832**	40 608
Borrowings	3.2.2	**18 026**	16 087
Total equity and liabilities		**8 690 270**	7 305 951

** Less than R1 000.*

Group statement of changes in equity

For the year ended 31 May 2017

	Notes	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained earnings R'000
Balance as at 31 May 2015		*	4 012 359	(68 471)	2 622 558
Net profit for the year		—	—	—	691 590
Other comprehensive income		—	—	—	—
Total comprehensive income		—	—	—	691 590
Treasury shares purchased	6	—	—	(23 052)	—
Equity compensation benefit scheme shares vested		—	—	21 676	—
Equity compensation benefit movement		—	—	—	—
Share of equity movement in associates		—	—	—	—
Dividends paid		—	—	—	(209 098)
Balance as at 31 May 2016		*****	**4 012 359**	**(69 847)**	**3 105 050**
Net profit for the year		**—**	**—**	**—**	**786 965**
Other comprehensive income		**—**	**—**	**—**	**—**
Total comprehensive income		**—**	**—**	**—**	**786 965**
Treasury shares purchased	6	**—**	**—**	**(7 381)**	**—**
Equity compensation benefit scheme shares vested		**—**	**—**	**18 740**	**—**
Equity compensation benefit movement		**—**	**—**	**—**	**—**
Transaction with non-controlling interest reserve movement		**—**	**—**	**—**	**—**
Non-controlling interest acquired		**—**	**—**	**—**	**—**
Dividends paid		**—**	**—**	**—**	**(242 823)**
Balance as at 31 May 2017		*****	**4 012 359**	**(58 488)**	**3 649 192**

** Less than R1 000.*

[1] The restructuring reserve arose as a result of the restatement of Group comparatives, as required in terms of the principles of predecessor accounting. This reserve represents the difference between the fair value of the entities under the Group's control and their respective net asset values, as at the assumed restructure date of 1 June 2006.

[2] The non-distributable reserve arose as a result of BLT's share of share premium issued by associate companies pre-2010.

[3] The transactions with non-controlling interest reserve relates to the excess payments over the carrying amounts arising on transactions with non-controlling shareholders as these are treated as equity participants.

[4] This relates to the Group's movement in equity compensation benefit (refer to note 5.2) as well as the Group's share of the movement in equity compensation benefit of associate companies (refer to note 2.1).

Group statement of changes in equity continued

For the year ended 31 May 2017

Restructuring reserve[1] R'000	Foreign currency translation reserve R'000	Non-distributable reserve[2] R'000	Transactions with non-controlling interest reserve[3] R'000	Equity compensation benefit reserve[4] R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
(1 843 912)	100 722	7 821	(965 861)	39 297	3 904 513	13 468	3 917 981
—	—	—	—	—	691 590	40 022	731 612
—	79 062	—	—	—	79 062	2 467	81 529
—	79 062	—	—	—	770 652	42 489	813 141
—	—	—	—	—	(23 052)	—	(23 052)
—	—	—	—	(21 429)	247	(247)	—
—	—	—	—	23 421	23 421	424	23 845
—	—	—	—	750	750	—	750
—	—	—	—	—	(209 098)	(4 000)	(213 098)
(1 843 912)	**179 784**	**7 821**	**(965 861)**	**42 039**	**4 467 433**	**52 134**	**4 519 567**
—	**—**	**—**	**—**	**—**	**786 965**	**33 896**	**820 861**
—	**(80 569)**	**—**	**—**	**—**	**(80 569)**	**(1 907)**	**(82 476)**
—	**(80 569)**	**—**	**—**	**—**	**706 396**	**31 989**	**738 385**
—	**—**	**—**	**—**	**—**	**(7 381)**	**—**	**(7 381)**
—	**—**	**—**	**—**	**(18 486)**	**254**	**(254)**	**—**
—	**—**	**—**	**—**	**22 867**	**22 867**	**550**	**23 417**
—	**—**	**—**	**(9 441)**	**—**	**(9 441)**	**9 441**	**—**
—	**—**	**—**	**—**	**—**	**—**	**65**	**65**
—	**—**	**—**	**—**	**—**	**(242 823)**	**(26 788)**	**(269 611)**
(1 843 912)	**99 215**	**7 821**	**(975 302)**	**46 420**	**4 937 305**	**67 137**	**5 004 442**

Group statement of cash flows

For the year ended 31 May 2017

	Notes	2017 R'000	2016 R'000
Cash flows from operating activities			
Cash received from customers		**26 202 695**	26 271 886
Cash paid to suppliers and employees		**(24 448 704)**	(25 527 701)
Cash generated by operations	1.6	**1 753 991**	744 185
Interest received		**52 300**	42 082
Interest paid		**(105 518)**	(48 207)
Taxation paid	7.3	**(338 814)**	(305 118)
Net cash generated from operating activities		**1 361 959**	432 942
Cash flows from investing activities			
Acquisition of intangible assets	4.2	**(55 987)**	(85 175)
Proceeds on disposal of intangible assets		**47**	*
Proceeds on disposal of property, plant and equipment		**1 776**	3 585
Acquisition of property, plant and equipment	4.3	**(57 293)**	(41 956)
Disposal of subsidiary net of cash disposed		**—**	13 219
Acquisition of subsidiary net of cash acquired		**771**	—
Acquisition of associate		**(7 530)**	*
Capital contribution to Blue Label Mexico		**—**	(42 654)
Capital contribution to Oxigen Services India		**(25 534)**	(159 425)
Equity loans advanced to Lornanox		**(5 875)**	(58 883)
Loans advanced to associates and joint ventures		**(16 349)**	(2 213)
Loans repaid by associates and joint ventures		**593**	593
Loans granted		**(141 917)**	(59 182)
Loans receivable repaid		**24 649**	31 876
Settlement of contingent consideration	3.2.1	**(50 666)**	(1 931)
Contingent proceeds received	3.1.2	**12 839**	5 813
Net cash utilised in investing activities		**(320 476)**	(396 333)
Cash flows from financing activities			
Non-interest-bearing borrowings repaid		**(2 861)**	—
Non-interest-bearing borrowings raised		**58**	—
Acquisition of treasury shares	6	**(7 381)**	(23 052)
Dividends paid to non-controlling interest		**(26 788)**	(4 000)
Dividends paid to equity holders of the parent		**(242 823)**	(209 098)
Net cash utilised in financing activities		**(279 795)**	(236 150)
Net increase/(decrease) in cash and cash equivalents		**761 688**	(199 541)
Cash and cash equivalents at the beginning of the year		**589 027**	788 411
Exchange gains on cash and cash equivalents		**(49)**	157
Cash and cash equivalents at the end of the year	3.1.3	**1 350 666**	589 027

** Less than R1 000.*

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For the year ended 31 May 2017

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Where applicable, accounting policies and critical accounting estimates and judgements are included in the relevant note.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

1. Results of operations

1.1 Segmental summary

The Group's segment reporting follows the organisational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to these segments. Management's assessment of the Group's organisational structure takes the geographical location of the segments into account.

Operating segments are reported internally to the chief operating decision-maker in a manner consistent with the financial statements. In addition, the chief operating decision-maker uses core net profit and core headline earnings as non-IFRS measures in evaluating the Group's performance on a segmental level. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors, who are responsible for making strategic decisions on behalf of the Group.

Transactions between reportable segments are conducted on similar terms as other transactions of a similar nature.

The segment results for the year ended 31 May are as follows:

	Total		South Africa Distribution	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
Total segment revenue	**32 724 069**	32 558 421	**32 058 672**	31 934 736
Internal revenue	**(6 412 194)**	(6 353 699)	**(6 272 276)**	(6 212 196)
Revenue	**26 311 875**	26 204 722	**25 786 396**	25 722 540
Segment result				
Operating profit/(loss) before depreciation, amortisation and impairment charges	**1 331 323**	1 240 559	**1 388 296**	1 133 433
Depreciation, amortisation and impairment charges	**(112 851)**	(95 615)	**(92 554)**	(74 562)
Impairment of intangible assets	**—**	(2 568)	**—**	(1 042)
Finance costs	**(303 027)**	(214 110)	**(297 889)**	(203 713)
Finance income	**242 194**	193 899	**211 386**	169 198
Gain on associate and joint venture measured at fair value	**160 200**	—	**—**	—
Share of (losses)/profits from associates and joint ventures	**(164 941)**	(71 770)	**(5 406)**	(4 937)
Taxation	**(332 037)**	(318 783)	**(303 040)**	(258 313)
Net profit/(loss) for the year	**820 861**	731 612	**900 793**	760 064
Reconciliation of net profit for the year to core headline earnings for the year				
Net profit/(loss) for the year	**820 861**	731 612	**900 793**	760 064
Amortisation of intangibles raised through business combinations net of tax	**14 833**	17 457	**9 775**	11 617
Core net profit/(loss) for the year*	**835 694**	749 069	**910 568**	771 681
Headline earnings adjustment	**362**	(23 029)	**22**	435
Core headline earnings for the year*	**836 056**	726 040	**910 590**	772 116
Core headline earnings for the year attributable to:				
Equity holders of parent	**801 396**	684 911	**893 128**	751 086
Non-controlling interest	**34 660**	41 129	**17 462**	21 030
Non-cash items				
Net (loss)/profit on sale of subsidiaries	**—**	(3 885)	**—**	—
Net profit on disposal of associates	**—**	—	**—**	—
Discounting of receivables	**163 069**	129 633	**163 069**	129 633
Discounting of payables	**(197 509)**	(165 903)	**(197 509)**	(165 903)
The segment assets and liabilities at 31 May are as follows:				
Assets excluding investments in and loans to associates and joint ventures	**7 830 272**	6 395 384	**7 113 582**	5 725 082
Investments in and loans to associates and joint ventures	**315 833**	910 567	**87 945**	62 649
Investments in and loans to venture capital associates and joint venture	**544 165**	—	**—**	—
Total assets	**8 690 270**	7 305 951	**7 201 527**	5 787 731
Additions to non-current assets				
Property, plant and equipment	**57 655**	41 956	**51 074**	37 706
Intangible assets and goodwill	**57 137**	85 175	**52 138**	53 562
Investment in associates	**21 306**	210 416	**21 306**	—
Total liabilities	**(3 685 828)**	(2 786 387)	**(3 446 376)**	(2 482 650)

The Company is domiciled in the Republic of South Africa. The result of its revenue from external customers in South Africa is R26.294 billion (2016: R26.188 billion), and the total revenue from external customers from other countries is R17.7 million (2016: R16.9 million).

The total non-current assets other than financial instruments and deferred tax assets located in South Africa is R1.372 billion (2016: R1.426 billion), and the total non-current assets located in other countries is R721 million (2016: R792 million).

The South African Distribution segment includes revenues of R7.737 billion and R4.901 billion earned from two external customers.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

1. Results of operations continued

1.1 Segmental summary continued

At 31 May 2017, the Group is managed on the basis of five main business segments:

- South African Distribution, which includes the distribution of physical and virtual prepaid airtime and electricity of the South African mobile/fixed-line network operators and utility suppliers, and the distribution of starter packs in South Africa.
- International which includes international distribution of physical and virtual prepaid airtime in India and Mexico, and payment solutions in India. This segment also incorporates the Africa Prepaid Services group.
- Mobile, which includes the provision of a complete mobile transactional ecosystem and services provisioning platform delivering mobile-centric products and services through any mobile channel, including location-based and WASP services, and music and digital content provision.
- Solutions, which includes marketing of cellular and financial products and services through outbound telemarketing and other channels, provides inbound customer care and technical support, and markets data and analytics services.
- Corporate, which performs the head office administration function.

International		Mobile		Solutions		Corporate	
2017 R'000	2016 R'000	**2017 R'000**	2016 R'000	**2017 R'000**	2016 R'000	**2017 R'000**	2016 R'000
—	—	**361 754**	307 661	**178 286**	196 703	**125 357**	119 321
—	—	**(13 896)**	(15 805)	**(665)**	(6 377)	**(125 357)**	(119 321)
—	—	**347 858**	291 856	**177 621**	190 326	**—**	—
(31 792)	44 152	**99 101**	111 142	**34 020**	35 889	**(158 302)**	(84 057)
—	—	**(14 866)**	(13 288)	**(657)**	(1 521)	**(4 774)**	(6 244)
—	—	**—**	(1 526)	**—**	—	**—**	—
(507)	(1)	**(1 105)**	(2 584)	**(1)**	—	**(3 525)**	(7 812)
13 285	10 224	**5 523**	3 277	**1 018**	933	**10 982**	10 267
160 200	—	**—**	—	**—**	—	**—**	—
(162 218)	(70 283)	**2 228**	2 690	**455**	760	**—**	—
1 953	(16 062)	**(25 066)**	(23 826)	**(11 361)**	(14 680)	**5 477**	(5 902)
(19 079)	(31 970)	**65 815**	75 885	**23 474**	21 381	**(150 142)**	(93 748)
(19 079)	(31 970)	**65 815**	75 885	**23 474**	21 381	**(150 142)**	(93 748)
1 859	2 641	**3 199**	3 199	**—**	—	**—**	—
(17 220)	(29 329)	**69 014**	79 084	**23 474**	21 381	**(150 142)**	(93 748)
339	(29 975)	**(38)**	1 060	**—**	5 448	**39**	3
(16 881)	(59 304)	**68 976**	80 144	**23 474**	26 829	**(150 103)**	(93 745)
(16 874)	(59 327)	**56 289**	65 333	**18 956**	21 564	**(150 103)**	(93 745)
(7)	23	**12 687**	14 811	**4 518**	5 265	**—**	—
—	—	**—**	—	**—**	(3 885)	**—**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—
22 959	16 608	**545 379**	489 351	**137 834**	135 841	**10 518**	28 502
176 406	792 488	**48 216**	54 210	**3 266**	1 220	**—**	—
544 165	—	**—**	—	**—**	—	**—**	—
743 530	809 096	**593 595**	543 561	**141 100**	137 061	**10 518**	28 502
—	—	**4 494**	2 469	**38**	928	**2 049**	853
—	—	**4 983**	31 198	**—**	407	**16**	8
—	210 416	**—**	—	**—**	—	**—**	—
(26 155)	(35 974)	**(119 998)**	(120 457)	**(11 281)**	(17 101)	**(82 018)**	(130 205)

** Core net profit and core headline earnings*

Core net profit and core headline earnings are non-IFRS measures used by the Group in evaluating the Group's performance. These supplement the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets net of deferred taxation and non-controlling interests that arise as a consequence of the purchase price allocations completed in terms of IFRS 3 – *Business Combinations*. Core headline earnings is calculated by adjusting core net profit with the headline earnings adjustments required by SAICA circular 2/2015.

Reconciliation of core net profit and core headline earnings to relevant IFRS measures are presented in note 1.5.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

1. Results of operations continued

1.2 Revenue

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of indirect taxes, estimated returns, rebates and discounts, and after eliminated sales within the Group.

Revenue from the sale of goods is recognised when:
- the Group has transferred to the customer the risks and rewards of ownership of the goods; and
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
- the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably; and
- it is probable that the economic benefits associated with a transaction will flow to the Group.

Revenue from the rendering of a service is recognised when:
- the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably; and
- it is probable that the economic benefits associated with a transaction will flow to the Group; and
- the stage of completion of the transaction at the end of the reporting period can be measured reliably.

The main categories of revenue are as follows:

(a) Prepaid airtime, data and related revenue
Sales of prepaid airtime and data are recognised when the Group sells airtime and data to the customer. Incentives relating to these sales, based on contractual criteria, are recognised only once the associated criteria have been met. For this category of revenue the Group will act as either a principal or an agent.

(b) Postpaid airtime, data and related revenue
Sales of postpaid airtime and data are recognised on airtime and data contracted to be delivered to customers for a period of time and billed on a monthly basis in arrears. Incentives relating to these sales, based on contractual criteria, are recognised only once the associated criteria have been met. For this category of revenue the Group will act as either a principal or an agent.

(c) Prepaid and postpaid SIM cards
Revenue is recognised when a SIM card is initially sold to the customer. Activation bonuses received from the networks are recognised when the SIM card is activated on the relevant cellular network. Ongoing revenue and other incentives are recognised once the associated contractual criteria have been met. The point of activation is determined by the relevant cellular networks. For this category of revenue the Group acts as a principal.

(d) Sales of services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. These services include location-based services, SMS transaction services, media, call centre and data transaction revenue, and technology revenue. For this category of revenue the Group will act as either a principal or an agent.

(e) Electricity commission
Commissions on the sale of prepaid electricity are recognised when the Group sells electricity to the customer on behalf of the utility suppliers. Commissions are recorded based on agreed rates per the contracts. For this category of revenue the Group acts as an agent.

(f) Sales of handsets, tablets and other devices
Revenue is recognised when the handset, tablet or device is sold to the customer. For this category of revenue the Group acts as a principal.

Critical accounting estimates and assumptions

Significant judgements are made by management when concluding whether the Group is transacting as an agent or a principal. The assessment is performed for each separate revenue stream in the Group. The assessment requires an analysis of key indicators, specifically whether the Group:
- carries any inventory risk;
- has the primary responsibility for providing the goods or services to the customer;
- has the latitude to establish pricing; and
- bears the customer's credit risk.

These indicators are used to determine whether the Group has exposure to the significant risks and rewards associated with the sale of goods or rendering of services. For example, any sale relating to inventory that is held by the Group, not on consignment, is a strong indicator that the Group is acting as a principal.

Where the Group acts in its capacity as principal for the sale of goods or the rendering of services, as it does in the sale of physical prepaid airtime and the sale of handsets, revenue is recognised as the fair value of the consideration receivable net of discounts and taxes. Where the Group acts in its capacity as an agent, as it does in the sale of electricity and PINless airtime, the amount of revenue recorded is the fair value of commission received or receivable.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

1. Results of operations continued

1.2 Revenue continued

	2017 R'000	2016 R'000
Prepaid airtime, data and related revenue	**24 293 834**	24 147 786
Postpaid airtime, data and related revenue	**90 602**	141 397
Prepaid and postpaid SIM cards	**628 976**	607 833
Services	**594 731**	542 748
Electricity commission	**270 604**	246 371
Handsets, tablets and other devices	**333 096**	322 967
Other revenue*	**100 032**	195 620
	26 311 875	26 204 722

** Other revenue primarily comprises meter installations, device rentals and ticket sales.*

1.3 Operating profit

	2017 R'000	2016 R'000
The following has been charged/(credited) in arriving at operating profit:		
Acquisition-related costs	**23 003**	21 639
Advertising and promotional expenses	**46 892**	12 215
Amortisation of intangible assets**	**143 109**	130 353
Audit fees – services as auditors	**15 389**	16 816
Audit fees – other	**2 359**	2 468
Consulting fees	**24 447**	28 261
Contingent purchase price release* (refer to note 3.2.1)	**(10 210)**	(48 120)
Depreciation	**44 684**	42 738
Foreign exchange loss/(profit) (refer to note 3.2.2)	**52 151**	(73 499)
Impairment of loans	**4 001**	—
Impairment of trade receivables	**15 515**	6 418
Impairment of trade receivables – provision	**5 170**	2 923
Impairment of intangible assets	**—**	2 568
Impairment of inventory	**1 178**	5 368
IT infrastructure costs and computer-related costs	**32 932**	23 321
Legal fees	**5 971**	3 282
Loss on disposal of subsidiary	**—**	3 885
Management fees paid	**6 339**	6 241
Motor vehicle expenses	**10 935**	9 559
Operating lease rentals – premises[a]	**34 535**	32 894
Overseas travel	**5 495**	6 512
Loss/(profit) on disposal of property, plant and equipment	**30**	(500)*

** Included in other income on the Group income statement.*

*** Included in the amortisation charge is an amount of R74.9 million (2016: R77.5 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.*

[a] Leases in which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments under operating leases, net of incentives, are charged to the income statement on a straight-line basis over the period of the lease.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

1. Results of operations continued

1.4 Finance costs and finance income

Finance costs/income are recognised in profit and loss using the effective interest rate method as the instruments to which this relates are measured at amortised cost.

	2017 R'000	2016 R'000
Finance costs		
– Bank	**29**	61
– Loans and facilities	**97 474**	33 851
– Unwinding of contingent purchase price	**4 621**	9 712
– Other	**3 394**	4 583
– Discounting of payables	**197 509**	165 903
	303 027	214 110
Finance income		
– Bank	**(23 557)**	(34 002)
– Loans	**(22 444)**	(4 336)
– Related-party loans (refer to note 8)	**(31 237)**	(25 351)
– Other	**(1 887)**	(577)
– Discounting of receivables	**(163 069)**	(129 633)
	(242 194)	(193 899)
Net finance costs	**60 833**	20 211

1.5 Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

(b) Headline

Headline earnings are calculated by applying the principles contained in Circular 2/2015 as issued by the South African Institute of Chartered Accountants, as required by JSE Limited.

The weighted average number of ordinary shares used is the same as that used for the basic earnings per share.

(c) Diluted – basic and headline

Diluted earnings per share are calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are the forfeitable shares granted. For this calculation, an adjustment is made for the number of shares that would be issued on vesting under the forfeitable share plan.

(d) Core headline

Core headline earnings per share are calculated by adding back to headline earnings, the amortisation of intangible assets net of deferred taxation and non-controlling interests as a consequence of the purchase price allocations completed in terms of IFRS 3(R) – *Business Combinations*.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

1. Results of operations continued

1.5 Earnings per share continued

(a) Basic

	2017	2016
Profit attributable to equity holders of the parent (R'000)	786 965	691 590
Weighted average number of ordinary shares in issue (thousands)	667 349	665 950
Basic earnings per share (cents per share)	117.92	103.85

(b) Headline

	Profit before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
2017				
Profit attributable to equity holders of the parent	1 152 898	(332 037)	(33 896)	786 965
Loss on disposal of property, plant and equipment	30	(8)	1	23
Impairment of intangible assets in joint venture	339	—	—	339
Headline earnings				787 327
Weighted average number of ordinary shares in issue (thousands)				667 349
Headline earnings per share (cents per share)				117.98
2016				
Profit attributable to equity holders of the parent	1 050 395	(318 783)	(40 022)	691 590
Profit on disposal of property, plant and equipment	(500)	140	—	(360)
Loss on disposal of intangible assets	4	(1)	—	3
Impairment of intangible assets	2 568	(719)	(300)	1 549
Loss on disposal of subsidiary	3 885	1 569	—	5 454
Profit on dilution/disposal of associate and joint venture	(29 975)	—	—	(29 975)
Headline earnings				668 261
Weighted average number of ordinary shares in issue (thousands)				665 950
Headline earnings per share (cents per share)				100.35

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

1. Results of operations continued

1.5 Earnings per share continued

		2017 R'000	2016 R'000
(c)	**Diluted – basic and headline**		
	Basic earnings (R'000)	**786 965**	691 590
	Weighted average number of ordinary shares in issue (thousands)	**667 349**	665 950
	Adjusted for forfeitable shares (thousands)	**5 813**	6 570
	Weighted average number of ordinary shares for diluted earnings (thousands)	**673 162**	672 520
	Diluted basic earnings per share (cents per share)	**116.91**	102.84
	Headline earnings (R'000)	**787 327**	668 261
	Weighted average number of ordinary shares for diluted headline earnings (thousands)	**673 162**	672 520
	Diluted headline earnings per share (cents)	**116.96**	99.37
(d)	**Core headline**		
	Reconciliation between net profit for the period and core headline earnings for the period:		
	Net profit for the period (R'000)	**786 965**	691 590
	Amortisation on intangibles raised through business combinations net of tax and non-controlling interest (R'000)	**14 069**	16 650
	Core net profit for the period (R'000)	**801 034**	708 240
	Headline earnings adjustments (R'000)	**362**	(23 329)
	Core headline earnings (R'000)	**801 396**	684 911
	Weighted average number of ordinary shares in issue (thousands)	**667 349**	665 950
	Core headline earnings per share (cents per share)	**120.09**	102.85
1.6	**Cash generated by operations**		
	Reconciliation of operating profit to cash generated by operating activities:		
	Operating profit	**1 218 472**	1 142 376
	Adjustments for:		
	Depreciation of property, plant and equipment	**44 684**	42 738
	Amortisation of intangible assets	**143 109**	130 353
	Impairment of intangible assets	**—**	2 568
	Discounting of receivables recognised in revenue	**163 069**	129 633
	Discounting of payables recognised in changes in inventories of finished goods	**(197 509)**	(165 903)
	Impairment of inventory	**1 178**	—
	Impairment of loans	**4 001**	—
	Loss/(profit) on disposal of property, plant and equipment	**30**	(500)
	Loss on disposal of intangible assets	**—**	4
	Loss on disposal of subsidiary	**—**	3 885
	Contingent purchase price release	**(10 210)**	(48 120)
	Equity compensation benefit expense	**23 417**	23 845
	Net unrealised forex loss/(profit)	**47 157**	(68 857)
	Changes in working capital (excluding the effects of acquisitions and disposals):		
	Increase in inventories	**(518 909)**	(225 756)
	(Increase)/decrease in trade and other receivables	**(105 132)**	52 252
	Increase/(decrease) in trade and other payables	**945 075**	(271 764)
	Increase in loans receivable	**(5 405)**	(1 281)
	Decrease/(increase) in starter pack assets	**964**	(1 288)
		1 753 991	744 185

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in profit or loss in other income or other expenses.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

The Company accounts for investment in subsidiaries at cost, less accumulated impairment losses.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, i.e. transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

Basis of consolidation continued

(d) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates and joint ventures includes goodwill identified on acquisition. Loans made to associates and joint ventures that are equity in nature are treated as part of the cost of the investment made.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The carrying amount of the investment is also adjusted for the Group's share of post-acquisition movements in other net assets.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount adjacent to share of profit/(loss) from associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates and joint ventures are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates and joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

When the Group's share of losses in an associate or joint venture equals or exceeds its interests in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

Critical accounting judgements and assumptions

(a) Valuation of intangible assets acquired as part of a business combination

The fair values of all identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by the Group's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

(b) Assessment of investment in associates and joint ventures for impairment

The Group tests annually whether investment in associates and joint ventures has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of the investment in associates and joint ventures have been determined based on value-in-use calculations. These calculations require the use of estimates. Refer to note 2.1 for details on these estimates.

(c) Classification of significant joint arrangements

The Group exercises judgement in determining the classification of its joint arrangements.

Blue Label Mexico S.A. de C.V.

The Group holds an effective interest of 47.56% in the issued ordinary share capital of Blue Label Mexico S.A. de C.V. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

2DFine Holdings Mauritius

The Group holds an effective interest of 50% in the issued ordinary share capital of 2DFine Holdings Mauritius. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. Prior to 30 November 2016, the investment was classified as a joint venture as unanimous approval of the shareholders is required for decisions. Refer to note 2.2 for the classification subsequent to 30 November 2016.

SupaPesa Africa Limited

Viamedia Proprietary Limited (75% owned by the Group) holds 50% of SupaPesa Africa Limited. Therefore the Group equity accounts for 50% of net assets. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

(d) Classification of significant associates

These classifications below refer to pre 30 November 2016. Refer to note 2.2 for the classification subsequent to 30 November 2016.

Oxigen Services India Private Limited (Oxigen Services India)

Blue Label Telecoms Limited (BLT) acting through its wholly owned subsidiary, Gold Label Investments Proprietary Limited (GLI), acquired a 50% interest in 2DFine Holdings Mauritius. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions. 2DFine Holdings Mauritius and GLI hold 33.85% and 41.96% respectively of Oxigen Services India. In terms of IFRS, an entity does not aggregate its interests held through associates and joint ventures when assessing for control as BLT through this relationship cannot direct the financial and operating policies of Oxigen Services India. Therefore, even though BLT has an effective interest of 58.88% in Oxigen Services India, the Group neither controls nor jointly controls Oxigen Services India.

The Group has the right to appoint two directors out of a total of five. Therefore we have concluded that the Group has significant influence over the financial and operating policies of Oxigen Services India.

Oxigen Online Services India Private Limited (Oxigen Online)

BLT acting through its wholly owned subsidiary, GLI, acquired a 50% interest in 2DFine Holdings Mauritius. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions. 2DFine Holdings Mauritius and GLI hold 34.42% and 40.96% respectively of Oxigen Online. In terms of IFRS, an entity does not aggregate its interests held through associates and joint ventures when assessing for control as BLT through this relationship cannot direct the financial and operating policies of Oxigen Online. Therefore, even though BLT has an effective interest of 58.18% in Oxigen Online, the Group neither controls nor jointly controls Oxigen Online.

The Group has the right to appoint two directors out of a total of five. Therefore we have concluded that the Group has significant influence over the financial and operating policies of Oxigen Online.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures

	Associate		Joint venture		Joint venture	
Company	**Oxigen Services India Private Limited**		**Blue Label Mexico S.A. de C.V.**		**2DFine Group[1]**	
Principal activity	**Airtime and payment solution provider**		**Distributor of terminals to vend e-tokens of value**		**Investment holding company**	
Country of incorporation	**India**		**Mexico**		**Mauritius**	
	2017* R'000	2016 R'000	**2017 R'000**	2016 R'000	**2017* R'000**	2016 R'000
Cost and share of reserves at the beginning of the year	**303 512**	61 543	**254 855**	267 568	**(42 286)**	(23 806)
Acquisition of associates and joint ventures	**—**	167 762	**—**	42 654	**—**	—
Share of (losses)/profits from associates and joint ventures	**(119 831)**	2 307	**(36 978)**	(63 293)	**(5 409)**	(10 245)
Share of results after tax	**(119 568)**	(27 106)	**(35 382)**	(61 219)	**(5 409)**	(10 245)
Amortisation of intangible assets	**(365)**	(786)	**(2 217)**	(2 881)	**—**	—
Deferred tax on intangible assets amortisation	**102**	220	**621**	807	**—**	—
Dilution of associate[2]	**—**	29 979	**—**	—	**—**	—
Foreign currency translation reserve	**(35 085)**	71 150	**(44 208)**	7 926	**4 915**	(8 235)
Equity compensation benefit	**—**	750	**—**	—	**—**	—
Dividends received	**—**	—	**—**	—	**—**	—
Reclassification to venture capital associate	**(148 596)**	—	**—**	—	**42 780**	—
Disposal of associate/joint venture included in other income	**—**	—	**—**	—	**—**	—
Cost and share of reserves at the end of the year	**—**	303 512	**173 669**	254 855	**—**	(42 286)
Loans to associates and joint ventures						
Loans at the beginning of the year	**38 359**	29 552	**—**	—	**234 892**	163 634
Reclassification to venture capital associate	**(36 025)**	—	**—**	—	**(218 889)**	—
Loans granted to associates and joint ventures	**2 136**	—	**—**	—	**10 982**	20 454
Loans repaid by associates and joint ventures	**—**	—	**—**	—	**—**	—
Unrealised foreign exchange profit on loans to associates and joint ventures	**(4 470)**	8 807	**—**	—	**(26 985)**	50 804
Loans at the end of the year	**—**	38 359	**—**	—	**—**	234 892
Closing net book value	**—**	341 871	**173 669**	254 855	**—**	192 606

[1] *2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.*

[2] *This dilution relates to the 2DFine Group's shareholding in Oxigen Services India Private Limited decreasing from 37.22% to 34.42%. (The Group's effective share decreased from 18.1% to 17.21%).*

[3] *R9.3 million (2016: R59.9 million) represents an equity loan granted to Lornanox Proprietary Limited. These loans are repayable from surplus reserves at the discretion of the Board.*

* *On 1 June 2016 Oxigen Services India was demerged into two separate entities. Refer to note 2.2. The results of these entities have been aggregated for purposes of reporting these associates while they were equity accounted for during the period 1 June 2016 to November 2016.*

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

Joint venture SupaPesa Africa Limited Content provider Mauritius		Other associates		Other joint ventures		Total	
2017 R'000	2016 R'000	**2017 R'000**	2016 R'000	**2017 R'000**	2016 R'000	**2017 R'000**	2016 R'000
44 464	33 908	**64 547**	7 709	**3 279**	564	**628 371**	347 486
—	—	**21 305**[3]	59 949[3]	**—**	—	**21 305**	270 365
2 012	348	**(2 885)**	(3 606)	**(1 850)**	2 719	**(164 941)**	(71 770)
2 012	348	**(2 885)**	(3 606)	**(1 850)**	2 719	**(163 082)**	(99 109)
—	—	**—**	—	**—**	—	**(2 582)**	(3 667)
—	—	**—**	—	**—**	—	**723**	1 027
—	—	**—**	—	**—**	—	**—**	29 979
(7 630)	10 208	**(416)**	495	**—**	—	**(82 424)**	81 544
—	—	**—**	—	**—**	—	**—**	750
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**(105 816)**	—
—	—	**—**	—	**—**	(4)	**—**	(4)
38 846	44 464	**82 551**	64 547	**1 429**	3 279	**296 495**	628 371
—	—	**—**	—	**8 945**	7 900	**282 196**	201 086
—	—	**—**	—	**—**	—	**(254 914)**	—
—	—	**—**	—	**10 986**	1 638	**24 104**	22 092
—	—	**—**	—	**(593)**	(593)	**(593)**	(593)
—	—	**—**	—	**—**	—	**(31 455)**	59 611
—	—	**—**	—	**19 338**	8 945	**19 338**	282 196
38 846	44 464	**82 551**	64 547	**20 767**	12 224	**315 833**	910 567

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

	Associate	
Company	**Oxigen Services India Private Limited**	
Principal activity	**Airtime and payment solution provider**	
Country of incorporation	**India**	
	30 November 2016* R'000	2016 R'000
Statement of financial position		
Non-current assets	**486 634**	339 096
Current assets	**409 205**	451 256
Cash and cash equivalents	**218 584**	168 248
Other current assets	**190 621**	283 008
	895 839	790 352
Total equity	**(51 360)**	224 477
Non-current liabilities	**40 756**	10 864
Current liabilities	**906 443**	555 011
Trade and other payables	**515 788**	368 146
Other current liabilities	**390 655**	186 865
	895 839	790 352
Effective percentage held	**58.18**	58.18
Net assets	**(51 360)**	224 477
Company net assets	**(64 602)**	207 571
Carrying value of purchase price allocations net of deferred taxation	**13 242**	16 906
Interest in associate and joint ventures	**(33 787)[2]**	123 664[2]
Goodwill	**182 383**	179 848
Balance at the end of the year	**148 596**	303 512
Statement of comprehensive income		
Revenue	**6 125 645**	6 391 207
Operating profit before depreciation, amortisation and impairment charges	**(155 773)**	5 061
Depreciation and amortisation	**(36 114)**	(34 037)
Finance costs	**(17 780)**	(22 284)
Finance income	**4 194**	5 491
Net profit/(loss) before taxation	**(205 473)**	(45 769)
Taxation	**(493)**	(2 292)
Net profit/(loss) after taxation	**(205 966)**	(48 061)
Other comprehensive income/(loss)	**(21 713)**	25 932
Total comprehensive income/(loss)	**(227 679)**	(22 129)
Effective percentage held	**58.18**	58.18
Share of total comprehensive income	**(131 587)[1]**	(16 940)[3]

[1] *2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.*
[2] *The purchase price allocation arose when the 2DFine Group purchased its holding into OSI in June 2011. The Group therefore only accounts for its effective share of the carrying value of the purchase price allocations. The effective share is 17.21%.*
[3] *In the prior year, BLT increased its effective holding by 2.35% to 58.18%.*
[4] *During the prior year BLT increased its holding by 0.92% to 47.56% in BLM.*
[5] *Viamedia Proprietary Limited (75% owned by the Group) holds 50% of SupaPesa Africa Proprietary Limited. Therefore the Group equity accounts for 50% of net assets.*
* *On 1 June 2016 Oxigen Services India was demerged into two separate entities. Refer to note 2.2. The results of these entities have been aggregated for purposes of reporting these associates while they were equity accounted for during the period 1 June 2016 to November 2016.*

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

Joint venture Blue Label Mexico S.A. de C.V. Distributor of terminals to vend e-tokens of value Mexico		Joint venture 2DFine Group[1] Investment holding company Mauritius		Joint venture SupaPesa Africa Proprietary Limited Content provider Mauritius	
2017 R'000	2016 R'000	**30 November 2016* R'000**	2016 R'000	**2017 R'000**	2016 R'000
97 857	171 701	**138 007**	154 706	**8 862**	10 654
162 885	193 490	**52**	59	**10 927**	8 645
64 515	88 498	**2**	2	**5 324**	4 702
98 370	104 992	**50**	57	**5 603**	3 943
260 742	365 191	**138 059**	154 765	**19 789**	19 299
112 560	228 233	**(85 560)**	(84 570)	**10 283**	7 889
4 839	7 464	**—**	—	**7 533**	9 855
143 343	129 494	**223 619**	239 335	**1 973**	1 555
143 062	129 090	**1 279**	897	**1 973**	1 311
281	404	**222 340**	238 438	**—**	244
260 742	365 191	**138 059**	154 765	**19 789**	19 299
47.56	47.56	**50**	50	**37.5**	37.5
112 560	228 233	**(85 560)**	(84 570)	**10 283**	7 889
100 118	209 039	**(85 560)**	(84 570)	**10 283**	7 889
12 442	19 194	**—**	—	**—**	—
53 534	108 548	**(42 780)**	(42 286)	**5 142[5]**	3 944[5]
120 135	146 307	**—**	—	**33 707**	40 520
173 669	254 855	**(42 780)**	(42 286)	**38 849**	44 464
3 075 053	4 016 614	**—**	—	**13 364**	13 052
(27 358)	(70 042)	**(264)**	(645)	**4 970**	1 583
(52 516)	(67 425)	**—**	—	**—**	—
—	—	**(10 555)**	(19 844)	**(816)**	(865)
1 859	1 927	**—**	—	**—**	—
(78 015)	(135 540)	**(10 819)**	(20 489)	**4 154**	718
265	1 109	**—**	—	**(125)**	(22)
(77 750)	(134 431)	**(10 819)**	(20 489)	**4 029**	696
(37 922)	16 370	**9 830**	(16 470)	**(1 635)**	1 811
(115 672)	(118 061)	**(989)**	(36 959)	**2 394**	2 507
47.56	47.56	**50**	50	**37.5[5]**	37.5[5]
(55 014)	(55 696)[4]	**(495)**	(18 479)	**1 197**	1 254

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

The Group's interests in its other associates, which are unlisted, are as follows:

	Country of incorporation	Non-current assets R'000	Current assets R'000
2017			
Lornanox Proprietary Limited	South Africa	**47 340**	**119 691**
Utilities World Proprietary Limited	South Africa	**52**	**8 043**
Mpower Softcomm Private Limited	India	**105 216**	**14 844**
2016			
Lornanox Proprietary Limited	South Africa	40 464	111 732
Mpower Softcomm Private Limited	India	20 958	15 819

The Group's interests in its other joint ventures, which are unlisted, are as follows:

	Country of incorporation	Non-current assets R'000	Current assets R'000
2017			
Supa Pesa South Africa Proprietary Limited	South Africa	**659**	**4 101**
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)	South Africa	**270**	**4 320**
United Call Centre Solutions Proprietary Limited	South Africa	**1 110**	**1 114**
Datacision Proprietary Limited	South Africa	**—**	**13 493**
2016			
Supa Pesa South Africa Proprietary Limited	South Africa	148	4 618
Banosign Proprietary Limited	South Africa	118	5 356
Datacision Proprietary Limited	South Africa	—	15 654

** Less than R1 000.*

Loans to associates and joint ventures

	Interest rate	2017 R'000	2016 R'000
Oxigen Services India Private Limited	LIBOR + 1.50%	**—**	38 359
2DFine Holdings Mauritius*	10%	**—**	234 892
Supa Pesa South Africa Proprietary Limited	11%	**6 714**	7 307
United Call Centre Solutions Proprietary Limited	0%	**1 591**	—
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)	Prime	**5 033**	—
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)	0%	**6 000**	1 638
		19 338	282 196

** Refer to note 8 for details on the surety relating to this loan.*

The loans are neither past due nor impaired with a low risk of default.

The loans to associates and joint ventures are repayable on demand.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total compre-hensive profit/ (loss) R'000	Effective percentage interest held %	Carrying value of investment R'000
—	**189 870**	**248 105**	**(11 451)**	**(11 451)**	**40**	**66 073**
—	**549**	**45 819**	**6 752**	**6 752**	**25.1**	**13 741**
2 348	**8 746**	**50 448**	*****	*****	**21.6**	**2 737**
—	97 626	149 044	(11 389)	(11 389)	40	61 394
3 170	11 632	49 160	6 711	6 711	21.6	3 153

Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total compre-hensive profit/ (loss) R'000	Effective percentage interest held %	Carrying value of investment R'000
6 715	**410**	**3 738**	**427**	**427**	**37.5**	**9 370**
—	**10 380**	**13 974**	**(5 027)**	**(5 027)**	**50.1**	**8 132**
—	**3 693**	**4 040**	**(1 469)**	**(1 469)**	**50**	**1 591**
26	**724**	**8 823**	**910**	**910**	**40.5**	**1 674**
7 308	404	973	4 530	4 530	37.5	9 750
1 638	4 600	2 414	(764)	(764)	50.1	1 254
37	3 784	10 858	1 520	1 520	40.5	1 220

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Loans to associates and joint ventures continued

The Group considers its maximum exposure in respect of these loans, without taking into account any collateral and financial guarantees, to be as follows:

	2017 R'000	2016 R'000
Group 1	1 591	—
Group 2	11 032	282 196
Group 3	6 715	—
	19 338	282 196

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

Impairment of associates and joint ventures

There was no impairment of investment in associates and joint ventures. This was tested by comparing the recoverable amount against the carrying value of the investment in associates and joint ventures.

The recoverable amount is the higher of fair value less cost of disposal and the value-in-use. These value-in-use calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2017		2016	
	Growth rate %	Discount rate %	Growth rate %	Discount rate %
Oxigen Services India Private Limited	*	*	5	35.00
SupaPesa Africa Limited	4	14.97	4	17.74
Blue Label Mexico S.A. de C.V.	3.5	15.52	3.5	16.44

** Refer to note 2.2.*

The discount rates used are post-tax and reflect specific risks relating to the relevant associates and joint ventures. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the companies operate.

The inputs used when calculating the value-in-use would need to be increased/(decreased) by the following amounts before any impairment would need to be recognised:

	2017		2016	
	Growth rate %	Discount rate %	Growth rate %	Discount rate %
SupaPesa Africa Limited	(2.5)	1.7	(3)	2

For Blue Label Mexico S.A. de C.V., if one or more of the inputs were changed to a reasonable possible alternative, there would be no impairments that would have to be recognised.

Based on these factors, as well as the impairment testing performed the Group has concluded that no impairment is indicated.

The Group has concluded that no impairment of its investment in Blue Label Mexico S.A. de C.V. (BLM) is required. The decline in losses in BLM is primarily due to BLM becoming a multi-carrier distributor as opposed to historically being confined to one network. This has created a more competitive environment amongst the networks to the benefit of BLM. The introduction of the distribution of starter packs that generate monthly compounded annuity income is expected to gain momentum which will result in further declines in losses going forward.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Shares in associates and joint ventures acquired during the current year

		Date acquired	Effective percentage
United Call Centre Solutions Proprietary Limited	Joint venture	19-Dec-16	50
Oxigen Online Services India Private Limited	Associate	01-Jun-16	58.18
Utilities World Proprietary Limited	Associate	01-Jun-16	25.1

On 1 June 2016 Oxigen Services India was demerged into two entities. The second entity, Oxigen Online, mirrored the shareholding of Oxigen Services India. Refer to note 2.2.

Utilities World was acquired on 1 June 2016 for a payment of R7.5 million and a further contingent payment of R5 million. The potential undiscounted amount of this contingent payment that the Group could be required to make under this arrangement is between Rnil and R4.97 million.

The fair value of the contingent consideration arrangement of R4.5 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 10.5%. Management has assumed a probability of 100%. In determining these probabilities management has assessed the cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year which are based on assumptions of the business, industry and economic growth.

Shares in associates and joint ventures acquired during the prior year

		Date acquired	Effective percentage
Banosign Proprietary Limited	Joint venture	01-Apr-16	50.1
Oxigen Services India Private Limited	Associate	01-Mar-16	2.35
Blue Label Mexico S.A. de C.V.	Joint venture	01-Sep-15	0.92

The Group's effective shareholding in OSI prior to March 2016 was 55.83%. Of this shareholding, 37.22% was held by Gold Label Investments (GLI), a wholly owned subsidiary of the Group and 18.61% indirectly through the Group's 50% shareholding in 2DFine Holdings Mauritius. In March 2016, a rights issue was offered by OSI for USD10.5 million. The Group exercised its rights for the entire amount through GLI congruent with 2DFine Holdings Mauritius waiving its rights. The effect of this is that GLI's shareholding has increased from 37.22% to 40.97% and its indirect shareholding of 18.61% has been diluted to 17.21%. The latter has in turn resulted in a gain of R30 million on dilution, being the Group's share of the increased net asset value emanating from the rights issue. The Group's effective shareholding in OSI therefore increased by 2.35% to 58.18%. The amount paid for this was R159.4 million, the difference of R8.3 million relates to foreign exchange differences.

In September 2015 BLT increased its holding by 0.92% to 47.56% in BLM for an amount of R42.5 million.

Shares in associates disposed of during the prior year

		Date disposed	Effective percentage
Forensic Intelligence Data Solutions Proprietary Limited	Associate	01-Dec-15	20.25

The Group disposed of Forensic Intelligence Data Solutions Proprietary Limited for a nominal value.

BLT's co-shareholder in BLM, Grupo Bimbo S.A.B DE C.V ("Bimbo") has guaranteed the performance of BLM's obligation to Radiomovil Dipsa S.A. de C.V (trading as Telcel) ("Telcel"). BLT has in turn provided Bimbo with a back to back guarantee in terms of which BLT shall reimburse Bimbo a percentage of any loss it incurs as a result of Telcel calling on the aforesaid guarantee, which percentage it shall pro-rata to BLT's shareholding in BLM (currently 47.56%). At year-end there is no amount due to Telcel by BLM.

There are no other contingent liabilities relating to the Group's interest in joint ventures.

For details on related-party transactions, refer to note 8.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.2 Investments in and loans to venture capital associates and joint venture

An associate and joint venture is accounted for as a venture capital investment where the Group has significant influence in an associate or joint venture but the Group considers the investment to be a venture capital investment. This is the case when the Group manages the investment on a fair value basis and has an exit strategy related to the investment whereby the Group intends to recover the value of its investment through sale.

Critical accounting estimates and assumptions

IAS 28 exemption with respect to Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius.

The exemption available in IAS 28 – *Investments in Associates and Joint Ventures* has been applied to the investment in Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius from 30 November 2016 and the investment is accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* at fair value with changes in fair value recognised in profit or loss. The differential between the carrying amount of the investment (previously equity accounted for) and the fair value at this date is reflected as a gain on associate measured at fair value in the Group income statement. Any additional changes in the fair value between 30 November 2016 and year-end have also been recognised in the Group income statement.

Oxigen Services India was demerged into two separate entities with effect from 1 June 2016. This was done in line with the Group's exit strategy to improve the marketability of these entities to potential investors.

Prior to 30 November 2016, the investment in Oxigen Services India was of a strategic nature as it was expected to emulate the business model of the South African Distribution operations. The original decision to invest in this business was because it was strategically aligned with other Blue Label distribution businesses in South Africa. However, its profile has changed from that of the traditional Group business to one of generating growth in the market value of the investment with a view to unlocking the Group's share thereof. With the advent of its change in focus to financial services through wallet subscription, it is no longer strategically aligned with the other business units of the Group and is unlikely to generate profitability in the short to medium term. However, the market value of the company is expected to increase exponentially in conjunction with its growth in wallet subscribers. This in turn creates the potential to unlock the investment in value in the future and the Group is pursuing this new strategy with respect to its investment in Oxigen Services India. In line with the Group's exit strategy Oxigen Services India was demerged into two separate entities with effect from 1 June 2016. This was done to improve the marketability of these entities to potential investors.

2DFine Holdings Mauritius is an investment holding company that holds an effective interest in Oxigen Services India and Oxigen Online.

Consequently, management reviews the results and operations of Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius on a fair value basis as opposed to the profits/losses that it generates. In addition, management has established an exit strategy that looks to realise this fair value in the foreseeable future.

Accordingly, in accordance with IAS 28 – *Investments in Associates and Joint Ventures* Oxigen Services, India, Oxigen Online and 2DFine Holdings Mauritius are viewed as venture capital investments which have been accounted for at fair value through profit and loss from 30 November 2016 at which date equity accounting ceased, in line with IFRS 13 *Fair Value Measurement*.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.2 Investments in and loans to venture capital associates and joint venture continued

Company	Associate Oxigen Services India Private Limited	Associate Oxigen Online Services Private Limited	Joint venture 2DFine Group[1]	
Principal activity	Airtime and payment solution provider	Online payment solution provider	Investment holding company	
Country of incorporation	India	India	Mauritius	Total
	2017 R'000	2017 R'000	2017 R'000	2017 R'000
Fair value at the beginning of the year	—	—	—	—
Reclassification	230 103	(81 507)	(42 780)	105 816
Fair value adjustment	11 388	101 831	46 981	160 200
Capital contribution	21 166[2]	4 368	—	25 534
Fair value at the end of the year	262 657	24 692	4 201	291 550
Loans to venture capital associates and joint venture				
Loans at the beginning of the year	—	—	—	—
Reclassification	36 025		218 889	254 914
Loans granted	429	—	12 974	13 403
Unrealised foreign exchange profit	(2 144)	—	(13 558)	(15 702)
Loans at the end of the year	34 310	—	218 305	252 615
Closing fair value	296 967	24 692	222 506	544 165

[1] *2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.*

[2] *The Group's effective shareholding in OSI prior to April 2017 was 58.18%. Of this shareholding, 40.96% was held by Gold Label Investments (GLI), a wholly owned subsidiary of the Group and 17.21% indirectly through the Group's 50% shareholding in 2DFine Holdings Mauritius. In April 2017, a rights issue was offered by OSI for USD1.5 million. The Group exercised its rights for the entire amount through GLI congruent with 2DFine Holdings Mauritius waiving its rights. The effect of this is that GLI's shareholding has increased from 40.96% to 41.96% and its indirect shareholding of 17.21% has been diluted to 16.92%. The Group's effective shareholding in OSI therefore increased by 0.7% to 58.88%. The amount paid for this was R21.2 million.*

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.2 Investment and loans to venture capital associates and joint venture continued

	Associate Oxigen Services India Private Limited	Associate Oxigen Online Services Private Limited	Joint venture 2DFine Group[1]
	31 May 2017 R'000*	31 May 2017 R'000*	31 May 2017 R'000
Statement of financial position			
Non-current assets	300 229	123 757	132 299
Current assets	497 252	28 854	49
Cash and cash equivalents	123 752	624	2
Other current assets	373 500	28 230	47
	797 481	152 611	132 348
Total equity	176 260	(116 800)	(91 938)
Non-current liabilities	57 598	900	—
Current liabilities	563 623	268 511	224 286
Trade and other payables	26 507	4 784	275
Other current liabilities	537 116	263 727	224 011
	797 481	152 611	132 348

	6 months ended 31 May 2017 R'000*	6 months ended 31 May 2017 R'000*	6 months ended 31 May 2017 R'000
Statement of comprehensive income			
Revenue	2 150 281	1 673 991	—
Operating profit before depreciation, amortisation and impairment charges	42 585	(63 921)	(1 371)
Depreciation and amortisation	(7 457)	(17 261)	—
Finance costs	(5 818)	(9 284)	(10 625)
Finance income	—	—	—
Net profit/(loss) before taxation	29 310	(90 466)	(11 996)
Taxation	(5 540)	—	—
Net profit/(loss) after taxation	23 770	(90 466)	(11 996)
Other comprehensive income/(loss)	—	—	(5 691)
Total comprehensive income/(loss)	23 770	(90 466)	(17 687)

[1] *2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.*

** The financial statements have been prepared in terms of Indian Generally Accepted Accounting Principles ("IGAAP").*

Fair value estimate

The fair value of the investment in our venture capital associate Oxigen Services India and Oxigen Online are not traded in an active market and is therefore determined by the use of a valuation technique. An independent third party has performed a valuation using the discounted cash flow model taking into account the current and projected performance of Oxigen Services India and Oxigen Online. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for ten years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.2 Investment and loans to venture capital associates and joint venture continued

Fair value estimate continued

The discount rate and terminal growth rate used in calculating the fair values are 27% and 5% respectively.

Capital expenditure in Oxigen Services India and Oxigen Online is expected to range between R166 million and R311 million on an annual basis.

Customer acquisition and engagement spend for Oxigen Services India and Oxigen Online increases aggressively from R103 million to R2 575 million.

The fair value of the 2DFine Group is based on its share of the fair value of Oxigen Services India and Oxigen Online less the liabilities of the 2DFine Group.

The finance department of the Group includes a team that outsources the valuations to qualified independent third party valuation specialists required for financial reporting purposes, including level 3 fair values. This team reports directly to the Financial Director (FD) and the Audit, Risk and Compliance Committee (ARCC). Discussions of valuation processes and results are held between the FD, ARCC and the valuation team at least once every six months, in line with the Group's reporting periods.

The investments in our venture capital associates and joint venture are level 3 valuations in the fair value hierarchy.

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurement for this investment.

	Change to inputs	Movement in fair value		
		Oxigen Services India Private Limited	Oxigen Online Services Private Limited	2DFine Group[1]
Unobservable inputs	%	R'000	R'000	R'000
Discount rate	+0.5%	(16 489)	(9 938)	(10 831)
	-0.5%	17 575	10 573	11 531
Terminal growth rate	+1%	5 172	2 478	3 127
	-1%	(4 625)	(2 203)	(2 791)
Customer acquisition and engagement spend	+1%	(5 257)	(4 348)	(3 947)
	-1%	5 257	4 348	3 947
Capital expenditure	+1%	(3 000)	(292)	(1 333)
	-1%	3 000	292	1 333

[1] *2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.*

Loans to venture capital associate and joint venture	Interest rate	2017 R'000
Oxigen Services India Private Limited	LIBOR + 1.50%	34 310
2DFine Holdings Mauritius*	10%	218 305
		252 615

** Refer to note 8 for details on the surety relating to this loan.*

The loans are neither past due nor impaired with a low risk of default.

The Group considers its maximum exposure in respect of these loans, without taking into account any collateral and financial guarantees, to be as follows:

	2017 R'000
Group 1	—
Group 2	252 615
Group 3	—
	252 615

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.2 Investment and loans to venture capital associates and joint venture continued

Fair value estimate continued

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

The Group has subordinated a portion of its loan to 2DFine Holdings Mauritius Limited in favour of other creditors, to the value of R41 million.

R218.3 million of the Group 2 loans (2016: R234.9 million) relates to the 2Dfine Holdings loan. The recoverability of this loan is dependant on the realisation of the investment in Oxigen Services India and Oxigen Online.

2.3 Non-controlling interests

Set out below is the summarised financial information relating to each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations with other companies in the Group.

Subsidiary	TJ Group[1]		Cigicell Proprietary Limited	
Principal place of business	RSA		RSA	
Segment	SA Distribution		SA Distribution	
	2017	2016	**2017**	2016
NCI %	**40**	40	**26**	26
	R'000	R'000	**R'000**	R'000
Non-current assets	**24 986**	20 903	**1 330**	1 721
Current assets	**49 850**	33 008	**544 698**	644 525
Total assets	**74 836**	53 911	**546 028**	646 246
Capital and reserves	**62 301**	46 980	**61 640**	44 979
Non-current liabilities	**186**	964	**2 927**	3 366
Current liabilities	**12 349**	5 967	**481 461**	597 901
Total equity and liabilities	**74 836**	53 911	**546 028**	646 246
Accumulated NCI[2]	**24 921**	18 792	**16 026**	11 695
Summarised statement of comprehensive income for the year ended 31 May				
Revenue	**82 257**	68 856	**167 726**	207 924
Total comprehensive income/(loss) for the year	**25 321**	24 327	**26 661**	41 330
Comprehensive income/(loss) allocated to NCI	**10 129**	9 731	**6 931**	10 746
Summarised cash flows for the year ended 31 May				
Cash flows from operating activities	**40 933**	27 737	**25 936**	(15 097)
Cash flows from investing activities	**(28 662)**	(11 278)	**(1 044)**	(410)
Cash flows from financing activities	**(9 884)**	(9 268)	**(8 240)**	3 506
Net increase/(decrease) in cash and cash equivalents	**2 387**	7 191	**16 652**	(12 001)
Dividends paid to NCI	**4 000**	4 000	**2 600**	—

[1] *The TJ Group consists of Transaction Junction Proprietary Limited and Transaction Junction (Namibia) Proprietary Limited.*
[2] *Accumulated NCI excludes the share-based payment reserve adjustments because the awards are treated as cash-settled in the separate entities' financial statements.*
* *The APS Group consists of African Prepaid Services Proprietary Limited and African Prepaid Services Nigeria Limited. The NCI percentage is 10% and 30.09% respectively.*

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

	APS Group* RSA and Nigeria International		Viamedia Proprietary Limited RSA Mobile		Blue Label Data Solutions Proprietary Limited RSA Solutions	
	2017 * R'000	2016 * R'000	2017 25 R'000	2016 25 R'000	2017 19 R'000	2016 19 R'000
	—	—	112 630	115 492	7 299	7 692
	59	61	111 395	92 447	55 690	72 942
	59	61	224 025	207 939	62 989	80 634
	(130 528)	(130 471)	187 605	159 288	39 007	55 226
	60 245	60 245	16 244	16 222	873	1 471
	70 342	70 287	20 176	32 429	23 109	23 937
	59	61	224 025	207 939	62 989	80 634
	(29 256)	(29 250)	46 901	39 822	7 411	10 493
	—	—	224 883	186 575	172 814	155 881
	(57)	(1 383)	40 905	67 238	23 781	27 708
	(6)	(63)	10 226	16 810	4 518	5 265
	(105)	(2 417)	45 006	35 667	(15 578)	24 628
	—	—	(17 520)	(2 242)	(38)	(194)
	103	2 440	206	(2 725)	22 062	(24 848)
	(2)	23	27 692	30 700	6 446	(414)
	—	—	12 588	—	7 600	—

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures

	Country	Number of issued ordinary shares	Percentage held
2017			
Subsidiaries			
Directly held:			
Subsidiaries of Blue Label Telecoms Limited			
Activi Deployment Services Proprietary Limited	RSA	100	100
Africa Prepaid Services Proprietary Limited	RSA	420	90
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	24.01
Blue Label Ventures Proprietary Limited trading as Blue Label Accelerator	RSA	100	100
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label One Proprietary Limited	RSA	300	100
BLT USA Inc.	USA	100	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Datacel Direct Proprietary Limited	RSA	100	100
Gold Label Investments Proprietary Limited	RSA	1 000	100
Panacea Mobile Proprietary Limited	RSA	100	100
Reware Proprietary Limited	RSA	121	50.41
Simigenix Proprietary Limited	RSA	120	100
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	100
TicketPros Proprietary Limited	RSA	250	100
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Viamedia Proprietary Limited	RSA	3 230 000	75
Virtual Voucher Proprietary Limited	RSA	200	100
Indirectly held:			
Subsidiaries of The Prepaid Company Proprietary Limited			
Blue Label Connect Proprietary Limited	RSA	42 431	100
Robtronics Proprietary Limited	RSA	100	51
Subsidiary of Ventury Group Proprietary Limited			
Cigicell Proprietary Limited	RSA	100	74
Subsidiary of Africa Prepaid Services Proprietary Limited			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
Subsidiaries of Datacel Direct Proprietary Limited			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81
Subsidiary of Transaction Junction Proprietary Limited			
Transaction Junction (Namibia) Proprietary Limited	Namibia	100	100
Subsidiary of 2DFine Holdings Mauritius			
2DFine Investments Mauritius	Mauritius	1	100
Subsidiaries of Blue Label Mexico S.A. de C.V.			
SGC Servicios Y Gestion Corporation S.A. de C.V.	Mexico	500	99.8
Connecta Systems LLC	USA	1 000	100
Pagacel S.A. de C.V.	Mexico	500	99.8
Transipago S.A. de C.V.	Mexico	500	99.8
Subsidiary of Viamedia Proprietary Limited			
Viadigital Proprietary Limited	RSA	120	100
Associates			
Directly held:			
Associates of Blue Label Telecoms Limited			
Lornanox Proprietary Limited	RSA	120	40
Utilities World Proprietary Limited	RSA	1 000	25.1
Indirectly held:			
Associates of Gold Label Investments Proprietary Limited			
Oxigen Services India Private Limited	India	15 664 785	41.96
Oxigen Online Services India Private Limited	India	77 010	40.96
Mpower Softcomm Private Limited	India	16 286	14.4*
Associate of 2DFine Investments Mauritius			
Mpower Softcomm Private Limited	India	16 286	14.4*
Joint ventures			
Directly held:			
Joint ventures of Blue Label Telecoms Limited			
Blue Label Mexico S.A. de C.V.	Mexico	9 200	47.56**
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)	RSA	501	50.1**
Indirectly held:			
Joint ventures of Blue Label Data Solutions Proprietary Limited			
Datacision Proprietary Limited	RSA	100	50
United Call Centre Solutions Proprietary Limited	RSA	100	50
Joint venture of Gold Label Investments Proprietary Limited			
2DFine Holdings Mauritius	Mauritius	2	50
Joint ventures of 2DFine Investments Mauritius			
Oxigen Services India Private Limited	India	15 664 785	33.85**
Oxigen Online Services India Private Limited	India	77 010	34.42**
Joint ventures of Viamedia Proprietary Limited			
SupaPesa Africa Limited	Mauritius	100	50
Supa Pesa South Africa Proprietary Limited	RSA	200	50

* *Significant influence is demonstrated by the Company as a result of representation on the Board of Directors.*

** *Joint control is demonstrated by the composition of and decision-making powers afforded to the Board of Directors.*

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures

	Country	Number of issued ordinary shares	Percentage held
2016			
Subsidiaries			
Directly held:			
Subsidiaries of Blue Label Telecoms Limited			
Activi Deployment Services Proprietary Limited	RSA	100	100
Africa Prepaid Services Proprietary Limited	RSA	420	90
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	24.01
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label One Proprietary Limited	RSA	300	100
Blu Money Proprietary Limited	RSA	100	100
BLT USA Inc.	USA	100	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Datacel Direct Proprietary Limited	RSA	100	100
Gold Label Investments Proprietary Limited	RSA	1 000	100
Kwikpay SA Proprietary Limited	RSA	100	100
Panacea Mobile Proprietary Limited	RSA	100	100
Simigenix Proprietary Limited	RSA	120	100
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	100
TicketPros Proprietary Limited	RSA	250	100
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Viamedia Proprietary Limited	RSA	3 230 000	75
Virtual Voucher Proprietary Limited	RSA	200	100
Indirectly held:			
Subsidiary of The Prepaid Company Proprietary Limited			
Blue Label Connect Proprietary Limited	RSA	42 431	100
Subsidiary of Ventury Group Proprietary Limited			
Cigicell Proprietary Limited	RSA	100	74
Subsidiary of Africa Prepaid Services Proprietary Limited			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
Subsidiaries of Datacel Direct Proprietary Limited			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81
Subsidiary of Transaction Junction Proprietary Limited			
Transaction Junction (Namibia) Proprietary Limited	Namibia	100	100
Subsidiary of 2DFine Holdings Mauritius			
2DFine Investments Mauritius	Mauritius	1	100
Subsidiaries of Blue Label Mexico S.A. de C.V.			
SGC Servicios Y Gestion Corporation S.A. de C.V.	Mexico	500	99.8
Connecta Systems LLC	USA	1 000	100
Pagacel S.A. de C.V.	Mexico	500	99.8
Transipago S.A. de C.V.	Mexico	500	99.8
Associates			
Directly held:			
Associate of Blue Label Telecoms Limited			
Lornanox Proprietary Limited	RSA	120	40
Indirectly held:			
Associates of Gold Label Investments Proprietary Limited			
Oxigen Services India Private Limited	India	14 244 294	40.96
Mpower Softcomm Private Limited	India	16 286	14.4*
Associate of 2DFine Investments Mauritius			
Mpower Softcomm Private Limited	India	16 286	14.4*
Joint ventures			
Directly held:			
Joint ventures of Blue Label Telecoms Limited			
Blue Label Mexico S.A. de C.V.	Mexico	9 200	47.56**
Banosign Proprietary Limited	RSA	501	50.1**
Indirectly held:			
Joint venture of Blue Label Data Solutions Proprietary Limited			
Datacision Proprietary Limited	RSA	100	50
Joint venture of Gold Label Investments Proprietary Limited			
2DFine Holdings Mauritius	Mauritius	2	50
Joint venture of 2DFine Investments Mauritius			
Oxigen Services India Private Limited	India	14 244 294	34.42**
Joint ventures of Viamedia Proprietary Limited			
SupaPesa Africa Limited	Mauritius	100	50
Supa Pesa South Africa Proprietary Limited	RSA	200	50

* *Significant influence is demonstrated by the Company as a result of representation on the Board of Directors.*

** *Joint control is demonstrated by the composition of and decision-making powers afforded to the Board of Directors.*

Notes to the Group annual financial statements

For the year ended 31 May 2017

3. Financial instruments and financial risks

Financial instruments carried on the statement of financial position include:

Loans and receivables

- Loans receivable
- Trade and other receivables
- Cash and cash equivalents

Financial liabilities

- Borrowings
- Trade and other payables

The Group recognises a financial asset or a financial liability on its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent recognition is dependent on how financial instruments are classified on initial recognition. IAS 39 has several categories but the Group only has financial instruments classified as loans and receivables, fair value through profit and loss and financial liabilities at amortised cost. Financial assets are only derecognised when the criteria for derecognition in IAS 39 are achieved.

Category	Measurement
Loans and receivables • Loans receivable • Trade and other receivables • Starter pack assets • Cash and cash equivalents	Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through profit and loss • Contingent purchase consideration • Contingent consideration receivable	Fair value, with gains and losses recognised in profit and loss.
Financial liabilities • Borrowings • Trade and other payables	Amortised cost using the effective interest method with interest recognised in interest expense. Directly attributable transaction costs and fees received are capitalised and amortised through interest expense as part of the effective interest rate.

Impairment of financial assets

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The Group assesses at each reporting date whether there is objective evidence that a financial asset which is carried at amortised cost is impaired.

When a receivable is not recoverable, it is written off against the provision. Subsequent recoveries of amounts are credited to the income statement.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

Financial risks

In the course of its business, the Group is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency, interest rate and other price risks). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Risk management is monitored and managed by key personnel of each entity in the Group on a daily basis based on their specific operational requirements.

Classes of financial instruments

	2017 R'000	2016 R'000
Financial assets		
Cash and cash equivalents	1 350 666	589 027
Trade and other receivables*	2 577 605	2 520 624
Contingent consideration receivable	—	15 860
Loans receivable	225 080	104 127
Loans to associates and joint ventures	19 338	282 196
Loans to venture capital associates and joint venture	252 615	—
	4 425 304	3 511 834
Financial liabilities		
Non-interest-bearing borrowings	18 026	16 087
Trade and other payables*	3 487 183	2 547 378
Contingent consideration	32 974	83 563
	3 538 183	2 647 028
Net financial position	887 121	864 806

** Trade and other receivables and trade and other payables exclude non-financial instruments.*

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the Group.

The Group is exposed to credit risk on financial assets mainly in respect of trade receivables, loan receivables and cash and cash equivalents. Refer to note 2.1 for credit risk on associates and joint ventures.

Trade receivables

Trade receivables consist primarily of invoiced amounts from normal trading activities. The Group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit, without specific Senior Management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the debtors age analysis and follows up on long-outstanding debtors. Where necessary, a provision for impairment is made. A portion of the Group's customer base is made up of major retailers and wholesalers with the balance of the customer base being widely dispersed.

During the period, the Group identified a significant increase in the credit risk of one of its major wholesale customers. This was not as a result of the customer failing to pay amounts as they became due and payable, but rather as a result of other external factors that have affected them. As a result of this, the Group performed a detailed impairment calculation to determine if an impairment of the trade and other receivables balance from this customer was required. This included an analysis of the root cause of the increase in credit risk of the customer. Through discussions with the customer, management have prepared detailed budgets and projections of the likely scenarios that the customer will embark upon to mitigate the root cause of the increase in their credit risk. Management have considered the customer's business plan and the likelihood of the various scenarios and determined that, at the reporting period, there is no impairment required to this balance. The Group's maximum gross exposure to credit risk of this counterparty amounted to R562 million at 31 May 2017. However, the Group has collateral in place that would mitigate this risk, with a result that the net maximum exposure, albeit highly unlikely, to this customer is R287 million at 31 May 2017.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

Starter packs

The risk of starter pack receivables is assessed as low due to the fact that annuity income through activation and ongoing revenue is utilised in the settlement of the receivable balances. These receivables are recoverable within a period which may exceed 12 months.

Loans receivable

Loans are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

Cash and cash equivalents

The Group places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings.

The Group has significant concentrations of credit risk with Investec Bank Limited in line with its treasury function. Investec Bank Limited has a credit rating of BB+ based on the latest S&P Global Ratings local currency long-term issuer default ratings.

The Group's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the Group could have to pay if the sureties are called on, amounting to R85.5 million (2016: R98.8 million). The Group holds collateral in the form of sureties in respect of 50% of the loan receivable from 2DFine Holdings Mauritius (refer to note 8).

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. The Group's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is performed in the operating entities of the Group to ensure sufficient cash to meet operational needs while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the Group treasury. Group treasury invests surplus cash in interest-bearing accounts, identifying instruments with sufficient liquidity to provide adequate headroom as determined by the above mentioned forecasts.

The Group has a short-term loan facility with Investec Bank Limited of R1.5 billion (2016: R1.5 billion). The facility was unutilised at year-end. Drawdowns were made and fully repaid during the year.

The facility bears certain debt covenants. The Group has not been in breach in respect of these covenants. The Group has pledged certain securities in respect of this facility. Refer to notes 3.1.2, 3.1.3 and 4.4.

The Company and a subsidiary company issued a cross surety in respect of an overdraft facility in the amount of R19.85 million (2016: R19.85 million) in favour of FNB, a division of First National Bank Limited (FNB). This facility was unutilised as at 31 May 2017. In addition, the Company and four of its subsidiaries issued a cross surety in the amount of R1.3 million in respect of credit card facilities granted by FNB.

Guarantees to the value of R319.4 million (2016: R116 million) are issued by the Group's bankers in favour of suppliers on behalf of the Group. The Group does not have access to this cash while amounts owing to suppliers are outstanding.

A guarantee to the value of R19.7 million has been issued by the Group's bankers in favour of RBL Bank on behalf of the Group. The Group does not have access to this cash while the guarantee is in place.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

Maturity of financial liabilities

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	Payable in: More than one year but not exceeding two years R'000	More than two years but not exceeding five years R'000	More than five years R'000
2017					
Interest-bearing borrowings	—	—	—	—	—
Non-interest-bearing borrowings	**6 676**	**11 350**	—	—	—
Trade and other payables*	**2 280 680**	**1 223 630**	**3 911**	—	—
Contingent consideration	**2 588**	**26 303**	**4 900**	—	—
Total	**2 289 944**	**1 261 283**	**8 811**	—	—
2016					
Non-interest-bearing borrowings	16 087	—	—	—	—
Trade and other payables*	1 801 482	729 843	28 327	—	—
Contingent consideration	—	56 033	33 895	—	—
Total	1 817 569	785 876	62 222	—	—

** Trade and other payables exclude non-financial instruments, being VAT and certain amounts included within accruals and sundry creditors.*

3.1 Financial assets

3.1.1 Loans receivable

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets.

	2017 R'000	2016 R'000
Interest-free loans	**121 609**	53 189
Interest-bearing loans receivable	**103 471**	50 938
	225 080	104 127
Less: Amounts included in current portion of loans receivable	**(188 229)**	(98 217)
	36 851	5 910

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between 7.5% and prime plus 2%.

The loans receivable are neither past due nor impaired with a low risk of default. Of this amount, R26 million (2016: R47 million) relates to loans receivable from related parties, of which R26 million (2016: R21 million) is interest free (refer to note 8).

Notes to the group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.1 Loans receivable continued

The Group considers its maximum exposure in respect of loans receivable, without taking into account any collateral and financial guarantees, to be as follows:

	2017 R'000	2016 R'000
Group 1	—	5 427
Group 2	224 861	98 340
Group 3	219	360
	225 080	104 127

The rating groups for counterparties are categorised as follows:

Group 1 – New customers/related parties (less than six months).

Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.

Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

All defaults were fully recovered or are in the process of being recovered.

3.1.2 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in the normal operating cycle of the business, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

	2017 R'000	2016 R'000
Trade receivables	2 470 705	2 440 111
Less: Provision for impairment	(19 020)	(13 850)
	2 451 685	2 426 261
Sundry debtors	98 521	75 244
Contingent consideration receivable[1]	—	15 860
Prepayments[2]	175 955	72 272
VAT	52 646	92 833
Receivables from related parties (refer to note 8)	22 702	25 719
	2 801 509	2 708 189
Less: Amounts included in current portion of trade and other receivables[3]	(2 758 997)	(2 679 023)
	42 512	29 166

[1] *Ukash was disposed of in April 2015. The proceeds included a contingent receivable of R17.5 million. The contingent consideration arrangement required the acquirer to pay in cash to the Group an additional amount of R18.1 million if certain warranties were achieved. The amounts were receivable in four six-month intervals commencing 30 September 2015. In the current year, the Group received R12.8 million (2016: R5.8 million) relating to this.*

[2] *Included in the amount above are prepayments to customers of R89 million (2016: R23 million).*

[3] *Included in the amount above are starter pack debtors that have a normal operating cycle period which may be in excess of 12 months.*

Fair value estimation

Fair value measurement hierarchy:

- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.2 Trade and other receivables continued

Contingent consideration receivable

Changes in level 3 instruments are as follows:

	2017 R'000	2016 R'000
Opening balance	15 860	17 757
Receipts	(12 839)	(5 813)
Gains or losses recognised in profit or loss	(3 021)	3 916
Closing balance	—	15 860
Total gains or losses for the period included in profit or loss for receivables held at the end of the reporting period, under:		
(Other expenses)/other income	(3 104)	3 650
Interest received	83	266
Unrealised gains or losses for the period included in profit or loss for receivables held at the end of the reporting period	—	3 919

The Group's exposure to credit and currency risk relating to trade and other receivables is disclosed in this note and note 3.

Performance of trade debtors and receivables from related parties is assessed to be as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2017			
Fully performing	2 459 389	—	2 459 389
Past due by one to 30 days	20 341	(4 681)	15 660
Past due by 31 to 60 days	7 408	(32)	7 376
Past due by 61 to 90 days	2 938	(190)	2 748
Past due by more than 90 days	32 443	(14 117)	18 326
	2 522 519	(19 020)	2 503 499
31 May 2016			
Fully performing	2 313 935	—	2 313 935
Past due by one to 30 days	100 853	(342)	100 511
Past due by 31 to 60 days	32 298	(118)	32 180
Past due by 61 to 90 days	16 346	(150)	16 196
Past due by more than 90 days	46 476	(11 660)	34 816
	2 509 908	(12 270)	2 497 638
Portfolio impairment	—	(1 580)	(1 580)
	2 509 908	(13 850)	2 496 058

Receivables in respect of starter pack debtors are included in fully performing debtors above.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.2 Trade and other receivables continued

Trade receivables are discounted at a discount rate of 10.5% per annum (2016: 10.5% per annum) over average debtors' days outstanding. The effect of discounting of the trade receivables balance which amounts to R8.271 million (2016: R9.514 million) is not taken into account in the previous table.

The Group holds guarantees to the value of R30 million (2016: R50 million) as security over specific customers included in trade receivables. The Group has further insurance cover to the value of R245 million (2016: R375 million) over trade receivable balances with certain material customers. All insured values exclude VAT.

The trade receivables that are neither past due nor impaired relate to independent customers for whom there is no recent history of default.

Sundry debtors are considered to be fully performing.

	2017 R'000	2016 R'000
Provision for impairment of receivables		
Balance at the beginning of the year	**13 850**	10 927
Allowances made during the year	**20 811**	8 891
Disposal of subsidiary	**—**	(5 814)
Amounts utilised and reversal of unutilised amounts	**(15 641)**	(154)
At 31 May	**19 020**	13 850
There is a cession of trade receivables of R2.330 billion (2016: R2.289 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.		
The Group considers its maximum exposure in respect of trade receivables which have not been impaired, without taking into account any collateral and financial guarantees, to be as follows:		
Group 1	**9 232**	30 525
Group 2	**2 479 711**	2 453 930
Group 3	**13 195**	11 603
Total unimpaired trade receivables	**2 502 138**	2 496 058

The effect of discounting of the trade receivables is not taken into account in the table above.

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

All defaults were fully recovered or are in the process of being recovered.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

	2017 R'000	2016 R'000
Cash at bank	1 350 553	588 950
Cash on hand	113	77
	1 350 666	589 027

Included in this balance is restricted cash of R29.1 million (2016: R26.2 million), received on behalf of and immediately due to third parties, that may not be utilised in the Group's ordinary course of business.

Cash at bank and short-term bank deposits

Credit rating based on latest S&P Global Ratings local currency long-term issuer default ratings

AA-	—	207 822
A+	258	—
A-	—	310
BBB-	—	380 806
BB+	1 350 262	—
Other	33	12
	1 350 553	588 950

3.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the Group.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.1 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

	2017 R'000	2016 R'000
Trade payables	**3 167 171**	2 235 245
Accruals	**138 428**	116 240
Employee benefits	**71 458**	70 142
Sundry creditors	**88 189**	103 194
Deferred revenue	**2 786**	2 044
Contingent consideration	**32 974**	83 563
VAT	**19 332**	9 048
Payables to related parties (refer to note 8)	**3 609**	23 144
	3 523 947	2 642 620
Less: Amounts included in current portion of trade and other payables	**(3 517 673)**	(2 601 807)
	6 274	40 813

Trade payables are discounted at a discount rate of 10.5% per annum (2016: 10.5% per annum) based on average creditors' days outstanding. The effect of discounting of the trade payables balance amounts to R21.0 million (2016: R13.6 million).

Fair value estimation

Fair value measurement hierarchy:

- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, observable inputs).

Contingent consideration

Changes in level 3 instruments are as follows:

	2017 R'000	2016 R'000
Opening balance	**83 563**	123 902
Acquisition of Reware Proprietary Limited	**1 150**	—
Acquisition of Utilities World Proprietary Limited	**4 516**	—
Settlements	**(50 666)**	(1 931)
Gains or losses recognised in profit or loss	**(5 589)**	(38 408)
Closing balance	**32 974**	83 563
Total gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period, under:		
Other income	**(10 210)**	(48 120)
Interest paid	**4 621**	9 712
Unrealised gains or losses recognised in profit or loss for liabilities held at the end of the reporting period	**5 304**	9 127

The closing balance includes R5.6 million relating to SupaPesa Africa Limited, R18.3 million relating to Viamedia Proprietary Limited, R4 million to Utilities World Proprietary Limited and R5 million to other contingent considerations.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.1 Trade and other payables continued

Acquisition of SupaPesa Africa Limited

The fair value of the contingent consideration arrangement of R29.9 million was originally estimated by applying the income approach. The fair value estimates are based on a discount rate of 9.25%. For all profit targets management has assumed a probability of 100% initially. In determining these probabilities management has assessed the cash flow projections based on financial budgets for the forthcoming three years which are based on assumptions of the business, industry and economic growth.

In the prior year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecast financial budget. The probabilities have been adjusted downwards from 100% to between 32% and 55%. This resulted in a release of R17.2 million into the income statement, included in other income.

In the current year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecast financial budget. The probabilities have been adjusted downwards from between 32% and 55% to between 13% and 28%. This resulted in a release of R5.5 million into the income statement, included in other income.

Acquisition of Viamedia Proprietary Limited (Viamedia)

The contingent consideration arrangement requires Blue Label Telecoms Limited to pay in cash the former owner of Viamedia, an additional amount of R215.6 million if certain profit warranties are achieved. The first three amounts of R24.1 million are based on the profits of Viamedia for the year ended 31 May 2015 and 31 May 2016, and ending 31 May 2017. The fourth and fifth amounts of R30.9 million and R112.5 million are based on the profits of Viamedia for the three years ending 31 May 2017.

Originally the fair value of the contingent consideration arrangement of R84.8 million was estimated by applying the income approach. The fair value estimates were based on a discount rate of 9%. For the first, second, third and fourth profit targets management had assumed a probability of 100%. For the fifth profit target management had assumed a probability of 0%. In determining these probabilities management had assessed the cash flow projections based on financial budgets for the forthcoming three years which were based on assumptions of the business, industry and economic growth.

In the prior year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecast financial budget. For the first, second and third profit targets, the probabilities were adjusted downwards from 100% to between 84% and 100%. For the fourth profit target management had assumed a probability of 0%. This resulted in a release of R30.8 million into the income statement in the prior year, included in other income.

In the current year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecast financial budget. For the third profit targets the probability has been adjusted downwards from 100% to 77%. This has resulted in a release of R6.8 million into the income statement, included in other income.

Acquisition of Reware Proprietary Limited

The contingent consideration arrangement requires Blue Label Telecoms Limited to pay in cash the former owner of Reware an additional amount, totalling 10% of Reware's net profit for the year ended May 2017 and 5% of Reware's net profit for the year ended May 2018, if certain profit warranties are achieved. The fair value of the contingent consideration arrangement of R1.1 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 10.5%.

Management assessed the cash flows taking into account the forecast financial budget, profit targets and the probability of meeting these. The probability of Reware reaching the May 2017 target and May 2018 target was assessed at 0% and 100% respectively. At year-end management reassessed the probability of Reware reaching the May 2018 target based on new forecast financial budgets and adjusted it downwards from 100% to 0%. This has resulted in a release of R1.3 million into the income statement, included in other income.

Acquisition of Utilities World Proprietary Limited

The contingent consideration arrangement required Blue Label Telecoms Limited to pay in cash the former owner of Utilities World Proprietary Limited (Utilities World) an additional amount of R5 million if certain profit warranties were achieved for the 12 months ended 28 February 2017. The fair value of the contingent consideration arrangement of R4.5 million was estimated by applying the income approach. The fair value estimates were based on a discount rate of 10.5%.

Management assessed the cash flows taking into account the forecast financial budget, profit targets and the probability of meeting these. The probability of Utilities World reaching its target was initially assessed at 100%. While this target was not met, Utilities World did reach a secondary target, requiring management to pay the former owners R4 million post-year end.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year-end.

	2017 R'000	2016 R'000
Non-interest-bearing borrowings	**18 026**	16 087
Less: Amounts included in current portion of borrowings	**(18 026)**	(16 087)
	—	—

The Group did not default on any loans or breach any terms of the underlying agreements during the period. Borrowings are unsecured and are repayable on demand. Included in borrowings is R4.7 million (2016: R4.7 million) owing to related parties, which is interest-free (refer to note 8).

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The Group is not exposed to significant levels of price risk.

Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents, and borrowings carrying interest at variable rates. The Group is not exposed to fair value interest rate risk as the Group does not have any fixed interest-bearing instruments carried at fair value.

As part of the process of managing the Group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translation. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than the rand.

The Group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations.

IFRS 7 – Sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2017, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings continued

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value; and
- Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2017 would increase or decrease profit before tax by R14.8 million (2016: R5.9 million).

Foreign currency sensitivity

Financial instruments by currency

2017 Financial assets	ZAR R'000	USD R'000	GBP R'000	GHS R'000	EUR R'000	LSL R'000	Total R'000
Cash and cash equivalents	1 348 845	290	—	—	1 531	—	1 350 666
Trade and other receivables*	2 577 264	5 245	—	—	3 067	—	2 585 576
Loans receivable	225 080	—	—	—	—	—	225 080
Loans to associates and joint ventures	19 338	—	—	—	—	—	19 338
Loans to venture capital associates and joint venture	—	252 615	—	—	—	—	252 615
	4 170 527	258 150	—	—	4 598	—	4 433 275
Financial liabilities							
Interest-bearing borrowings	—	—	—	—	—	—	—
Non-interest-bearing borrowings	18 026	—	—	—	—	—	18 026
Trade and other payables*	3 538 338	393	—	—	2 464	—	3 541 195
	3 556 364	393	—	—	2 464	—	3 559 221
Net financial position	614 163	257 757	—	—	2 134	—	874 054
2016							
Financial assets							
Cash and cash equivalents	588 717	310	—	—	—	—	589 027
Trade and other receivables*	2 525 960	318	15 959	—	3 223	—	2 545 460
Loans receivable	104 126	—	—	—	—	—	104 126
Loans to associates and joint ventures	8 945	273 251	—	—	—	—	282 196
	3 227 748	273 879	15 959	—	3 223	—	3 520 809
Financial liabilities							
Non-interest-bearing borrowings	16 087	—	—	—	—	—	16 087
Trade and other payables*	2 646 837	214	—	119	2 368	42	2 649 580
	2 662 924	214	—	119	2 368	42	2 665 667
Net financial position	564 824	273 665	15 959	(119)	855	(42)	855 142

**Trade and other receivables and trade and other payables exclude non-financial instruments.*

With a 10% strengthening or weakening in the rand against the US dollar, profit before tax would have decreased or increased by R22.6 million. In the prior year, with a 10% strengthening or weakening in the rand against the US dollar, profit before tax would have decreased or increased by R19.4 million. The effects of movements in other currencies are insignificant.

In the current year the Group incurred a foreign exchange loss of R52.2 million (2016: R73.5 million profit) mainly as a result of the Group's USD exposure.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. The Group defines capital as capital and reserves and non-current borrowings. The Group is not subject to externally imposed capital requirements.

There were no changes to the Group's approach to capital management during the year.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

4. Non-financial instruments

Non-financial instruments comprise:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Inventories
- Provisions

Impairment of non-financial assets

The Group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised in the income statement when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost of disposal (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value-in-use. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the income statement in the same line item as the original impairment charge.

4.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the Group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Goodwill on the acquisition of subsidiaries is included in "goodwill" in the statement of financial position. Goodwill on acquisitions of associates and joint ventures is included in "investments in and loans to associates and joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

4. Non-financial instruments continued

4.1 Goodwill continued

Critical accounting estimates and assumptions

Assessment of goodwill for impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

	2017 R'000	2016 R'000
Year ended 31 May		
Opening carrying amount	**603 440**	606 609
Acquisition of subsidiary	**1 150**	—
Disposal of subsidiary	**—**	(3 169)
Closing carrying amount	**604 590**	603 440
At 31 May		
Cost	**616 718**	615 568
Accumulated impairments	**(12 128)**	(12 128)
Carrying amount	**604 590**	603 440

The carrying amount of goodwill and intangible assets was reduced to their recoverable amounts through recognition of an impairment loss when required 2017: nil (2016: nil).

The cash-generating units to which goodwill is allocated are presented below:

	2017 R'000	2016 R'000
Blue Label Distribution Proprietary Limited	**36 364**	36 364
Cellfind Proprietary Limited	**21 406**	21 406
Viamedia Proprietary Limited	**185 967**	185 967
Blue Label Connect Proprietary Limited	**205 749**	205 749
The Prepaid Company Proprietary Limited	**62 113**	62 113
Panacea Mobile Proprietary Limited	**6 883**	6 883
TicketPros Proprietary Limited	**5 104**	5 104
Reware Proprietary Limited	**1 150**	—
Datacel Group	**79 854**	79 854
	604 590	603 440

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

4. Non-financial instruments continued

4.1 Goodwill continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2017		2016	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
Blue Label Distribution Proprietary Limited	4.2	14.76	4.2	17.54
Cellfind Proprietary Limited	4.0	16.20	4.0	19.24
Viamedia Proprietary Limited	4.0	14.97	4.0	17.74
Blue Label Connect Proprietary Limited	4.2	14.76	4.2	17.54
The Prepaid Company Proprietary Limited	4.5	13.88	4.5	16.54
Panacea Mobile Proprietary Limited	4.0	16.29	4.0	19.24
TicketPros Proprietary Limited	4.2	14.76	4.2	17.54
Reware Proprietary Limited	4.2	15.63	—	—
Datacel Group	2.5	18.91	2.5	22.23

The discount rates used are post-tax and reflect specific risks relating to the relevant companies. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the cash-generating units operate.

For The Prepaid Company Proprietary Limited, Blue Label Distribution Proprietary Limited, Viamedia Proprietary Limited, Reware Proprietary Limited, TicketPros Proprietary Limited and Panacea Mobile Proprietary Limited if one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no impairments that would have to be recognised.

For the remaining balances of goodwill, the discount rate used when calculating the value-in-use calculations would need to be increased by the following amounts before any impairments would need to be recognised:

	Increase in discount rate %
Cellfind Proprietary Limited	1.6
Blue Label Connect Proprietary Limited	1.5
Datacel Group	3.0

The goodwill balances did not result in impairment charges for the year when compared to recoverable amounts (2016: nil).

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

4. Non-financial instruments continued

4.2 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three to 10 years).

Costs associated with the maintenance of existing computer software programmes are expensed as incurred.

(b) Trademarks and franchise fees

Trademarks and franchise fees are shown at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and franchise fees over their estimated useful lives (10 years and 20 years respectively).

Trademarks and franchise fees are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

(c) Databases, customer listings, distribution agreements and customer relationships

Databases, customer listings, distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three to 10 years).

Distribution agreements purchased are initially shown at cost, and are subsequently carried at the initial cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (10 years).

(d) Internally generated software development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset and that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised internally generated software development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five to 10 years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

(e) Purchased starter pack bases and postpaid bases

Purchased starter pack bases represent the right to earn future revenue from starter packs already distributed and are initially recognised at the cost to the Group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (seven years).

Purchased postpaid bases represent the right to earn revenue from the cellular network in respect of contracts forming part of the acquired base. Postpaid bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Critical accounting estimates and assumptions

Purchased starter pack bases and postpaid starter pack bases

The relative size of the Group's purchased starter pack bases and postpaid starter pack bases makes the judgements surrounding the estimated useful lives and residual values critical to the Group's financial position and performance. Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of these assets are assumed to be zero. The current useful life of these bases is estimated to be seven to 10 years, based on management's estimates and taking into account historical experience as well as future events which may impact the useful lives.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

4. Non-financial instruments continued

4.2 Intangible assets continued

	Trademarks R'000	Customer listing R'000
Year ended 31 May 2017		
Opening carrying amount	—	594
Additions	—	—
Acquisition of subsidiary	—	—
Disposals	—	—
Amortisation charge	—	(430)
Impairment charges	—	—
Closing carrying amount	—	164
At 31 May 2017		
Cost	6 835	33 306
Accumulated amortisation	(6 835)	(33 142)
Accumulated impairments	—	—
Carrying amount	—	164
Year ended 31 May 2016		
Opening carrying amount	621	766
Additions	—	2 233
Disposals	—	—
Disposal of subsidiary	—	—
Amortisation charge	(621)	(879)
Impairment charges	—	(1 526)
Closing carrying amount	—	594
At 31 May 2016		
Cost	6 835	35 539
Accumulated amortisation	(6 835)	(33 419)
Accumulated impairments	—	(1 526)
Carrying amount	—	594

** Included in the amortisation charge is an amount of R74.9 million (2016: R77.5 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.*

*** This represents independently distributed starter pack bases and postpaid bases purchased. Amortisation periods of up to 77 months remain.*

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

Distribution agreement R'000	Computer software R'000	Internally generated software development R'000	Franchise fees R'000	Customer relationships R'000	Purchased starter pack bases and postpaid bases** R'000	Total R'000
242 975	**57 212**	**38 040**	**935**	**—**	**258 577**	**598 333**
—	**28 827**	**22 577**	**—**	**—**	**4 583**	**55 987**
—	**—**	**—**	**—**	**—**	**—**	**—**
—	**(47)**	**—**	**—**	**—**	**—**	**(47)**
(28 760)	**(24 487)**	**(14 370)**	**(120)**	**—**	**(74 942)***	**(143 109)**
—	**—**	**—**	**—**	**—**	**—**	**—**
214 215	**61 505**	**46 247**	**815**	**—**	**188 218**	**511 164**
317 451	**148 913**	**103 606**	**3 118**	**131 023**	**579 564**	**1 323 816**
(101 358)	**(87 049)**	**(42 770)**	**(2 303)**	**(130 408)**	**(391 346)**	**(795 211)**
(1 878)	**(359)**	**(14 589)**	**—**	**(615)**	**—**	**(17 441)**
214 215	**61 505**	**46 247**	**815**	**—**	**188 218**	**511 164**
253 508	43 573	19 246	1 090	4 500	324 980	648 284
17 757	30 273	23 839	—	—	11 073	85 175
—	(4)	—	—	—	—	(4)
—	(2 201)	—	—	—	—	(2 201)
(28 290)	(13 409)	(5 023)	(155)	(4 500)	(77 476)*	(130 353)
—	(1 020)	(22)	—	—	—	(2 568)
242 975	57 212	38 040	935	—	258 577	598 333
317 451	123 727	81 776	3 118	131 023	574 981	1 274 450
(72 598)	(65 085)	(29 147)	(2 183)	(130 408)	(316 404)	(656 079)
(1 878)	(1 430)	(14 589)	—	(615)	—	(20 038)
242 975	57 212	38 040	935	—	258 577	598 333

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

4. Non-financial instruments continued

4.3 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year-end. Where the assets' residual value is higher than the carrying value, no depreciation is provided.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000
Year ended 31 May 2017			
Opening carrying amount	**22 855**	**1 926**	**10 044**
Additions	**22 211**	**4 468**	**5 817**
Acquisition of subsidiary	**20**	**285**	**—**
Disposals	**(212)**	**(57)**	**(1 214)**
Depreciation charge	**(15 229)**	**(990)**	**(3 508)**
Closing carrying amount	**29 645**	**5 632**	**11 139**
At 31 May 2017			
Cost	**92 694**	**12 438**	**19 969**
Accumulated depreciation	**(62 879)**	**(6 102)**	**(8 830)**
Accumulated impairments	**(170)**	**(704)**	**—**
Carrying amount	**29 645**	**5 632**	**11 139**
Year ended 31 May 2016			
Opening carrying amount	23 047	2 560	7 843
Additions	15 812	683	6 445
Disposals	(81)	(6)	(1 198)
Disposal of subsidiary	(1 735)	(466)	—
Depreciation charge	(14 188)	(845)	(3 046)
Closing carrying amount	22 855	1 926	10 044
At 31 May 2016			
Cost	77 940	7 922	16 747
Accumulated depreciation	(54 915)	(5 292)	(6 703)
Accumulated impairments	(170)	(704)	—
Carrying amount	22 855	1 926	10 044

There are no property, plant and equipment assets that are encumbered.

The residual values of buildings are estimated to be higher than the carrying value and therefore there is no depreciation charge.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Computer equipment	25% – 33.3%
Furniture and fittings	16.67% – 25%
Motor vehicles	20% – 25%
Office equipment	25%
Terminals and vending machines	16.67%
Media equipment	33.33%
Plant and machinery	20%
Buildings	8.33%

Office equipment R'000	Leasehold improve-ments R'000	Terminals and vending machines R'000	Media equipment R'000	Plant and machinery R'000	Buildings R'000	Total R'000
814	**5 416**	**48 987**	**5 723**	**570**	**4 099**	**100 434**
259	**2 126**	**21 578**	**484**	**350**	**—**	**57 293**
57	**—**	**—**	**—**	**—**	**—**	**362**
(7)	**(5)**	**(292)**	**—**	**(19)**	**—**	**(1 806)**
(351)	**(5 043)**	**(18 391)**	**(969)**	**(203)**	**—**	**(44 684)**
772	**2 494**	**51 882**	**5 238**	**698**	**4 099**	**111 599**
6 531	**48 316**	**140 672**	**6 893**	**1 349**	**4 099**	**332 961**
(5 339)	**(45 384)**	**(85 203)**	**(1 655)**	**(651)**	**—**	**(216 043)**
(420)	**(438)**	**(3 587)**	**—**	**—**	**—**	**(5 319)**
772	**2 494**	**51 882**	**5 238**	**698**	**4 099**	**111 599**
984	11 960	52 202	3 225	764	4 099	106 684
558	175	15 112	3 167	4	—	41 956
(270)	(17)	(1 513)	—	—	—	(3 085)
(102)	(80)	—	—	—	—	(2 383)
(356)	(6 622)	(16 814)	(669)	(198)	—	(42 738)
814	5 416	48 987	5 723	570	4 099	100 434
7 081	47 333	124 892	6 409	1 030	4 099	293 453
(5 847)	(41 479)	(72 318)	(686)	(460)	—	(187 700)
(420)	(438)	(3 587)	—	—	—	(5 319)
814	5 416	48 987	5 723	570	4 099	100 434

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

4. Non-financial instruments continued

4.4 Inventories

Inventories comprise prepaid airtime (including physical prepaid airtime), handsets and other related products.

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale.

	2017 R'000	2016 R'000
Finished goods		
Prepaid airtime	**2 067 904**	1 473 828
Handsets	**84 676**	158 815
Other*	**27 541**	26 217
	2 180 121	1 658 860

** Other inventory mainly consists of starter packs and consumables.*

Inventories with a cost of R24.1 billion (2016: R24.4 billion) were sold during the year and have been charged to the income statement.

A general notarial bond is held by Investec Bank Limited over airtime up to R1.5 billion (2016: R1.5 billion).

4.5 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense.

	Unredeemed electricity provision R'000	Retail platform clawback provision R'000	Total R'000
Opening balance	**21 029**	**3 899**	24 928
Additions	**765 901**	**5 271**	771 172
Used during the year	**(755 562)**	**(5 160)**	(760 722)
Reversed	**—**	**(307)**	(307)
Closing carrying amount	**31 368**	**3 703**	35 071

Unredeemed electricity provision

The unredeemed electricity provision raised represents the value of electricity vouchers sold and unredeemed as at year-end, payable by the Group to the municipalities on redemption by the end customer.

Redemption is dependent on activation by customers. This is expected to occur within the first quarter of the following financial year.

Retail platform clawback provision

The retail platform clawback provision represents the estimated value payable as a clawback on deficient debtors for amounts already received on goods sold through a third-party platform provider.

The provision will be utilised within nine months of the following financial year per the contractual terms of the clawback arrangement.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

5. Employees

5.1 Equity compensation benefit

During the year 1 376 257 (2016: 2 591 066) forfeitable shares were granted to Executive Directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the Board. In the event that the participant is not in the employ of the Group, or the performance conditions are not met, the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the Group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 36 cents (2016: 31 cents) per ordinary share was declared on 23 August 2016 (2016: 18 August 2015).

The performance condition of the forfeitable shares for the sixth, seventh and eighth award vesting on 31 August 2016, 31 August 2017 and 31 August 2018 respectively are as follows:
- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the Group at the vesting date.
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:
- If growth is 5% above CPI over three years, 20% of the 50% will vest.
- If growth is 10% above CPI over three years, an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over three years, a further 30% (i.e. a total of 100%) of the 50% will vest.

The 50% for growth in core headline earnings in respect of the seventh and eighth awards has been amended to include growth in core headline earnings at subsidiary level with regards to qualifying employees.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

The performance condition for Executive Directors for the ninth award grant vesting on 31 August 2019 is as follows:
- 33.33% for retention (three years from date of award); and
- 66.67% financial (33.34% for growth in core headline earnings per share and 33.33% based on shareholder returns);

The 33.34% for growth in core headline earnings per share is based on the following achievements:
- If growth is 5% above CPI compounded annually over three years, then 20% of the 33.33% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 33.33% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 33.33% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The 33.33% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

The performance condition for senior managers for the ninth award grant vesting on 31 August 2019 is as follows:
- 40% for retention (three years from date of award); and
- 60% financial (30% for growth in core headline earnings per share and 30% based on shareholder returns).

The 30% for growth in core headline earnings per share is based on the following achievements:
- If growth is 5% above CPI compounded annually over three years, then 20% of the 30% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 30% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 30% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The performance criteria for senior managers will be measured at subsidiary level.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

5. Employees continued

5.1 Equity compensation benefit continued

The 30% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

Critical accounting estimates and assumptions

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2015			8 412 878	68 033
Fifth award			2 951 266	19 803
Sixth award			2 523 776	22 083
Seventh award			2 937 836	26 147
Granted during the year			2 591 066	26 351
Eighth award	1 September 2015	31 August 2018	2 591 066	26 351
Shares forfeited during the year			(612 453)	(5 407)
Sixth award			(287 142)	(2 512)
Seventh award			(325 311)	(2 895)
Shares vested during the year			(3 163 359)	(21 676)
Fifth award		31 August 2015	(2 951 266)	(19 803)
Sixth award		30 November 2015	(94 961)	(831)
Seventh award		30 November 2015	(117 132)	(1 042)
At 31 May 2016			7 228 132	67 301
Sixth award			2 141 673	18 740
Seventh award			2 495 393	22 210
Eighth award			2 591 066	26 351
Granted during the year			1 376 257	28 557
Ninth award	18 October 2016	31 August 2019	1 376 257	28 557
Shares forfeited during the year			(121 226)	(1 154)
Seventh award			(62 650)	(558)
Eighth award			(58 576)	(596)
Shares vested during the year			(2 141 673)	(18 740)
Sixth award		18 October 2016	(2 141 673)	(18 740)
At 31 May 2017			6 341 490	75 964
Seventh award			2 432 743	21 652
Eighth award			2 532 490	25 755
Ninth award			1 376 257	28 557

Refer to note 5.2 for the expense recognised in the income statement relating to the equity compensation benefits.

The fair value of the shares is based on the open market closing price at grant date.

The total number of forfeitable shares issued to Executive Directors during the period is 347 051 (2016: 664 875).

The share-based payment expense in relation to these Executive Directors is R6.5 million (2016: R5.7 million). Refer to note 5.3 for details of awards per Director.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

5. Employees continued

5.2 Equity compensation and benefit expense

(a) Equity compensation benefit

The Group operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the income statement with a corresponding adjustment to equity.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses. A liability is recognised where the Group is contractually obliged or where there is a past practice that has created a constructive obligation.

The bonus expense is determined based on overall Group performance and other non-financial measures.

In terms of the Group remuneration policy, the joint CEOs may earn an annual incentive bonus of up to 120% of fixed remuneration, and other executive directors of up to 70%. Senior Management may earn up to 50% of their annualised fixed salary package.

	2017 R'000	2016 R'000
Salaries and wages	**362 537**	331 546
Bonuses	**65 953**	71 342
Equity compensation benefit	**23 417**	23 845
Other	**1 078**	383
	452 985	427 116

Average number of employees for the year was 793 (2016: 1 076).

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

5. Employees continued

5.3 Directors' emoluments

	Blue Label Services as Directors of Blue Label Telecoms Limited R'000	Salary and allowances R'000	Bonuses and performance-related payments R'000	Other benefits R'000	Subtotal R'000
For the year ended 31 May 2017					
Executive directors					
BM Levy	—	7 973	7 808	160	15 941
MS Levy	—	7 985	7 808	149	15 942
DA Suntup	—	4 159	2 412	149	6 720
	—	20 117	18 028	458	38 603
Non-executive directors					
LM Nestadt	1 214	—	—	—	1 214
K Ellerine	439	—	—	—	439
G Harlow	890	—	—	—	890
J Mthimunye	772	—	—	—	772
JS Vilakazi	564	—	—	—	564
P Mahanyele**	339	—	—	—	339
Y Mahomed##	231	—	—	—	231
	4 449	—	—	—	4 449
	4 449	20 117	18 028	458	43 052
For the year ended 31 May 2016					
Executive directors					
BM Levy	—	7 492	9 165	146	16 803
MS Levy	—	7 503	9 165	135	16 803
M Pamensky*	—	4 212	—	80	4 292
DA Suntup	—	3 910	2 831	135	6 876
	—	23 117	21 161	496	44 774
Non-executive directors					
LM Nestadt	995	—	—	—	995
K Ellerine	369	—	—	—	369
G Harlow	658	—	—	—	658
J Mthimunye	491	—	—	—	491
JS Vilakazi	311	—	—	—	311
Y Mahomed#	152	—	—	—	152
	2 976	—	—	—	2 976
	2 976	23 117	21 161	496	47 750

* *M Pamensky resigned with effect from 30 November 2015.*
\# *Y Mahomed appointed with effect from 18 August 2015.*
** *P Mahanyele appointed with effect from 1 September 2016.*
\#\# *Y Mahomed resigned with effect from 11 January 2017.*

The fair value of forfeitable shares per Director has been included.

No Director has a notice period of more than one year.

No Director's service contract includes predetermined compensation as a result of termination that would exceed one year's salary and benefits.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

Services as Directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments from subsidiaries R'000	Retirement and related benefits from subsidiaries R'000	Corporate finance and legal fees for services rendered to Blue Label Telecoms Group R'000	Total R'000	Fair value of forfeitable shares R'000
—	**—**	**—**	**—**	**—**	**15 941**	**10 729**
—	**—**	**—**	**—**	**—**	**15 942**	**10 729**
—	**—**	**—**	**—**	**—**	**6 720**	**5 682**
—	**—**	**—**	**—**	**—**	**38 603**	**27 140**
—	**—**	**—**	**—**	**—**	**1 214**	
—	**—**	**—**	**—**	**—**	**439**	
473	**—**	**—**	**—**	**—**	**1 363**	
48	**—**	**—**	**—**	**—**	**820**	
—	**—**	**—**	**—**	**—**	**564**	
—	**—**	**—**	**—**	**—**	**339**	
72	**—**	**—**	**—**	**—**	**303**	
593	**—**	**—**	**—**	**—**	**5 042**	
593	**—**	**—**	**—**	**—**	**43 645**	
—	—	—	—	—	16 803	12 843
—	—	—	—	—	16 803	12 843
—	—	—	—	—	4 292	—
—	—	—	—	—	6 876	6 403
—	—	—	—	—	44 774	32 089
—	—	—	—	—	995	
—	—	—	—	—	369	
399	—	—	—	—	1 057	
45	—	—	—	—	536	
—	—	—	—	—	311	
22	—	—	—	—	174	
466	—	—	—	—	3 442	
466	—	—	—	—	48 216	

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

5. Employees continued

5.3 Directors' emoluments continued

	Issue date	Issue price R	Vesting date
Forfeitable share scheme per Director			
For the year ended 31 May 2017			
BM Levy	**2 September 2013**	**8.75**	**31 August 2016**
BM Levy	**3 September 2014**	**8.90**	**31 August 2017**
BM Levy	**1 September 2015**	**10.17**	**31 August 2018**
BM Levy	**18 October 2016**	**20.75**	**31 August 2019**
MS Levy	**2 September 2013**	**8.75**	**31 August 2016**
MS Levy	**3 September 2014**	**8.90**	**31 August 2017**
MS Levy	**1 September 2015**	**10.17**	**31 August 2018**
MS Levy	**18 October 2016**	**20.75**	**31 August 2019**
DA Suntup	**2 September 2013**	**8.75**	**31 August 2016**
DA Suntup	**3 September 2014**	**8.90**	**31 August 2017**
DA Suntup	**1 September 2015**	**10.17**	**31 August 2018**
DA Suntup	**18 October 2016**	**20.75**	**31 August 2019**
Forfeitable share scheme per Director			
For the year ended 31 May 2016			
BM Levy	3 September 2012	6.71	31 August 2015
BM Levy	2 September 2013	8.75	31 August 2016
BM Levy	3 September 2014	8.90	31 August 2017
BM Levy	1 September 2015	10.17	31 August 2018
MS Levy	3 September 2012	6.71	31 August 2015
MS Levy	2 September 2013	8.75	31 August 2016
MS Levy	3 September 2014	8.90	31 August 2017
MS Levy	1 September 2015	10.17	31 August 2018
MV Pamensky	3 September 2012	6.71	31 August 2015
MV Pamensky	2 September 2013	8.75	31 August 2016
MV Pamensky	3 September 2014	8.90	31 August 2017
MV Pamensky	1 September 2015	10.17	31 August 2018
DA Suntup	3 September 2012	6.71	31 August 2015
DA Suntup	2 September 2013	8.75	31 August 2016
DA Suntup	3 September 2014	8.90	31 August 2017
DA Suntup	1 September 2015	10.17	31 August 2018

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

Awards outstanding as at the beginning of the year	Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
271 883	**—**	**—**	**(271 883)**	**—**
283 339	**—**	**—**	**—**	**283 339**
262 834		**—**	**—**	**262 834**
—	**137 194**	**—**	**—**	**137 194**
818 056	**137 194**	**—**	**(271 883)**	**683 367**
271 883	**—**	**—**	**(271 883)**	**—**
283 339	**—**	**—**	**—**	**283 339**
262 834		**—**	**—**	**262 834**
—	**137 194**			**137 194**
818 056	**137 194**	**—**	**(271 883)**	**683 367**
118 540	**—**	**—**	**(118 540)**	**—**
150 067	**—**	**—**	**—**	**150 067**
139 207		**—**	**—**	**139 207**
—	**72 663**	**—**	**—**	**72 663**
407 814	**72 663**	**—**	**(118 540)**	**361 937**
334 474	—	—	(334 474)	—
271 883	—	—	—	271 883
283 339	—	—	—	283 339
—	262 834	—	—	262 834
889 696	262 834	—	(334 474)	818 056
334 474	—	—	(334 474)	—
271 883	—	—	—	271 883
283 339	—	—	—	283 339
—	262 834	—	—	262 834
889 696	262 834	—	(334 474)	818 056
281 982	—	—	(281 982)	—
229 214	—	(229 214)	—	—
238 872	—	(238 872)	—	—
—	221 585	(221 585)	—	—
750 068	221 585	(689 671)	(281 982)	—
145 829	—	—	(145 829)	—
118 540	—	—	—	118 540
150 067	—	—	—	150 067
—	139 207	—	—	139 207
414 436	139 207	—	(145 829)	407 814

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

6. Share capital

Ordinary shares are classified as equity and the shares are fully paid up.

Shares acquired by Blue Label Telecoms for its own employees' equity compensation benefit scheme, as well as the shares procured by the subsidiaries in terms of this scheme, are accounted for as treasury shares in the Group statement of financial position.

	2017 Number of shares	2016 Number of shares	2017 R'000	2016 R'000
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**1 000 000 000**	1 000 000 000	**1**	1
Issued				
Balance at the beginning of the year	**666 243 234**	665 463 346	*	*
Shares acquired during the year	**(348 651)**	(2 383 471)	*	*
Shares vested during the year	**2 141 673**	3 163 359	*	*
Balance at the end of the year	**668 036 256**	666 243 234	*	*

** Less than R1 000.*

All issued shares are fully paid up.

The total number of shares in issue including shares held as treasury shares as at 31 May 2017 is 674 509 042 (2016: 674 509 042).

The Company acquired 348 651 (2016: 2 383 471) shares at an average price of R21.17 (2016: R9.67) on the JSE in order to grant forfeitable shares to employees and directors as part of the Group's forfeitable share plan.

The amount paid to acquire these shares was R7 380 663 (2016: R23 052 001) and has been deducted from shareholders' equity. These shares are held as treasury shares.

Refer to note 5.1 for details on the forfeitable shares.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

7. Taxation

7.1 Income tax expense

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year-end in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the Group at the level of the individual uncertainty or group of related uncertainties.

Critical accounting estimates and assumptions

As with any enterprise, the Group faces uncertainties in the markets in which it operates and over which it has little or no control. The Group is subject to income tax in numerous jurisdictions and judgement is required in determining the provision for tax.

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable income is estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

	2017 R'000	2016 R'000
Current tax	**345 990**	305 420
Current year	**344 739**	305 652
Adjustment in respect of prior years	**1 251**	(232)
Deferred tax	**(13 953)**	13 363
Current year	**(14 667)**	14 749
Adjustment in respect of prior years	**714**	(1 386)
	332 037	318 783
Profit before tax	**1 152 898**	1 050 395
Tax at 28%	**322 811**	294 111
Fair value adjustments	**(1 565)**	(10 829)
Expenditure of a capital nature	**11 480**	9 082
Other income not subject to tax	**(11 421)**	(5 238)
Other expenses not deductible for tax purposes	**4 434**	8 090
Tax effect of reclassification of investment in associates and joint venture to venture capital investment	**(44 855)**	—
Capital gains tax	**2 876**	2 431
Tax effect of assessed losses not recognised	**130**	2 467
Share of losses from associates and joint ventures	**46 183**	20 096
Adjustment in respect of prior years	**1 964**	(1 618)
Effect of different tax dispensations	**—**	191
Tax charge	**332 037**	318 783
Effective tax rate (%)	**29**	30

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

7. Taxation continued

7.2 Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by year-end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Critical accounting estimates and assumptions

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Capital allowances R'000	Fair value gains R'000	Pro-visions R'000	Tax losses R'000	Pre-payments R'000	Un-realised foreign exchange differences R'000	Other R'000	Total R'000
At 31 May 2015	322	47 985	(19 171)	(21 173)	2 354	14 410	(1 074)	23 653
Charged/(credited) to the income statement	(841)	(6 270)	(359)	1 471	1 973	19 458	(2 069)	13 363
Disposal of subsidiary	61	—	869	3 083	(59)	—	(41)	3 913
At 31 May 2016	**(458)**	**41 715**	**(18 661)**	**(16 619)**	**4 268**	**33 868**	**(3 184)**	**40 929**
Charged/(credited) to the income statement	**7 828**	**(5 411)**	**(3 720)**	**1 050**	**(1 466)**	**(16 134)**	**3 900**	**(13 953)**
Acquisition of subsidiary	**—**	**—**	**—**	**(721)**	**—**	**—**	**—**	**(721)**
At 31 May 2017	**7 370**	**36 304**	**(22 381)**	**(16 290)**	**2 802**	**17 734**	**716**	**26 255**

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

7. Taxation continued

7.2 Deferred taxation continued

	2017 R'000	2016 R'000
Deferred tax asset comprises:		
Capital allowances	—	(817)
Provisions	(23 076)	(18 768)
Tax losses	(16 290)	(16 619)
Other	(5 262)	(3 184)
Total deferred tax asset	(44 628)	(39 388)
Deferred tax liability comprises:		
Capital allowances	7 370	359
Fair value gains	36 304	41 715
Provisions	695	107
Prepayments	2 802	4 268
Unrealised foreign exchange differences	17 734	33 868
Other	5 978	—
Total deferred tax liability	70 883	80 317
Net deferred tax	26 255	40 929
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	10 396	1 713
Deferred tax assets to be recovered within 12 months	(37 093)	(22 925)
Net deferred tax asset	(26 697)	(21 212)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	44 168	68 217
Deferred tax liabilities to be recovered within 12 months	8 784	(6 076)
Net deferred tax liability	52 952	62 141
Net deferred tax	26 255	40 929

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of R44.3 million (2016: R44.3 million) in respect of losses amounting to R158.5 million (2016: R158.2 million) that can be carried forward against future taxable income.

There is no withholding tax that would be payable on any dividends received from the Group's equity accounted associates and joint ventures and therefore no deferred tax has been raised in this regard. Deferred tax at the CGT rate has been raised on investments in associates and joint venture that are classified as venture capital investments.

7.3 Taxation paid

	2017 R'000	2016 R'000
Balance outstanding at the beginning of the year	36 521	36 169
Taxation charge	345 990	305 420
Translation differences	—	50
Balance outstanding at the end of the year	(43 697)	(36 521)
	338 814	305 118

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

8. Related parties

Transactions and balances with related parties:

	2017 R'000	2016 R'000
Sales to related parties		
Blue Label Mexico S.A. de C.V.*	6 709	10 645
Datacision Proprietary Limited*	117	134
Lornanox Proprietary Limited*	9 629	6 196
Melrose Motor Investments Proprietary Limited	645	—
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)*	308	988
Stylco Proprietary Limited	9 174	12 488
Unihold Group Proprietary Limited	355	—
United Call Centre Solutions Proprietary Limited*	400	—
Wildekrans Trust	—	27
ZOK Cellular Proprietary Limited	1 861	2 207
Purchases from related parties		
Banosign Proprietary Limited*	—	157
Black Ginger 59 Proprietary Limited	14 340	13 109
Datacision Proprietary Limited*	—	404
Lornanox Proprietary Limited*	—	422
Matragon House Proprietary Limited	49	—
Mpower Softcomm Private Limited*	892	—
Stax Technologies Proprietary Limited	—	991
Stylco Proprietary Limited	89	445
The Grill House Close Corporation	156	45
Uvongo Falls No 26 Proprietary Limited	972	—
Wildekrans Wine Estate Proprietary Limited	1	—
Wireless Business Solutions Proprietary Limited	—	519
ZOK Cellular Proprietary Limited	17 552	26 001
Interest received from related parties		
2DFine Holdings Mauritius* (refer to note 2.2)	21 159	19 879
Lornanox Proprietary Limited* (refer to note 2.1)	3 385	1 066
Oxigen Services India Private Limited* (refer to note 2.2)	2 565	—
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)*	297	—
Stylco Proprietary Limited	3 041	3 548
Supa Pesa South Africa Proprietary Limited* (refer to note 2.1)	790	858
Management fees received from related parties		
Datacision Proprietary Limited*	563	519
Forensic Intelligence Data Solutions Proprietary Limited*	—	88
United Call Centre Solutions Proprietary Limited*	200	—
Rent received from related parties		
Forensic Intelligence Data Solutions Proprietary Limited*	—	32
Rent paid to related parties		
Ellerine Bros. Proprietary Limited	8 180	7 597
Matragon House Proprietary Limited	712	1 285
Moneyline 311 Proprietary Limited	8 180	7 597
Uvongo Falls No 26 Proprietary Limited	3 697	—
Wildekrans Trust	3 943	3 626

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

8. Related parties continued

	2017 R'000	2016 R'000
Purchases of intangible assets from related parties		
Mpower Softcomm Private Limited*	—	374
Purchases of property, plant and equipment from related parties		
Melrose Motor Investments Proprietary Limited	4 535	—
Loans from related parties		
Datacision Proprietary Limited* (refer to note 3.2.2)	4 738	4 738
Loans to related parties		
2DFine Holdings Mauritius*† (refer to note 2.2)	218 305	234 892
Lornanox Proprietary Limited* (refer to note 2.1)	75 209	65 949
Oxigen Services India Private Limited* (refer to note 2.2)	34 310	38 359
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)* (refer to note 2.1)	11 033	1 638
Stylco Proprietary Limited (refer to note 3.1.1)	—	26 000
Supa Pesa South Africa Proprietary Limited* (refer to note 2.1)	6 714	7 307
United Call Centre Solutions Proprietary Limited* (refer to note 2.1)	1 591	—
ZOK Cellular Proprietary Limited (refer to note 3.1.1)	26 364	20 881
Amounts due from related parties included in trade receivables		
Black Ginger 59 Proprietary Limited	—	4 351
Blue Label Mexico S.A. de C.V.*	3 194	1 039
Datacision Proprietary Limited*	582	3 330
Lornanox Proprietary Limited*	13 676	5 846
Oxigen Services India Private Limited*	5 244	6 328
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)*	—	4 057
Stax Technologies Proprietary Limited	—	21
Stylco Proprietary Limited	—	747
ZOK Cellular Proprietary Limited	3	—
	22 702	25 719
Amounts due to related parties included in trade payables		
Black Ginger 59 Proprietary Limited	2 057	3 166
Blue Label Mexico S.A. de C.V.*	393	—
Datacision Proprietary Limited*	55	44
Matragon House Proprietary Limited	6	—
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)*	1 098	—
Stylco Proprietary Limited	—	7
Wildekrans Trust	—	15
ZOK Cellular Proprietary Limited	—	19 912
	3 609	23 144

* *2DFine Holdings Mauritius, Prepaid24 Proprietary Limited, Blue Label Mexico S.A. de C.V., Datacision Proprietary Limited, United Call Centre Solutions Proprietary Limited, Forensic Intelligence Data Solutions Proprietary Limited, Lornanox Proprietary Limited, Mpower Softcomm Private Limited, and Supa Pesa South Africa Proprietary Limited are related parties in that they are associates or joint ventures of the Group (refer to note 2.4). The remaining companies are related parties due to Directors' shareholdings and the companies having certain common directorships.*

† *B Levy and M Levy have signed personal sureties for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 16.93% of the shares in Oxigen Services India Private Limited on the 30th day after which the loan becomes due and payable or the extended date as may be agreed in writing by Gold Label Investments Proprietary Limited.*

For details of emoluments to Directors refer to note 5.3. For details of equity compensation benefit expense in respect of Directors refer to note 5.1. The Executive Directors of the Company are regarded as key management of the Group.

For details of the shareholdings in the Company, refer to the Directors' report.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

9. Unrecognised items

9.1 Commitments

Future operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements.

The lease terms are between one and five years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The Group is required to give six months' notice for the termination of the majority of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 1.3.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 R'000	2016 R'000
Premises		
Payable within one year	**29 263**	24 140
Payable in two to five years	**101 742**	18 666
Payable in greater than five years	**55 197**	—
	186 202	42 806

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

9. Unrecognised items continued

9.2 Subsequent events

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company Proprietary Limited (The Prepaid Company), acquired 45% of the issued share capital of Cell C Proprietary Limited (Cell C) for a purchase consideration of R5.5 billion. Of this amount, 183 333 333 ordinary shares were subscribed for by third parties at an issue price of R15.00 per share, equating to R2.75 billion.

On the same date, The Prepaid Company concluded an agreement to purchase 100% of the issued share capital in 3G Mobile Proprietary Limited (3G Mobile) from is shareholders for a purchase consideration of R1.9 billion.

The acquisition has been structured in two stages, whereby 47.37% of the issued share capital was initially acquired for a purchase consideration of R900 million. The remaining 52.63% of the issued share capital will be acquired for a further R1.0 billion, subject to the fulfilment of conditions precedent. Of the initial purchase of 47.37%, 16 666 666 ordinary shares were issued to the vendors at R15.00 per share, equating to R250 million. The balance of R650 million will be payable on 28 February 2018.

As part of the restructure of the debt into Cell C by third party lenders, The Prepaid Company will be required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited, of up to USD80 million, which liquidity support will be provided over 24 months and will be in the form of subordinated funding to SPV2. Oger Telecoms contributed USD20 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD60 million. In addition, to the extent that certain assets of Oger Telecoms are realised within the aforesaid 24 month period, a portion of such realisation shall further reduce The Prepaid Company's obligation. In this regard, USD16 million has been realised, thereby reducing its exposure to a maximum of USD44 million.

With effect from 2 August 2017 The Prepaid Company purchased Bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited, from Saudi Oger Limited with a capital redemption value of USD18 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million, of which USD6 million has been paid, USD3 million will be paid imminently and USD9 million will be payable on 30 November 2017. The Prepaid Company was entitled to assign its rights and obligations, in whole or in part, to a nominee. Accordingly, it has assigned such rights and obligations in respect of 50% of the Bond notes, which assignment has been accepted by the assignee.

On 2 August 2017 The Prepaid Company concluded an agreement with Cell C in terms of which it has undertaken to advance R1.34 billion on a piecemeal basis for the purpose of applying such funds towards capital expenditure. This advance, which is interest bearing, will be repayable in full by the end of July 2018.

Subsequent to year-end, dividend number 8 was declared and approved by the Board.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

10. Accounting framework

10.1 Basis of preparation

The principal accounting policies applied in the preparation of the Group and Company annual financial statements are in the related notes and are consistent with those adopted in the prior year, unless otherwise specified.

The Group and Company annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act, No 71 of 2008.

The term IFRS includes International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

The Group and Company annual financial statements are prepared under the historical cost convention, adjusted for financial instruments measured at fair value through profit and loss. Amounts are rounded to the nearest thousand with the exception of earnings per share, ordinary share capital and equity compensation benefit. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the notes to which they relate.

10.2 Going concern

The Group and Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group and Company should be able to operate within its current funding levels into the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. The Group and Company therefore continue to adopt the going concern basis in preparing the financial statements.

10.3 Standards, amendments and interpretations not yet effective

The Group has evaluated the effect of all new standards, amendments and interpretations that have been issued but which are not yet effective. Based on the evaluation, management does not expect these standards, amendments and interpretations to have a significant impact on the Group's results and disclosures. The expected implications of applicable standards, amendments and interpretations are dealt with below.

IFRS 9 – *Financial Instruments*

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit and loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently considering the impact on the consolidated financial statements. The impact on the financial statements has not yet been fully determined but it is expected to result in a change in the measurement of revenue to adjust for the effects of the time value of money.

IFRS 16 – *Leases*

IFRS 16, 'Leases' states that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted. The Group is currently considering the impact on the consolidated financial statements. The impact will be significant as the Group currently leases its premises. This will result in an increase in lease liabilities and right of use assets in the statement of financial position with a corresponding reduction in operating lease expenses and an increase in depreciation and finance costs in the income statement.

Amendments to IFRS 2 – *Share-based payments*

This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

This standard is effective for accounting periods beginning on or after 1 January 2018. The Group is currently considering the impact on the consolidated financial statements.

Amendments to IFRS 10 – *Consolidated financial statements* and IAS 28 – *Investments in associates and joint ventures on sale or contribution of assets*

The IASB has issued this amendment to eliminate the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

No effective date has been set. The Group is currently considering the impact on the consolidated financial statements.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

Amendment to IAS 7 – *Cash Flow Statements*

In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt.

This statement is effective for periods beginning on or after 1 January 2017. The Group does not believe the statement will have a significant impact as this amendment results only in additional disclosures; there is no financial impact as a result of this amendment.

Amendment to IAS 12 – *Income Taxes*

The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

This statement is effective for periods beginning on or after 1 January 2017. The Group does not believe the statement will have a significant impact, given that this is a clarification to the existing standard; there is no change in the underlying principles for the recognition of deferred tax assets.

IFRS 15 – *Revenue From Contracts With Customers*

This statement establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This statement is effective for periods beginning on or after 1 January 2017. The Group is currently considering the impact on the consolidated financial statements.

Amendments to IFRS 15 – *Revenue From Contracts With Customers*

The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

This statement is effective for periods beginning on or after 1 January 2018. The Group is currently considering the impact on the consolidated financial statements.

IFRIC 22 – *Foreign currency transactions and advance consideration*

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

This interpretation is effective for periods beginning on or after 1 January 2018. The Group is currently considering the impact on the consolidated financial statements.

Annual improvements project

In December 2016, the IASB issued annual improvements to IFRS 2014 – 2016 Cycle, which contains three amendments to three standards, excluding consequential amendments. The amendments are effective for annual periods beginning on or after 1 January 2017 and 1 January 2018

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

IFRS 1 – *First-time adoption of IFRS*

This is an amendment regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.

IFRS 12 – *Disclosure of interests in other entities*

This is an amendment regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information. Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

IAS 28 – *Investments in associates and joint ventures*

This is an amendment regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. Effective 1 January 2018.

Management is currently considering the effect of the changes.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

10. Accounting framework continued

10.4 Other accounting policies

Starter pack assets

A starter pack is a tool which enables the connection of a mobile device to a mobile network operator, also known as a subscriber identity module (SIM) card.

The starter pack asset represents starter packs which have been distributed but not yet activated. On activation of the starter pack, the Group has a right to receive cash. Starter packs are stated at cost less provision for impairment and are determined by means of the weighted average cost basis.

Provision for impairments are made for starter packs distributed but not expected to be activated.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group financial statements are presented in South African rand (ZAR), which is the functional and presentation currency of the parent company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as at statement of financial position date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

10. Accounting framework continued

10.4 Other accounting policies continued

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Dividend tax

Dividend tax is provided for at 20% of the amount of any dividend paid, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which they are approved by the shareholders.

Distributions of non-cash assets received from subsidiary companies are recognised as a dividend at the fair value of the non-cash assets received.

Company statement of financial position

As at 31 May 2017

	Notes	2017 R'000	2016 R'000
Assets			
Non-current assets		**3 981 787**	4 019 362
Property and equipment	3	**1 875**	5 318
Intangible assets	4	**22**	19
Deferred tax asset	5	**3 399**	—
Investments in and loans to subsidiaries	6.1	**3 511 311**	3 551 518
Investments in and loans to joint ventures and associates	6.2	**358 875**	346 829
Loan receivable	7	**106 305**	115 678
Current assets		**4 996**	8 539
Loan to subsidiary	6.1	**976**	976
Trade and other receivables	8	**3 018**	6 260
Cash and cash equivalents	9	**1 002**	1 303
Total assets		**3 986 783**	4 027 901
Equity and liabilities			
Capital and reserves		**2 413 221**	2 729 985
Share capital	10	*****	*
Share premium		**4 012 359**	4 012 359
Treasury shares		**(11 588)**	(28 985)
		4 000 771	3 983 374
Equity compensation benefit reserve		**16 230**	14 959
Share-based payment reserve		**295**	295
Accumulated loss		**(1 604 075)**	(1 268 643)
Non-current liabilities		**2 362**	23 518
Deferred tax liability	5	**—**	1 844
Trade and other payables	12	**2 362**	21 674
Current liabilities		**1 571 200**	1 274 398
Trade and other payables	12	**79 575**	90 999
Loans from subsidiaries	13	**1 491 625**	1 183 399
Total equity and liabilities		**3 986 783**	4 027 901

** Less than R1 000.*

Company statement of comprehensive income

For the year ended 31 May 2017

	Notes	**2017 R'000**	2016 R'000
Revenue*	14	**125 357**	119 321
Other income		**4 837**	216 021
Employee compensation and benefit expense	15	**(88 426)**	(86 568)
Depreciation, amortisation and impairment charges		**(71 150)**	(6 244)
Other expenses		**(75 921)**	(59 037)
Operating (loss)/profit	16	**(105 303)**	183 493
Finance costs	17	**(3 525)**	(7 812)
Finance income	17	**10 982**	10 267
Net (loss)/profit before taxation		**(97 846)**	185 948
Taxation	18	**5 237**	(5 902)
Net (loss)/profit for the year		**(92 609)**	180 046
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive (loss)/profit for the year		**(92 609)**	180 046

** The Company reclassified management fees and dividends received from "Other income" to "Revenue" in the comparative period as these reflect income earned in the ordinary course of the Company's activities.*

Company statement of changes of equity

For the year ended 31 May 2017

	Share capital R'000	Share premium R'000
Balance as at 31 May 2015	*	4 012 359
Net profit for the year	—	—
Other comprehensive income	—	—
Total comprehensive profit	—	—
Shares purchased during the year	—	—
Shares awarded to Group companies as part of equity	—	—
compensation scheme	—	—
Shares forfeited by Group companies as part of equity	—	—
compensation scheme	—	—
Equity compensation scheme shares vested	—	—
Equity compensation movements	—	—
Dividends declared	—	—
Balance as at 31 May 2016	*	**4 012 359**
Net loss for the year	—	—
Other comprehensive income	—	—
Total comprehensive loss	—	—
Shares purchased during the year	—	—
Shares awarded to Group companies as part of equity compensation scheme	—	—
Shares forfeited by Group companies as part of equity compensation scheme	—	—
Equity compensation scheme shares vested	—	—
Equity compensation movements	—	—
Dividends declared	—	—
Balance as at 31 May 2017	*	**4 012 359**

** Less than R1 000.*

[1] This relates to the Company's movement in equity compensation benefit (refer to note 11).

Company statement of changes of equity continued

For the year ended 31 May 2017

Treasury shares R'000	Equity compensation benefit reserve[1] R'000	Share-based payment reserve R'000	Accumulated loss R'000	Total equity R'000
(30 295)	15 366	295	(1 239 591)	2 758 134
—	—	—	180 046	180 046
—	—	—	—	—
—	—	—	180 046	180 046
(23 052)	—	—	—	(23 052)
16 989	—	—	—	16 989
(1 275)	—	—	—	(1 275)
8 648	(8 648)	—	—	—
—	8 241	—	—	8 241
—	—	—	(209 098)	(209 098)
(28 985)	**14 959**	**295**	**(1 268 643)**	**2 729 985**
—	**—**	**—**	**(92 609)**	**(92 609)**
—	**—**	**—**	**—**	**—**
—	**—**	**—**	**(92 609)**	**(92 609)**
(7 381)	**—**	**—**	**—**	**(7 381)**
17 960	**—**	**—**	**—**	**17 960**
(1 153)	**—**	**—**	**—**	**(1 153)**
7 971	**(7 971)**	**—**	**—**	**—**
—	**9 242**	**—**	**—**	**9 242**
—	**—**	**—**	**(242 823)**	**(242 823)**
(11 588)	**16 230**	**295**	**(1 604 075)**	**2 413 221**

Company statement of cash flows

For the year ended 31 May 2017

	Notes	2017 R'000	2016 R'000
Cash flows from operating activities	19	**(9 450)**	(9 273)
Dividend received		**6 000**	—
Interest received		**402**	327
Interest paid		**(6)**	(7 812)
Taxation paid	20	**(6)**	271
Net cash utilised by operations		**(3 060)**	(16 487)
Cash flows from investing activities			
Acquisition of property and equipment	3	**(2 009)**	(853)
Proceeds on sale of property and equipment		**636**	252
Acquisition of intangible assets	4	**(16)**	(8)
Loans repaid by subsidiaries		**17 959**	16 989
Loans advanced to subsidiaries		**(48 709)**	(164 332)
Acquisition of subsidiary		**(1 216)**	—
Acquisition of associate		**(7 530)**	—
Proceeds from disposal of subsidiary		**—**	8 086
Capital contribution to Blue Label Mexico	6	**—**	(42 654)
Settlement of contingent consideration	2	**(45 331)**	(1 931)
Net cash utilised in investing activities		**(86 216)**	(184 451)
Cash flows from financing activities			
Borrowings raised from subsidiaries		**339 179**	432 108
Dividends paid		**(242 823)**	(209 098)
Treasury shares acquired	10	**(7 381)**	(23 052)
Net cash generated from financing activities		**88 975**	199 958
Net decrease in cash and cash equivalents		**(301)**	(980)
Cash and cash equivalents at the beginning of the period		**1 303**	2 283
Cash and cash equivalents at the end of the period	9	**1 002**	1 303

Notes to the Company annual financial statements

For the year ended 31 May 2017

1. Accounting policies and critical accounting estimates and assumptions

The accounting policies and critical accounting estimates and assumptions applied to the Company annual financial statements are consistent with the Group accounting policies. Where different, this is stated in the relevant note.

2. Financial risks

In the course of its business, the Company is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency and other price risk). This note presents the Company's objectives, policies and processes for managing its financial risk and capital.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the Company. The Company is exposed to credit risks on financial instruments such as receivables, loans receivable and cash.

Trade and other receivables

Trade and other receivables consist primarily of invoiced amounts owing from related parties. The recoverability of these amounts are regularly monitored with reference to the counterparties' financial performance. Where necessary, a provision for impairment is made.

Cash and cash equivalents

The Company places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings.

Loans receivable

Loans are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

The Company's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the Company could have to pay if the sureties are called on amounting to R1.5 billion (2016: R1.5 billion).

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
2. Financial risks continued		
Loans to subsidiaries and joint venture		
Group 1	—	—
Group 2	976	976
Group 3	—	—
	976	976
Loans receivable		
Group 1	—	—
Group 2	106 305	115 678
Group 3	—	—
	106 305	115 678
Trade receivables		
Counterparties without external credit rating		
Group 1	—	—
Group 2	—	5 329
Group 3	—	—
Total unimpaired trade receivables	—	5 329

The rating groups for counterparties without external credit ratings are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past. All defaults were fully recovered.

Cash at bank and short-term bank deposits

Credit rating based on latest Fitch local currency long-term issuer default ratings.

	2017 R'000	2016 R'000
BBB-	—	1 303
BB+	1 002	—
	1 002	1 303

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

2. Financial risks continued

Liquidity risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. The Company's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in funding by keeping committed credit lines available.

Management is satisfied as to the liquidity of the Company since the majority of the current liabilities relate to the loans from subsidiaries. These subsidiaries are 100% held by the Company and therefore the Company has control of their assets including cash resources.

The Company and a subsidiary company have issued a cross surety as security for an overdraft facility in the amount of R19.85 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2017. In addition, the Company and four of its subsidiaries have issued a cross surety in the amount of R1.3 million in respect of a credit card facility.

The Company has issued a surety in respect of guarantees in the amount of R85.5 million in favour of third parties, for normal trade obligations of Group companies.

BLT's co-shareholder in BLM, being Grupo Bimbo S.A.B DE C.V ("Bimbo") has guaranteed the performance of BLM's obligations to Radiomovil Dipsa S.A. de C.V. (trading as Telcel) ("Telcel"). BLT has in turn provided Bimbo with a back to back guarantee in terms of which BLT shall reimburse Bimbo a percentage of any loss it incurs as a result of Telcel calling on the aforesaid guarantee, which percentage it shall pro-rata to BLT's shareholding in BLM (currently 47.56%). At year-end there is no amount due to Telcel by BLM.

Maturity of financial liabilities

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

	Payable in:				
	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	More than one year but not exceeding two years R'000	More than two years but not exceeding five years R'000	More than five years R'000
2017					
Loans from subsidiaries	**1 491 625**	**—**	**—**	**—**	**—**
Trade and other payables*	**258**	**50 143**	**2 623**	**—**	**—**
Total	**1 491 883**	**50 143**	**2 623**	**—**	**—**
2016					
Loans from subsidiaries	1 183 399	—	—	—	—
Trade and other payables*	3 537	54 282	24 790	—	—
Total	1 186 936	54 282	24 790	—	—

** Trade and other payables exclude non-financial instruments being VAT and certain amounts within accruals and sundry creditors.*

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

2. Financial risks continued

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions.

Fair value measurement hierarchy:

- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Contingent consideration, included in trade and other payables, are level 3 financial liabilities.

Changes in level 3 instruments are as follows:

	2017 R'000	2016 R'000
Contingent consideration		
Opening balance	**68 232**	93 280
Acquisition of Reware Proprietary Limited	**1 150**	—
Acquisition of Utilities World Proprietary Limited	**4 516**	—
Settlements	**(45 331)**	(1 931)
Gains and losses recognised in profit or loss	**(1 179)**	(23 117)
Closing balance	**27 388**	68 232
Total gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period, under:		
Other income	**4 698**	30 924
Interest paid	**(3 519)**	(7 807)
Unrealised gains or losses recognised in profit or loss for liabilities held at the end of the reporting period	**894**	7 222

Refer to note 3.2.1 of the Group financial statements.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

2. Financial risks continued

Cash flow and fair value interest rate risk

The Company's cash flow interest rate risk arises from loans receivable and cash and cash equivalents. The Company is not exposed to fair value interest rate risk as the Company does not have any fixed interest-bearing instruments carried at fair value nor any interest-bearing borrowings.

As part of the process of managing the Company's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The Company is exposed to foreign currency risk from transactions. Transaction exposure arises due to the Company granting loans to affiliated companies in foreign currencies.

The Company manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments are used in certain instances to reduce risks arising from foreign currency fluctuations. The Company did not enter into any forward exchange contracts during the period under review.

IFRS 7 – *Sensitivity Analysis*

The Company has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2017, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2017 would increase or decrease profit before tax by R10 020 (2016: R13 030).

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

2. Financial risks continued

Foreign currency sensitivity

Financial instruments by currency

	2017			2016		
	ZAR R'000	USD R'000	Total R'000	ZAR R'000	USD R'000	Total R'000
Financial assets						
Cash	1 002	—	1 002	1 303	—	1 303
Trade and other receivables*	2 972	—	2 972	6 203	—	6 203
Loans to subsidiaries	976	—	976	976	—	976
Loans receivable	—	106 305	106 305	—	115 678	115 678
	4 950	106 305	111 255	8 482	115 678	124 160
Financial liabilities						
Loans from subsidiaries	1 491 625	—	1 491 625	1 183 399	—	1 183 399
Trade and other payables*	52 370	393	52 763	82 609	—	82 609
	1 543 995	393	1 544 388	1 266 008	—	1 266 008
Net financial position	(1 539 045)	105 912	(1 433 133)	(1 257 526)	115 678	(1 141 848)

** Trade and other receivables and trade and other payables exclude non-financial instruments.*

With a 10% strengthening or weakening in the rand against the US dollar, profit before tax would increase or decrease by R10.6 million respectively.

Capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Although the Company is in a deficit position, the value of its significant subsidiaries exceeds the carrying value.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Company defines capital as capital and reserves and non-current borrowing.

The Company is not subject to externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year.

Fair value measurement

For all financial assets and liabilities, the carrying amount is regarded as an approximation of the fair value.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Office equipment R'000	Leasehold improve-ments R'000	Total R'000
3. Property and equipment						
Year ended 31 May 2017						
Opening carrying amount	**160**	**88**	**729**	**64**	**4 277**	**5 318**
Additions	**60**	**115**	**842**	**17**	**975**	**2 009**
Disposals	**—**	**—**	**(690)**	**—**	**—**	**(690)**
Depreciation charge	**(92)**	**(41)**	**(152)**	**(35)**	**(4 442)**	**(4 762)**
Closing carrying amount	**128**	**162**	**729**	**46**	**810**	**1 875**
At 31 May 2017						
Cost	**1 167**	**2 237**	**1 255**	**2 449**	**39 980**	**47 088**
Accumulated depreciation	**(1 039)**	**(2 075)**	**(526)**	**(2 403)**	**(39 170)**	**(45 213)**
Carrying amount	**128**	**162**	**729**	**46**	**810**	**1 875**
Year ended 31 May 2016						
Opening carrying amount	161	214	453	94	9 989	10 911
Additions	107	40	704	2	—	853
Disposals	(15)	—	(241)	—	—	(256)
Depreciation charge	(93)	(166)	(187)	(32)	(5 712)	(6 190)
Closing carrying amount	160	88	729	64	4 277	5 318
At 31 May 2016						
Cost	1 107	2 123	1 277	2 431	39 008	45 946
Accumulated depreciation	(947)	(2 035)	(548)	(2 367)	(34 731)	(40 628)
Carrying amount	160	88	729	64	4 277	5 318

There are no property and equipment assets that are encumbered.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	Computer software R'000	Other R'000	Total R'000
4. Intangible assets			
Year ended 31 May 2017			
Opening carrying amount	**19**	**—**	**19**
Additions	**16**	**—**	**16**
Amortisation charge	**(13)**	**—**	**(13)**
Closing carrying amount	**22**	**—**	**22**
At 31 May 2017			
Cost	**2 622**	**—**	**2 622**
Accumulated amortisation	**(2 600)**	**—**	**(2 600)**
Carrying amount	**22**	**—**	**22**
Year ended 31 May 2016			
Opening carrying amount	34	35	69
Additions	8	—	8
Disposals	(4)	—	(4)
Amortisation charge	(19)	(35)	(54)
Closing carrying amount	19	—	19
At 31 May 2016			
Cost	2 606	700	3 306
Accumulated amortisation	(2 587)	(700)	(3 287)
Carrying amount	19	—	19

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
5. Deferred taxation		
At the beginning of the year	**1 844**	(4 058)
Credited/(charged) to the statement of comprehensive income:		
Provisions and accruals	**(447)**	(1 736)
Tax losses	**375**	655
Capital allowances	**(38)**	(49)
Equity compensation benefit	**(1 690)**	(1 639)
Unrealised foreign exchange	**(5 586)**	7 018
Other	**2 143**	1 653
At the end of the year	**(3 399)**	1 844
Deferred taxation comprises:		
Provisions and accruals	**(9 000)**	(8 553)
Tax losses	**(1 736)**	(2 111)
Capital allowances	**—**	38
Equity compensation benefit	**3 157**	4 847
Unrealised foreign exchange	**4 180**	9 766
Other	**—**	(2 143)
	(3 399)	1 844
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**5 235**	—
Deferred tax assets to be recovered within 12 months	**(8 634)**	—
	(3 399)	—
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	**—**	10 205
Deferred tax liabilities to be recovered within 12 months	**—**	(8 361)
	—	1 844
Net deferred tax (asset)/liability	**(3 399)**	1 844

Where deferred tax assets have been recognised, a formal process of assessment of the future profitability of the Company has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years. There are no unrecognised tax losses in the current year (2016: Rnil).

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
6. Investments in Group companies and related loans		
6.1 Investments in and loans to subsidiaries		
Shares at cost less amounts written off	**3 303 297**	3 390 958
Non-current loans owing by subsidiaries less amounts written off	**208 014**	160 560
Current loans owing by subsidiaries less amounts written off	**976**	976
	3 512 287	3 552 494

Details are reflected below:

	Shares at cost R'000	Loans owing by subsidiaries R'000	Provision for impairment R'000
2017			
Activi Deployment Services Proprietary Limited	**5 060**	**—**	**—**
Africa Prepaid Services Proprietary Limited	**61 520**	**90 497**	**(152 017)**
Africa Prepaid Services Nigeria Limited	**14 000**	**28 740**	**(42 740)**
Blue Label Accelerator Proprietary Limited	*****	**—**	**—**
Blue Label Distribution Proprietary Limited**	**194 000**	**—**	**—**
Blue Label One Proprietary Limited	**40 000**	**—**	**—**
BLT USA Inc.	**307**	**—**	**—**
Budding Trade Proprietary Limited**	**6 000**	**—**	**—**
Cellfind SA Proprietary Limited	**290 000**	**—**	**(58 013)**
Cigicell Proprietary Limited	**295**	**—**	**—**
Datacel Direct Proprietary Limited	**150 000**	**—**	**—**
Gold Label Investments Proprietary Limited	**137 816**	**303 698*** **	**(121 148)**
Panacea Mobile Proprietary Limited	**27 480**	**—**	**—**
Reware Proprietary Limited	**1 216**	**—**	**—**
Simigenix Proprietary Limited	*****	**—**	**—**
The Post Paid Company Proprietary Limited**	**1 500**	**—**	**—**
The Prepaid Company Proprietary Limited**	**2 150 215**	**—**	**—**
TicketPros Proprietary Limited**	**14 700**	**—**	**—**
Transaction Junction Proprietary Limited	**4 200**	**—**	**—**
Uninex Proprietary Limited	*****	**976**	**—**
Ventury Group Proprietary Limited**	**98 406**	**—**	**—**
Viamedia Proprietary Limited	**229 158**	**—**	**—**
Virtual Voucher Proprietary Limited**	**44 784**	**—**	**(8 363)**
	3 470 657	**423 911**	**(382 281)**

* *Less than R1 000.*

** *These investments have been pledged as security to Investec Bank Limited in terms of the facility. For details on percentage held, country of incorporation and issued shares, refer to note 2.4 in the Group notes. Refer to notes 16 and 22 for details on impairments.*

*** *This loan in substance forms part of the Company's investment into Gold Label Investments Proprietary Limited. Refer to note 22 for the terms of these loans.*

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

6. Investments in Group companies and related loans continued

6.1 Investments in and loans to subsidiaries continued

	Shares at cost R'000	Loans owing by subsidiaries R'000	Provision for impairment R'000
2016			
Activi Deployment Services Proprietary Limited	5 060	—	—
Africa Prepaid Services Proprietary Limited	61 520	90 394	(151 914)
Africa Prepaid Services Nigeria Limited	14 000	28 740	(42 740)
Blue Label Distribution Proprietary Limited**	194 000	—	—
Blue Label One Proprietary Limited	40 000	—	—
BLT USA Inc.	307	—	—
Budding Trade Proprietary Limited**	6 000	—	—
Cellfind SA Proprietary Limited	290 000	—	—
Cigicell Proprietary Limited	295	—	—
Datacel Direct Proprietary Limited	150 000	—	—
Gold Label Investments Proprietary Limited	137 816	256 245***	(121 148)
Kwikpay SA Proprietary Limited**	22 500	—	—
Panacea Mobile Proprietary Limited	27 480	—	—
Simigenix Proprietary Limited	*	—	—
The Post Paid Company Proprietary Limited**	1 500	—	—
The Prepaid Company Proprietary Limited**	2 150 215	—	—
TicketPros Proprietary Limited**	14 700	—	—
Transaction Junction Proprietary Limited	4 200	—	—
Uninex Proprietary Limited	*	976	—
Ventury Group Proprietary Limited**	98 406	—	—
Viamedia Proprietary Limited	229 158	—	—
Virtual Voucher Proprietary Limited**	44 784	—	—
	3 491 941	376 355	(315 802)

* *Less than R1 000.*

** *These investments have been pledged as security to Investec Bank Limited in terms of the facility. For details on percentage held, country of incorporation and issued shares, refer to note 2.4 in the Group notes. Refer to notes 16 and 22 for details on impairments.*

*** *This loan in substance forms part of the Company's investment into Gold Label Investments Proprietary Limited. Refer to note 22 for the terms of these loans.*

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

6. Investments in Group companies and related loans continued

6.2 Investments in and loans to joint ventures and associates

The company accounts for investments in associates and joint ventures at cost less any accumulated impairment.

	2017 R'000	2016 R'000
Investments in and loans to joint ventures and associates		
Shares as at the beginning of the year	**346 829**	304 175
Acquisition of joint venture and associate	**12 046**	42 654
Shares as at the end of the year	**358 875**	346 829

There was no impairment of investment in joint ventures and associates. Where impairment testing was performed, the terminal growth rate applied was 3.5% (2016: 3.5%) and the weighted average cost of capital used to discount the cash flows was 15.52% (2016: 16.44%). The discount rates used are post-tax and reflect specific risks relating to the relevant companies.

If one or more of the inputs were changed to a reasonable possible alternative, there would be no impairments that would have to be recognised. Refer to note 2.1 of the Group annual financial statements.

Shares in associate acquired during the current year:

		Date acquired	Country of incorporation	Percentage interest acquired
Utilities World Proprietary Limited	Associate	1 June 2016	South Africa	25.1

Refer to note 2.1 of the Group financial statements for details of other associates held directly by the Company.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
7. Loan receivable		
Interest-bearing loan receivable	**106 305**	115 678
	106 305	115 678

Interest-bearing loans earn interest at 10% per annum and are repayable on demand.

The loans receivable are neither past due nor impaired with a low risk of default. Loan receivable balance is from a related party (refer to note 22).

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
8. Trade and other receivables		
Sundry debtors	**2 972**	889
Prepayments	**46**	42
Amounts due from related parties (refer to note 22)	**—**	5 329
	3 018	6 260

The ageing of trade receivables, including amounts due from related parties, at the reporting date is as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2017			
Fully performing	—	—	—
Past due by one to 30 days	—	—	—
Past due by 31 to 60 days	—	—	—
Past due by 61 to 90 days	—	—	—
Past due by more than 90 days	—	—	—
	—	—	—
31 May 2016			
Fully performing	5 329	—	5 329
Past due by one to 30 days	—	—	—
Past due by 31 to 60 days	—	—	—
Past due by 61 to 90 days	—	—	—
Past due by more than 90 days	—	—	—
	5 329	—	5 329

Based on the financial performance of the relevant debtors, management does not consider there to be any indications of potential default in respect of the fully performing book.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
9. Cash and cash equivalents		
Cash at bank	**1 002**	1 303
	1 002	1 303

	2017 Number of shares	2016 Number of shares	2017 R'000	2016 R'000
10. Share capital				
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**1 000 000 000**	1 000 000 000	1	1
Issued				
Balance at the beginning of the year	**666 243 234**	665 463 346	*	*
Shares acquired during the year	**(348 651)**	(2 383 471)	*	*
Shares vested during the year – Blue Label Telecoms Limited	**910 966**	1 288 836	*	*
Shares vested during the year – Blue Label Telecoms Limited subsidiaries	**1 230 706**	1 874 523	*	*
Balance at the end of the year	**668 036 255**	666 243 234	*	*

** Less than R1 000.*

All issued shares are fully paid up.

The total number of shares in issue, including shares held as treasury shares as at 31 May 2017, is 674 509 042 (2016: 674 509 042).

The Company acquired 348 651 (2016: 2 383 471) shares at an average price of R21.17 (2016: R9.67) on the JSE in order to grant forfeitable shares to employees and directors as part of the Group's forfeitable share plan.

The amount paid to acquire these shares was R7 380 663 (2016: R23 052 001) and has been deducted from shareholders' equity.

These shares are held as treasury shares. Refer to note 11 for details on the forfeitable shares.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

11. Equity compensation benefit

Forfeitable shares

During the year 510 675 (2016: 920 592) forfeitable shares were granted to executive directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the Board. In the event that the participant is not in the employ of the Group, or the performance conditions are not met, the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the Group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 36 cents (2016: 31 cents) per ordinary share was declared on 23 August 2016 (2016: 18 August 2015).

The performance condition of the forfeitable shares for the sixth, seventh and eighth award vesting on 31 August 2016, 31 August 2017 and 31 August 2018 respectively are as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the Group at the vesting date.
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

- If growth is 5% above CPI over three years, 20% of the 50% will vest.
- If growth is 10% above CPI over three years, an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over three years, a further 30% (i.e. a total of 100%) of the 50% will vest.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

The performance condition for Executive Directors for the ninth award grant vesting on 31 August 2019 is as follows:

- 33.33% for retention (three years from date of award); and
- 66.67% financial (33.34% for growth in core headline earnings per share and 33.33% based on shareholder returns);

The 33.34% for growth in core headline earnings per share is based on the following achievements:

- If growth is 5% above CPI compounded annually over three years, then 20% of the 33.33% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 33.33% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 33.33% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The 33.33% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

11. Equity compensation benefit continued

Forfeitable shares continued

The performance condition for Senior Management for the ninth award grant vesting on 31 August 2019 is as follows:

- 40% for retention (three years from date of award); and
- 60% financial (30% for growth in core headline earnings per share and 30% based on shareholder returns).

The 30% for growth in core headline earnings per share is based on the following achievements:

- If growth is 5% above CPI compounded annually over three years, then 20% of the 30% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 30% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 30% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The 30% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2015			3 690 989	29 857
Fifth award			1 288 836	8 648
Sixth award			1 140 180	9 977
Seventh award			1 261 973	11 232
Shares forfeited during the year			(468 086)	(4 132)
Sixth award			(229 214)	(2 006)
Seventh award			(238 872)	(2 126)
Granted during the year			920 592	9 362
Eighth award	1 September 2015	31 August 2018	920 592	9 362
Shares vested during the year			(1 288 836)	(8 648)
Fifth award		31 August 2015	(1 288 836)	(8 648)
At 31 May 2016			2 854 659	26 439
Sixth award			910 966	7 971
Seventh award			1 023 101	9 106
Eighth award			920 592	9 362
Granted during the year			510 675	10 597
Ninth award	18 October 2016	31 August 2019	510 675	10 597
Shares vested during the year			(910 966)	(7 971)
Sixth award		18 October 2016	(910 966)	(7 971)
At 31 May 2017			2 454 368	29 065
Seventh award			1 023 101	9 106
Eighth award			920 592	9 362
Ninth award			510 675	10 597

Refer to note 15 for the expense recognised in the statement of comprehensive income relating to the equity compensation benefits.

The total number of forfeitable shares issued to Executive Directors during the period is 347 051 (2016: 664 875)

The share-based payment expense in relation to these Executive Directors is R6.5 million (2016: R5.7 million). Included in this is R1.3 million (2016: R1.4 million) paid by subsidiaries.

Refer to note 5.3 of the Group annual financial statements for details per Director.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
12. Trade and other payables		
Trade payables	**258**	681
Accruals	**24 306**	8 552
Employee benefits	**28 174**	30 436
Sundry creditors	**418**	4 008
Contingent consideration (refer to note 2)	**27 388**	68 232
VAT	**1 000**	708
Payables to related parties (refer to note 22)	**393**	56
	81 937	112 673
Less: Amounts included in current portion of trade and other payables	**(79 575)**	(90 999)
	2 362	21 674
13. Loans from subsidiaries		
The Prepaid Company Proprietary Limited	**1 443 625**	1 135 399
Ventury Group Proprietary Limited	**48 000**	48 000
	1 491 625	1 183 399

Refer to note 22 for terms of these loans.

14. Revenue

Revenue recognition

Revenue comprises management fees and dividends received from Group companies in the ordinary course of the Group's activities.

	2017 R'000	2016 R'000
Management fees	**110 904**	109 500
Dividends	**14 453**	9 821
	125 357	119 321

Refer to note 22.

15. Employee compensation and benefit expense		
Salaries and wages	**51 247**	48 701
Bonuses	**26 625**	29 399
Equity compensation benefit	**9 242**	8 241
Other	**1 312**	227
	88 426	86 568

The average number of employees for the year is 32 (2016: 32).

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
16. Operating (loss)/profit		
The following items have been charged/(credited), in arriving at operating profit/(loss):		
Acquisition-related costs	**23 003**	21 639
Audit fees – other	**—**	134
Audit fees – services as auditors	**5 699**	7 355
Consulting fees	**5 405**	6 882
Foreign exchange loss	**19 800**	—
Foreign exchange profit**	**—**	(26 049)
Contingent purchase price release (refer to note 2)**	**(4 698)**	(30 924)
Impairment of loans and investments*	**66 479**	2 496
Reversal of impairment of loans and investments	**—**	(157 914)***
Insurance	**920**	899
Legal fees	**197**	198
Operating lease rentals – premises	**(1 166)**	(897)
Rental paid	**16 662**	13 507
Rental recovery	**(17 828)**	(14 404)
Overseas travel	**3 019**	2 166
Loss on disposal of property and equipment	**54**	4
Profit on disposal of subsidiary	**—**	(900)

** An impairment loss of R0.1 million (2016: R2.5 million) was recognised in the current year relating to the impairment of a related party loan in line with our stated accounting policies (refer to note 22). The related-party loan has been fully impaired due to the continuing trading losses in these entities which are not considered to be immediately recoverable. An impairment loss of R66.4 million was recognised in the current year relating to the impairment of investments in line with our stated accounting policies. The impairment arose due to the impairment indicators of these assets. Value-in-use calculations were performed on these assets and the relevant provisions for impairment raised. Refer to note 4.1 of the Group financial statements.*

*** Included in other income.*

****The reversal of impairment relates to the investment in Cellfind SA Proprietary Limited of R141.8 million and the investment in Datacel Direct Proprietary Limited of R16.1 million. The reversal arose due to the impairment indicators of these assets no longer being applicable. Value-in-use calculations were performed on these assets and their provisions for impairment reversed. Refer to note 4.1 of the Group financial statements.*

	2017 R'000	2016 R'000
17. Finance costs and finance income		
Finance costs		
– Bank	**6**	6
– Unwinding of contingent purchase price	**3 519**	7 806
	3 525	7 812
Finance income		
– Bank	**(402)**	(327)
– Loans	**(10 580)**	(9 940)
	(10 982)	(10 267)
Net finance income	**(7 457)**	(2 455)

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
18. Taxation		
Current tax	6	—
Current year	—	—
Adjustment in respect of prior year	6	—
Deferred tax	(5 243)	5 902
Current year	(5 304)	6 241
Adjustment in respect of prior year	61	(339)
	(5 237)	5 902
Tax rate reconciliation		
Net profit before tax	(97 846)	185 948
Tax at 28%	(27 397)	52 065
Dividends received	(4 047)	(2 749)
Fair value adjustments	(329)	(6 473)
Investment impairment reversal	—	(44 216)
Impairment of investments	18 585	—
Expenditure not deductible for tax purposes	76	1 212
Expenditure of a capital nature	7 808	6 654
Adjustment in respect of prior year	67	(339)
Capital gains tax	—	(252)
	(5 237)	5 902
Effective tax rate	5%	3%

	2017 R'000	2016 R'000
19. Cash utilised by operations		
Reconciliation of operating loss to cash flows from operating activities		
Operating (loss)/profit	(105 303)	183 493
Adjustments for:		
Dividends received	(14 453)	(3 598)
Depreciation of property and equipment	4 762	6 190
Amortisation on intangible assets	13	54
Impairment of loans and investments	66 479	2 496
Reversal of impairment of loans and investments	—	(157 914)
Loss on disposal of property and equipment	54	4
Profit on disposal of subsidiaries	—	(900)
Equity compensation benefit expense	9 242	8 241
Net unrealised foreign exchange loss/(profit)	19 954	(25 066)
Changes in working capital:		
Decrease/(increase) in trade and other receivables	3 242	(2 051)
Increase/(decrease) in trade and other payables	6 560	(20 222)
	(9 450)	(9 273)

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

	2017 R'000	2016 R'000
20. Taxation paid		
Balance outstanding at the beginning of the year	—	271
Taxation charge	6	—
Balance outstanding at the end of the year	—	—
	6	271
21. Commitments		
Future operating lease commitments for:		
Premises		
Payable within one year	17 165	12 270
Payable in two to five years	85 562	—
Payable in greater than five years	55 197	—
	157 924	12 270

22. Related-party transactions

Related-party relationships

For details of subsidiaries, associates and joint ventures, refer to note 2.1 in the Group notes.

For details of the Company's Directors, refer to the Directors' report.

ZOK Cellular Proprietary Limited, BSC Technologies Proprietary Limited, Black Ginger 59 Proprietary Limited, Moneyline 311 Proprietary Limited, aloeCap Proprietary Limited, Stylco Proprietary Limited, Wildekrans Wine Estate Proprietary Limited, Stax Technologies Proprietary Limited, The Grill House Close Corporation, Melrose Motor Investments Proprietary Limited and Ellerine Bros. Proprietary Limited are related parties due to Directors' shareholdings and the companies having certain common directorships.

For details of the shareholdings in the Company, refer to the Directors' report.

For details of emoluments to Directors, refer to note 5.3 of the Group annual financial statements and remuneration report. The Executive Directors of the Company are regarded as key management.

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

22. Related-party transactions continued

Related-party relationships continued

The following transactions were carried out with related parties:

	2017 R'000	2016 R'000
Purchases from related parties		
Black Ginger 59 Proprietary Limited	2 501	3 906
Blue Label Distribution Proprietary Limited	855	881
Stylco Proprietary Limited	89	50
The Grill House Close Corporation	10	—
The Prepaid Company Proprietary Limited	81	—
Ticketpros Proprietary Limited	5	24
Uvongo Falls 26 Proprietary Limited	462	—
ZOK Cellular Proprietary Limited	1	—
Purchases of property, plant and equipment from related parties		
Melrose Motor Investments Proprietary Limited	842	—
Dividends received from related parties		
Kwikpay Proprietary Limited	8 453	—
Transaction Junction Proprietary Limited	6 000	—
Interest received from related parties		
2DFine Holdings Mauritius	10 580	9 940
Management fees received from related parties		
Activi Deployment Services Proprietary Limited	54	117
Blue Label Distribution Proprietary Limited	4 525	4 046
Blue Label One Proprietary Limited	653	594
Cellfind SA Proprietary Limited	4 685	4 209
Cigicell Proprietary Limited	3 987	3 625
Datacel Direct Proprietary Limited	871	792
The Prepaid Company Proprietary Limited	96 000	96 000
Transaction Junction Proprietary Limited	129	117
Management fees paid to related parties		
Blue Label Distribution Proprietary Limited	1 020	718
Rent received from related parties		
Black Ginger 59 Proprietary Limited	17 828	14 404
Rent paid to related parties		
Ellerine Bros. Proprietary Limited	8 180	7 597
Moneyline 311 Proprietary Limited	8 180	7 597
Uvongo Falls 26 Proprietary Limited	1 873	—
Sales to related parties		
Melrose Motor Investments Proprietary Limited	645	—
Impairment of related party loans		
Africa Prepaid Services Proprietary Limited	103	2 496
Loans to related parties		
Gold Label Investments Proprietary Limited*	208 014	160 560
Loan is interest free.		
2DFine Holdings Mauritius	106 305	115 678
Loan is repayable on demand and bears interest at 10% per annum.		
Uninex Proprietary Limited	976	976
Loan is repayable on demand and is interest free.		
Loans from related parties		
The Prepaid Company Proprietary Limited	1 443 625	1 135 399
Loan is repayable on demand and is interest free.		
Ventury Group Proprietary Limited	48 000	48 000
Loan is repayable on demand and is interest free.		
Amounts due from related parties included in trade receivables		
Blue Label Distribution Proprietary Limited	—	978
Black Ginger 59 Proprietary Limited	—	4 351
	—	5 329
Amounts due to related parties included in trade payables		
Blue Label Mexico S.A. de C.V.	393	—
Cellfind SA Proprietary Limited	—	56
	393	56

** Carrying value after provision for impairment.*

Notes to the Company annual financial statements continued

For the year ended 31 May 2017

23. Subsequent events

Refer to note 9.2 of the Group annual financial statements for details of subsequent events.

Annexure to the Company annual financial statements For the year ended 31 May 2017

Shareholder analysis

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	1 985	47.59	664 445	0.10
1 001 – 10 000 shares	1 456	34.91	5 194 538	0.77
10 001 – 100 000 shares	434	10.41	14 089 547	2.09
100 001 – 1 000 000 shares	203	4.87	72 254 175	10.71
1 000 001 shares and over	93	2.23	582 306 337	86.33
Totals	4 171	100.00	674 509 042	100.00
Distribution of shareholders				
Banks	60	1.44	85 288 195	12.65
Close corporations	42	1.01	227 021	0.03
Empowerment	1	0.02	6 863	0.00
Endowment funds	14	0.34	1 526 223	0.23
Government	1	0.02	166 800	0.02
Individuals	3 356	80.46	132 194 495	19.60
Insurance companies	30	0.72	12 409 923	1.84
Investment companies	27	0.65	42 038 506	6.23
Medical schemes	3	0.07	961 042	0.14
Mutual funds	133	3.19	189 669 380	28.12
Other corporations	42	1.01	133 961	0.02
Private companies	93	2.23	4 103 987	0.61
Public companies	5	0.12	2 477 850	0.37
Retirement funds	134	3.21	60 260 315	8.93
Strategic investor	1	0.02	100 000 000	14.83
Treasury shares	2	0.05	6 472 786	0.96
Trusts	227	5.44	36 571 695	5.42
Totals	4 171	100.00	674 509 042	100.00
Public/non-public shareholders				
Non-public shareholders	22	0.53	283 378 506	42.02
Directors and associates	19	0.46	176 905 720	26.23
Strategic holdings (more than 10%)	1	0.02	100 000 000	14.83
Treasury shares	2	0.05	6 472 786	0.96
Public shareholders	4 149	99.47	391 130 536	57.98
Totals	4 171	100.00	674 509 042	100.00

Annexure to the Company annual financial statements continued For the year ended 31 May 2017

Shareholder analysis continued

Beneficial shareholders holding 2% or more	Number of shares	%
Allan Gray and clients	131 226 284	19.46
Shotput Investments Proprietary Limited*	100 000 000	14.83
Levy, BM	84 427 825	12.52
Levy, MS	77 020 416	11.42
Investec	27 014 914	4.01
Sanlam	26 051 464	3.86
360NE Asset Management	20 568 909	3.05
Investment Solutions	16 580 819	2.46
Government Employees Pension Fund	13 488 848	2.00
Totals	496 379 479	73.61

** A discretionary trust, of which Kevin Ellerine is one of a number of potential beneficiaries, holds an interest in Shotput Investments Proprietary Limited. The indirect beneficial shareholding of Kevin Ellerine as disclosed per the Directors' Report refers to his effective shareholding in Ellerine Group Proprietary Limited.*

Notice of annual general meeting

Notice is hereby given to Blue Label shareholders recorded in the Company's securities register on Friday, 24 November 2017, that the tenth Annual General Meeting of shareholders of Blue Label Telecoms Limited will be held in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton, on Monday, 22 January 2018 at 10:00 (South African time) (AGM), to conduct such business as may lawfully be dealt with at the AGM and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act 71 of 2008 (Act or Companies Act), as read with the Listings Requirements.

In terms of section 63(1) of the Act, meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the AGM. Acceptable forms of identification include original and valid identity documents, driving licences and passports.

RECORD DATES, PROXIES AND VOTING

In terms of sections 59(1)(a) and (b) of the Act, the Board of the Company has set the record date for the purpose of determining which shareholders are entitled to:

- receive notice of the AGM (being the date on which a shareholder must be registered in the Company's shareholders' register in order to receive notice of the AGM) as Friday, 24 November 2017; and
- participate in and vote at the AGM (being the date on which a shareholder must be registered in the Company's shareholders' register in order to participate in and vote at the AGM) as Friday, 12 January 2018.

Certificated shareholders or own-name dematerialised shareholders may attend and vote at the AGM, or alternatively appoint a proxy to attend, speak and, in respect of the applicable resolution(s), vote in their stead by completing the attached form of proxy and returning it to the transfer secretaries at the address given in the form of proxy by no later than 09:00 on Thursday, 18 January 2018.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with own-name registration, should contact their CSDP or broker in the manner and within the time stipulated in the agreement entered into between them and their CSDP or broker: to furnish their voting instructions; or in the event that they wish to attend the AGM, to obtain the necessary letter of representation to do so.

On a show of hands, every shareholder present in person or represented by proxy and entitled to vote shall have only one vote irrespective of the number of shares such shareholder holds. On a poll, every shareholder, present in person or represented by proxy and entitled to vote, shall be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by such shareholder bears to the aggregate amount of the nominal value of all shares issued by the Company.

Certificated shareholders or own-name dematerialised shareholders who are entitled to attend and vote at the AGM are entitled to appoint a proxy to attend, participate in and vote at the AGM in their stead. A proxy need not also be a shareholder of the Company. The completion of a form of proxy will not preclude a shareholder from attending the AGM.

ELECTRONIC PARTICIPATION

The Company will provide for electronic participation in the AGM, as set out in section 63 of the Act. Please refer to the notes on page 210 at the end of this notice.

When reading the resolutions below, please refer to the explanatory notes on pages 208 and 209.

PRESENTATION OF ANNUAL FINANCIAL STATEMENTS AND REPORTS

The audited Group and Company annual financial statements, including the external auditors', Audit, Risk and Compliance Committee's and Directors' reports for the year ended 31 May 2017, have been distributed as required and will be presented to shareholders at the AGM.

The complete set of audited Group and Company annual financial statements, together with the above mentioned reports, are set out on pages 87 to 197 of the integrated annual report. The Audit, Risk and Compliance Committee's report is set out on pages 67 to 70 of the integrated annual report.

ORDINARY RESOLUTIONS

In terms of sections 62(3)(c) and 65(7) of the Act, unless otherwise specified, in order for each of the following ordinary resolutions to be passed, each resolution must be supported by more than 50% of the voting rights exercised.

1. **Ordinary resolution number 1: Re-election of Mr KM Ellerine as a Director of the Company**
   Resolved that Mr KM Ellerine, who was first appointed to the Board on 8 December 2009, and who retires in terms of the Memorandum of Incorporation, and who is eligible and available for re-election, is re-elected as a Director of the Company with immediate effect.

   A brief biography of Mr KM Ellerine is on page 17.

2. **Ordinary resolution number 2: Re-election of Mr MS Levy as a Director of the Company**
   Resolved that Mr MS Levy, who was first appointed to the Board on 1 February 2007 and who retires in terms of the Memorandum of Incorporation, and who is eligible and available for re-election, is re-elected as a Director of the Company with immediate effect.

   A brief biography of Mr MS Levy is on page 16.

3. **Ordinary resolution number 3: Re-election of Mr DA Suntup as a Director of the Company**
   Resolved that Mr DA Suntup, who was first appointed to the Board on 14 November 2013 and who retires in terms of the Memorandum of Incorporation, and who is eligible and available for re-election, is re-elected as a Director of the Company with immediate effect.

   A brief biography of Mr DA Suntup is on page 16.

4. **Ordinary resolution number 4: Reappointment of external auditors**
   Resolved that on the recommendation of the current Audit, Risk and Compliance Committee of the Company, PricewaterhouseCoopers Incorporated, is reappointed as independent registered auditor of the Company for the ensuing year until the conclusion of the next AGM of the Company.

5. **Ordinary resolution number 5: Election of Mr JS Mthimunye as a member and chairman of the Audit, Risk and Compliance Committee for the year ending 31 May 2018**
   Resolved that, in terms of section 94(2) of the Act, Mr JS Mthimunye, an independent non-executive director of the Company, is elected as a member of the Audit, Risk and Compliance Committee

   A brief biography of Mr JS Mthimunye is on page 17.

6. **Ordinary resolution number 6: Election of Mr GD Harlow as a member of the Audit, Risk and Compliance Committee for the year ending 31 May 2018**
   Resolved that, in terms of section 94(2) of the Act, Mr GD Harlow, an independent non-executive director of the Company, is elected as a member and Chairman of the Audit, Risk and Compliance Committee.

   A brief biography of Mr GD Harlow is on page 17.

7. **Ordinary resolution number 7: Election of Mr SJ Vilakazi as a member of the Audit, Risk and Compliance Committee for the year ending 31 May 2018**
   Resolved that, in terms of section 94(2) of the Act, Mr SJ Vilakazi, an independent non-executive director of the Company, is elected as a member of the Audit, Risk and Compliance Committee.

   A brief biography of Mr SJ Vilakazi is on page 17.

8. **Ordinary resolution number 8 : Election of Ms P Mahanyele as a member of the Audit, Risk and Compliance Committee for the year ending 31 May 2018**
   Resolved that, in terms of section 94(2) of the Act, Ms P Mahanyele, an independent non-executive director of the Company, is elected as a member of the Audit, Risk and Compliance Committee.

   A brief biography of Ms P Mahanyele is on page 17.

Notice of annual general meeting continued

9. **Ordinary resolution number 9: Directors' authority to implement ordinary and special resolutions**
   Resolved that each and every Director of the Company is authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the ordinary and special resolutions passed at the AGM.

ADVISORY VOTE

There is no minimum percentage of voting rights required for an advisory vote to be adopted.

As a non-binding advisory vote, the Company's remuneration policy (excluding the remuneration of non-executive directors and members of Committees of the Board for their services as Directors and members of such committees) as set out on pages 57 to 59 is endorsed by shareholders.

SPECIAL RESOLUTIONS

In terms of sections 62(3)(c) and 65(9) of the Act, the minimum percentage of voting rights required for each of the following special resolutions to be passed is 75% of the voting rights exercised.

1. **Special resolution number 1: Non-executive directors' remuneration**
   Resolved that in terms of section 66(9) of the Act, the following remuneration shall be payable to the non-executive directors for their services as Directors for the period 1 June 2017 to 31 May 2018:

The proposed fees payable to Non-Executive Directors are set out below:

	Current fee 2017 R	Proposed fee 2018 R
Services as Directors		
– Chairman of the Board (per annum)	1 008 404	1 700 000
– Board members (per meeting)	46 171	–
– Board members (per annum)	–	375 000
Audit, Risk and Compliance Committee		
– Chairman (per meeting)	64 126	–
– Chairman (per annum)	–	340 000
– Member (per meeting)	38 476	–
– Member (per annum)	–	210 000
Remuneration and Nomination Committee		
– Chairman (per meeting)	51 301	–
– Chairman remuneration (per annum)	–	200 000
– Chairman nomination (per annum)	–	140 000
– Member (per meeting)	30 782	–
– Member (per annum)	–	120 000
Investment Committee		
– Chairman (per meeting)	38 476	–
– Chairman (per annum)	–	200 000
– Member (per meeting)	23 086	–
– Member (per annum)	–	120 000
Transformation, Social and Ethics Committee		
– Chairman (per meeting)	38 476	–
– Chairman (per annum)	–	120 000
– Member (per meeting)	23 086	–
– Member (per annum)	–	75 000
Ad hoc Committee		
– Chairman (per meeting)	38 476	45 000
– Member (per meeting)	23 086	27 000

2. **Special resolution number 2: General authority to repurchase shares**
   Resolved that pursuant to the MOI, the Company or any of its subsidiaries are hereby authorised by way of a general approval, from time to time, to acquire ordinary shares in the share capital of the Company in accordance with the Act and the Listings Requirements, provided that:
   (a) the number of its own ordinary shares acquired by the Company in any one financial year shall not exceed 20% of the ordinary shares in issue at the date on which this resolution is passed;
   (b) this authority shall lapse on the earlier of the date of the next AGM of the Company or the date 15 months after the date on which this resolution is passed;
   (c) the Board has resolved to authorise the acquisition and that the Group will satisfy the solvency and liquidity test immediately after the acquisition and that since the test there have been no material changes to the financial position of the Group;
   (d) the acquisition must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;
   (e) the Company only appoints one agent to effect any acquisition(s) on its behalf;
   (f) the price paid per ordinary share may not be greater than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which an acquisition is made;
   (g) the number of shares acquired by subsidiaries of the Company shall not exceed 10% in the aggregate of the number of issued shares in the Company at the relevant times;
   (h) the acquisition of shares by the Company or its subsidiaries may not be effected during a prohibited period, as defined in the Listings Requirements; and
   (i) an announcement containing full details of such acquisitions of shares will be published as soon as the Company and/or its subsidiaries have acquired shares constituting, on a cumulative basis 3% (three percent) of the number of shares in issue at the date of the meeting at which this special resolution is considered and if approved, passed, and for each 3% in aggregate of the initial number acquired thereafter.

3. **Special resolution number 3: Conversion of ordinary shares from par value to no par value**
   Resolved that, in terms of Regulation 31 of the Companies Regulations, 2011 (Regulations) issued pursuant to the Act, the share capital of the Company, comprising 1 000 000 000 (one billion) authorised ordinary shares with a par value of R0.000001 each (of which 874 509 041 ordinary shares having a par value of R0.000001 have been issued), are, without altering the substance of the specific rights and privileges associated therewith, converted into 1 000 000 000 (one billion) authorised ordinary shares having no par value (of which 874 509 041 ordinary shares with no par value have been issued) and that the Memorandum of Incorporation of the Company (MOI) is amended by the deletion of the introductory paragraph to paragraph of 5.1 of the MOI and the replacement thereof with the following paragraph:
   "The Company is authorised to issue 1 000 000 000 (one billion) ordinary shares of no par value, and of the same class, each of which ranks pari passu in respect of all rights and shall entitle the holder thereof to the following rights."

   The conversion of the authorised and issued ordinary shares of the Company from par value shares to no par value shares (conversion) shall be implemented on the basis that each ordinary no par value share shall have the same value, rights and privileges as the value, rights and privileges which attached to such share immediately prior to the passing of this special resolution number 3 and that all amounts standing to the credit of the share capital account and the share premium account of the Company be transferred to the stated capital account of the Company.

   The resolution of the Board of Directors of the Company (Board) and its report in terms of Regulation 31(7) is included at the end of this notice.

Reason for and effect of this resolution

In terms of Regulation 31(2), a pre-existing company may not authorise any new par value shares, or shares having a nominal par value, on or after the effective date of the Companies Act (being 1 May 2011). In order to increase the authorised share capital of the Company, the Companies Act therefore requires that the share capital, authorised and issued, of the Company, be converted from pre-existing par value shares to no par value shares. The proposed change does not and will not result in any rights of any existing shareholder being affected.

The effect of special resolution number 3 is to convert the ordinary shares in the Company's authorised and issued share capital from ordinary par value shares into ordinary shares of no par value.

Notice of annual general meeting continued

4. Special resolution number 4: Increase in authorised share capital

Resolved that, subject to the adoption of special resolution number 3 and the filing of special resolution number 3 with the Companies and Intellectual Property Commission, the authorised ordinary no par value shares of the Company be increased by the creation of a further 1 000 000 000 (one billion) ordinary no par value shares, ranking pari passu in all respects with the existing no par value shares in the authorised ordinary share capital of the Company so as to result in a total of 2 000 000 000 (two billion) ordinary no par value shares in the authorised ordinary share capital of the Company and that the MOI be amended by the deletion in its entirety of the introductory paragraph to paragraph of 5.1 of the MOI (as amended in terms of special resolution number 3) that forms part of the MOI, and the substitution thereof with the following paragraph:

"The Company is authorised to issue 2 000 000 000 (two billion) ordinary shares of no par value, and of the same class, each of which ranks pari passu in respect of all rights and shall entitle the holder thereof to the following rights."

Reason for and effect of this resolution

The reason for special resolution number 4 is to increase the authorised share capital of the Company, allowing for the allotment and issue of shares in the Company for possible acquisitions or capital raisings as permitted by the MOI, but subject to the necessary consents and approvals remaining in place and/or to the extent granted in future by shareholders, the JSE or any other regulatory authorities.

The effect of special resolution number 4 is that the Company's authorised share capital be increased to 2 000 000 000 (two billion) ordinary shares of no par value. The increased share capital will be subject to such consents and approvals as may be required in terms of the MOI or any of the Listings Requirements of the JSE (Listings Requirements) applicable to the Company.

5. Special resolution number 5: Issues of securities

Resolved that paragraph 5.6 of the MOI be deleted and replaced with the following new paragraph 5.6 and 5.6A:

"5.6 The Board may only authorise the issue of any securities to any person/s

5.6.1 in accordance with the Act and, in particular, with the approval by way of a special resolution of the shareholders of the Company, if required by section 41;

5.6.2 in accordance with the Listings Requirements;

5.6.3 in accordance with this Memorandum of Incorporation and, in particular, any rights specifically conferred on any class of issued securities;

5.6.4 if such securities, being shares, have first been offered to all existing holders of shares of that class of shares (or, if there are no shares of that class in issue, to the ordinary shareholders) in the same proportions as their existing holdings of those shares (or, if there are no shares of that class in issue, of ordinary shares) at a subscription price which (ignoring any commission payable or any discount not exceeding 10% which may be granted instead of such commission) is not higher than the subscription price at which they will be issued to that person/s; provided that the pre-emptive right stipulated in this 5.6.4 shall not apply to any issue of ordinary shares in consideration of the acquisition by the Company of any assets, including any securities in another company or has otherwise been approved in terms of 5.6A. Save as provided for in this 5.6.4 or specifically included as one of the preferences, rights, limitations or other terms upon which any class of shares is issued, no shareholder shall have any pre-emptive or other similar preferential right to be offered or to subscribe for any additional securities issued by the Company.

5.6A The shareholders may in general meeting authorise the Board to issue Company securities at any time and/or grant options to subscribe for Company securities as the Directors in their discretion deem fit; provided that such transaction/s has/have been approved by the JSE and comply/ies with the JSE Listings Requirements."

Reason for and effect of this resolution

The reason for and effect of special resolution number 5 is, in line with best practice, to align the MOI with the JSE Listings Requirements and to ensure that the Company has flexibility in managing capital resources by allowing the directors to undertake pro rata issues of shares.

6. **Special resolution number 6: Fractional entitlements**
   Resolved that paragraph 9 of the MOI be deleted and replaced with the following new paragraph 9:
   "If, pursuant to any corporate action or event, including any capitalisation issue or rights issue, a holder of a security would, but for the provisions of this article 9, become entitled to fractions of securities (fractional entitlements), such fractional entitlements shall be dealt with in accordance with the Listings Requirements and any other requirements of the JSE from time to time."

Reason for and effect of this resolution
The reason for special resolution number 6 is to align the MOI with the JSE Listings Requirements in relation to fractional entitlements and the effect is to align it.

The Listings Requirements require, in terms of paragraph 11.26, the following disclosures, which appear in the integrated annual report:
Major shareholders – refer to pages 198 and 199.

Material change – there were no material changes.

Share capital of the Company – refer to page 156.

Responsibility statement – refer to page 85.

By order of the Board

J van Eden
Group Company Secretary

Sandton
23 November 2017

Notice of annual general meeting continued

REPORT OF THE BOARD OF DIRECTORS IN TERMS OF REGULATION 31(7) AND 31(8) OF THE COMPANIES REGULATIONS, 2011 (THE REGULATIONS) REGARDING THE CONVERSION OF THE COMPANY'S SHARE CAPITAL TO NO PAR VALUE SHARES

1. INTRODUCTION

1.1 The Companies Act, No 71 of 2008, as amended (the Companies Act) does not allow for new par value shares or shares with a nominal value. In terms of the Companies Act and the Companies Regulations, 2011 (the Regulations), companies that already had par value shares may not increase its authorised share capital of par value shares.

1.2 Blue Label Telecoms Limited (BLT) may be required to raise capital from its shareholders to finance acquisitions and the Board of BLT is thus of the view that it should increase its authorised ordinary share capital as only 125 490 959 shares in BLT's authorised share capital remain unissued.

1.3 In order for BLT to increase its authorised share capital it is required in terms of the Companies Act to first convert its par value shares into shares with no par value.

1.4 In terms of Regulation 31(6) of the Regulations, a company may amend its Memorandum of Incorporation (MOI) to effect a conversion of its authorised and issued par value shares to shares with no par value via a resolution proposed by the Board of Directors after the date on which the Companies Act came into effect and is approved by special resolution adopted by the holders of shares of each such class of shares and a special resolution adopted by a meeting of the members of the Company called for that purpose.

1.5 In terms of paragraph 41.1.2.8 of the MOI BLT may by a special resolution of shareholders convert par value shares into shares of no par value.

1.6 BLT's shareholders will at its 2017 annual general meeting be asked to pass a special resolution to convert BLT's authorised and issued ordinary shares of R0.000001 each into ordinary shares of no par value, on the basis that each existing share will be converted into one no par value ordinary share.

1.7 Regulation 31(7) of the Regulations requires the Board of Directors of BLT to compile a report in respect of any resolution to convert any par value shares into no par value shares and this document constitutes such report.

2. REPORT

2.1 **In terms of Regulation 31(7) of the Regulations the report is required to, at a minimum:**

2.1.1 state all information that may affect the value of BLT's securities pursuant to the proposed conversion;

2.1.2 identify the class of holders of BLT's securities affected by the proposed conversion;

2.1.3 describe the material effects that the proposed conversion will have on the rights of the holders of BLT securities that are affected by the proposed conversion; and

2.1.4 evaluate any material adverse effects of the proposed arrangement against the compensation to those persons receiving compensation as a result of the conversion.

2.2 **Information that may affect the value of the securities affected by the conversion**

2.2.1 The rights attaching to the shares after the conversion will be identical to the rights attaching to the shares prior to the conversion. Accordingly, the Directors of BLT are of the opinion that the conversion will not affect the value of shares.

2.2.2 Pertinent financial information in relation to BLT are detailed in the published financial statements of BLT for the year ended 31 May 2017.

2.2.4 The securities affected by the proposed conversion are the authorised ordinary shares in the share capital of BLT, being one billion authorised shares of R0.000001 each of which 874 509 041 shares have been issued, there being no other securities in the capital of BLT.

2.3 **Shareholders affected by the proposed conversion**

Given that all shares will be converted from par value shares of R0.000001 into shares of no par value, shareholders will be affected equally by the conversion and on the same terms and conditions.

2.4 **Material effects that the proposed conversion will have on the rights of the holders of BLT securities**

The rights attaching to BLT's no par value shares will, upon their conversion from par value shares, be identical to the rights currently attaching to BLT's par value shares. Accordingly, the conversion will not have any material effects on the rights of shareholders.

2.5 **Evaluation of material adverse effects of the proposed conversion against compensation offered**

The conversion will not have any material adverse effect on any of the BLT shareholders and no shareholders will receive any compensation pursuant to the conversion.

3. CERTIFICATED SHAREHOLDERS

Notwithstanding the conversion of authorised ordinary of R0.000001 into authorised ordinary shares of no par value, certificated shareholders are not required to return their share certificates to BLT and may retain such share certificates which will evidence their title to the no par value shares held by them resulting from the conversion, notwithstanding that such share certificates make reference to shares having a par value. Certificated shareholders are however, reminded that they will not be able to trade such no par value shares on the JSE until these shares have been dematerialised, which may take between 1 (one) and 10 (ten) days, depending on the volumes being processed by Strate at the time.

4. GENERAL

In terms of Regulation 31(8)(b) of the Regulations, a copy of this report will be filed at the Companies and Intellectual Property Commission and at the South African Revenue Services at the same time as this report is published to the shareholders of the Company.

By order of the Board of Directors of Blue Label Telecoms Limited

23 November 2017

Notice of annual general meeting continued

EXPLANATORY NOTES

Presentation of the annual financial statements

In terms of section 61(8)(a) of the Act, the Directors' report, audited Group and Company annual financial statements for the immediately preceding financial year and the Audit, Risk and Compliance Committee report is to be presented to shareholders at the AGM.

Ordinary resolution numbers 1 to 3 (inclusive): Re-election of Directors

In accordance with the MOI, one-third of the Directors are required to retire at each AGM and may offer themselves for re-election. Messrs KM Ellerine, MS Levy and DA Suntup retire by rotation at the AGM in accordance with article 25.17 of the MOI, and have offered themselves for re-election.

Brief biographies of the Directors are on pages 16 and 17.

The Board is satisfied with the performance of each of the Directors standing for re-election and that they will continue to make an effective and valuable contribution to the Company and to the Board.

The Board recommends to shareholders that they should vote in favour of each of the re-election of the Directors referred to in ordinary resolution numbers 1 to 3 (inclusive).

Ordinary resolution number 4: Reappointment of external auditors

In terms of section 90(1) of the Act, each year at its AGM, the Company must appoint an auditor meeting the requirements of section 90(2) of the Act.

PricewaterhouseCoopers (PwC) expressed its willingness to continue in office and this resolution proposes the reappointment of PwC as the Company's auditors until the next AGM. In addition, Mr D Storm is appointed as the individual registered auditor for the ensuing year as contemplated in section 90(3) of the Act.

The Audit, Risk and Compliance Committee has satisfied itself that the proposed auditors, PwC and Mr D Storm, are independent of the Company in accordance with sections 90 and 94 of the Act and the applicable rules of the International Federation of Accountants.

The Audit, Risk and Compliance Committee has recommended the reappointment of PwC as independent registered auditor of Blue Label for the 2018 financial year.

Ordinary resolution numbers 5 to 8 (inclusive): Election of Audit, Risk and Compliance Committee members

In terms of section 94(2) of the Act, each Audit Committee member must be elected by shareholders at its AGM. King IV likewise requires shareholders of a public company to elect each member of an audit committee at an AGM.

In terms of Regulation 42 of the Companies Regulations 2011, relating to the Act, at least one-third of the members of the Company's Audit, Risk and Compliance Committee at any particular time must have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. Each of the proposed members is duly qualified, as is evident from the biographies of each member, as contained on pages 16 and 17.

Ordinary resolution number 9: Directors' authority to implement ordinary and special resolutions

The reason for ordinary resolution number 9 is to authorise any Director of the Company to do all things necessary to implement the ordinary and special resolutions passed at the AGM and to sign all such documentation required to give effect and to record the ordinary and special resolutions.

Advisory vote: Endorsement of the remuneration and reward policy
King IV requires a company to put its remuneration and reward policy for a non-binding advisory vote by shareholders at its AGM. This vote enables shareholders to endorse the remuneration policy adopted for Executive Directors. The Blue Label remuneration policy is contained on pages 57 to 59.

The advisory vote is of a non-binding nature only and therefore failure to pass this resolution will not have any legal consequences relating to existing arrangements. However, the Board will take cognisance of the outcome of the vote when considering the Company's remuneration and reward policy and the remuneration of Executive Directors. In the event that this non-binding advisory endorsement approving the Company's remuneration and reward policy is voted against by shareholders exercising 25% or more of the voting rights exercised, the Company undertakes to engage with its shareholders.

Special resolution number 1: Non-executive directors' remuneration
Special resolution number 1 is proposed to enable the Company to comply with the provisions of sections 65(11)(h), 66(8) and 66(9) of the Act, which stipulate that remuneration to Directors for their services as Directors may be paid only in accordance with a special resolution approved by shareholders.

Special resolution number 2: General authority to repurchase shares
Special resolution number 2 seeks to allow the Group, by way of a general authority, to acquire its own issued shares (reducing the total number of ordinary shares of the Company in issue in the case of an acquisition by the Company of its own shares). This resolution is required in order to allow the Company to take advantage of any opportunity that presents itself to enhance shareholder value by repurchasing shares where the Company's share price is at a level which results in a share repurchase being to the benefit of shareholders. Any decision by the Directors to use the general authority to acquire shares of the Company will be taken with regard to the prevailing market conditions, share price, cash needs of the Group, together with various other factors, and in compliance with the Act, Listings Requirements and the MOI.

Special resolution number 3: Conversion of ordinary shares from par value to no par value
The Company's authorised share capital of one billion shares is almost fully issued, with 874 509 041 shares currently being in issue. In order to have adequate authorised share capital for equity future capital raises and/or acquisitions, the Company seeks to increase its authorised shares capital in terms of special resolution number 4. In terms of Regulation 31 of the Act, a company may not increase its authorised capital until it has converted its par value shares to shares of no par value. As such, the Company seeks in terms of special resolution number 3 to convert its current par value shares into shares of no par value.

Special resolution number 4: Increase in authorised share capital
Special resolution number 4 is required in order to increase the authorised share capital of the Company, allowing for the allotment and issue of shares in the Company for possible acquisitions or capital raisings as permitted by the MOI, but subject to the necessary consents and approvals remaining in place and/or to the extent granted in future by shareholders, the JSE or any other regulatory authorities.

Special resolution number 5: Issues of securities
Special resolution number 5 is required to align the Company's MOI with best practice and with the JSE Listings Requirements and to ensure that the Company has flexibility in managing capital resources by allowing the directors to undertake pro rata issues of shares.

Special resolution number 6: Fractional Entitlements
Special resolution number 6 is required to align the MOI with the JSE Listings Requirements in relation to fractional entitlements.

Notice of annual general meeting continued

Electronic participation at the AGM

(a) Shareholders wishing to participate electronically in the AGM are required to:
   (i) deliver written notice to the Company at 75 Grayston Drive, corner Benmore Road, Morningside Extension 5, 2196 (marked for the attention of the Group Company Secretary) that they wish to participate via electronic communication at the AGM; or
   (ii) register on the Company's website at www.bluelabeltelecoms.co.za, where a link to the registration page will be placed, by no later than 09:00 on Thursday, 18 January 2018 (electronic notice).

(b) In order for the electronic notice to be valid it must contain:
   (i) where the Blue Label shareholder is an individual, a certified copy of his/her identity document and/or driving licence and/or passport;
   (ii) where the Blue Label shareholder is not an individual, a certified copy of a resolution or letter of representation by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution or signed the relevant letter of representation. The letter of representation or resolution must set out from whom the relevant entity is authorised to represent the entity at the AGM via electronic communication;
   (iii) a valid e-mail address and/or facsimile number (contact address/number); and
   (iv) by no later than 24 (twenty-four) hours before the AGM the Company shall use its reasonable endeavours to notify a shareholder at its contact address/number of the relevant details through which the shareholder can participate via electronic communication.

(c) Should a shareholder wish to participate in the AGM by way of electronic communication as aforesaid, the shareholder, or his/her/its proxy/ies, will be required to dial-in on the date and commencement time of the AGM. The dial-in facility will be linked to the venue at which the AGM will take place. The dial-in facility will enable all persons to participate electronically in the AGM in this manner (and as contemplated in section 63(2) of the Act) and to communicate concurrently with each other without an intermediary, and to participate reasonably effectively in the AGM. The costs borne by the shareholder or his/her/its proxy/ies in relation to the dial-in facility will be for his/her/its own account.

Form of proxy

BLUE LABEL TELECOMS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 2006/022679/06)
Share code: BLU ISIN: ZAE000109088
(Blue Label or the Company)

For use by certificated shareholders or own-name dematerialised shareholders at the Annual General Meeting of the Company to be held at 10:00 on Monday, 22 January 2018 at the registered office of Blue Label, 75 Grayston Drive, corner Benmore Road, Morningside Extension 5, Johannesburg (AGM).

If dematerialised shareholders, other than own-name dematerialised shareholders have not been contacted by their CSDP or broker with regard to how they wish to cast their vote, they should contact their CSDP or broker and instruct their CSDP or broker as to how they wish to cast their vote at the AGM in order for their CSDP or broker to vote in accordance with such instructions. If dematerialised shareholders, other than own-name dematerialised shareholders, have not been contacted by their CSDP or broker it would be advisable for them to contact their CSDP or broker, as the case may be, and furnish them with their instructions. Dematerialised shareholders who are not own-name dematerialised shareholders and who wish to attend the AGM must obtain their necessary letter of representation from their CSDP or broker, as the case may be. This must be done in terms of the agreement entered into between the dematerialised shareholder and their CSDP or broker. If the CSDP or broker, as the case may be, does not obtain instructions from such dematerialised shareholders, it will be obliged to act in terms of the mandate furnished to it, or if the mandate is silent in this regard, to abstain from voting. Such dematerialised shareholders, other than own-name dematerialised shareholders, must not complete this form of proxy and should read note 10 of the overleaf.

Full name: I/We (BLOCK LETTERS) of (address)

Telephone: (Work) (area code) Telephone: (Home) (area code)

Fax: (area code) Cell number:

being the holder(s) of Blue Label shares hereby appoint:

1. or failing him/her,

2. or failing him/her,

3. the Chairman of the AGM, as my/our proxy to vote for me/us on my/our behalf at the AGM of Blue Label shareholders to be held at 10:00 on Monday, 22 January 2018 or any adjournment thereof as follows:

Resolution	For	Against	Abstain
Ordinary resolution number 1: Re-election of Mr KM Ellerine as a Director of the Company			
Ordinary resolution number 2: Re-election of Mr MS Levy as a Director of the Company			
Ordinary resolution number 3: Re-election of Mr DA Suntup as a Director of the Company			
Ordinary resolution number 4: Reappointment of external auditors			
Ordinary resolution number 5: Election of Mr JS Mthimunye as a member and chairman of the Audit, Risk and Compliance Committee			
Ordinary resolution number 6: Election of Mr GD Harlow as a member of the Audit, Risk and Compliance Committee			
Ordinary resolution number 7: Election of Mr SJ Vilakazi as a member of the Audit, Risk and Compliance Committee			
Ordinary resolution number 8: Election of Ms P Mahanyele as a member of the Audit, Risk and Compliance Committee			
Ordinary resolution number 9: Directors' authority to implement ordinary and special resolutions			
Non-binding advisory vote: Endorsement of the remuneration and reward policy			
Special resolution number 1: Non-executive directors' remuneration			
Special resolution number 2: General authority to repurchase shares			
Special resolution number 3: Conversion of ordinary shares from par value to no par value			
Special resolution number 4: Increase in authorised share capital			
Special resolution number 5: Issues of securities			
Special resolution number 6: Fractional entitlements			

Signed at this day of 2018

Signature

Assisted by (if applicable)

Please read the notes on the reverse side hereof.
A shareholder entitled to attend and vote at the AGM may appoint one or more persons as his/her/its proxy to attend, speak or vote in his/her/its stead at the AGM. A proxy need not be a shareholder of the Company.

On a show of hands, every shareholder shall have one vote (irrespective of the number of shares held). On a poll, every shareholder shall have, for each share held by him/her/it that proportion of the total votes in the Company which the aggregate amount of the nominal value of that share held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company.

Notes to the form of proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her/its choice in the spaces provided with or without deleting "the Chairman of the AGM", but any such deletion must be initialled by the Blue Label shareholder. The person whose name appears first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert with an "X" or insert the number of shares in the relevant spaces according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of Blue Label shares exercisable by you, insert the number of Blue Label shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise and compel the Chairman, if the Chairman is an authorised proxy, to vote in favour of the resolutions, or to authorise any other proxy to vote for or against the resolutions or abstain from voting as he/she/it deems fit, in respect of all the shareholders' votes exercisable thereat. A shareholder or his/her/its proxy is not obliged to use all the votes exercisable by the shareholder or his/her/its proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or his/her/its proxy.
3. For administrative purposes, forms of proxy must be lodged with the transfer secretaries, at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196. (PO Box 61051, Marshalltown, 2107), to be received by no later than 09:00 on Thursday, 18 January 2018. Should the form of proxy not be delivered to the Transfer Secretaries by this time, you will be required to furnish a copy of such form of proxy to the chairperson of the meeting before the appointed proxy exercises any of their rights at the meeting.
4. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries or waived by the Chairman of the AGM.
6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. The Chairman of the AGM may accept or reject any form of proxy which is completed and/or received other than in accordance with these notes and instructions, provided that the Chairman is satisfied as to the manner in which the shareholder wishes to vote.
8. Where there are joint holders of shares:
   - 8.1 any such persons may vote at the AGM in respect of such joint shares as if he/she/it were solely entitled thereto;
   - 8.2 any one holder may sign this form of proxy; and
   - 8.3 if more than one such joint holders are present or represented at the AGM, the vote/s of the senior shareholder (for that purpose seniority will be determined by the order in which the names of shareholders appear in the 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 shareholder/s.
9. Own-name dematerialised shareholders will be entitled to attend the AGM in person or, if they are unable to attend and wish to be represented thereat, must complete and return the attached form of proxy to the transfer secretaries in accordance with the time specified on the form of proxy.
10. Shareholders who hold shares through a nominee should advise their nominee or, if applicable, their CSDP or broker timeously of their intention to attend and vote at the AGM or to be represented by proxy thereat in order for their nominee or, if applicable, their CSDP or broker to provide them with the necessary letter of representation to do so or should provide their nominee or, if applicable, their CSDP or broker timeously with their voting instruction should they not wish to attend the AGM in person, in order for their nominee to vote in accordance with their instruction at the AGM.
11. A vote given in terms of an instrument of proxy shall be valid in relation to the AGM notwithstanding the death of the person granting it, the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death or transfer is received by the transfer secretaries, before the commencement of the AGM.
12. Where this form of proxy is signed under power of attorney, such power of attorney must accompany this form of proxy, unless previously recorded by the transfer secretaries or unless this requirement is waived by the Chairman of the AGM.
13. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by Blue Label or the transfer secretaries.
14. Unless revoked, an appointment of a proxy pursuant to this form of proxy remains valid only until the end of the AGM or any postponement or adjournment of the AGM. This form of proxy shall be valid at any resumption of a postponed or adjourned meeting to which it relates although this form of proxy shall not be used at the resumption of the postponed or adjourned AGM if it could not be used at the AGM for any reason other than it was not lodged timeously for the AGM. This form of proxy shall, in addition to the authority conferred by the Act, except insofar as it provides otherwise, be deemed to confer the power generally to act at the meeting in question, subject to any specific direction contained in this form of proxy as to the manner of voting.

Glossary

Word	Definition
3G Mobile	3G Mobile Proprietary Limited, a private company which procures high end branded mobile handsets for supply to Cell C and major retailers in South Africa and beyond. Its wholly owned subsidiary, Comm Equipment Company (CEC), provides the financing to Cell C for the mobile handset element of postpaid contracts
Act/the Act/Companies Act	Companies Act, No 71 of 2008, as amended from time to time
ADRs	American Depository Receipts
AEON	Blue Label's proprietary switch through which all transactional capability is accessed. Banking grade transactions are switched through the Postilion platform
AEON EVD	The Aeon Electronic Voucher Distribution platform is a central repository in which electronic (or virtual) stock is housed. It is referenced by other internal platforms like EVMS, AMS and AEON
AGM	Annual General Meeting
AMS	Airtime management system
ARCC	Audit, Risk and Compliance Committee
ARPU	Average revenue per user
B2B	Business-to-business, a commercial transaction between businesses
B2C	Business-to-consumer, a commercial transaction between a business and a consumer
B-BBEE	Broad-based black economic empowerment
BGCSA	Boys & Girls Club of South Africa
BLD	Blue Label Distribution Proprietary Limited
BLDS	Blue Label Data Solutions Proprietary Limited
BLM	Blue Label Mexico S.A. de C.V.
BLT	Blue Label Telecoms Limited
Blue Label/Blue Label Telecoms	Blue Label Telecoms Limited
Cell C	Cell C Proprietary Limited, launched operations in 2001, seven years after the launch of the two incumbents, Vodacom and MTN (launched in 1994)
CEO	Chief Executive Officer
CIO	Chief Information Officer
CIPC	Companies and Intellectual Property Commission
Company	Blue Label Telecoms Limited
content aggregator	An organisation which gathers web content and applications from different online sources for reuse and resale
CPA	Consumer Protection Act
CRC	Customer relation consultant
CRM	Customer relationship management
CSDP	Central Securities Depository Participant

Glossary continued

Word	Definition
CSI	Corporate social investment
CSR	Corporate social responsibility
disintermediation	Reduction in the use of intermediaries between network operators and consumers
distribution channels	For Blue Label, our distribution channels include retail and wholesale outlets, petroleum forecourts, informal retail outlets, individual merchants/entrepreneurs, corporates and independents (Mom & Pop stores)
DTH (TV)	Direct-to-home television, a method of receiving satellite television services
dti	Department of Trade and Industry
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EEC	Employment Equity Committee, which reports to the Social, Ethics and Transformation Committee
EFT	Electronic funds transfer
e-tokens	Electronic tokens – a form of electronic cash used for secure transactions
Exco	Executive Committee
fintech	Technology businesses that compete against, enable and/or collaborate with financial institutions
GRI	Global Reporting Initiative. Established in 1997, with the mission of designing globally applicable guidelines for the preparation of enterprise-level, sustainable development reports
Group	Blue Label Telecoms Limited and its subsidiaries, associates and joint ventures
IBC	Inside back cover
IC	Investment Committee
IRCC	Internal Risk and Compliance Committee
JSE	JSE Limited
JV	Joint venture
King IV	The King IV Report on Corporate Governance for South Africa
KPMG	KPMG Services Proprietary Limited
LBS	Location-based services
LSM	Living standards measure
M-commerce	Mobile commerce
Main market	The informal, mostly rural, market in South Africa, from which the Group derives the bulk of its revenues
M&A	Mergers and acquisitions
MNO	Mobile network operator, such as Vodacom, MTN, Telkom and Cell C in South Africa
MOI	Memorandum of Incorporation

Word	Definition
money remittances	The ability to transfer money to another individual without a bank account
NAV	Net asset value
NC	Nomination Committee, part of the Remuneration and Nomination Committee
NERA	National Empowerment Rating Agency
NPCI	National Payments Corporation of India, the national transactions switch
NQF	National Qualifications Framework, the system that records levels of learning activities
Oxigen/Oxigen India	Oxigen Services (India) Private Limited
Oxigen Online	Oxigen Online Services (India) Private Limited
physical prepaid airtime	Prepaid vouchers that are available as physical items
PINless top-up	E-token recharge directly to mobile phone via a POS device
POP	Points of presence
POPI	Protection of Personal Information Act
POS	Point of sale, usually a place or a device
PowerPin voucher	Offline prepaid electricity top-up, consolidates the purchase of prepaid electricity across national municipalities
PwC	PricewaterhouseCoopers Inc.
Reware	Reware is a distributor of certified pre-owned smartphones
RC	Remuneration Committee, part of the Remuneration and Nomination Committee
RNC	Remuneration and Nomination Committee
SAICA	South African Institute of Chartered Accountants
SBI	State Bank of India
SED	Socio-economic development
SHEQ	Safety, Health, Environment and Quality
SIM card	Subscriber identification module card
SMS	Short message service
spaza shop	An informal convenience outlet
SRI Index	Socially Responsible Investment Index
SSETA	Services Sector Education and Training Authorities
TJ	Transaction Junction Proprietary Limited
touch points	Devices through which consumers are able to purchase Blue Label products and services
TPC	The Prepaid Company Proprietary Limited
transactional services	Includes money transfers, payments of bills and the like
unbanked	People without bank accounts

Glossary continued

Word	Definition
underbanked/badly banked	People with poor access to mainstream financial services, such as banks and therefore rely on alternative financial services or alternatively people with bank accounts who do not make effective use of the broader services offered by the bank – they merely deposit and withdraw cash from their accounts
UniPIN	Universal PIN for prepaid electricity
USSD	Unstructured supplementary service data
value added	Measure of wealth the Group has created in its operation by "adding value" to the cost of products and services
VAS	Value-added services
Viamedia	Viamedia Proprietary Limited
virtual distributor	Distribution of e-tokens of value in electronic format
virtual prepaid airtime	Airtime top-up in an electronic format
WAP	Wireless application protocol
WASP	Wireless application service provider
WASPA	Wireless Application Service Providers Association

Administration

Directors

LM Nestadt (Chairman)*, BM Levy, MS Levy, KM Ellerine**, GD Harlow*, P Mahanyele* (appointed 1 September 2016), Y Mohamed (resigned 11 January 2017), JS Mthimunye*, DA Suntup, SJ Vilakazi*

* *Independent non-executive*
** *Non-executive*

Company Secretary

J van Eden

Sponsor

Investec Bank Limited

Commercial Banker

First National Bank

External auditor

PricewaterhouseCoopers Inc.

Internal auditor

KPMG Services Proprietary Limited

American Depository Receipt (ADR) Programme

Cusip number: 095648101
Ticker name: BULBY
ADR to ordinary share: 1:10
Depository:
BNY Mellon
101 Barclay Street
New York NY 10286
USA

Blue Label Telecoms Limited

(Incorporated in the Republic of South Africa)
Registration number 2006/022679/06

Registered address:	75 Grayston Drive, Corner Benmore Road, Morningside Ext 5, Sandton, 2196
Postal address:	PO Box 652261, Benmore, 2010
Contacts:	+27 11 523 3000/info@blts.co.za/www.bluelabeltelecoms.co.za
LinkedIn:	Blue Label Telecoms
Facebook:	www.facebook.com/BlueLabelTelecoms
Twitter:	@BlueLabelTeleco
Instagram:	bluelabeltelecoms
Youtube:	Blue Label Telecoms

JSE Share code

BLU

ISIN

ZAE000109088
(Blue Label or BLT or the Company or the Group)

BLUE LABEL
TELECOMS

www.bluelabeltelecoms.co.za